Agrokor Group

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2017
AND THE INDEPENDENT
AUDITOR´S REPORT

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MANAGEMENT REPORT

The Management report gives an overview of the business operations of the parent company Agrokor d.d. and its subsidiaries (jointly: "the Agrokor Group" or "the Group") and together with the Consolidated Financial Statements forms the Consolidated Annual Report of Agrokor Group for 2017.

The Group operates through its four key business segments: Business Group Retail, Business Group Food, Business Group Agriculture and Business Group Agrokor Portfolio Holding. A detailed review of these activities and future developments is set out later in this report. As at 31 December 2017, the Group employed 50,903 employees, of which 24,478 were in Croatia.

On 7 April 2017, the Management Board of Agrokor, led by President of the Management Board, filed for the opening of the extraordinary administration procedure in accordance with the Law on extraordinary administration proceeding in companies of systemic importance for the Republic of Croatia (Official Gazette no 31/17, "Law") and on 10 April 2017, the Zagreb Commercial Court issued a Decision to initiate the Extraordinary Administration Procedure over Agrokor and its affiliated and controlled companies (together 77 companies in Croatia).

The court appointed Mr. Ante Ramljak as Extraordinary Commissioner for Agrokor who took over the functions of Agrokor corporate bodies, including the management of Agrokor. On 27 February 2018 Mr. Ante Ramljak resigned and as of 28 February 2018 the Commercial Court appointed Mr. Fabris Peruško as his successor and Ms. Irena Weber as Extraordinary Commissioner's deputy.

At the beginning of 2017 and until the appointment of Extraordinary Commissioner as of 10 April 2017, the Management Board of Agrokor d.d. consisted of the following members: Ivica Todorić, President; Ante Todorić, Deputy President; Ivan Crnjac, Executive Vice President for Finance, Strategy and Capital Markets; Mislav Galić, Executive Vice President for the Food Business Group; Hrvoje Balent, Executive Vice President for Central Purchasing and Services; and Ivica Sertić, Executive Vice President for Markets, Sales and Logistics.

The Supervisory Board of Agrokor d.d. during 2017 and until their release from duty on 10 April 2017, as a result of the appointment of the Extraordinary Commissioner, consisted of the following members: Ivan Todorić, Chairman; Ljerka Puljić, Deputy Chairman; Damir Kuštrak, Member; Tomislav Lučić, Member and Tatjana Rukavina, Member.

The Group auditor for the year ending 31 December 2017 is PricewaterhouseCoopers d.o.o; Zagreb. In addition to audit services the auditor has also provided permitted non-audit services which are not prohibited under Article 5(1) of Regulation (EU) No 537/2014 which relate to transfer pricing services and related party report which is an assurance engagement other than audit or review of historical financial information.

Agrokor Group Structure

An overview of the subsidiaries is disclosed in Note 3.2 and an overview of the associates is disclosed in *Note 13.*

Overview of business operations in 2017

Main event affecting the Group in 2017 was initiation of the Extraordinary Administration procedure. In the period preceding the Extraordinary Administration procedure, the trust of the suppliers, partners and creditors in Agrokor Group was damaged by a combination of factors: Agrokor's credit rating was lowered on several occasions in the first quarter of 2017, there was consistently poor communication from Agrokor's management team with stakeholders and Agrokor and many of its subsidiaries had difficulties in servicing their regular obligations towards suppliers and creditors. One of the consequences of this situation was a reduction or complete suspension of delivery of goods and services which subsequently disrupted regular business activities of operational companies as well as resulted in account blockade of a number of Group's material companies. The enforcement over accounts of Agrokor d.d. and its main operating companies which in only ten days reached the amount of HRK 3 billion was indicating that before the opening of the Extraordinary Administration Procedure the Group was faced with the likelihood of insolvency proceedings.

MANAGEMENT REPORT *(continued)*

Overview of business operations in 2017 *(continued)*

Uncontrolled insolvency proceedings of Agrokor Group could have had significant consequences on the Croatian economy with possible spillover effects to certain neighbouring countries.

Due to the circumstances above, on 7 April 2017, the Management Board of Agrokor, filed for the opening of the extraordinary administration procedure in accordance with the Law and on 10 April 2017, Agrokor d.d, together with its affiliated and controlled companies entered the Extraordinary Administration Procedure (“Extraordinary Administration”) in accordance with the Law.

Per the Law, the court appointed Extraordinary Administrator took over the functions of the Company’s corporate bodies, including the management. The effect of the Extraordinary Administration, among other things, is a prohibition on initiating litigation, enforcement and other proceedings against companies in the Extraordinary Administration during the Extraordinary Administration. Creditors’ claims arising before the commencement of the Extraordinary Administration are subject to a legally prescribed filing and agreement process. The Extraordinary Administration rules regulate the payment of claims during the Extraordinary Administration.

To recover the regular operations of operating companies, on 13 April 2017 Agrokor d.d., as a borrower, signed a loan agreement with a super senior status with Zagrebačka banka d.d., Privredna banka Zagreb d.d., Erste&Staiermaerkische bank d.d. and Raiffeisenbank Austria d.d. as loan providers. The total loan amount was EUR 80 million. The loan has since been repaid in full from the proceeds of the loan concluded on 8 June 2017 as described below.

In June 2017 the Agrokor raised a loan with a super senior status in the amount of up to EUR 960 million or up to EUR 1,060 million respectively, when including the loan tranche offered to the suppliers under the same conditions that are available for financial institutions. Out of the total amount of the facility, EUR 530 million is additional debt and the rest was used for the refinancing of per-petition debt held by lenders to the facility.

After the drawdown of the new financing in June and beyond, the operating situation began to stabilize, and the trends and operating metrics of the key operating companies started to return to previous levels. Although inventory levels have also been stabilized, negotiations with certain suppliers during 2017 continued to be challenging.

Viability plans of Agrokor companies focus on raising operating profits

To ensure the viability of operations in the long run, in late October 2017 the Extraordinary Commissioner presented viability plans for Agrokor d.d. and four business segments of the Agrokor Group which include Retail, Food, Agriculture and Agrokor Portfolio Holdings. The viability plan is a result of the significant efforts exerted to improve operating results over the past months and provides a stable platform for future business and for the settlement. The plan primarily focuses on improving operating profits (EBITDA), stabilization of business, securing enough liquidity and regaining the market confidence. According to the viability plans, in 2016 the Agrokor Group generated revenues in excess of EUR 6 billion with significant consolidation effects across the Agrokor Group and unconsolidated EBITDA of almost EUR 230 million in the core businesses. Altogether, the markets in which Agrokor operates have growth projections and generally very positive economics in the area of supply. For the core business activities a drop of 5% is expected, while EBITDA is expected to double between 2016 and 2021, on an unconsolidated basis.

MANAGEMENT REPORT *(continued)*

Submission to the Commercial Court of tables containing all claims filed

In November 2017 the Extraordinary Administration made a submission to the Commercial Court in Zagreb containing all claims filed. These show that the structure of creditors' claims to enter the settlement with is extremely complex – around 5,700 local and international creditors filed around 12,000 claims with various payment orders, as well as legal and factual circumstances. The amount of claims filed by third parties, i.e. excluding mutual intercompany receivables within the Agrokor Group, exceeds EUR 5,2 billion. The value of claims initially recognized/verified by the Extraordinary Administration amounts to around HRK 41,5 billion, while the total value of claims contested by the Extraordinary Administrator being around HRK 16,5 billion as at the date of the court filing. After the Court published the table of claims recognized and contested by the Extraordinary Administrator, the creditors have contested an additional HRK 10,4 billion of claims. On 15 January 2018 the court published the Order determining and contesting claims pursuant to which the total amount of determined claims is HRK 31,043,173 thousand and the total amount of contested claims is HRK 26,833,907 thousand. As of date of this report contestation of HRK 2,198,900 thousand amount of claims has been removed by other creditors and HRK 4,712,352 thousand has been removed by the Extraordinary Administrator, and therefore the total amount of determined claims is HRK 37,962,351 thousand and the total amount of contested claims is HRK 19,922,656 thousand.

The Group operates through five strategic business segments: Retail and Wholesale, Food Production and Distribution, Agriculture, Agrokor Portfolio Holding and Agrokor d.d.

Distribution markets are organized in Croatia, Slovenia, Bosnia and Herzegovina, Serbia, USA, Montenegro, Hungary, Spain, Poland, the Czech Republic, the Netherlands, Macedonia, Switzerland and Kosovo.

Retail and Wholesale segment

The retail and wholesale business activities of the Group are present in the following markets:

- Croatia through several brands including Konzum, Velpro-centar and Tisak
- Slovenia through Mercator
- Serbia through Mercator under three brands iDEA, RODA and Mercator
- Bosnia and Herzegovina through Konzum and Mercator brands.

Konzum is the leading retailer in Croatia. With more than 11,000 employees, it is the largest employer in the country. In over 620 stores Konzum welcomes over 450,000 customers on a daily basis.

Mercator Group is a premium retailer of widespread consumer goods with greatly diversified retail network in Slovenia, Serbia, Montenegro and Bosnia and Herzegovina.

Tisak d.d. is the largest retail chain of kiosks with a network of nearly 1,000 sales outlets across Croatia and leading Croatian distributor of printing, tobacco products, prepaid cards, mobile start-up packages and other products.

Konzum d.o.o. Sarajevo is one of the leading retailers in Bosnia and Herzegovina. In September 2017 Mercator took over operations of 76 stores from Konzum Sarajevo and from that point on the Group operates in Bosnia and Herzegovina under two brands. Today, 170 stores of Konzum network consist of 114 retail stores, 48 retail shops and 8 super-format retailers, welcoming more than 101,000 customers daily.

Velpro is the largest wholesale company in Croatia that operates on more than 80,000 square meters of warehouse and 18 Velpro sale centres located throughout Croatia. It has a branded product line as well as a range of its own brands ("Rial", "Profiline" and "Profiline Exclusive") and serves over 10,000 customers.

MANAGEMENT REPORT *(continued)*

Retail and Wholesale segment *(continued)*

Due to liquidity problems which escalated in Q1 2017, certain suppliers stopped delivering goods, leading to an increase in out-of-stock ratios, which in some companies reached as much as ~16% (the usual level is below 2%). As a consequence of the crisis and unavailability of key goods, the number of customers as well as revenues dropped in the first half of the year (by even more than 20% in certain periods compared to the previous year). When the new super senior financing was raised in June 2017 it provided the required liquidity, with the focus then shifting to increasing turnover and margins to reach former levels, while reducing costs at the same time. Given the marked seasonality in turnover (up to 40% difference in turnover) and the great importance of the summer season for retail and wholesale, the key step was to secure availability of goods and stable operations over the course of the summer months. The steps taken during 2017 in restructuring and increasing profitability were primarily related to cost optimisation, closing down of unprofitable stores, increasing efficiency along with sales area optimization and closing down Velpro on the B&H market.

Business in different markets with a differentiated degree of retail, purchasing power, market share, and competition led to the establishment of well-regulated processes, systematisation, synergy and exchange of best practices. Standardised processes such as assortment management and prices have been introduced to all retail facilities on the markets. Significant synergies have also been achieved at the level of cost savings that are still intensively working in the process of business restructuring.

The restructuring process was the main focus in 2017, encompassing the optimisation of the retail and wholesale network in all markets and the rationalisation of costs, all in order to increase the profitability of sales facilities. As part of the optimisation in the area of Bosnia and Herzegovina, the retail network has gone back to business through two brands - Konzum and Mercator, while the wholesale business segment that was running through the Velpro wholesale chain in the market has been closed. Through this, as well as numerous other activities, the retail and wholesale companies continued to work on optimising the entire business and increasing profitability.

Food Production and Distribution segment

Business activities of the Food production and Distribution segment are managed through two business models: through the subsidiaries and partially through distributors. Business activities of Food production and Distribution are conducted through the subsidiaries are as follows in the following countries:

- Croatia - through several companies including Jamnica d.d., Ledo d.d., Zvijezda d.d., Pik Vrbovec d.d., Roto Dinamic d.o.o. and Solana Pag d.d.
- Serbia - through several companies including Dijamant a.d. Zrenjanin, Frikom d.o.o. Beograd, Mg Mivela d.o.o. Beograd, Pik VrbovecS d.o.o. Beograd and Nova Sloga d.o.o. Trstenik
- Bosnia and Herzegovina - through several companies including Ledo Čitluk d.o.o., PIK BH d.o.o. Laktaši, Sarajevski Kiseljak d.d. and Zvijezda d.o.o. Sarajevo
- Slovenia - through Jamnica Mineralna Voda d.o.o., Ledo d.o.o. Ljubljana and Zvijezda d.o.o. Ljubljana
- Montenegro - through Ledo d.o.o. Podgorica
- Hungary through - Fonyodi Kft and Ledo Kft.
- Macedonia - through Frikom Beograd dooel Skopje
- Kosovo - through Ledo Sh.p.k. Prishtine

Food production segment operates in the following business divisions: Ice Cream and Frozen Food, Water and Beverages, Edible Oil and Margarine and Meat. The Group has high to dominant market shares in main product categories with proven track-record of outperforming the competition and maintaining top line growth and high profitability.

MANAGEMENT REPORT *(continued)*

Food Production and Distribution segment *(continued)*

Ice Cream and Frozen Food include production and processing of ice cream, frozen fruit and vegetables, frozen fish, frozen dough and other frozen food products, including ready meals and frozen meat, all sold under Ledo and Frikom brands. Production facilities are located in Croatia, Serbia and Bosnia and Herzegovina.

Water and Beverages include production and processing of carbonated and noncarbonated water and noncarbonated beverages, sold under the brands of Jamnica, Jana, Sarajevski kiseljak, Mivela, Sensation, Pro Sport, Akvia, Sky and Fonyodi. Production facilities are located in Croatia, Serbia and Bosnia and Herzegovina and Hungary.

Edible Oils and Margarines include production and processing of edible oils, margarine, mayonnaise, vinegar, dressings, ketchup, canned vegetables and sauces. The products are sold under the brands of Zvijezda, Dijamant, Margo, Dobro jutro and Omegol. Production facilities are located in Croatia and Serbia.

Meat includes the production of meat and meat products. Own production facilities are located in Croatia.

The poor liquidity in the first part of the year negatively affected the preparations for the summer season and stockouts in Q2, resulting in lower sales. The companies in the Food Production and Distribution started an accelerated restructuring process and adjusted their business models under the new operating conditions with optimization in their product ranges given the initial liquidity contraints in the first half of the year. The restructuring measures resulted in significant savings with some subsegments being able to keep their operating profits and others to reduce the drop in operating profits. Accelerated portfolio analysis was made and resources were allocated to more profitable categories and sales channels. By providing additional liquidity, companies delivered better profitability over the comparable period. The trust of consumers in the brands has been preserved and the trust of suppliers in the companies has been re-established. In spite of a lack of marketing communication in the major part of the year, the market shares of all brands on all markets were preserved. The Beverage segment generated the historically best sales result, while during the summer months the historically highest sales of ice-cream in Croatia were achieved.

Agriculture segment

Agriculture includes crop growing, animal feed production and livestock breeding. This business is primarily located in Croatia and is present through several brands and operating companies with the material ones being Belje d.d., PIK Vinkovci d.d. and Vupik d.d..

Agricultural sector in 2017 was extremely challenging. The problems of Croatian agriculture with the decline in milk production and the reduction of the number of pig breeders were further underlined by the outbreak of the distress in the Group.

Due to liquidity problems companies were forced to stop and significantly reduce certain business segments (e.g., trading activities, animal feed production…), with a significant impact on sales. In the operations of companies engaged in agricultural production, the imperative was to successfully finish the spring sowing and to ensure day-to-day feeding of livestock on their own and cooperative farms, when at that time companies had limited access to raw materials required for production. After the liquidity injection the suspended or reduced business processes were re-established, striving to set-off what had been lost in the first quarters by excellent production results. The operating companies had record results in crop husbandry and the favorable pricing trend in commodities contributed to their performance as well.

MANAGEMENT REPORT *(continued)*

Agrokor Portfolio Holdings ("APH") segment

APH segment consists of business entities that operate in the Adriatic region in a number of different industries and are not part of core operations of the Group.
APH initiative focuses on cash flow control and cost optimization. These activities relate, inter alia, to business model optimization, continuous liquidity monitoring, communication with other owners of equity holdings, constant contact with potential investors, reporting etc. Plans to dispose parts of the non-core portfolio in two stages have been prepared following the opening of the extraordinary administration procedure.

APH has 80 companies in its portfolio of which 41 have business operations. Some of them are leaders in their respective industries such as hotel and travel, salt production, advertising, construction etc. 23 companies operate real estate holdings or hold financial assets, whereas the rest are shell companies that will probably be either liquidated or merged with other group companies.

APH has conducted comprehensive effort with respect to the centralization of all data for the real estate portfolio as well as carrying out actions to establish a legal status for potential disposal purposes.

The focus during 2017 was on operating costs reduction, preservation of value of the operating companies as well as on preparation of documentation for potential sale of several portfolio companies. In addition, APH team has been carrying out negotiations with large Konzum landlords with regards to rental contracts.

<u>Expected future Group development</u>

On 20 December 2017, the restructuring advisors to the Company and the Extraordinary Commissioner, Ante Ramljak, presented the settlement framework to the Interim creditors council ("ICC") of Agrokor who expressed their support on the presented settlement framework and gave a green light to the Extraordinary Administration to move forward with the proposal of the settlement plan following the outline of the presented framework.

The most significant impact on the Group's future development will be the delivery of an appropriate Settlement plan within the framework of the Extraordinary Administration proceedings. To the best of Management's knowledge, the Company assessed the likely outcome of the extraordinary administration. The financial statements for 2017 have been prepared under the expectation that the settlement is considered the most likely outcome of the extraordinary administration. According to the Law the settlement needs to be reached by 10 July 2018.

As a part of the preparation of year-end financial statements, the Company also assessed the possibility of Agrokor d.d. to continue its business as a going concern.

Irrespective of the outcome of the extraordinary administration, it is estimated that the Company is no longer going concern:

- In case that the settlement will be reached, transfer of assets from Agrokor d.d. to the new Croatian Holding Company will be performed as a part of the settlement (transfer of assets in Agrokor d.d. solvent subsidiaries will be performed as transfer of shares of such subsidiaries (minority and majority shareholders and creditors of each such subsidiary to stay in place unaffected), while transfer of assets in Agrokor d.d. insolvent subsidiaries will be performed as business unit transfer to the newly incorporated legal entities (all assets, all contracts, staff, concessions, permits etc. and post-petition liabilities) which will ensure going concern post-settlement free of legacy liabilities (pre-petition known and unknown claims).

  As the Company is insolvent (reported claims exceed assets) after the transfer it will be an empty shell with just excess liabilities, which will cease to exist.

MANAGEMENT REPORT *(continued)*

Expected future Group development *(continued)*

Please note that in case that the settlement will be reached, given that the current Group was indirectly in majority ownership of a single private individual, Mr. Todorić, whilst the New Group will be in the ownership of creditors, this will be considered as an acquisition under IFRS 3 Business Combination and there will be no continuity between the member of the old and the new Group.

- In case that the settlement will not be reached, bankruptcy is imminent and again, given that its debt significantly exceeds its assets, there will be no choice but to liquidate the current Group.

Accordingly, the Company concluded that 2017 consolidated as well as separate financial statements are going to be prepared on a non-going concern basis. For the purposes of the preparation of the consolidated financial statements the same basis of preparation as for the parent company has been applied.

Note 1.1. and Note 1.2 of the Financial statements describes in more detail with respect to basis of preparation.

Settlement structure and recovery calculations

As stated above, On 10 April 2018, the Company the members of the interim creditors' council ("ICC") as well as certain pre-petition creditors have agreed a declaration of support document setting out key structural elements for a settlement plan. The declaration of support document envisages incorporation of new legal entities to which the business of insolvent operating companies will be transferred to. The newly formed group will be managed by the holding company. All registered claims shall be restructured through distributable return in form of new instruments issued by the top company of the structure of the so-called holding for efficient distribution of return. Operative assets of insolvent companies shall be transferred to the mirrored companies.

The newly-founded group will carry the sustainable amount of debt, while the remainder of the debt which cannot be settled shall remain with the current Group which will cease to exist post settlement. The sustainable level of debt will be transferred to new group. Similar as in the bankruptcy procedure the equity value which belongs to the owners is at the bottom of the payment priority list, while procedural costs, secured claims, super senior claims and unsecured claims and shareholders' loans to companies facing difficulties have higher priority. This gives reason to expect that the ownership structure will be significantly different, i.e. that the creditors will become owners. It is also expected that the majority of creditors will recover only a portion of their claims on the basis of financial projections of businesses/ assets of the entire group.

Recovery allocations are to be determined by allocating distributable value to stakeholder claims at each entity under Extraordinary Administration within the Agrokor Group based on legal rights and priorities.

Distributable value is calculated as the aggregate of enterprise value ("EV"), excess cash, appraised value of non-core assets, and value from intercompany receivables and equity holdings in subsidiaries. EV reflects the value of the operating business in a going-concern scenario and is assessed using three valuation methods: comparable companies trading multiples and precedent comparable transactions using EBITDAR, EBITDA and EBIT multiples, and discounted cash flow analysis ("DCF").

In arriving to a single point estimate for EV, it has been assumed that the values derived from the DCF methodology will have a 50% weighting, while values derived from trading multiples and transaction multiples will have a 30% and 20% weighting, respectively.

Distributable value is allocated to each claim according to its legal (contractual) rights, ranking and characteristics. This creates a waterfall priority structure within each entity in which claims are broadly grouped and ranked in the following order of priority: estate claims, secured claims, SPFA claims and unsecured claims. Any value remaining in a particular entity's waterfall is then distributed to equity holders.

SPFA claims rank ahead of all unsecured claims and have security over on-lent amounts (i.e. amounts borrowed by Agrokor d.d. under the SPFA and subsequently lent to subsidiaries) and all material assets in the Group which were unencumbered at the time of the SPFA.

MANAGEMENT REPORT *(continued)*

Settlement structure and recovery calculations *(continued)*

Guaranteed claims (i.e. claims with co-debtorship) are a sub grouping of claims which are guaranteed by entities other than the initial debtor. Both the debtor and the guarantors are jointly and severally liable for guaranteed claims. As such, creditors can seek to recover the total guaranteed amount from each of the debtor and the guarantors. It is assumed that all guarantees from guaranteed claims at entities under EA are called concurrently and equally against all guarantors under Extraordinary Administration. Guarantees rank pari passu to other unsecured claims in order of priority.

Because a guaranteed claim seeks to recover from multiple guarantors, its recovery consists of the cumulative recoveries from the initial debtor and all guarantors. As such, a guaranteed claim will recover equal to or higher than unsecured claims at the initial debtor. In certain situations, this approach would imply that guaranteed claims could over recover through their guarantees. In those situations, any excess recovery is assumed to be redistribute back to the relevant guarantors pro rata based on the amount that was initially recovered. No guaranteed claim can recover more than its claimed amount.

Certain claims have separate satisfaction rights (“SSR”) against certain assets of the Group, these are secured claims. Appraised value of these assets will be applied against the SSR to determine any impairment. If there is an impairment to be assumed, the difference between the SSR and the appraised value of the assets forms a deficiency claim which ranks pari passu to unsecured claims. If the initial claim was also guaranteed, the deficiency claim would also be guaranteed by the same guarantors.

Key events in 2018 relating to settlement

Commercial Court in Zagreb passes Ruling on Determined and Contested Claims

On 15 January 2018 the Commercial Court in Zagreb passed a ruling on determined and contested claims of Agrokor creditors. The Ruling states that, further to the claims examined and verified by the Extraordinary Commissioner in the amount of HRK 41,45 billion and contested in the amount of HRK 16,43 billion, creditors have mutually contested claims in the amount of more than HRK 10,4 billion. Guarantees and co-debtorships contested by other creditors amount to more than HRK 101 billion. As of date of this report contestation of HRK 6,911,252 thousand amount of claims has been removed, and therefore the total amount of determined claims is HRK 37,962,351 thousand and the total amount of contested claims is HRK 19,922,656 thousand.

The Commercial Court Ruling sets forth which claims have been verified and which contested by the Extraordinary Commissioner and other creditors and the Commercial Court referred the parties to civil proceedings in order to verify or contest the contested claims.

Commercial Court in Zagreb published the ruling on assigning creditors to groups

On 26 January 2018 the Commercial Court in Zagreb published the ruling on determining the number of Creditors’ Council members and classifying creditors into groups based on the proposal of the Extraordinary Commissioner. The sorting of creditors and defining of groups is based on the records of claims filed and the differences in the legal position of each of the groups. Creditors who will be entitled to appoint members to the Creditors’ Council are creditors with verified claims as well as creditors the contestations of whose claims will be renounced. The status of verified and contested claims is not final, as it is subject to possible civil proceedings which may be instituted to establish the merits and their outcome. Furthermore, some contestations are being withdrawn by the contesting parties even over the course of this period, prior to instituting civil proceedings.

Within the scope of the submission the Extraordinary Commissioner has proposed for the Creditors’ Council to have five members, as has been the case so far with the Interim Creditors’ Council. The Council’s composition of five members proved to be the best way for all creditors and their groups to be proportionally represented and optimal in terms of operativeness, quality and efficiency.

MANAGEMENT REPORT *(continued)*

Key events in 2018 relating to settlement *(continued)*

Commercial Court in Zagreb published the ruling on assigning creditors to groups (continued)

The proposed number of Creditors' Council Members is also optimal with regards to the need to secure regular attendance of all its members at all meetings, which thus can be held frequently enough at acceptable cost, without jeopardizing the quality of work.

On 5 April 2018 the High Commercial Court of the Republic of Croatia issued a ruling (delivered to Agrokor on 25 April 2018) abolishing the ruling of the Commercial Court in Zagreb determining the number of Creditors' Council members and classifying creditors into groups and remanded the case back to the Commercial Court in Zagreb for new proceeding. Agrokor is expected to strengthen the creditor groups rational or to propose new creditor groups by beginning of May 2018.

Published estimated value of Agrokor group

On 14 March 2018, the Extraordinary Commissioner published estimated value of Agrokor group companies available for the creditors of these companies which amounts to a range of EUR 1.8 – 3.8 billio. The estimated value for each of the companies is expressed as a lowest-highest range and notes that the distributable value available for creditors in each entity may increase beyond those valuations as a result of residual equity value in subsidiaries and recoveries on intercompany loans.

Together with the estimated values of companies the Company published Proposed Pro Forma Corporate & Capital Structure of the new Group. Namely, a major step to deleverage the current business and make it viable going forward is to convert pre-petition debt into equity and structurally subordinated debt instruments.

Published estimated value of Agrokor group (continued)

Based on currently available information detailed estimates of the new Group's post-restructuring capital structure have been published as well. It is preliminarily estimated that up to EUR 530 million of pre-petition claims could be deemed unimpaired and hence reinstated at par (or left unaffected) in the new Group post restructuring. Estimated figures are preliminary and based on the current assumption that collateral value is at least equal to the related claim value for every secured claim. Appraisals of collateral are currently underway and the current estimates of unimpaired (and hence to be reinstated) secured claims above could change materially based on the appraisal results.

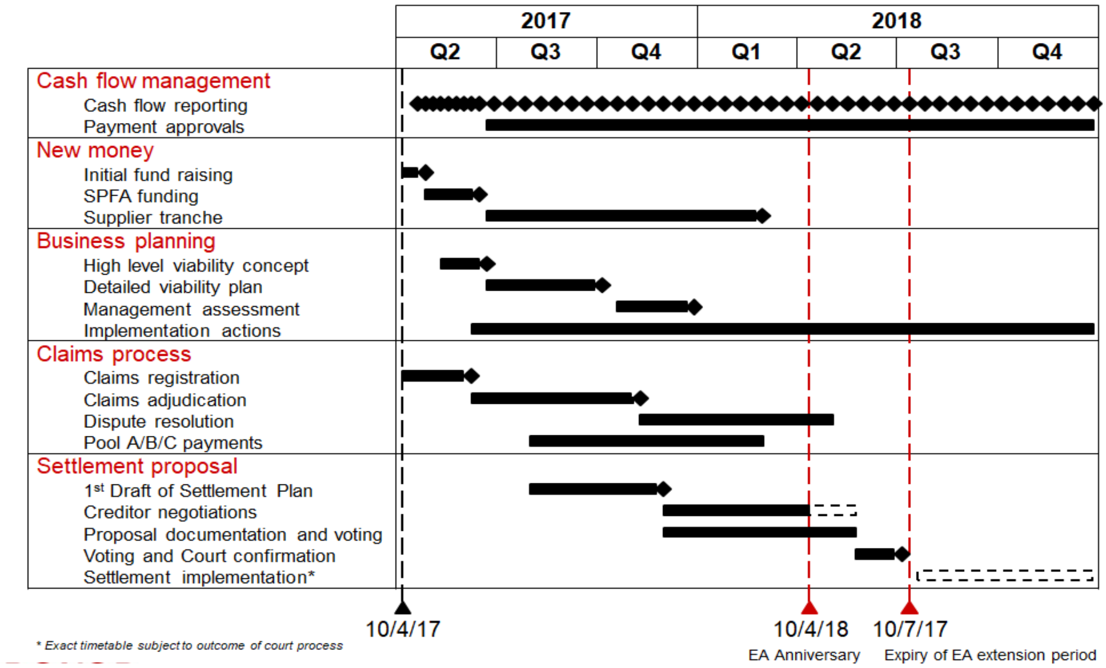
Signing of term sheet with Sberbank

In March 2018, Agrokor's Extraordinary Commissioner Fabris Peruško and Sberbank's First Deputy Chairman of the Management Board Maksim Poletaev have signed a term sheet by which principles are set for Sberbank and its affiliates in due course to withdraw the litigation proceedings they have initiated against Agrokor and its affiliates and for the Extraordinary Commissioner to admit Sberbank's contested claims and propose that Sberbank's recognized claims are included in an updated list of claims submitted to the Commercial Court of Zagreb.

MANAGEMENT REPORT *(continued)*

Future steps in reaching the settlement

The chart below indicated the overview of the settlement process timeline including expected implementation.



On 10 April 2018, the Company the members of the interim creditors' council ("ICC") as well as certain pre-petition creditors have agreed a declaration of support document setting out key structural elements for a settlement plan while the settlement plan must be submitted to the Commercial Court in Zagreb and voted on at the latest by 10 July 2018. The settlement is first voted on by the creditors at the settlement voting hearing, while the final confirmation of the settlement is with the Commercial Court in Zagreb. With respect to the voting of the creditors, the settlement is approved if a simple majority of all creditors voted for it and if in each class the sum of claims of creditors who voted for the settlement exceeds the sum of claims of creditors who voted against the settlement or, exceptionally, if the total sum of claims of creditors who voted for the settlement amounts to at least two-thirds of the total claims.

The key structural elements for a settlement plan supported by the ICC presents a path and next steps necessary to be taken in order to successfully finalize the extraordinary administration procedure in Agrokor with a settlement in place within the legally defined timeframe.

The newly appointed Extraordinary Commissioner continues working based on the agreed key structural elements for a settlement plan and according to internationally recognized model typically applied in insolvency proceedings.

It must be emphasized that the process of reaching the settlement is controlled by the Court and the deadlines in this process are greatly dependent on Court's decisions. Also, parallel to the settlement process, the Extraordinary Administration will be resolving issues of disputed claims of specific groups of creditors.

Acquisition of treasury shares

During 2017 there was no acquisition of treasury shares.

MANAGEMENT REPORT *(continued)*

Research and development activities

Apart from market research for marketing purposes and the regular and continuous development of new products including production quality control processes through the adoption and implementation of relevant international standards (eg ISO, HACCP, IFS, BRC etc.), the Group has no significant research and development activities.

Financial risk management

Liquidity risk

Liquidity risk, also referred to as financing risk, is the risk that an enterprise will encounter difficulty in raising funds to meet obligations associated with financial instruments.

As part of its activities in 2017, the Group continually monitors liquidity to provide sufficient funds for its operations. Currently available cash from the SPFA is assumed to be sufficient for managing Company's operations until the planned settlement date while repayment of SPFA will be agreed as part of the settlement. Based on the term sheet signed in April 2018 SPFA will be refinanced by the new loan at the Croatian holding company level in the new group structure, or maturity extended by the current SPFA creditors. Terms of that loan are yet to be determined.

In these challenging times for the Group, liquidity management of the Group has become and remains a key priority and the efforts of the company and the advisors are focused on maintaining stability in the business during the restructuring process. The Group continues to carefully manage liquidity and constantly monitor and improve the cash flow management process in order to preserve available funds. In this respect, the Group has been able to provide additional liquidity to its subsidiary companies which has served to finance the tourist season and also has implemented a number of working capital management measures.

Exchange rate risk

The Group's assets are primarily denominated in kunas while a significant portion of the Group's borrowings are denominated in foreign currencies (primarily EUR). Consequently, the Group is exposed to the risk of exchange rate fluctuations. Given the long-term policy of the Republic of Croatia related to maintaining EUR exchange rate stability, the Group does not consider it to be significantly exposed to the risk of exchange rate fluctuations.

Credit risk

The Group is exposed to credit risk that poses the risk that the borrower or customer will not be able to meet the obligations as they fall due. The Group manages this risk by establishing exposure limits to individual borrowers or groups of debtors. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. This credit risk is mitigated with respect to post-petition intragroup borrowings by super priority status of all such loans as this status is provided for in the Law. The Company considers that its maximum exposure is reflected by the amount of debt financial assets net of provisions for impairment recognised at the balance sheet date.
A more detailed review of credit risk exposure is provided in Note 38 of these financial statements.

Signed on behalf of the Management Board:

Fabris Peruško
Extraordinary Commissioner

Irena Weber
Deputy of Extraordinary Commissioner

Zagreb, 3 May 2018

CONSOLIDATED FINANCIAL STATEMENTS
for the year ending 31 December 2017

Consolidated financial statements of the Agrokor Group (Company and subsidiaries) represent consolidated financial statements for the year ending 31 December 2017. The list of subsidiaries included in consolidation is disclosed in Note 3.2.

The financial statements are presented in the reporting currency of HRK, Croatian kunas.

The consolidated financial statements of the Group include the following:

- Consolidated Income Statement for the year ending 31 December 2017
- Consolidated Statement of Other Comprehensive Income for the year ending 31 December 2017
- Consolidated Statement of Financial Position for the year ending 31 December 2017
- Consolidated Statement of Cash Flows for the year ending 31 December 2017
- Consolidated Statement of Changes in Equity for the year ending 31 December 2017

Notes to consolidated financial statements, including significant accounting policies and other explanatory information.

STATEMENT OF RESPONSIBILITIES OF THE MANAGEMENT BOARD

Pursuant to the Croatian Accounting Law in force, the Management Board (the Board) is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with the Accounting Law (Official Gazette of the Republic of Croatia 78/15, 134/15, 120/16), International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) which give a true and fair view of the financial position, operating results of operations, changes in equity and cash flows of the Group for that period.

After making enquiries, the Extraordinary Administration has a reasonable expectation that the Group has limited operational existence. For this reason, the Extraordinary Administration does not adopt the going concern basis in preparing the financial statements.

In preparing those consolidated financial statements, the responsibilities of the Extraordinary Administration include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and the consolidated financial statements are not prepared on the going concern because it is inappropriate to presume that the Group will continue in its current legal form.

The Extraordinary Administration is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, operating results of operations, changes in equity and cash flows of the Group and must, also ensure that the financial statements comply with the Croatian Accounting Law in force and International Financial Reporting Standards (IFRS) as adopted by the EU. The Extraordinary Administration is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accompanying consolidated financial statements were approved for issuance by the Extraordinary Commissioner on 3 May 2018.

Signed on behalf of the Management Board:

Fabris Peruško
Extraordinary Commissioner

Irena Weber
Deputy of Extraordinary Commissioner

Zagreb, 3 May 2018

Independent Auditor's Report

To the Extraordinary Commissioner of Agrokor d.d.:

Report on the audit of the consolidated financial statements

Our qualified opinion

In our opinion, except for the effects and possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the financial position of Agrokor d.d. (the "Company") and its subsidiaries (together the "Group") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU").

Our opinion is consistent with our additional report to the Extraordinary Commissioner performing the functions of the Company's audit committee.

What we have audited

The consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2017;
- the consolidated statement of other comprehensive income for the year ended 31 December 2017;
- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of changes in equity for the year ended 31 December 2017;
- the consolidated statement of cash flows for the year ended 31 December 2017; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for Qualified Opinion

1. As explained in Note 1.2 to the consolidated financial statements, the reporting entity is unable to continue operating on a going concern basis. As a result of this matter and the manner in which the Extraordinary Administration is expected to be resolved, the reporting entity does not have an unconditional right to defer settlement of its liabilities for more than twelve months from the end of the reporting period, nor is it able to avoid the realisation of its assets within twelve months. Consequently, presentation of assets and liabilities as non-current items in the statement of financial position as of 31 December 2017 is not appropriate. In addition, the Group did not disclose a maturity analysis of financial liabilities as required by IFRS 7, *Financial Instruments: Disclosures*. Further, as of 31 December 2016 management did not assess compliance with debt covenants related to its borrowings. In the absence of information to assess the compliance of the Group with debt covenant restrictions, we were unable to satisfy ourselves as to the proper classification between current and non-current borrowings as of 31 December 2016 or the completeness of disclosures on debt covenant breaches. Our prior period report was qualified on this matter.

2. The Group recognised expenses of HRK 2,264,965 thousand in the consolidated income statement for the year ended 31 December 2016 in respect of costs and expenses that related to prior periods. Further, as the investigations are still not completed we are unable to satisfy ourselves that all prior period errors have been identified and hence as to the timing of recognition and accuracy of amounts that were presented in Note 2.1 of the consolidated financial statements for the year ended 31 December 2016. Our prior period report was qualified for this matter.

3. We were unable to obtain sufficient appropriate audit evidence of the recoverable value of intangible assets, property, plant and equipment and investment property totaling HRK 2,887,738 thousand at 31 December 2017 in the absence of management's impairment assessment. It was impracticable for us to quantify the impact of this matter on the accompanying consolidated financial statements.

4. We were first appointed as auditors in May 2017 and thus neither we nor the component auditors observed the counting of physical inventories of the Group with carrying value of HRK 2,064,649 thousand as at 31 December 2016. We were unable to satisfy ourselves concerning inventory quantities held as at 31 December 2016 by any other means because a substantial period of time had passed between the end of the financial reporting period and the date when we were appointed as auditors and due to the quick turnover of the majority of the Group's inventories. As a result, we were unable to determine whether adjustments might have been necessary in respect of the inventories presented in the consolidated statement of financial position as of 31 December 2016, as well as the loss for the current and comparative period in the consolidated statement of income and net cash flows from operating activities reported in the consolidated statement of cash flows. Our prior period report was qualified for this matter.

5. The consolidated statement of financial position includes non-current loan receivables of HRK 191,713 thousand (2016: HRK 208,617 thousand). Management did not carry out an impairment review of these assets to assess their recoverability. We were unable to satisfy ourselves by other means as to the carrying amount of these non-current loans receivable in the financial periods presented and hence, that the impact, if any, would not be significant if aggregated together with other unrecorded misstatements. Our prior period report was qualified on this matter.

6. As described in Note 35 to the consolidated financial statements, the Group did not recognise a liability for penalty interest of HRK 2,017,687 thousand. Since the Group has not yet been released from those obligations through approval of the settlement or completion of bankruptcy proceedings, financial liabilities and loss for the year are understated by HRK 2,017,687 thousand.

7. The consolidated statement of financial position includes non-controlling interests of HRK (554,598) thousand at 31 December 2017. As explained in Note 3.2 and Note 33, the Group recognized a reduction in non-controlling interest of HRK 544,419 thousand and a reduction in deferred tax liabilities of HRK 369,105 thousand in the current period statement of changes in equity, which relate to prior periods. Further, the Group did not recognize non-controlling interests' share of losses in respect of guarantee provisions and consequently non-controlling interest is overstated, loss for the year attributable to non-controlling interest is understated and equity attributable to owners of the parent are understated. It was impracticable for us to quantify the impact of this matter on the accompanying consolidated financial statements.

8. The consolidated financial statements do not comply with applicable disclosure requirements primarily in relation to fair value and related information for each class of financial instruments, credit quality analysis of each class financial assets, disclosure of gross cash flows from borrowings and loan receivables, objectives, policies and processes for managing financial risks as well as methods used to measure those risks, the effective tax reconciliation and summarised financial information of subsidiaries that have non-controlling interests. It was not practicable for us to quantify the financial effects of these omissions.

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

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the group and its subsidiaries are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

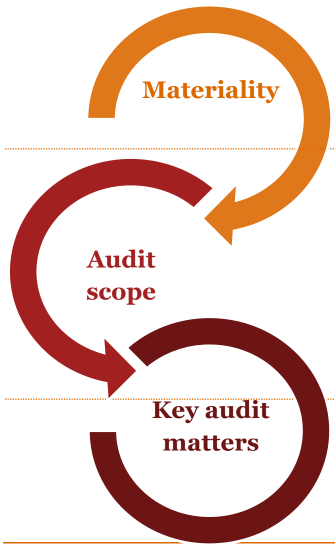
The non-audit services that we have provided to the group and its subsidiaries, in the period from 1 January 2017 to 31 December 2017 are disclosed in the Management Report accompanying the consolidated financial statements.

Basis of Preparation not on a Going Concern Basis

As disclosed in Note 1 to the consolidated financial statements, the reporting entity prepared these financial statements not on a going concern basis due to the expected manner of settlement with creditors, or should creditors disagree with the proposals, through winding up of the entity. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall materiality for the consolidated financial statements as a whole: HRK 331 million.

- We performed audit work covering 13 legal entities in Croatia, 4 legal entities in Serbia, 5 legal entities in Bosnia and Herzegovina, 1 group of entities in Slovenia, 1 entity in Slovenia and 1 entity in Montenegro.
- Our audit scope addressed 94% of the Group's revenues and 95% of the Group's absolute value of net loss.

- We have not identified any key audit matters in addition to the matters described in the Basis for Qualified Opinion section of our report.

How we tailored our Group audit scope

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

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

In establishing our overall approach to audit the Group, we considered the significance of the components to the Group's financial statements, our assessment of risk within each component, the overall coverage across the Group achieved by our procedures, as well as the risk associated with less significant components not brought into the full scope of our audit. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed directly by us, as the Group engagement team and by component auditors operating under our instruction. We, or component auditors under our instruction, conducted full scope audit work covering 94% of the Group's revenue.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion as a whole. In addition to issuing written instructions to the component teams, we reviewed audit work at selected components, including required reporting to the Group audit team, and held regular discussions with component audit teams.

By performing the procedures at components, combined with additional procedures at Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our qualified opinion on the consolidated financial statements.

Materiality

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

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

Overall materiality for consolidated financial statements as a whole	HRK 331 million
How we determined it	We based our materiality on the Group's revenues. The materiality level represents 0.8% of total revenues.
Rationale for the materiality benchmark applied	We chose revenue as the materiality benchmark because, it is the most appropriate benchmark in our view taking into consideration the significant fluctuation of results in the current and recent periods.

Reporting on other information including the Management report and Corporate Governance Statement

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

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

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

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

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the ability of the reporting entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the reporting entity or to cease operations, or has no realistic alternative but to do so. As explained in Note 1 to the accompanying consolidated financial statements, management has concluded that going concern basis is not appropriate for the year ended 31 December 2017.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company in May 2017. Our appointment has been renewed in November 2017 by the Extraordinary Commissioner representing a total period of uninterrupted engagement appointment of two years.

The certified auditor responsible for the audit resulting in this independent auditor's report is Slaven Kartelo.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
4 May 2018

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2017

(in thousand HRK)

	Note	2017	*Restated* 2016
Revenue	5	39,317,193	44,722,948
Other income	6	145,844	144,650
		39,463,037	**44,867,598**
Changes in inventories of finished goods and work in progress		(118,916)	(260,867)
Cost of materials and goods sold		(27,467,089)	(31,070,912)
Cost of services	7	(5,370,786)	(5,333,066)
Staff costs	8	(4,574,598)	(4,761,900)
Depreciation, amortisation and impairment	9	(4,140,104)	(4,413,972)
Other costs	10	(2,251,703)	(6,436,776)
Gains/ (losses) on sale of properties, net		138,115	(128,475)
Gain/(loss) on the loss of control over a subsidiary	3.3	(222,692)	-
		(44,007,773)	**(52,405,968)**
Finance income	11	702,344	740,260
Finance expenses	12	(2,171,514)	(4,379,001)
		(1,469,170)	**(3,638,741)**
Share of net profit of associates accounted for using the equity method		5,851	7,975
LOSS BEFORE TAX		**(6,008,055)**	**(11,169,136)**
Income tax	33	(61,710)	121,713
LOSS FOR THE YEAR		**(6,069,765)**	**(11,047,423)**
ATTRIBUTABLE TO:			
Equity holders of the parent		(4,360,531)	(10,107,192)
Non-controlling interests		(1,709,234)	(940,231)

Approved for issue on behalf of the Group on 3 May 2018 by:

Fabris Peruško
Extraordinary Commissioner

Irena Weber
Deputy of the Extraordinary Commissioner

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

(in thousand HRK)

	2017	2016
Loss for the year	**(6,069,765)**	**(11,047,423)**
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	37,725	(103,974)
Net gain/(loss) on available-for-sale financial assets	(16,395)	3,901
Income tax effect	2,333	(702)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**23,662**	**(100,775)**
Items that will not be reclassified to profit or loss in subsequent periods:		
Revaluation of land	(700,683)	(267,500)
Income tax effect	126,123	44,038
Effect of income tax rate change	-	22,842
Remeasurement of post-employment benefits obligation	(13,246)	(3,682)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**(587,806)**	**(204,302)**
Other comprehensive loss for the year, net of tax	**(564,144)**	**(305,077)**
Total comprehensive loss for the year, net of tax	**(6,633,909)**	**(11,352,500)**
Attributable to:		
Equity holders of the parent	(4,745,874)	(10,352,723)
Non-controlling interests	(1,888,035)	(999,777)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

(in thousands of HRK)

	Note	31.12.2017	Restated 31.12.2016
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	20,171,350	25,086,945
Investment property	15	573,712	240,557
Intangible assets	16	649,958	1,260,376
Biological assets	17	119,655	254,132
Investments in associates	13	186,347	275,680
Loans, deposits and other non-current financial assets	18	864,607	2,085,815
Deferred tax assets	33	303,561	199,237
Other non-current assets		130,125	77,663
TOTAL NON-CURRENT ASSETS		**22,999,315**	**29,480,405**
CURRENT ASSETS			
Inventories	19	4,050,662	5,238,678
Biological assets	17	313,365	328,238
Assets classified as held for sale	20	916,654	122,870
Loans and deposits	21	421,336	842,834
Accounts receivable	22	3,306,752	3,459,209
Recourse receivables	31	28,338	468,658
Other current assets	23	931,354	1,255,266
Cash and cash equivalents	24	2,373,472	556,986
TOTAL CURRENT ASSETS		**12,341,933**	**12,272,739**
TOTAL ASSETS		**35,341,248**	**41,753,144**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
as at 31 December 2017

(in thousands of HRK)

	Note	31.12.2017	Restated 31.12.2016
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	25	180,123	180,123
Accumulated deficit		(20,063,390)	(18,084,429)
		(19,883,267)	**(17,904,306)**
NON-CONTROLLING INTERESTS		**(554,598)**	**3,370,562**
TOTAL EQUITY		**(20,437,865)**	**(14,533,744)**
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	28, 34	7,847,383	27,330,865
Provisions	29	533,298	441,333
Deferred tax liabilities	33	101,363	593,194
Other non-current liabilities		38,584	49,200
TOTAL NON-CURRENT LIABILITIES		**8,520,628**	**28,414,592**
CURRENT LIABILITIES			
Accounts payable	30	9,526,186	10,599,437
Bills of exchange and recourse liabilities	31, 34	344,329	1,718,379
Income tax payable		272,968	93,519
Borrowings	28, 34	34,665,696	12,984,856
Liabilities due to shareholders for dividends		1,125	-
Other current liabilities	32	2,448,181	2,476,105
TOTAL CURRENT LIABILITIES		**47,258,485**	**27,872,296**
TOTAL LIABILITIES		**55,779,113**	**56,286,888**
TOTAL EQUITY AND LIABILITIES		**35,341,248**	**41,753,144**

Approved for issue on behalf of the Group on 3 May 2018 by:

Fabris Peruško
Extraordinary Commissioner

Irena Weber
Deputy of the Extraordinary Commissioner

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

(in thousand of HRK)

		Attributable to owners of the parent									
	Note	Share capital	Share premium	Treasury shares	Revaluation surplus	AFS reserve	Currency translation	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at 01 January 2016		**180,123**	**2,154,747**	**-**	**1,010,599**	**(8,079)**	**(355,010)**	**(10,353,324)**	**(7,370,945)**	**4,442,520**	**(2,928,424)**
Net loss for 2016		-	-	-	-	-	-	*(10,107,192)*	*(10,107,192)*	*(940,232)*	*(11,047,424)*
Other comprehensive income		-	-	-	*(173,307)*	*3,199*	*(73,246)*	-	*(245,532)*	*(59,546)*	*(305,077)*
Total comprehensive income/loss		**-**	**-**	**-**	**(173,307)**	**3,199**	**(73,246)**	**(10,107,192)**	**(10,352,723)**	**(999,777)**	**(11,352,500)**
Treasury shares		-	-	(229,532)	-	-	-	-	(229,532)	-	(229,532)
Acquisition of subsidiaries		-	-	-	-	-	-	(50,872)	(50,872)	(4,780)	(55,652)
Transactions with non-controlling interest		-	-	-	-	-	-	116,480	116,480	43,520	160,000
Transfer to reserves		-	-	-	(1,289)	-	-	1,289	-	-	-
Other equity movements		-	-	-	-	-	1,536	(18,250)	(16,714)	-	(16,714)
Dividends distributed for the year		-	-	-	-	-	-	-	-	(110,921)	(110,921)
Balance at 31 December 2016		**180,123**	**2,154,747**	**(229,532)**	**836,003**	**(4,880)**	**(426,721)**	**(20,414,045)**	**(17,904,305)**	**3,370,562**	**(14,533,744)**
Restatements and errors effects	*3.2, 33*	-	-	-	-	-	-	*913,524*	*913,524*	*(544,419)*	*369,105*
Net loss for 2017		-	-	-	-	-	-	*(4,360,532)*	***(4,360,532)***	*(1,709,234)*	***(6,069,765)***
Other comprehensive income		-	-	-	*(404,208)*	*(11,865)*	*43,976*	*(13,246)*	*(385,343)*	*(178,801)*	*(564,144)*
Total comprehensive income/loss		**-**	**-**	**-**	**(404,208)**	**(11,865)**	**43,976**	**(4,373,777)**	**(4,745,874)**	**(1,888,035)**	**(6,633,909)**
Transactions with non-controlling interest	*3.2*	-	-	-	-	-	-	1,590,006	***1,590,006***	*(1,492,706)*	***97,300***
Other equity movements		-	-	-	-	-	-	263,383	***263,383***	-	***263,383***
Balance at 31 December 2017		**180,123**	**2,154,747**	**(229,532)**	**431,795**	**(16,745)**	**(382,745)**	**(22,020,910)**	**(19,883,267)**	**(554,598)**	**(20,437,865)**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

(in thousands of HRK)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(6,008,055)	(11,169,136)
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation, amortisation and impairment of property plant and equipment	9	3,661,657	2,275,929
Impairment and write off of goodwill and brands	9	478,447	2,138,043
Expenses previously unrecognised		-	1,077,682
Financial income	11	(702,344)	(740,260)
Financial expenses	12	2,171,514	4,249,260
Impairment of financial assets	10	513,135	2,142,348
(Gain)/ loss on sale of properties, net		(138,115)	128,473
Loss of control over subsidiary	3.3	222,692	-
Impairment loss on trade receivables, net	10	196,836	1,904,624
Group share of net profit of associates	13	(5,851)	(7,975)
Change in provisions and other reconciliation adjustments		476,266	95,255
Net cash flows from operating activities before changes in working capital		**866,182**	**2,094,243**
Increase in receivables		(798,250)	(328,242)
Decrease in inventories		716,087	1,066,906
(Decrease)/increase in liabilities towards creditors		(880,203)	479,423
Decrease in other current assets		131,332	177,150
Decrease in other current liabilities		(195,533)	(572,441)
Net cash inflow from operating activities before interest and taxes		**(160,385)**	**2,917,039**
Income taxes paid		(125,536)	(355,683)
Interest paid		(619,910)	(2,180,828)
Net cash (outflow)/ inflow from operating activities		**(905,831)**	**380,528**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired	3.1	917	(40,057)
Payment for property, plant and equipment and intangible assets		(914,461)	(1,749,515)
Proceeds from non-current financial investments		13,926	41,696
Net proceeds from sale of properties		811,361	324,966
Net proceeds from sale of financial assets		292,357	272,369
Proceeds from loan receivables		7,868	151,288
Interest received		31,877	52,555
Dividends received		4,389	4,403
Net cash inflow/(outflow) from investing activities		**248,234**	**(942,295)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		2,474,083	561,738
Dividends paid		-	(40,025)
Net cash inflow from financing activities	34	**2,474,083**	**521,713**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,816,486**	**(40,054)**
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR		**556,986**	**597,040**
CASH AND CASH EQUIVALENTS, END OF THE YEAR	24	**2,373,472**	**556,986**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General

Agrokor d.d. (“the Company”) is a joint stock company which is incorporated in the Republic of Croatia.

The Company’s parent is Adria Group Holding B.V. Netherlands with a share of 95.52%; ultimate parent of the Company on 31 December 2016 is Agrokor projekti d.o.o. Zagreb, Croatia, while ultimate controlling party until 10 April 2017 was Mr. Ivica Todorić. As of 10 April 2017 the ultimate controlling party of Agrokor d.d. is defined as described in the Law for the Extraordinary Administration for Companies with Systemic Importance for the Republic of Croatia ("the Law"). On 31 December 2017, there is no ultimate parent of the Company.

The Law defines the extraordinary commissioner as the person who solely and individually represents the Company and has rights and obligations of the Management Board, Supervisory Board and the General Assembly. According to the Law the extraordinary commissioner is entitled to take all actions to govern the regular operations of the Company which among other include all payments relevant for regular operations as defined in the Law on financial operations and prebankruptcy procedures (Official Gazzete no 108/12, 144/12, 81/13, 112/13, 71/15, 78/15) as well as all claims from the employment relationship of employees of the Company as well as affiliated companies no matter when those occurred.

The extraordinary commissioner needs the approval of the creditors’ council for transactions in excess of HRK 3,500 thousand relating to disposals of real estate of the Company, transactions with shares in affiliated companies and transfer of a business unit. Also, the extraordinary commissioner needs the pre-approval of the creditors’ council to obtain new financing or to settle pre-petition liabilities.

The Company’s registered main office is located at Marijana Čavića 1, Zagreb.

At 31 December 2017 the Group employed 50,903 employees.

Principal activities, trading review

The principal activities of the Company and its subsidiaries (the Group) are consumer retailing, manufacturing and distribution of food products.

The Group operates through its five business groups: Agrokor d.d. Holding, Retail and Wholesale; Food production, Agriculture, Agrokor Portfolio Holding.

Supervisory Board

1. Todorić Ivan	Chairman	from 29.06.2016 until	10.04.2017
2. Puljić Ljerka	Deputy Chairman	from 18.02.2015 until	10.04.2017
3. Kuštrak Damir	Member	from 18.02.2015 until	10.04.2017
4. Lučić Tomislav	Member	from 18.02.2015 until	10.04.2017
5. Rukavina Tatjana	Member	from 18.02.2015 until	10.04.2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Management Board

1. Todorić Ivica	President	from 26.05.2016 until	10.04.2017
2. Todorić Ante	Deputy President	from 15.05.2013 until	10.04.2017
3. Balent Hrvoje	Member	from 04.07.2012 until	10.04.2017
4. Crnjac Ivan	Member	from 05.03.2013 until	10.04.2017
5. Galić Mislav	Member	from 15.05.2013 until	10.04.2017
6. Sertić Ivica	Member	from 01.03.2016 until	10.04.2017

Extraordinary Commissioner

Extraordinary Commissioner was appointed by the Commercial Court in Zagreb on 10 April 2017, and pursuant to the Law is acting as Management, Supervisory Board and General Assembly of the Company.

1 Ante Ramljak	Extraordinary Commissioner	from 10.04.2017 until	28.02.2018
2 Fabris Peruško	Extraordinary Commissioner	from 28.02.2018	
3 Irena Weber	Deputy of the Extraordinary Commissioner	from 28.02.2018	

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.1. Basis of Preparation

The consolidated financial statements of the Company and its subsidiaries (together, the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. In addition to consolidated financial statements of Agrokor Group, separate financial statements of Agrokor d.d. are prepared to meet statutory requirements defined in the Accounting Act (Official Gazzete no 78/15, 134/15, 120/16).

The consolidated financial statements have been prepared on a historical cost basis, except for certain property, plant and equipment, biological assets, and part of financial assets and liabilities which are recognised at fair value, as described in the following accounting policy notes.

The accounting policies have been consistently applied to all the years presented, except as described in note 1.31 *Changes in accounting policies due to new and amended Standards*. We also draw attention to the special valuation consideration stated within this note below.

The Company has delisted its bonds from the Irish Stock Exchange on 4 August 2017. Consequently, as at 31 December 2017 the Group doesn't have equity or debt security listed on Stock Exchange and therefore segment information is not presented.

The Group's consolidated financial statements are presented in Croatian Kuna (HRK) which is the functional currency of the Company and the presentation currency for the consolidated financial statements. The effective exchange rate of the Croatian currency (expressed in HRK) at 31 December 2017 was HRK 6.27 per United States Dollar (USD) (2016: HRK 7.17) and HRK 7.51 per Euro (2016: HRK 7.56). All amounts disclosed in the financial statements are rounded to the nearest thousand of HRK, except when otherwise indicated.

1.2. Going Concern considerations

At 31 December 2017 the Group's current liabilities exceed current assets by HRK 34,916,552 thousand, negative equity amounts to HRK 20,566,587 thousand and the Group incurred a net loss of HRK 5,812,125 thousand for the year ended 31 December 2017. These facts along with the matters described below confirm that the Company and the Group will be unable to continue operating as a going concern and therefore the Extraordinary Administration concluded that the going concern basis is no longer an appropriate basis of preparation fro the consolidated financial statements of the Group at 31 December 2017 and for the year then ended.

Extraordinary Administration

On 10 April 2017, the Zagreb Commercial Court issued a Decision to initiate the Extraordinary Administration Procedure over Agrokor d.d. ("the Company") and its affiliated and controlled companies (together 77 companies in Croatia). The court appointed the Extraordinary Commissioner for Agrokor (in February 2018, when the second Extraordinary Commissioner was appointed, his Deputy was also appointed) who took over the functions of Agrokor corporate bodies, including the management of Agrokor d.d. The Extraordinary Administration effects, among other, are the prohibition of initiating litigation, enforcement and other proceedings during and until termination of the Extraordinary Administration. Creditors' pre-petition claims, are subject to filing and settlement.

As of the date of issuing of these financial statements, Extraordinary Administration is still in force. As of 6 April 2018 the Commercial Court in Zagreb prolonged the Extraordinary Administration proceedings until 10 July 2018.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.2. Going Concern considerations *(continued)*

Settlement plan

The main goal of the Extraordinary Administration is to propose a settlement. Settlement plan is based on viability studies for top companies (for a majority of them viability was assessed as reasonable, subject to a restructured level of debt; whilst the minority which are not assessed as viable are to be closed down and liquidated), entity priority model ("EPM") which is described in more detail in note *1.30 Critical accounting judgements and estimates* and detailed structure of the overall settlement. Also, the Extraordinary Administration has assessed solvency of all companies under the Extraordinary Administration in accordance with the legal requirements. The methodology for determining if a company is insolvent included both sustainability criteria and insolvency criteria and, depending on the results of that assessment and in accordance with the proposed settlement implementation, companies were categorized in either the "asset transfer" or "share transfer" groups.

Up to the date of issuing of these financial statements, the following results of the Extraordinary Administration have been published:

- Valuations of subsidiaries and collateral valuations
- Viability plans and
- That the settlement is proposed to be performed through the new group in accordance with the EPM model.

As a part of year-end preparation of the financial statements, the Group assessed the likely outcome of the Extraordinary Administration: whether it is more likely that the settlement will be reached or not. These financial statements have been prepared under the expectation that the settlement is considered the most likely outcome of the Extraordinary Administration.

Irrespective of the outcome of the Extraordinary Administration, it is estimated that the Group is no longer going concern:

- In case that the settlement will be reached, transfer of assets from Agrokor d.d. to the new Croatian Holding Company will be performed as a part of the settlement (transfer of shares of Agrokor d.d. in its solvent subsidiaries will be performed as transfer of shares, while the transfer in relation to its insolvent subsidiaries will be performed as business unit transfer to the newly incorporated legal entities (including all assets, all contracts, staff, concessions, permits and post-petition liabilities).

As the Company is insolvent (reported claims exceed assets) after the transfer it will be an empty shell with just excess liabilities, which will cease to exist.

Please note that in case settlement is reached, given that significant change in ownership is expected as the New Group will be in the ownership of creditors, it will be treated as an acquisition under IFRS 3 *Business Combinations* and there will be no continuity between the old and the new Group. Accordingly, the Group concluded that the 2017 consolidated and separate financial statements are going to be prepared on a non-going concern basis. For the purposes of the preparation of the consolidated financial statements the same basis of preparation as for the parent company has been applied.

Special valuation considerations

Given the duration of Extraordinary Administration, it was assessed that the assets of the Agrokor Group do not meet the requirements (in particular there was no committed plan to sell them in place at year end) to be classified as held for sale under IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.2. Going Concern considerations *(continued)*

Special valuation considerations *(continued)*

In light of the expectation that the settlement is the more likely outcome, the Group does not consider fire sale values as the appropriate fair values for the purpose of preparing the financial statements. Contrary to that, it is considered that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (consistent with IFRS 13 *Fair values*).

Furthermore, given that the realisation of assets is to be performed as a part of settlement without any material transaction costs and that the required levels of impairment have been recognised, effectively the Group will continue to value its assets and liabilities in accordance with the relevant International Financial Reporting Standards and with its existing accounting policies.

Relevant accounting policies are disclosed in note *1. Significant accounting policies*.

Particular attention is drawn to the following:

- The Group performed valuation of its non-core assets and the appropriate write downs have been booked, where required;
- No fair value uplifts on assets have been recognised in the financial statements, except for assets carried at fair value;
- As asset transfer of insolvent companies will be performed as a business unit transfer which, among other things, includes transfer of all contracts (including employment contracts) the Company and the Group assessed that no provision for termination of such contracts is required at 31 December 2017;
- The Group continues to present assets and liabilities based on the current/ non-current classification due to the following:
    - the process of reaching the settlement is controlled by the Court and the deadlines in this process are greatly dependent on Court's decisions and therefore implementation of the settlement may be prolonged beyond one year from the balance sheet date;
    - from the perspective of the Group, total assets will be realized at the same single point in time (i.e. point of sale to the NewCo) and therefore the Group decided not to present the balance sheet in order of liquidity;
    - following the transfer of business units the current/ non-current classification will remain as currently reported by the Group.

  Criteria for current/non-current classification are disclosed in note 1.6 *Classification of short-term against long-term.*

1.3. Principles of Consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries as at 31 December 2017. Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.3. Principles of Consolidation *(continued)*

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- Contractual arrangement with one other owner of voting rights over the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to exercise power over the investee and has ability to use its power over the investee. De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to exercise power by virtue of de-facto control.

A listing of the Group's subsidiaries and a summary of the financial effect of the acquisition of subsidiaries during the year is set out in Note 3.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity while any resulting gain or loss is recognised in profit or loss. Any retained interest is remeasured to its fair value with the change in carrying amount recognised in profit or loss.

1.4. Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.4. Business Combinations and Goodwill *(continued)*

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the income statement.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred amount of any non-controlling interest in the acquired entity, and acquisition date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired. If the fair value of the net identifiable assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities incurred and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

1.5. Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. In practice, associates are entities in which the Group holds between 20% and 50% of voting rights.

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

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in associates and joint ventures are accounted for using the equity method. According to the equity method, Company's share in profits and losses of associated companies and joint ventures are recognized through the Income statement, from the date the significant influence commences until the date that the significant influence ceases.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.5 Investments in Associates and Joint Ventures *(continued)*

Under the equity method of accounting, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognize the Group's share of post-acquisition profits or losses of the investee in the income statement, and the Group's share of movements in other comprehensive income (OCI) of the investee in other comprehensive income. Dividends received or receivable from associates or joint ventures are recognised as a reduction in the carrying amount of the investment.

In addition, when there has been a change recognised directly in equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate or joint venture is presented in the income statement and includes profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group determines the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group remeasures and recognises any retained interest at its fair value and reclassifies any retained investment accordingly. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and fair value of the retained investment as well as proceeds from disposal is recognised in profit or loss.

1.6. Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position by classifying them as either long-term or short-term.
Assets are considered as short-term when:

- It is expected that they will be realized or in case the intention is to sell them or to spend them in a normal operative cycle;
- They are primarily held for trading;
- it is expected that they will be realized within a period of 12 months after the reporting period, or
- cash equivalent, except in case there is a restriction regarding use or disposal, or it can only be used for settling liabilities in a period of at least 12 months after the end of the reporting period.

All other assets are considered as long-term.
A liability is considered as short-term when:

- It is expected that it will be settled within a normal operating cycle
- It is primarily held for trading,
- It becomes due within a period of 12 months after the reporting period, or
- There is no unconditional right to defer payment for at least 12 months after the end of the reporting period.

All other liabilities are considered as long-term.
Deferred tax assets and deferred tax liabilities are classified as long-term assets and long-term liabilities.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.7. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented in income statement.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the respective criteria are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised costs using the EIR, less impairment.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.7. Financial instruments *(continued)*

Held-to-maturity investments (continued)

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest income in the income statement. The losses arising from impairment are recognised in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income and accumulated in the available-for-sale reserve until the investment is derecognised, or impaired at which time, the cumulative gain or loss is recognised in profit or loss as a reclassification from OCI. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

Available-for-sale financial investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost, less impairment, if any.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified from OCI to the income statement.

De-recognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired, or when the Group has transferred its rights to receive cash flows from the asset or has assumed an qualifying obligation to pay the received cash flows without material delay to a third party, and either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortised cost: if there is objective evidence that impairment has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. The carrying value of the asset is reduced and loss is recognised in profit or loss.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.7. Financial instruments *(continued)*

Impairment of financial assets (continued)

For available for sale financial instruments: when there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost (or amortised cost for debt instruments) and the current fair value less any impairment loss on that investment previously recognised in income statement, is removed from other comprehensive income and recognised in income statement.

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments that are not designated as hedging instruments in a hedge relationship. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains and losses on liabilities held for trading are recognised in income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition and only if the respective criteria are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of EIR. The EIR amortisation is included as interest expense in the income statement.

Contracts on financial guarantees/guarantees

Contracts for financial guarantees/guarantees issued by the Group are those contracts that require the execution of a payment to compensate to the holder the loss arising out of the fact that a certain debtor has not performed its obligations in accordance with the terms of the debt instrument. Financial guarantees are initially recognized as a liability at fair value and subsequently at higher of:

a) the best estimate of the expenditure required for settlement of the present obligation at the reporting date
b) and the amount initially recognised less its cumulative amortization.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.7. Financial instruments *(continued)*

De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another form of liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts, cross currency swaps to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

1.8. Fair value measurement

The Group measures financial instruments such as derivatives and non-financial assets such as biological assets at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.8. Fair value measurement *(continued)*

Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.9. Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired, as described in the accounting policy 1.12 Impairment of assets. Intangible assets with finite useful lives are amortized on a straight-line basis over their expected useful lives. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Useful life of the intangible assets, as follows:

Concessions	2 to 13,5 years
Other intangible assets	2 to 50 years

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Brands, distribution rights and trademarks

Brands refer to acquired rights to use trademarks, marks and brand names that the Group allocates to segments of business in accordance with the internal categorization of the product to which a particular brand relates whereby the value is wholly or in part allocated to a particular segment or, where applicable, where a particular brand consists of products and categories that fall into several segments by category, in accordance with the ratio of brand's gross margins contribution in each of the segments.

Brands acquired through business combinations are recognised at the initially determined fair value (on acquisition date) less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the item over its estimated useful life (15 years).

Brands with an indefinite useful life are not amortized but tested annually for impairment at the level of cash generating unit. Brands have an indefinite useful life when, based on an analysis of all of the relevant factors at the reporting date, there is no foreseeable limit to the period of time over which the identified rights are expected to generate net cash inflows. Intangible assets with indefinite useful lives are tested annually for impairment and are stated at cost less accumulated impairment loss.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.9. Intangible Assets *(continued)*

Brands, distribution rights and trademarks (continued)

Individually acquired distribution rights and trademarks are presented at historical cost. Distribution rights and trademarks acquired through business combinations are recognized at fair value on the acquisition date. Product distribution rights and trademarks have a limited useful life and are stated at cost less accumulated depreciation and impairment. Amortization is calculated using the straight-line method to allocate the cost of rights over their estimated useful life (from 1.5 to 5 years).

Research and development costs

Research costs are expensed as incurred. An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete and its ability and intention to use or sell the asset;
- How the intangible asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, over the period of expected useful life not exceeding a maximum period of five years.

1.10. Property, Plant and Equipment

Property, plant and equipment, with the exception of land, are carried at cost less accumulated depreciation and/or impairment losses, if any.

Revaluations relate to land and have been based upon valuations performed by independent expert valuer, for a period not exceeding three years.

The basis used in valuations is comparable market prices. When an asset is revalued, any increase in the carrying value is credited to a revaluation surplus within equity (through other comprehensive income), net of deferred taxation, if applicable.

The relevant portion of the revaluation surplus realised in respect of a previous valuation is released from the asset valuation surplus directly to retained earnings upon the disposal of the revalued asset.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the statement of financial position, along with the corresponding accumulated depreciation. Any gain or loss arising from derecognising of assets (calculated as the difference between net sales receipts and the carrying value of the asset at the time of disposal) is taken to the income statement in the year of de-recognition.

When significant parts of buildings, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the building, plant or equipment as a replacement if the recognition criteria is satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.10. Property, Plant and Equipment *(continued)*

After initial recognition, such plant-based assets are valued at cost less accumulated depreciation and / or impairment if any. The estimated useful life of the assets is as follows:

Buildings	5 to 55 years
Property, Plant and Equipment	4 to 15 years
Leasehold improvements	5 to 10 years
Other fixed assets	up to 5 years

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

1.11. Investment properties

Investment properties mainly relate to commercial properties and warehouses that are held for the purpose of long-term lease income or increase in value and are not used by the Group. Investment properties are treated as long-term investments unless they are intended for a highly probable sale in the following year and the buyer is identified, in which case they are classified as short-term assets.

Investment properties are stated at historical cost less accumulated amortization. Depreciation of buildings is calculated using the straight-line method for the purpose of allocating the cost over their estimated useful life ranging from 5 to 75 years.

Subsequent expenses are capitalized only when it is probable that the Group will have future economic benefits and when the cost can be measured reliably. All other repair and maintenance costs are charged to the income statement when incurred. If the Group begins to use the investment property, it is reclassified to properties, plant and equipment and its carrying amount on the date of reclassification becomes the deemed cost that will be subsequently depreciated.

1.12. Impairment of Assets

The Group assesses at each financial year-end whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

The recoverable amount is estimated as the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and value in use.

Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs. Cash-generating units are primarily identified at entity level.

When carrying values exceed this estimated recoverable amount, the assets are written down to their recoverable value.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment loss, if any.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.12. Impairment of Assets *(continued)*

Goodwill (continued)

Each unit or group of units to which goodwill is allocated represents the lowest level within the Group where goodwill is monitored for internal management purposes. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the net book value may be impaired.

Goodwill impairment is determined by a recoverable amount estimate based on estimates of the value in use of the cash-generating unit (or group of units) to which goodwill relates. When the recoverable amount of the cash-generating unit (or group of units) exceeds the carrying value of the cash generating unit (or group of units) to which the goodwill is allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in the following periods.

The recoverable amount of a cash-generating unit is determined as its value in use, using projected cash flows based on financial plans for a five-year period and terminal growth rate for cash flows after the projected five year period. The basis for determining the value of the gross margin is the average gross margin achieved in the year preceding the year for which a business plan is being drawn up.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, as appropriate and when the circumstances indicate that the carrying value may be impaired.

Brands, distribution rights and trademarks

The Group annually performs an impairment test in order to assess whether the recoverable amount of brands indicates potential impairment of its carrying amount.

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by management and cover a period of five years.

1.13. Leased Assets

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

The lease is originally classified as a financial or operating lease.

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the lower of the fair value of the leased property or present value of the minimum lease payments at the commencement date of the lease term and are disclosed as leased property, plant and equipment. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

Capitalised leased assets are depreciated over the shorter of leased term and its useful life.

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.13. Leased Assets *(continued)*

The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. If a sale and leaseback transaction results in an operating lease, and the transaction is established at fair value, any profit or loss is recognised immediately.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

1.14. Non - current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the sale or distribution, excluding finance (holding) costs and income tax expense. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of income.

Property, plant and equipment and intangible assets once classified held for sale are not depreciated or amortised.

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

1.15. Inventories

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

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials – lower of purchase costs or net realisable value. Cost formula is determined at weighted average basis.

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Merchandise – lower of purchase costs or net realisable value. Cost formula is determined on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.16. Biological assets

The Group recognises a biological asset or agricultural produce, such as livestock, crops, when there is control over the asset as a result of past events; it is probable that future economic benefits associated with the asset will flow to the entity and the fair value or cost of the asset can be measured reliably.

A biological asset is measured on initial recognition and at each balance sheet date at its fair value less costs to sell, except when the fair value cannot be measured reliably. Agricultural produce harvested from an entity's biological assets is measured at its fair value less costs to sell at the point of harvest.

Plants/plantations are transferred under IAS 16, but agricultural products that grow on crops are still presented and recognized within biological assets in the financial statements.

Biological plant based assets are those assets used in the production or acquisition of agricultural products that are expected to produce in more than one period of time, which is unlikely to be sold as a plant or harvested as an agricultural product. The initial cost of such assets is expressed in the same way as the assets that a company merely constructs within property, plant and equipment, and before it is brought to the condition and position necessary for the work that the asset was intended by management. After initial recognition, such plant-based assets are valued at cost less accumulated depreciation and / or impairment if any.

For biological assets valued at cost, depreciation is recorded by a charge to the income statement computed on a straight-line basis over the estimated useful life of the asset, as follows:

Vineyards	10 to 20 years
Orchards	10 years
Olive groves	20 years

1.16. Trade and other receivables

Trade receivables, which generally have 90 days terms are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

1.17. Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position are defined as cash on hand, balances with banks, demand deposits with contractual maturity of less than 3 months, which are subject to an insignificant risk of changes in value.

Restricted cash

Cash and cash equivalents owned by the Group, but which the Group cannot use or dispose of represent restricted cash.

Restrictions on use or disposal are based on credit and loan agreements or regulatory requirements.

1.18. Trade payables and other current liabilities

Trade payables are the obligations of payment to the supplier for the goods purchased or services received during normal business. Trade payables are classified as current if they are due for payment within one year, or within the operating cycle if it is longer. Otherwise, the liabilities are classified as long-term. Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Other current liabilities are those that are classified as current and mature up to one year and include tax liabilities (other than income tax), other payables to employees, prepayments received, other short-term liabilities and accrued expenses and deferred income.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.19. Taxation

Income tax for the period consists of current and deferred tax.

Current tax is based on the accounting profit for the year adjusted for permanent and temporary differences between taxable and accounting income.

Current tax is provided for in accordance with fiscal regulations in the countries where the Group entities are located. Companies' income tax returns are subject to examination by the Tax Authorities. Since the application of tax laws and regulations to several types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the Tax Authorities.

Deferred income tax is calculated, using the balance sheet liability method, on all temporary differences at the reporting date due to differences in treatment of certain items for taxation and for accounting purposes within the consolidated financial statements.

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Group re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets.

1.20. Foreign Currencies

The individual financial statements of each Group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Croatian Kuna (HRK) which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions and balances:

Transactions in foreign currencies are initially recorded by the Group entities in their functional currency at the respective currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency using the closing exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange differences arising on foreign currency transactions and the translation of monetary assets and liabilities are recognised in the consolidated income statement in the period in which they arise.

Group companies:

The assets and liabilities of foreign subsidiaries are translated into the presentation currency using the Croatian National Bank middle exchange rate at the end of the reporting period. Revenues and expenses are translated at the average exchange rate for the year. The effects of translating these items are included in other comprehensive income. Any goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of that foreign subsidiary and are translated at the rate effective at the end of the respective reporting period.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.21. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements, except for the specific contracts relating to retail business ("consumer sell") where there is acting as an agent. The following recognition criteria must also be met before the revenue is recognized:

The income from sales of products and merchandise are recognized if substantial risks and benefits of ownership have been transferred to the buyer and if there is no considerable uncertainty regarding the sales, the corresponding expenses or potential return of goods.

Interest income arising from the use by others of the Group's resources is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.

Interest income is recognized as it accrues (taking into account the effective yield on the asset) unless collection is in doubt.

Dividend income is recognized when the Group's right to receive the payment is established, provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Sales of products and trade goods – wholesale

The Group manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Group has delivered the products to the wholesaler, the wholesaler has full discretion over the price to sell and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of loss have been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

Products are sold with volume discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specific in the sales contracts, net of estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of up to 90 days, which is consistent with the market practice.

Revenue is presented, net of value-added tax, returns, rebates and discounts, expenses of listing the products, slotting fees and marketing activities that are an integral part of contracts with customers.

Sales of goods - retail

Sale of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The Group issues credit and debit cards Pika and Multiplus to its customers for collecting bonus points at purchases. Bonus periods last three to six months. The first annual bonus period lasts from 1 February to 31 July, the second bonus period from 1 August to 31 January of the following year. During the bonus period, customers collect bonus points. Depending on the amount of purchases and consequently the number of collected points, they can earn a 2 to 6-percent discount. During the year, the Group allocates potential discounts on the basis of collected points, whereas revenue from unrealized bonus points is allocated based on experience from previous bonus periods. Despite the fact that the second bonus period ends on 31 January of the following year, the Group in this way ensures that recorded revenues match expenditures that were necessary for their realization.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.22. Revenue Recognition *(continued)*

Sales of services

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

1.22. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

1.23. Pensions and employee benefits

The Group recognizes a provision for bonuses and accumulated unused annual vacation days when there is a contractual obligation or past practice on the basis of which the obligation has been incurred.

The Group, in the normal course of business, makes fixed contributions into the State mandatory pension funds on behalf of its employees. The Group does not operate any other pension scheme or postretirement benefit plan, and consequently, has no legal or constructive obligation to make further contributions if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The Group makes payments to employees that include one-off retirement and jubilee benefits as well as scholarships for children of employees that died at work. The obligation and costs of these benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Past service costs are recognised immediately when incurred. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is based on the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

1.24. Provisions

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

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

Provisions for restructuring costs are recognized when the Group has a detailed formal plan for the restructuring that has been communicated to parties concerned.

When the Group expects that part or all of the provision will be reimbursed, for example, under an insurance contract, such collection is recognized as a separate asset, but only when the payment is fully secure. Costs associated with the provision are shown in the income statement as a net amount less all collection charges.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.25. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent liabilities of the Group are presented in Note 35.

1.26. Subsequent Events

Post year-end events that provide additional information about a Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes (Note 39) when material.

1.27. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis with the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and is released to the income statement in equal amounts over the expected useful life of the relevant asset.

1.28. Treasury shares

Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

1.29. Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within next financial year are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to changes in circumstances arising that are beyond control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of investments in associates

The Group's investments in associates are accounted for using the equity method. Under the equity method the carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. After application of the equity method the Group determines whether it is necessary to recognize an impairment loss on its investments in associates. As at 31 December 2017 the Group recognized impairment of HRK 93,007 thousand as the difference between the recoverable amount of the associate and its carrying value.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.30. Critical Accounting Estimates *(continued)*

Entity Priority Model ("EPM")

Derived equity values used in the impairment test have been calculated by external financial advisors and are calculated from assets / enterprise values ("EV") fair value and the carrying value of financial debt (including allocated amount of financial guarantees for liabilities of related party entities based on the Entity Priority Model ("EPM").

EV reflects the value of the operating business in a scenario that does not assume forced sale and is assessed using three valuation methods: trading multiples, precedent transactions using EBITDAR, EBITDA and EBIT multiples, and discounted cash flow analysis ("DCF"). For core companies including the following companies owned by Agrokor d.d.: Agrokor – Trgovina d.d., Belje d.d., Dijamant a.d., Jamnica d.d., Konzum d.d., Konzum Sarajevo d.o.o., Ledo d.d., Nova sloga d.o.o., PIK Vinkovci d.d., Poslovni sistem Mercator d.d., Tisak d.d., Vupik d.d. and Zvijezda d.d. valuations were based on the bottom-up viability plan developed by the companies in coordination with the restructuring advisors and including 5 year projections of income statement, working capital movements and cash flows.

After the viability plan horizon (2021+), companies are assumed to be in a steady state with a terminal free cash flow consisting of 2021 EBITDA minus cash taxes and steady state capex and experiencing growth equal to overall CPI inflation.

For the remaining investments which were outside the viability planning exercise, projections were separately prepared by management of those companies. In cases where the company's main operations consist of holding and renting out real estate (mainly to other group companies) or holding other real assets or financial claims against non-group entities the valuation approach based on profitability was not appropriate and accordingly EV was based on asset appraisals prepared by independent valuators.

In determining the recoverable amount of investments in associates attention should be drawn to the following:

- EV is based on the single point estimate used in the EPM model and calculated for the purposes of determination of recoveries in the settlement. Although these values are still subject to creditors' confirmation, the Extraordinary Administration believes that to the best of their knowledge these amounts represent the best estimate at the date of preparation of these financial statements;
- Single point estimate means that in determining EV the Group combined several valuation methods. In arriving to a single point estimate for EV. It has been assumed that the values derived from the discounted cash flows ("DCF") methodology will have a 50% weighting, while values derived from trading multiples and transaction multiples will have a 30% and 20% weighting, respectively;
- For the purposes of DFC analysis the Group used only cost of equity for discounting cash flows for companies within the extraordinary administration. The Extraordinary Administration believes that, due to the distress of the Group, the cost of debt would be approximately the same as the cost of equity and it is assumed that there would be no additional benefits if weighted average cost of capital ("WACC") was applied. For non-Croatian companies with leverage "in place", weighted average cost-of-capital (WACC) including actual cost of debt (based on 2016 results) has been used as discount rate;
- The recoverable amount of the Company's equity share was calculated from assets / enterprise values ("EV") fair value and the carrying value of financial debt (including allocated amount of financial guarantees based on the EPM). No benefits for the parent from receivables based on guarantees allocated to subsidiaries have not been accounted for.

Recovery allocations are to be determined by allocating distributable value to stakeholder claims at each entity under Extraordinary Administration ("EA") within the Agrokor Group (the "Group") based on legal rights and priorities.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.30. Critical Accounting Estimates *(continued)*

Entity Priority Model ("EPM") *(continued)*

Distributable value is calculated as the aggregate of enterprise value ("EV"), excess cash, appraised value of non-core assets, and value from intercompany receivables and equity holdings in subsidiaries. EV reflects the value of the operating business in a scenario that does not assume forced sale and is assessed using three valuation methods: trading multiples, precedent transactions using EBITDAR, EBITDA and EBIT multiples, and discounted cash flow analysis ("DCF").

Cost of capital in the DCF is determined using a multi-factor model which incorporates premiums for size (1.66-5.59%), country risk (0.73% for Slovenia, 1.26% for Hungary, 1.79% for Croatia, 2.50% for Kosovo, 2.50% for Serbia, 2.95% for Macedonia, 3.57% for Montenegro and 7.80% for Bosnia-Herzegovina), market risk (6.15%) and restructuring execution risk of 3.00% for entities which are in significant turnaround mode.

Distributable value is allocated to each claim according to its legal (contractual) rights, ranking and characteristics. This creates a waterfall priority structure within each entity in which claims are broadly grouped and ranked in the following order of priority: estate claims, secured claims, Super Priority Facility Agreement ("SPFA") claims and unsecured claims. Any value remaining in a particular entity's waterfall is then distributed to equity holders.

SPFA claims rank ahead of all unsecured claims and have security over on-lent amounts (i.e. amounts borrowed by Agrokor d.d. under the SPFA and subsequently lent to subsidiaries) and all assets in the Group which were unencumbered at the time of the SPFA.

Certain guaranteed claims have separate satisfaction rights ("SSR") against certain assets of the Group. Appraised value of these assets will be applied against the SSR to determine any impairment. If there is an impairment to be assumed, the difference between the SSR and the appraised value of the assets forms a deficiency claim which ranks pari passu to unsecured claims. If the initial claim was guaranteed, the deficiency claim would also be guaranteed by the same guarantors.

Impairment of loan receivables, deposits and trade receivables (external)

As at 31 December 2017 the Group performed a recoverability analysis of the outstanding balance of loan receivables, deposits and trade receivables (external) and as a result of that analysis the Group recognised impairment relating to those assets of HRK 1,121 million in 2017 (2016: HRK 4,047 million). Impairment analysis was performed on an individual basis by taking into account analysis of overdue amounts, counterparty payment history and financial viability as well as available collateral and collection success during 2017.
In cases where outstanding amounts were not managed to be collected during 2017 and up to the date of these financial statements and no collateral is available or the counterparty has no assets from which these receivables could be collected outstanding receivables have been fully impaired while for those where any collateral is available the recoverable amount has been set to the estimated value of collateral.

Impairment of goodwill

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that goodwill may be impaired. If the recoverable amount is less than carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods. Key estimates used in goodwill impairment testing and sensitivity to key estimates are disclosed within Note 16 *Intangible assets*.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.30. Critical Accounting Estimates *(continued)*

Impairment of property, plant and equipment

The Group hired certified evaluators to assess the fair value of property, plant and equipment of Croatian subsidiaries as at 31 December 2017, for which certain impairment indicators existed. As a result of the external evaluations, the Group recognised impairment relating to those assets of HRK 1,975 million.
The Company and the external valuers have carried out valuation of real estate in accordance with Croatian Law on real estate valuations, harmonising it with International Valuations Standards (IVS), Royal Institute of Chartered Surveyors (RICS) and The European Group of Valuers' Associations standards (TEGoVa). The valuation methods used have been income (mainly used to establish the value of commercial real estate ability to generate income such as for office, warehouses and shopping malls), sales comparison (mainly used to establish the value of constructed and non-constructed land, houses, apartments, garages and business premises) and cost method (generally suitable for valuing buildings intended for public purposes, family housing and estates, production and other facilities such as animal farms, etc.)

1.31. Changes in accounting policies due to new and updated Standards

(a) New standards and amendments – applicable 1 January 2017

The following relevant standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2017:

Disclosure Initiative – Amendments to IAS 7

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for the current period in Note 34. *Changes in liabilities arising from financial activities*

(b) Forthcoming requirements

The relevant standards, amendments and interpretations of existing standards that are not yet effective and which the Group has not early adopted.

IFRS 9 Financial Instruments and associated amendments to various other standards

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply IFRS 9 initially on 1 January 2018.

As financial statements are not prepared on the going concern basis as explained in more detail in Note 1.1. *Basis for preparation of financial statements* and Note 1.2 *Going concern consideration* the Group does not expect implementation of this standard would have a significant impact on the financial statements of the Group.

IFRS 15 Revenue from contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programmes and IFRIC 15 Agreements for construction of real estate. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.31. Changes in accounting policies due to new and updated Standards *(continued)*

(a) New standards and amendments – applicable 1 January 2017

IFRS 15 Revenue from contracts with Customers *(continued)*

As financial statements are not prepared on the going concern basis as explained in more detail in Note 1.1. *Basis for preparation of financial statements* and Note 1.2 *Going concern consideration* the Group does not expect implementation of this standard would have a significant impact on the financial statements of the Group.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

Assets leased by the Group relate to land, buildings (including leased retail shops), equipment and motor vehicles.

As financial statements are not prepared on the going concern basis as explained in more detail in Note 1.1. *Basis of preparation* and Note *1.2 Going concern considerations,* the Group did not estimate the impact of this new standard.
The other new standards and amendments published by the IASB and IFRS IC are not expected to have a material impact on the Group.

NOTE 2. RECLASSIFICATION AND RESTATEMENT

Comparative information and changes in opening balance

Comparative information as at 31 December 2016 and for the period then ended has been reclassified due to error as follows:

Reclassification in the Consolidated statement of Comprehensive Income

(in thousands of HRK)

	Note	As previously reported 2016	*Reclassification effect* 2016	*Restated* 2016
Revenue	*2.1*	46,028,227	(1,305,279)	44,722,948
Cost of materials and goods sold	*2.1*	32,376,191	(1,305,279)	31,070,912
Cost of services	*2.2*	5,032,810	300,256	5,333,066
Other costs	*2.2, 2.3*	6,866,773	(429,997)	6,436,776
Financial expenses	*2.3*	4,249,260	129,741	4,379,001
Profit/ (loss) for the year		**-**	**-**	**-**

The above stated reclassifications do not affect Other comprehensive income.

2.1. Revenue

a) Consignment

One of the consolidated entity previously presented consignment sales on a gross basis in the amount of HRK 572,278 thousands which was restated in the current financial statements presenting consignment sales on a net basis.

b) Marketing and sales promotions costs

One of the consolidated entities previously presented marketing and sales promotions costs as a marketing expenses in the amount of HRK 778,001 thousands which was restated in the current financial statements as a deduction of revenue.

2.2. Cost of services

The Group has reclassified part of the *Cost of services* related to intellectual services from *Other costs* to *Cost of services* which better reflect the nature of these costs. The effect of reclassification amounts to HRK 300,256 thousand.

2.3. Bank charges and fees

The Group previously presented bank charges and fees which in substance relate to effective interest rate as *Other cost* in the amount of HRK 129,741 thousands. It is restated in the current financial statements to position *Financial expenses*.

Reclassifications in the Consolidated statement of financial position

(in thousands of HRK)

	Note	As previously reported 2016	*Reclassification effect* 2016	*Restated* 2016
Property, plant and equipment	*2.4, 2.6*	24,925,021	161,924	25,086,945
Intangible assets	*2.4*	1,262,474	(2,098)	1,260,376
Biological assets	*2.6*	427,461	(173,329)	254,132
Loans, deposits and other non-current financial assets	*2.7*	2,149,975	(64,160)	2,085,815
Other non-current assets	*2.7*	-	77,663	77,663
Inventories	*2.5*	5,271,079	(32,401)	5,238,678
Other current asset	*2.5*	1,222,865	32,401	1,255,266
Total asset		**35,258,875**	**-**	**35,258,875**

NOTE 2. RECLASSIFICATION AND RESTATEMENT *(continued)*

Reclassifications in the Consolidated statement of financial position *(continued)*

(in thousands of HRK)

	Note	As previously reported 2016	*Reclassification effect* 2016	*Restated* 2016
Borrowings	*2.8*	27,096,437	234,428	27,330,865
Other non-current liabilities	*2.8*	283,628	(234,428)	49,200
Total non-current liabilities		**27,380,065**	**-**	**27,380,065**

The above reclassifications do not affect Total assets and Total non-current liabilities.

2.4. Advance payment for intangible and tangible assets
The Group has restated 2016 figures for reclassification of advance payments for intangible and tangible assets to *Other non-current assets,* within Other assets. The effect of reclassification of intangible assets amounts to HRK 2,098 thousand and of property, plant and equipment amounts to HRK 11,406 thousand.

2.5. Advance payment for inventories
The Group has restated 2016 figures for reclassification of advance payments for intangible assets, tangible assets and inventories to *Other current assets,* within Other receivables. The effect of reclassification amounts to HRK 32,401 thousand.

2.6. Non-current Biological assets - Orchard and vineyards
The Group has restated 2016 figures for reclassification of Orchard and vineyards from non-current biological assets at cost to Property, plant and equipment in order to fully comply with IAS 16. The effect of reclassification amounts to HRK 173,329 thousand.

2.7. Other non-current assets
The Group reclassified part of the Loans, deposits and other non-current financial assets which related to non-financial items in the amount of HRK 64,160 thousand.

2.8. Non-current financial liabilities
One of the consolidated entity previously presented part of the interest as Other non-current liabilities in the amount of HRK 234,428 thousand which was restated in the current financial statements presenting as Non-current finance Borrowings

Restatement due to comparability

2.9. Lease liabilities and capital commitments
In order to present comparable figures for 2016 land lease commitments in 2016 have been included as presented in *Note 27.*

(in thousands of HRK)

	Note	As previously reported 2016	*Restatement effect* 2016	*Restated* 2016
Payable over 5 years	*2.9*	2,060,940	647,279	2,708,219
Payable in 2 to 5 years	*2.9*	1,102,736	63,557	1,166,293
Payable in 1 to 2 years	*2.9*	460,153	23,217	483,370
Payable within 1 year	*2.9*	586,175	26,150	612,325
Total	*2.9*	**4,210,004**	**760,203**	**4,970,207**

The above restatement does not affect the Consolidated primary financial statements.

NOTE 3. GROUP STRUCTURE

3.1 Acquisition of subsidiaries in 2017

During 2017, the Group acquired management control over subsidiaries as follows:

- On 1 July 2017, HU-PO d.o.o., through the purchase of 100% ownership for HRK 1. Since HU-PO owns 98.4% of Vinka d.d., the Group acquired Vinka d.d. as part of this transaction.
- On 20 March 2017, 100% of Mliječno govedarstvo Klisa d.o.o for HRK 6,3 million. Acqusition cost was a non-cash transaction via offsetting of liabilities and receivables. The main business activity of Mliječno govedarstvo klisa d.o.o. is agriculture.
- On 31 March 2017, 100% of Mondo-tera d.o.o. for HRK 26 million. The main business activity of MONDO-TERA d.o.o. is management and filing of business documentations. Acqusition cost was a non-cash transaction via offsetting of liabilities and receivables.

Assets and liabilities of acquisition date are summarised as follows:

(in thousands of HRK)

	Recognised on acquisition		
	HU-PO d.o.o. and its subsidiary Vinka d.d.	Other	Total
Tangible and intangible assets	132,842	36,588	169,430
Investments	1	-	1
Other non-current assets	-	206	206
Inventories	18,872	-	18,872
Accounts receivable	15,827	4,659	20,486
Other current assets	0	1,811	1,811
Cash and cash equivalents	666	251	917
Total assets	**168,208**	**43,515**	**211,723**
Long-term liabilities	30,904	2,375	33,279
Deferred tax liability	2,102	-	2,102
Loans and borrowings	-	29,869	29,869
Accounts payable	78,233	1,950	80,183
Other current liabilities	-	1,969	1,969
Total liabilities	**111,239**	**36,163**	**147,402**
Fair value of net assets	**56,969**	**7,352**	**64,321**
Non-controlling interest	1,804	-	1,804
Acquired	58,773	6,907	65,680
Goodwill	-	25,592	25,592
Consideration	-	32,499	32,499
Fair value of the loans given up	58,107	-	58,107
Net cash acquired with the subsidiary	666	251	917

Goodwill is not tax deductible.

The acquired business contributed net loss of HRK 38,991 thousand to the Group for the period from acquisition to 31 December 2017 (most affected loss by Vinka d.d. – HRK 40,094 thousand).

If the acquisitions had occurred on 1 January 2017, consolidated result for the year ended 31 December 2017 would have included a loss of HRK 139,344 thousand.

3.2 Investments in Subsidiaries *(continued)*

31.12.2017	Country	Principal Business Activity	Ownership	Ownership Interest of Agrokor d.d.	Ownership Interest of Subsidiary	Group Voting Rights	Group Ownership
A007 d.o.o.	Croatia	Online retail	Agrokor d.d.	100.00%	-	100.00%	100.00%
Adriatica net d.o.o.	Croatia	Tourism	Agrokor d.d.	92.35%	-	92.35%	92.35%
Agkor d.o.o.	Serbia	Other	Frikom d.o.o.	-	100.00%	100.00%	48.11%
Agrokor AG Zug	Switzerland	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
Agrokor-Energija d.o.o.	Croatia	Other	Agrokor trgovina d.o.o.	-	100.00%	100.00%	100.00%
Agrokor-trgovina d.o.o.	Croatia	Trading	Agrokor d.d.	100.00%	-	100.00%	100.00%
Agrokor d.o.o. Grude	Bosnia and Herzegovina	Distribution	Sarajevski kiseljak d.d.	-	100.00%	100.00%	75.82%
Angropromet d.o.o.	Serbia	Other	Idea d.o.o.	-	100.00%	100.00%	70.21%
Atlas d.d.	Croatia	Tourism	Adriatica net d.o.o.	-	67.11%	95.32%	87.80%
			Kompas d.d.	-	28.21%		
Belje d.d. (1)	Croatia	Agricultural	Agrokor d.d.	66.57%	-	66.57%	66.57%
Dalmarina d.o.o.	Croatia	Other	Agrokor d.d.	80.00%	-	80.00%	80.00%
DB Kantun Veleprodaja d.o.o.	Croatia	Retail	Roto dinamic d.o.o.	-	79.00%	100.00%	74.72%
			Velpro-centar d.o.o.		21.00%		
Dijamant a.d.	Serbia	Edible oils	Agrokor d.d.	96.15%	-	96.15%	96.15%
Euroviba d.o.o.	Croatia	Retail	Konzum d.d.	-	94.72%	94.72%	66.50%
Fonyodi Kft.	Hungary	Water and beverages	Jamnica d.d.	-	100.00%	100.00%	75.92%
Frikom Beograd dooel	Macedonia	Distribution	Frikom d.o.o.	-	100.00%	100.00%	48.11%
Frikom d.o.o.	Serbia	Ice cream and frozen food	Ledo d.d.	-	100.00%	100.00%	48.11%
Idea d.o.o. (2)	Serbia	Retail	Konzum d.d.	-	100.00%	100.00%	70.21%
INIT d.o.o Sarajevo	Bosnia and Herzegovina	Other	Agrokor d.d.	67.00%	-	67.00%	67.00%
Irida d.o.o.	Croatia	Frozen food	Ledo d.d.	-	100.00%	100.00%	48.11%
Jamnica d.d.	Croatia	Water and beverages	Agrokor d.d.	75.92%	-	75.92%	75.92%
Jamnica d.o.o. Maribor	Slovenia	Distribution	Jamnica d.d.	-	100.00%	100.00%	75.92%
Jolly projekti jedan d.o.o.	Croatia	Other	Konzum d.d.	-	100.00%	100.00%	70.21%
Kikindski mlin a.d.	Serbia	Food production	Dijamant a.d.	-	72.28%	96.25%	81.03%
			Frikom d.o.o.	-	23.97%		
Kompas d.d.	Slovenia	Tourism	Adriatica net d.o.o.	-	99.12%	99.12%	91.54%
Kompas d.o.o. Poreč	Croatia	Tourism	Atlas d.d.	-	100.00%	100.00%	87.80%
Kompas Holidays B.V (3)	The Netherlands	Tourism	Kompas d.d.	-	100.00%	100.00%	91.54%
Kompas Poland Sp Zoo	Poljska	Tourism	Kompas d.d.	-	100.00%	100.00%	91.54%

3.2 Investments in Subsidiaries *(continued)*

31.12.2017	Country	Principal Business Activity	Ownership	Ownership Interest of Agrokor d.d.	Ownership Interest of Subsidiary	Group Voting Rights	Group Ownership
Kompas Praha	Czech Republic	Tourism	Kompas d.d.	-	100.00%	100.00%	91.54%
Kompas Touristik Espana s.a.	Spain	Tourism	Kompas d.d.	-	100.00%	100.00%	91.54%
Kompas USA (4)	USA	Tourism	Kompas d.d.	-	100.00%	100.00%	91.54%
Konzum d.d.	Croatia	Retail	Agrokor d.d.	61.78%	-	72.88%	70.21%
			Jamnica d.d.	-	11.10%		
Konzum d.o.o. Sarajevo	Bosnia and Herzegovina	Retail	Agrokor d.d.	26.90%	-	100.00%	71.72%
			Sarajevski kiseljak d.d.	-	34.82%		
			Ledo d.o.o. Čitluk	-	38.28%		
Kor Broker d.o.o.	Croatia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
Krka d.o.o.	Croatia	Retail	Konzum d.d.	-	82.41%	82.41%	57.86%
Kron a.d.	Serbia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
Latere Terram d.o.o.	Croatia	Other	Konzum d.d.	-	100.00%	100.00%	70.21%
Ledo d.d.[1]	Croatia	Ice cream and frozen food	Agrokor d.d.	48.11%	-	48.11%	48.11%
Ledo d.o.o. Čitluk	Bosnia and Herzegovina	Ice cream and frozen food	Ledo d.d.	-	100.00%	100.00%	48.11%
Ledo d.o.o. Kosovo	Kosovo	Distribution	Ledo d.d.	-	100.00%	100.00%	48.11%
Ledo d.o.o. Ljubljana	Slovenia	Distribution	Ledo d.d.	-	100.00%	100.00%	48.11%
Ledo d.o.o. Podgorica	Montenegro	Distribution	Ledo d.d.	-	100.00%	100.00%	48.11%
Ledo Kft. Hungaryarska	Hungary	Distribution	Ledo d.d.	-	100.00%	100.00%	48.11%
LG Moslavina d.o.o.	Croatia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
MG Mivela d.o.o. Beograd	Serbia	Distribution	Jamnica d.d.	-	100.00%	100.00%	75.92%
Mladina d.d.	Croatia	Food production	Jamnica d.d.	-	60.89%	60.89%	46.23%
Mondo tera d.o.o. (BIH)	Bosnia and Herzegovina	Other	mStart d.o.o.	-	51.00%	100.00%	100.00%
			Mondo-Tera d.o.o.		49.00%		
Mondo-Tera d.o.o.	Croatia	Other	mStart d.o.o.	-	100.00%	100.00%	100.00%
M-profil SPV d.o.o.	Serbia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
mStart Business Solutions d.o.o.	Serbia	IT	mStart d.o.o.	-	50.00%	100.00%	100.00%
			Mondo tera d.o.o.		50.00%		
mStart d.o.o.	Croatia	IT	Agrokor d.d.	100.00%	-	100.00%	100.00%

[1] Group has control as it has the power to govern the financial and operating policiens of those entities, either as the major shareholder or through the majority of members in supervisory boards. For the change of the supervisory board members before the expiry of their mandate it is required to have 75% of votes present at the General Assembly.

3.2 Investments in Subsidiaries *(continued)*

31.12.2017	Country	Principal Business Activity	Ownership	Ownership Interest of Agrokor d.d.	Ownership Interest of Subsidiary	Group Voting Rights	Group Ownership
Multiplus card d.o.o.	Croatia	Other	Konzum d.d.	-	75.00%	75.00%	52.66%
Napred projekt 52 d.o.o. [2]	Serbia	Other	Napred a.d.	-	-	0.00%	0.00%
Nova Sloga d.o.o.	Serbia	Water and beverages	Agrokor d.d.	100.00%	-	100.00%	100.00%
Pet-prom ulaganja d.o.o.	Croatia	Other	Konzum d.d.	-	100.00%	100.00%	70.21%
PIK BH d.o.o. Laktaši	Bosnia and Herzegovina	Retail	PIK Vrbovec d.d.	-	100.00%	100.00%	61.13%
PIK Vinkovci d.d. (5) [3]	Croatia	Agricultural	Agrokor d.d.	42.06%	-	42.06%	42.06%
PIK Vrbovec d.d.	Croatia	Meat processing	Konzum d.d.	-	87.07%	87.07%	61.13%
Poslovni sistem Mercator d.d. (6)	Slovenia	Retail	Agrokor d.d.	69.57%	-	69.57%	69.57%
Projektgradnja d.o.o.	Croatia	Construction	Agrokor d.d.; Konzum d.d.	77.62% -	- 7.36%	84.98%	82.79%
Rivijera d.d.	Croatia	Other	Agrokor d.d.	91.32%	-	91.32%	91.32%
Roto dinamic d.o.o.	Croatia	Distribution	Jamnica d.d.	-	100.00%	100.00%	75.92%
Roto ulaganja d.o.o. (7)	Croatia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
Sarajevski kiseljak d.d.	Bosnia and Herzegovina	Water and beverages	Jamnica d.d.	-	99.86%	99.86%	75.82%
SK - 735 d.o.o.	Croatia	Other	Jolly projekti jedan d.o.o.	-	100.00%	100.00%	70.21%
Sojara d.o.o.	Croatia	Food production	Zvijezda d.d.	-	100.00%	100.00%	51.84%
Solana Pag d.d.	Croatia	Salt	Agrokor d.d.	96.93%	-	96.93%	96.93%
Super kartica d.o.o. Beograd	Serbia	Other	Idea d.o.o.	-	67.00%	67.00%	47.04%
Super kartica d.o.o. BH	Bosnia and Herzegovina	Other	Konzum d.o.o.	-	100.00%	100.00%	71.72%
Terra Argenta d.o.o.	Croatia	Other	Konzum d.d.	-	95.00%	95.00%	66.70%
Tisak d.d. (8)	Croatia	Retail	Agrokor d.d.	51.34%	-	51.34%	51.34%
TPDC Sarajevo d.d.	Bosnia and Herzegovina	Retail	Agrokor d.d.	51.00%	-	51.00%	51.00%
Velpro-centar d.o.o. Sarajevo	Bosnia and Herzegovina	Wholesale	Konzum d.o.o.	-	100.00%	100.00%	71.72%
Velpro-centar d.o.o.	Croatia	Wholesale	Konzum d.d.	-	100.00%	100.00%	70.21%
Vupik d.d. (9)	Croatia	Agricultural	Agrokor d.d.	64.97%	-	64.97%	64.97%

[2] Napred projekt 52 d.o.o. (SPV) - Agrokor Group consolidated this SPV because transaction with this SPV is a sell and lease back (and ultimately buy back) transaction at the level of Agrokor group, whereas the sale occurred in one subsidiary (Kron a.d), while lease back occurred in other subsidiaries (Idea, Frikom and Dijamant). Agrokor Group has control over the SPV according to IFRS 10 (power over the investee, exposure or rights to variable returns from its involvement with the investee, the ability to use its power over the investee to affect the amount of its returns).

[3] Group has control as it has the power to govern the financial and operating policiens of those entities, either as the major shareholder or through the majority of members in supervisory boards. For the change of the supervisory board members before the expiry of their mandate it is required to have 75% of votes present at the General Assembly.

3.2 Investments in Subsidiaries *(continued)*

31.12.2017	Country	Principal Business Activity	Ownership	Ownership Interest of Agrokor d.d.	Ownership Interest of Subsidiary	Group Voting Rights	Group Ownership
Zvijezda d.d.	Croatia	Edible oils	Agrokor d.d.	51.84%	-	51.84%	51.84%
Zvijezda d.o.o Sarajevo (10)	Bosnia and Herzegovina	Distribution	Zvijezda d.d.	-	100.00%	100.00%	51.84%
Zvijezda d.o.o. Ljubljana	Slovenia	Distribution	Zvijezda d.d.	-	100.00%	100.00%	51.84%
Žitnjak d.d.	Croatia	Retail	Konzum d.d.	-	80.43%	80.43%	56.47%
360 Marketing d.o.o.	Croatia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%

(1) Belje Agro-vet d.o.o.; (2) Shutnell Limited Ltd.; Beojana d.o.o.; Beokona d.o.o.; Beopana d.o.o.; Beoslana d.o.o.; Beovona d.o.o.; (3) ID Riva Tours b.v.; (4) Kollander world Travel; (5) Eko Biograd d.o.o. ; Felix d.o.o.; HU-PO d.o.o.; Poljoprivreda j.d.o.o.; VINKA d.d.: (6) M - Energija d.o.o.; Mercator - BH d.o.o.; Mercator - CG d.o.o.; Mercator - H d.o.o.; Mercator - S d.o.o.; Mercator Emba d.o.o.; Mercator IP d.o.o.; (7) Vinarija Novigrad d.o.o.; (8) Backstage d.o.o.; Tisak usluge d.o.o.; (9) Mliječno govedarstvo Klisa d.o.o.; (10) Zvijezda Laktaši

NOTE 3. GROUP STRUCTURE *(continued)*

3.2. Investments in Subsidiaries *(continued)*

The Group ownership represents the shares of the parent company in the capital stock of a subsidiary, while the voting rights of the Group represents the number of votes at the disposition of the parent company represented at the General Assembly of a subsidiary.

Under International Financial Reporting Standards, subsequent acquisitions of non-controlling interests in subsidiaries do not represent business combinations. Consequently, the assets and liabilities of the subsidiary are not remeasured to reflect their fair values at the date of the transaction. The Group accounts for subsequent acquisitions of non-controlling interest using the economic entity concept whereby any difference between acquisition cost of additional share and carrying value of the non-controlling interest acquired is recognised directly in equity.

During 2017, the following changes in ownership percentage occurred:

- Agrokor d.d. acquired an additional 10.10% shares of Poslovni sistem Mercator d.d.
- Agrokor's share in Konzum Sarajevo was diluted as Agrokor d.d. did not participate in the increase of share capital
- Agrolaguna d.d., Belje d.d., Jamnica d.d., Konzum d.d., Ledo d.d., Vupik d.d., PIK Vinkovci d.d., PIK Vrbovec d.d. and Žitnjak d.d. - decrease in ownership percentage due to repurchase agreement.
- mStart d.o.o. acquired 100 % of Mondo-tera d.o.o. Zagreb and 50% of mStart Business Solutions d.o.o.
- PIK Vinkovci d.d. acquired 100 % of HU-PO d.o.o. and 98.43% of VINKA d.o.o.
- Vupik d.d. acquired 100 % of Mliječno govedarstvo klisa d.o.o.
- Mondo-tera d.o.o. Zagreb acquired 49% of Mondo-tera d.o.o. BIH and 50% of mStart Business Solutions d.o.o.
- Velpro-centar d.o.o. acquired 21% of DB Kantun Veleprodaja d.o.o. from Roto dinamic d.o.o which is 100% owned by Jamnica d.d.
- Adriatica.net d.o.o. acquired an additional shares of Kompas d.d. which is result increase ownership on Agrokor Group by 3.21%
- Atlas d.d., which is majority owned by Adriatica.net d.o.o., ownership percentages increased by 9.22% at Agrokor Group.

On 10 March 2017 the Agrokor d.d. signed a contract with Agrokor Investments B.V. The agreement was for the sale and purchase of shares in Poslovni sistem Mercator d.d., whereby the Group acquired an additional 615,384 shares (10.10%) in Poslovni sistem Mercator d.d. for the total consideration of HRK 296,451 thousand (EUR 39,999.96 thousand), increasing its overall shareholding to 69.57%.

Relating to Konzum Sarajevo, Agrokor's share was diluted as Agrokor did not participate in the increase of share capital performed in December 2017. Increase of share capital was performed by Sarajevski Kiseljak d.d. (34.82%) which is 99.86% owned by Jamnica d.d. and Ledo Čitluk d.o.o. (38.28%) which is 100% owned by Ledo d.d. As a result, the Group's ownership decreased by 28.28%.

In the period from December 2012 until April 2017 the Agrokor d.d. entered into over 1,200 repurchase agreement transactions relating to the shares of its controlled and affiliated companies. At the end of March 2017 Agrokor d.d. did not repay outstanding liabilities relating to repurchase agreements when those became due. Upon notice of default counterparties in these transactions took over the ownership over a certain number of shares in several subsidiaries.

NOTE 3. GROUP STRUCTURE *(continued)*

3.2. Investments in Subsidiaries *(continued)*

Further, shares in subsidiaries were used as collateral for a Lombard Loan Agreement with a foreign bank and were sold by the bank upon opening of the Extraordinary Administration in Agrokor d.d.
During 2017 the Group performed an analysis of those transactions and concluded it lost shares in Agrolaguna d.d., Belje d.d., Jamnica d.d., Konzum d.d., Ledo d.d., Vupik d.d. PIK Vinkovci d.d., PIK Vrbovec d.d. and Žitnjak d.d. resulting in a decrease in ownership percentage recognised as transactions with non-controlling interests totaling HRK 780,011 thousand.

Decrease in ownership interest in those companies resulted in a loss of control in Agrolaguna (carrying value of non-controlling interest ofHRK 23,392 thousand, as disclosed in Note 3.3. *Loss of control in subsidiaries*), while in all other companies the Group assessed that control was retained it has the power to govern the financial and operating policies of those entities, either as the majority shareholder or through the majority of members in supervisory boards.

Based on the analysis of repo transactions there were indications that ownership interests in Konzum d.d., Belje d.d. and Ledo d.d. were already disposed by the Group in prior periods or the ownership was never formally transferred to the Group. Based on the analysis, non-controlling interests were reduced by HRK 544,419 thousand in 2017.

Additionally, all acquisitions and changes in ownership interests resulted in a reduction to the carrying value of non-controlling interests during 2017 of HRK 696,929 thousand, excluding repo transactions as explained above.

Several temporary injunctions have been granted in 2017 against the Agrokor d.d. and its subsidiaries.

The following temporary injunctions have been granted in 2017 in Serbia with respect to the Company's and its subsidiaries' holdings:

– A temporary injunction has been granted in favor of Banca Intesa (for a claim in the amount of EUR 15,3916 thousand) and Sberbank of Russia (for a claim in the principal amount of EUR 350 million with interest in the amount of EUR 8,6577 thousand) against Konzum d.d. prohibiting the encumbrance and disposal of Konzum's shares in Idea d.o.o.

– A temporary injunction has been granted in favor of Banca Intesa (for a claim in the amount of EUR 15,195 thousand) against Agrokor d.d. prohibiting the encumbrance and disposal of Agrokor's shares in Dijamant a.d. Zrenjanin and prohibiting Agrokor to vote its shares in Dijamant a.d. Zrenjanin. Both management and the supervisory board were appointed by Agrokor d.d. as the majority owner with the new mandate starting in 2017 and were in place at 31 December 2017 and up to the date of these financial statements. Extraordinary General Assembly may not be called by the minority shareholders while the regular general assembly was not called by the date of these financial statements.

– A temporary injunction has been granted in favor of Sberbank of Russia (for a claim in the amount of EUR 101,323 thousand) against Agrokor d.d. prohibiting the encumbrance and disposal of Agrokor's shares in Dijamant a.d. Zrenjanin.

– Temporary injunctions have been granted in favor of Sberbank of Russia against Agrokor d.d. prohibiting the encumbrance and disposal of Agrokor's shares in Nova Sloga d.o.o. Trstenik (for a principal amount of EUR 350 million with interest in the amount of EUR 7,827 thousand) and prohibiting the encumbrance and disposal of Agrokor's shares in KRON d.o.o. and M-Profil SPV d.o.o (for a principal amount of EUR 350 million with interest in the amount of EUR 8,657 thousand).

NOTE 3. GROUP STRUCTURE *(continued)*

3.2. Investments in Subsidiaries *(continued)*

– Temporary injunctions have been granted in favor of Sberbank of Russia (for a claim in the amount of EUR 101,323 thousand) against Ledo d.d. prohibiting the encumbrance and disposal of Ledo's shares in Frikom d.o.o.

The following temporary injunction has been granted in 2017 in Slovenia with respect to the Company's and its subsidiaries' holdings:

– A temporary injunction has been granted in favor of Sberbank of Russia (for a claim in the amount of EUR 450 million) against Agrokor d.d. prohibiting the encumbrance and disposal of Agrokor's shares in Poslovni sistem Mercator d.d.

3.2. Investments in Subsidiaries *(continued)*

31.12.2016	Country	Principal Business Activity	Ownership	Ownership Interest of Agrokor d.d.	Ownership Interest of Subsidiary	Group Voting Rights	Group Ownership
A007 d.o.o.	Croatia	Online retail	Agrokor d.d.	100.00%	-	100.00%	100.00%
Adriatica net d.o.o.	Croatia	Tourism	Agrokor d.d.	92.35%	-	92.35%	92.35%
Agkor d.o.o.	Serbia	Other	Frikom d.o.o.	-	100.00%	100.00%	55.30%
Agrokor AG Zug	Switzerland	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
Agrokor-Energija d.o.o.	Croatia	Other	Agrokor trgovina d.o.o.	-	100.00%	100.00%	100.00%
Agrokor-trgovina d.o.o.	Croatia	Trading	Agrokor d.d.	100.00%	-	100.00%	100.00%
Agrokor d.o.o. Grude	Bosnia and Herzegovina	Distribution	Sarajevski kiseljak d.d.	-	100.00%	100.00%	80.33%
Agrolaguna d.d.	Croatia	Agricultural production	Agrokor d.d.	85.22%	-	85.22%	85.22%
Angropromet d.o.o.	Croatia	Other	Idea d.o.o.	-	100.00%	100.00%	90.93%
Atlas d.d.	Croatia	Tourism	Adriatica net d.o.o. Kompas d.d.	- -	71.13% 17.06%	88.19%	78.58%
Belje d.d. (1)	Croatia	Agricultural	Agrokor d.d.	94.23%	-	94.23%	94.23%
Dalmarina d.o.o.	Croatia	Other	Agrokor d.d.	80.00%	-	80.00%	80.00%
DB Kantun Veleprodaja d.o.o.	Croatia	Retail	Roto dinamic d.o.o.	-	100.00%	100.00%	80.44%
Dijamant a.d.	Serbia	Edible oils	Agrokor d.d.	96.15%	-	96.15%	96.15%
Euroviba d.o.o.	Croatia	Retail	Konzum d.d.	-	94.55%	94.55%	85.97%
Fonyodi Kft.	Hungary	Water and beverages	Jamnica d.d.	-	100.00%	100.00%	80.44%
Frikom Beograd dooel	Macedonia	Distribution	Frikom d.o.o.	-	100.00%	100.00%	55.30%
Frikom d.o.o.	Serbia	Ice cream and frozen food	Ledo d.d.	-	100.00%	100.00%	55.30%
Idea d.o.o. (2)	Serbia	Retail	Konzum d.d.	-	100.00%	100.00%	90.93%
INIT d.o.o Sarajevo	Bosnia and Herzegovina	Other	Agrokor d.d.	67.00%	-	67.00%	67.00%
Irida d.o.o.	Croatia	Frozen food	Ledo d.d.	-	100.00%	100.00%	55.30%
Jamnica d.d.	Croatia	Water and beverages	Agrokor d.d.	80.44%	-	80.44%	80.44%
Jamnica d.o.o. Maribor	Slovenia	Distribution	Jamnica d.d.	-	100.00%	100.00%	80.44%
Jolly projekti jedan d.o.o.	Croatia	Other	Konzum d.d.	-	100.00%	100.00%	90.93%
Kikindski mlin a.d.	Serbia	Food production	Dijamant a.d. Frikom d.o.o.	- -	72.28% 23.97%	96.25%	82.75%
Kompas d.d.	Slovenia	Tourism	Adriatica net d.o.o.	-	95.64%	95.64%	88.32%
Kompas d.o.o. Poreč	Croatia	Tourism	Atlas d.d.	-	100.00%	100.00%	78.58%
Kompas Holidays B.V (3)	The Netherlands	Tourism	Kompas d.d.	-	100.00%	100.00%	88.32%

3.2. Investments in Subsidiaries *(continued)*

31.12.2016	Country	Principal Business Activity	Ownership	Ownership Interest of Agrokor d.d.	Ownership Interest of Subsidiary	Group Voting Rights	Group Ownership
Kompas Poland Sp Zoo	Poljska	Tourism	Kompas d.d.	-	100.00%	100.00%	88.32%
Kompas Praha	Czech Republic	Tourism	Kompas d.d.	-	100.00%	100.00%	88.32%
Kompas Touristik Espana s.a.	Spain	Tourism	Kompas d.d.	-	100.00%	100.00%	88.32%
Kompas USA (4)	USA	Tourism	Kompas d.d.	-	100.00%	100.00%	88.32%
Konzum d.d.	Croatia	Retail	Agrokor d.d.	82.01%	-	93.11%	90.93%
			Jamnica d.d.	-	11.10%		
Konzum d.o.o. Sarajevo	Bosnia and Herzegovina	Retail	Agrokor d.d.	100.00%	-	100.00%	100.00%
Kor Broker d.o.o.	Croatia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
Krka d.o.o.	Croatia	Retail	Konzum d.d.	-	82.41%	82.41%	74.93%
Kron d.o.o.	Serbia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
Latere Terram d.o.o.	Croatia	Other	Konzum d.d.	-	100.00%	100.00%	90.93%
Ledo d.d.	Croatia	Ice cream and frozen food	Agrokor d.d.	55.30%	-	55.30%	55.30%
Ledo d.o.o. Čitluk	Bosnia and Herzegovina	Ice cream and frozen food	Ledo d.d.	-	100.00%	100.00%	55.30%
Ledo d.o.o. Kosovo	Kosovo	Distribution	Ledo d.d.	-	100.00%	100.00%	55.30%
Ledo d.o.o. Ljubljana	Slovenia	Distribution	Ledo d.d.	-	100.00%	100.00%	55.30%
Ledo d.o.o. Podgorica	Montenegro	Distribution	Ledo d.d.	-	100.00%	100.00%	55.30%
Ledo Kft. Hungaryarska	Hungary	Distribution	Ledo d.d.	-	100.00%	100.00%	55.30%
LG Moslavina d.o.o.	Croatia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
MG Mivela d.o.o. Beograd	Serbia	Distribution	Jamnica d.d.	-	100.00%	100.00%	80.44%
Mladina d.d.	Croatia	Food production	Jamnica d.d.	-	60.89%	60.89%	48.98%
M-profil SPV d.o.o.	Serbia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
mStart d.o.o.	Croatia	IT	Agrokor d.d.	100.00%	-	100.00%	100.00%
mStart Business Solutions d.o.o.	Serbia	IT	mStart d.o.o.		50.00%	50.00%	50.00%
Multiplus card d.o.o.	Croatia	Other	Konzum d.d.	-	75.00%	75.00%	68.20%
Napred projekt 52 d.o.o.	Serbia	Other	Napred a.d.	-	-	0.00%	0.00%[4]
Nova Sloga d.o.o.	Serbia	Water and beverages	Agrokor d.d.	100.00%	-	100.00%	100.00%
Pet-prom ulaganja d.o.o.	Croatia	Other	Konzum d.d.	-	100.00%	100.00%	90.93%
PIK BH d.o.o. Laktaši	Bosnia and Herzegovina	Retail	PIK Vrbovec d.d.	-	100.00%	100.00%	90.93%
PIK Vinkovci d.d. (5)	Croatia	Agricultural	Agrokor d.d.	70.87%	-	70.87%	70.87%

3.2. Investments in Subsidiaries *(continued)*

31.12.2016	Country	Principal Business Activity	Ownership	Ownership Interest of Agrokor d.d.	Ownership Interest of Subsidiary	Group Voting Rights	Group Ownership
PIK Vrbovec d.d.	Croatia	Meat processing	Konzum d.d.	-	100.00%	100.00%	90.93%
Poslovni sistem Mercator d.d. (6)	Slovenia	Retail	Agrokor d.d.	59.47%	-	59.47%	59.47%
Projektgradnja d.o.o.	Croatia	Construction	Agrokor d.d.	77.15%	-	84.51%	83.86%
			Konzum d.d.	-	7.36%		
Rivijera d.d.	Croatia	Other	Agrokor d.d.	91.32%	-	91.32%	91.32%
Roto dinamic d.o.o.	Croatia	Distribution	Jamnica d.d.	-	100.00%	100.00%	80.44%
Roto ulaganja d.o.o. (7)	Croatia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%
Sarajevski kiseljak d.d.	Bosnia and Herzegovina	Water and beverages	Jamnica d.d.	-	99.86%	99.86%	80.33%
SK - 735 d.o.o.	Croatia	Other	Jolly projekti jedan d.o.o.	-	100.00%	100.00%	90.93%
Sojara d.o.o.	Croatia	Food production	Zvijezda d.d.	-	100.00%	100.00%	51.84%
Solana Pag d.d.	Croatia	Salt	Agrokor d.d.	96.93%	-	96.93%	96.93%
Super kartica d.o.o. Beograd	Serbia	Other	Idea d.o.o.	-	67.00%	67.00%	60.92%
Super kartica d.o.o. BH	Bosnia and Herzegovina	Other	Konzum d.o.o.	-	100.00%	100.00%	100%
Terra Argenta d.o.o.	Croatia	Other	Konzum d.d.	-	95.00%	95.00%	86.38%
Tisak d.d. (8)	Croatia	Retail	Agrokor d.d.	51.34%	-	51.34%	51.34%
TPDC Sarajevo d.d.	Bosnia and Herzegovina	Retail	Agrokor d.d.	51.00%	-	51.00%	51.00%
Velpro-centar d.o.o. Sarajevo	Bosnia and Herzegovina	Wholesale	Konzum d.o.o.	-	100.00%	100.00%	100.00%
Velpro-centar d.o.o.	Croatia	Wholesale	Konzum d.d.	-	100.00%	100.00%	90.93%
Vupik d.d.	Croatia	Agricultural	Agrokor d.d.	88.34%	-	88.34%	88.34%
Zvijezda d.d.	Croatia	Edible oils	Agrokor d.d.	51.84%	-	51.84%	51.84%
Zvijezda d.o.o Sarajevo	Bosnia and Herzegovina	Distribution	Zvijezda d.d.	-	100.00%	100.00%	51.84%
Zvijezda d.o.o. Ljubljana	Slovenia	Distribution	Zvijezda d.d.	-	100.00%	100.00%	51.84%
Žitnjak d.d.	Croatia	Retail	Konzum d.d.	-	89.43%	89.43%	81.31%
360 Marketing d.o.o.	Croatia	Other	Agrokor d.d.	100.00%	-	100.00%	100.00%

(1) Belje Agro-vet d.o.o.; (2) Shutnell Limited Ltd.; Beojana d.o.o.; Beokona d.o.o.; Beopana d.o.o.; Beoslana d.o.o.; Beovona d.o.o.; (3) ID Riva Tours b.v.; (4) Kollander world Travel; (5) Eko Biograd d.o.o. ; Felix d.o.o.; Poljoprivreda j.d.o.o.; (6) M - Energija d.o.o.; Mercator - BH d.o.o.; Mercator - CG d.o.o.; Mercator - H d.o.o.; Mercator - S d.o.o.; Mercator Emba d.o.o.; Mercator IP d.o.o.; (7) Vinarija Novigrad d.o.o.; (8) Backstage d.o.o.; Tisak usluge d.o.o.; eKolektor d.o.o.

During 2016, the following changes in ownership interest occurred: Agrokor d.d. sold 381,854 shares (16 %) of TISAK d.d. to TDR d.o.o.; and Agrokor d.d. acquired a 3.43 % interest in PROJEKTGRADNJA d.o.o.

NOTE 3. GROUP STRUCTURE *(continued)*

3.3. Loss of control in subsidiaries

Agrolaguna d.d.

As of 30 January 2017 Agrokor d.d. transferred a 51% interest (29,830 shares) in Agrolaguna d.d. to Agram Invest d.o.o. based on the Frame agreement on repurchase of securities from 20 February 2012. The Group assessed that control over these shares was lost at the end of March 2017. During the process of Extraordinary Administration, the basis for such transaction is being examined and as of 9 June 2017, the Extraordinary Administration initiated court proceedings with the main purpose to determine this transaction as null and void.

Loss of control effects *(in thousands of HRK)*

	2017
De-recognisation of assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost	(209,865)
De-recognisation of the carrying amount of non-controlling interest at the date when control is lost (including components of accumulated other comprehensive income)	23,392
Recognision of the fair value of the proceeds from the transaction, event or circumstances that resulted in the loss of control	33,221
Recognition of investment retained in the former subsidiary at its fair value at the date when control is lost	17,645
Reclassification to income or transfers directly to retained earnings, the amounts recognised in other comprehensive income in relation to derecognition of the subsidiary	(43,969)
Recognition of resulting difference as a gain (loss) in the income statement attributable to the parent	**(179,576)**

The retained investment

(in thousands of HRK)

	2017
A subsidiary's income and expenses included in the consolidated financial statements until the parent ceases to control the subsidiary.	(5,973)
Carrying value of investment in associate	17,645

e-Kolektor d.o.o.

In February 2017 Tisak d.d. sold 90% of its share in e-Kolektor d.o.o. for HRK 14,000 thousand, resulting in a loss of HRK 43,116 thousand as part of *Gain/(loss) on the loss of control over a subsidiary*.

NOTE 4. SUBSIDIARIES WITH SIGNIFICANT NON CONTROLLING INTERESTS

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interest:

Subsidiaries	Country	2017	2016
Ledo d.d.	Croatia	51.89%	45.40%
Poslovni sistem Mercator d.d. (consolidated)	Slovenia	30.43%	40.53%
Belje d.d. (consolidated)	Croatia	33.43%	5.77%
Jamnica d.d.	Croatia	24.08%	19.56%
Zvijezda d.d.	Croatia	48.16%	48.16%
Konzum d.d.	Croatia	29.79%	3.07%
Tisak d.d.	Croatia	48.66%	48.66%

NOTE 5. REVENUE

(in thousands of HRK)

	2017	*Restated* 2016
Revenue sales of goods - domestic	35,224,999	39,206,064
Revenue sales of goods - foreign	969,945	1,329,193
Sale of services - domestic	1,340,896	2,633,466
Sale of services - foreign	955,507	838,429
Other operating revenue	825,846	715,796
Total	**39,317,193**	**44,722,948**

NOTE 6. OTHER INCOME

(in thousands of HRK)

	2017	2016
Government grants and subsidies	13,795	8,087
Revenues from grants in agricultural production and livestock production	132,049	136,563
Total	**145,844**	**144,650**

NOTE 7. COST OF SERVICES

(in thousands of HRK)

	2017	*Restated* 2016
Rental costs	1,273,900	1,320,596
Advertising, marketing and business trade fairs services	447,472	561,130
Travel costs	351,868	369,972
Repairs and maintenance	454,063	432,704
Communal services	245,355	235,240
Intellectual, consultancy and other services	763,064	711,161
Postal and telecommunication costs	66,861	63,828
Tourism sector services	1,252,063	1,142,169
Other cost of services	516,140	496,266
Total	**5,370,786**	**5,333,066**

NOTE 8. STAFF COSTS

(in thousands of HRK)

	2017	2016
Wages and salaries	2,929,636	3,015,752
Taxes, social insurance and pension costs	1,644,962	1,746,148
Total	**4,574,598**	**4,761,900**

As at 31 December 2017, the Group employs 50,903 employees, of which 24,478 are in Croatia.

Key management compensation:

(in thousands of HRK)

	2017	2016
Wages and salaries	48,562	34,828
Taxes, social insurance and pension costs	45,018	37,232
Severance pay	9,218	4,135
Total	**102,798**	**76,195**

The above presented relates to the key management personnel of the entire Group.

NOTE 9. DEPRECIATION, AMORTISATION AND IMPAIRMENT

(in thousands of HRK)

	2017	2016
Depreciation of non-current assets	1,665,863	2,273,460
Impairment of goodwill and brand	478,447	2,138,043
Impairment of land	188,943	-
Impairment of buildings	1,756,803	-
Impairment of other tangible assets	29,296	2,469
Impairment of other intangible assets	20,752	-
Total	**4,140,104**	**4,413,972**

NOTE 9. DEPRECIATION, AMORTISATION AND IMPAIRMENT *(continued)*

Impairment of goodwill
The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on *Entity Priority Model ("EPM")* which is describe in Note 1.30 *Critical accounting estimates* reduce by debt to arrive to equity value.
Impairment of goodwill during 2017 mainly relates to the fully impaired goodwill for Tisak d.d., PIK Vinkovci d.d., Konzum d.d., Roto ulaganja d.o.o., M-profil SPV d.o.o., Projektgradnja d.o.o., Petprom ulaganja d.o.o., Dalmarina d.o.o. (as disclosed in *Note 16. Intangible assets*) in the amount of HRK 452,856 thousand, goodwill from new acquired companies (as disclosed in *Note 3.1. Acquisition of subsidiaries in 2017*) in the amount of HRK 25,592 thousand. Goodwill was impaired to its recoverable amount.
Impairment of goodwill in 2016 relates to the fully impaired goodwill for Dijamant a.d., Euroviba d.o.o., Krka d.o.o., Angropromet d.o.o. and Nova Sloga d.o.o. and to the partial impairment of goodwill for Tisak and Projektgradnja d.o.o.

Impairment of land, buildings and other tangible assets
The Group hired certified evaluators for the fair value assessment of the Group's property, plant and equipment as at 31 December 2017. The above amount of HRK 1,975,042 thousand reflects the results of the undertaken evaluations.
Key estimates used in impairment testing are disclosed within Note 1.30. *Critical accounting estimates.*

NOTE 10. OTHER COSTS

(in thousands of HRK)

	2017	*Restated* **2016**
Impairment loss on trade receivables	223,112	1,904,624
Collected receivables written off	*(26,276)*	*(24,341)*
Impairment loss on financial and other assets	638,660	2,142,348
Provisions	165,719	143,905
Reversal of provisions	*(70,245)*	*(94,388)*
Inventory shortages	368,213	258,302
Inventory surpluses	*(124,987)*	*(39,830)*
Bank services and provisions	96,020	465,062
Employee related costs (daily allowances, travel etc.)	366,510	337,314
Contributions, fees, memberships and similar	205,520	220,696
Other expenses	409,457	1,123,084
Total	**2,251,703**	**6,436,776**

Other expenses reduced significantly, predominately due to lower impairment losses of trade receivables and financial assets compared to prior year.
Impairment loss on financial and other assets predominately relates to impairment loss on loans given to third parties and related interest in 2017 in the amount of HRK 513 million (2016: HRK 2,142 million).

NOTE 11. FINANCE INCOME

(in thousands of HRK)

	2017	2016
Foreign exchange gains	588,243	348,270
Interest income	96,946	235,594
Dividends received	982	1,708
Other finance income	16,173	154,688
Total	**702,344**	**740,260**

NOTE 12. FINANCE EXPENSES

(in thousands of HRK)

	2017	*Restated* 2016
Interest expense	1,628,871	3,844,025
Foreign exchange losses	314,336	342,332
Other finance expenses	228,307	192,644
Total	**2,171,514**	**4,379,001**

NOTE 13. INVESTMENTS IN ASSOCIATES

(in thousands of HRK)

	2017	2016
Balance at 1 January	**275,680**	**174,821**
Loss of control in subsidiary and transfer to associates	27,984	-
Loss of significant influence in associate	(30,161)	-
Acquisition	-	100,118
Impairment charges	(93,007)	(7,234)
Share in profit of associates	5,851	7,975
Balance at 31 December	**186,347**	**275,680**

Proportion of investment	**2017 %**	**2016 %**
Jana North America, Inc.	50.00%	50.00%
Gulliver travel d.o.o.	30.00%	30.00%
A.N.P. Energija d.o.o.	34.96%	34.96%
Karisma Hotels Adriatic d.o.o.	33.00%	33.00%
KHA četiri d.o.o.	25.00%	25.00%
Zagreb plakat d.o.o.	49.00%	49.00%
Tisak Inpost d.o.o.	25.67%	25.67%
Photo boutique d.o.o.	25.16%	25.16%
Konsolidator d.o.o.	26.40%	26.40%
Iločki podrumi d.d.	20.00%	20.00%
ID Riva GmbH	36.94%	36.94%
Agrolaguna d.d.	34.21%	-

NOTE 13. INVESTMENTS IN ASSOCIATES *(continued)*

At the end of March 2017 the Group lost control in Agrolaguna through repo transactions as described in Note 3.2. *Investments in subsidiaries* and at 31 December 2017 holds 34.21% in Agrolaguna d.d. As the Group assessed that it has significant influence but no control over Agrolaguna, the Group ceased consolidation from 1 April 2017 and reclassified this investment to investments in associates. Commencing from 1 April 2017, investment in Agrolaguna d.d. is accounted for using the equity method.

Also, during 2017 the Group recorded impairment in associates of HRK 93,007 thousand relating to investments in Zagreb plakat of HRK 48 million and impairment of investment in KHA četiri d.o.o. of HRK 45 million.

Increase in 2016 mainly relates to recapitalization of KHA četiri d.o.o. and Karisma Hotel Adriatic d.o.o. All associates, except Jana North America are incorporated in Croatia. Jana North America is incorporated in the USA.

NOTE 13. INVESTMENTS IN ASSOCIATES *(continued)*

The summarized 2017 and 2016 financial information of associates is as follows:

(in thousands of HRK)

2017	Gulliver travel d.o.o.	A.N.P. Energija d.o.o.	Karisma Hotels Adriatic d.o.o.	KHA četiri d.o.o.	Zagreb plakat d.o.o.	Tisak Inpost d.o.o.	Photo boutique d.o.o.	Konsolidator d.o.o.	Iločki podrumi d.d.	ID Riva GmbH
Current assets	59,818	3	13,946	29,079	19,231	2,411	129	336	64,015	3,889
Non-current assets	4,646	76,020	165,482	176,247	975	-	2,154	150,000	176,827	241
Current liabilities	(48,216)	(9)	(70,603)	(650)	(3,021)	(831)	(848)	(5)	(47,139)	(2,529)
Non-current liabilities	-	(75)	-	-	-	-	-	-	(67,043)	-
Net assets	**16,248**	**75,939**	**108,825**	**204,676**	**17,185**	**1,580**	**1,435**	**150,331**	**126,660**	**1,601**
Revenue	**131,899**	**-**	**8,658**	**4,012**	**34,085**	**365**	**1,746**	**18**	**65,961**	**24,876**
Profit/(Loss)	**5,652**	**(30)**	**(889)**	**3,180**	**4,159**	**(4,439)**	**(245)**	**(12)**	**2,563**	**330**

(in thousands of HRK)

2016	Gulliver travel d.o.o.	A.N.P. Energija d.o.o.	Karisma Hotels Adriatic d.o.o.	KHA četiri d.o.o.	Zagreb plakat d.o.o.	Tisak Inpost d.o.o.	Photo boutique d.o.o.	Konsolidator d.o.o.	Iločki podrumi d.d.	ID Riva GmbH
Current assets	54,328	25	16,261	54,586	19,366	40	566	346	56,479	3,100
Non-current assets	4,620	76,020	164,439	142,139	1,037	6,272	4,214	150,000	175,809	181
Current liabilities	(48,353)	(2)	(70,986)	(311)	(3,191)	(292)	(1,320)	(4)	(44,439)	(1,917)
Non-current liabilities	-	(75)	-	-	-	-	-	-	(65,671)	-
Net assets	**10,595**	**75,968**	**109,714**	**196,414**	**17,212**	**6,020**	**3,460**	**150,342**	**122,178**	**1,364**
Revenue	**116,476**	**-**	**17,090**	**1,984**	**34,254**	**347**	**2,661**	**15**	**64,834**	**22,646**
Profit/(Loss)	**3,500**	**(15)**	**385**	**1,629**	**10,641**	**(1,022)**	**243**	**(7)**	**2,364**	**258**

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)

	Construction land	*Agricultural land*	*Orchards and Vineyards*	**Total Land**	**Buildings**	**Plant, Machinery and equipment**	**Leasehold improvements**	**Other**	**Asset not yet in use**	*Restated* **TOTAL**
At 1 January 2016										
Opening net book amount	***6,598,366***	***103,730***	***177,644***	**6,879,740**	**13,197,319**	**3,353,325**	**1,166,803**	**57,732**	**498,307**	**25,153,226**
Acquisition	*26,603*	*1,774*	*589*	**28,966**	47,059	326	-	-	6,252	82,603
Additions	*(159)*	*159*	*10,322*	**10,322**	-	-	-	-	1,278,651	1,288,973
Transfer	*47,601*	*1,001*	-	**48,602**	293,998	681,269	18,655	190,494	(1,233,018)	-
Disposals	*(180,809)*	*(9,919)*	*(3,554)*	**(194,282)**	(141,875)	(98,172)	(48,820)	-	(20,649)	(503,798)
Transfer to other category	*(37,969)*	*4,811*	-	**(33,158)**	(6,003)	(7,562)	161,929	(183,305)	385	(67,714)
Revaluation	*(266,632)*	*(868)*	-	**(267,500)**	-	-	-	-	-	(267,500)
Depreciation	*(114,778)*	-	*(11,671)*	**(126,449)**	(679,393)	(892,300)	(229,191)	-	-	(1,927,333)
Impairment of tangible assets	-	-	-	-	-	(2,469)	-	-	-	(2,469)
Advance payments	-	-	-	-	-	-	-	(23,286)	-	(23,286)
Transfer to assets held for sale	*378,091*	-	-	**378,091**	1,274,777	5,250	-	2,364	-	1,660,482
Foreign exchange differences and Other	*(36,762)*	*(676)*	-	**(37,438)**	(98,205)	(15,086)	(13,248)	(21,826)	(120,436)	(306,239)
Net book amount as 31 December 2016 (restated)	***6,413,552***	***100,012***	***173,330***	**6,686,894**	**13,887,677**	**3,024,581**	**1,056,128**	**22,173**	**409,492**	**25,086,945**
At 1 January 2017										
Opening net book amount	***6,413,552***	***100,012***	***173,330***	**6,686,894**	**13,887,677**	**3,024,581**	**1,056,128**	**22,173**	**409,492**	**25,086,945**
Acquisition	*367*	*9,394*	*5,142*	**14,903**	125,377	29,149	-	-	-	169,429
Additions	-	-	-	-	-	-	-	-	1,218,478	1,218,478
Transfer	*54,758*	-	*11,451*	**66,209**	483,448	598,431	109,781	23	(1,257,892)	-
Disposals	*(168,923)*	*(493)*	-	**(169,416)**	(97,721)	(137,443)	(32,588)	(652)	(1,864)	(439,684)
Transfer to other category	*45,404*	*380*	-	**45,784**	(398,063)	23,793	944	-	(22,110)	(349,652)
Revaluation	*(637,762)*	-	-	**(637,762)**	-	-	-	-	-	(637,762)
Depreciation	-	-	*(7,848)*	**(7,848)**	(539,340)	(738,407)	(221,098)	(36)	-	(1,506,729)
Impairment of tangible assets	*(188,846)*	*(97)*	-	**(188,943)**	(1,756,803)	(9,166)	(15,203)	(2,866)	(2,062)	(1,975,043)
Transfer to assets held for sale	*(281,511)*	-	-	**(281,511)**	(577,981)	-	-	-	-	(859,492)
Foreign exchange differences and Other	*(225,990)*	*3,652*	-	**(222,338)**	119,456	(90,073)	39,711	59,215	(151,304)	(245,333)
Loss of control in subsidiaries	*(106,263)*	*(3,107)*	*(83,971)*	***(193,341)***	*(59,403)*	*(23,309)*	-	*(13,754)*	-	*(289,807)*
Net book amount as 31 December 2017	***4,904,786***	***109,741***	***98,104***	**5,112,631**	**11,186,647**	**2,677,556**	**937,675**	**64,103**	**192,738**	**20,171,350**

NOTE 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Assets under finance lease included in property, plant and equipment on 31 December are as follows:

(in thousands of HRK)

	2017	*Restated* 2016
Land	134,554	792,117
Buildings	1,850,825	2,980,240
Plants, machinery and equipment	33,292	39,422
	2,018,671	**3,811,779**

Assets pledged as collateral included in property, plant and equipment on December 31 are as follows:

(in thousands of HRK)

	2017
Land	1,491,906
Buildings	2,583,276
Plants, machinery and equipment	91,762
Total	**4,151,263**

NOTE 15. INVESTMENT PROPERTY

(in thousands of HRK)

	2017	2016
Opening net book value	240,557	222,953
Additions	-	36,097
Transfer from property, plant and equipment	349,652	78,603
Disposals	(34,279)	(122,272)
Revaluation during the year	19,797	-
Depreciation	(3,840)	(6,040)
Transfer to assets held for sale	(10,717)	(3,846)
Foreign exchange differences	16,065	(542)
Other	(3,523)	35,603
Net book value	**573,712**	**240,556**

Increase in net book value of Investment property predominately relates to Mercator Group's transfer of part of real estate from property, plant and equipment to investment property.

NOTE 16. INTANGIBLE ASSETS

(in thousands of HRK)
Restated

	Goodwill	Concession rights, software and other rights	Brand names	Assets not yet available for use	Total
At 1 January 2016					
Opening net book amount	1,205,678	621,521	1,589,901	23,919	3,441,019
Acquisition (new subsidiaries)	87,882	-	-	-	87,882
Additions	-	-	-	237,511	237,511
Transfer	-	245,356	-	(245,356)	0
Decrease	-	(2,246)	-	(415)	(2,661)
Impairment charge	(545,673)	-	(1,589,901)	-	(2,135,574)
Mergers	-	(9)	-	-	(9)
Transfer from other category	-	(4,748)	-	(442)	(5,190)
Amortisation	-	(352,541)	-	-	(352,541)
Foreign exchange difference	(603)	(8,993)	-	(466)	(10,062)
Net book amount	**747,285**	**498,341**	**-**	**14,751**	**1,260,376**
At 31 December 2016					
Cost	747,285	2,014,210	1,589,901	14,751	4,366,146
Accumulated amortisation and impairment	-	(1,515,869)	(1,589,901)	-	(3,105,770)
Net book amount 31 December 2016	**747,285**	**498,341**	**-**	**14,751**	**1,260,376**
At 1 January 2017					
Opening net book amount	**747,285**	**498,341**	**-**	**14,751**	**1,260,376**
Acquisition (new subsidiaries)	25,592	-	-	-	25,592
Additions	-	5,294	-	44,104	49,398
Transfer	-	53,157	-	(53,564)	(407)
Decrease	(8,603)	(43,837)	-	(442)	(52,881)
Impairment charge	(478,447)	(20,752)	-	-	(499,199)
Transfer from other category	-	(49)	-	(134)	(183)
Amortisation	-	(131,760)	-	-	(131,760)
Foreign exchange difference	-	1,105	-	1	1,106
Deconsolidation of subsidiaries	-	(2,084)	-	-	(2,084)
Net book amount	**285,827**	**359,415**	**-**	**4,716**	**649,958**
At 31 December 2017					
Cost	285,827	2,007,044	1,589,901	4,716	3,887,488
Accumulated amortisation and impairment	-	(1,647,629)	(1,589,901)	-	(3,237,530)
Net book amount 31 December 2017	**285,827**	**359,415**	**-**	**4,716**	**649,958**

Concession rights relate to concessions for the extraction of mineral water granted to Jamnica d.d. and Sarajevski kiseljak d.d. The concessions are amortised according to the accounting policy (Note 1.9).

NOTE 16. INTANGIBLE ASSETS *(continued)*

Goodwill *(in thousands of HRK)*

	Year of acquisition	**2017**	**2016**
Sarajevski kiseljak d.d.	2001.	12,002	12,002
Frikom d.o.o.	2003.	85,921	85,921
Tisak d.d.	2007.	-	232,557
PIK Vinkovci d.d.	2009.	-	5,975
Konzum d.d.	2009.	-	37,822
Roto dinamic d.o.o.	2012.	187,904	155,546
Roto ulaganja d.o.o.	2012.	-	79,662
M-profil SPV d.o.o.	2013.	-	24,610
Projektgradnja d.o.o.	2015.	-	25,309
DB Kantun Veleprodaja d.o.o.	2016.	-	40,960
Petprom ulaganja d.o.o.	2016.	-	25,689
Dalmarina d.o.o.	2016.	-	21,232
Total		**285,827**	**747,285**

In 2017, Roto dinamic d.o.o. took over the operations of subsidiary DB Kantun Veleprodaja d.o.o. from its business scope, including customer and employee contracts, and continued the business operations of the subsidiary. Goodwill was recognized in Roto dinamic d.o.o. in the amount of HRK 32,358 thousand which was initially recognized at the consolidated level when acquiring.

Key estimates and judgments used in the goodwill impairment test are disclosed in *Note 9. Depreciation, amortisation and impairment.*

NOTE 17. BIOLOGICAL ASSETS

Agricultural production of Agrokor Group is divided into crop husbandry, pig farming, cattle fattening, dairy farming, vineyards, apple orchards and olive groves.

(in thousands of HRK)

	2017	**2016**
Non-current biological assets	119,655	254,132
Current biological assets	313,365	328,238
Total	**433,020**	**582,370**

17.1 BIOLOGICAL ASSETS AT FAIR VALUE

a) CURRENT BIOLOGICAL ASSETS

(in thousands of HRK)

	2017	**2016**
Livestock	202,316	182,201
Total	**202,316**	**182,201**

NOTE 17. BIOLOGICAL ASSETS *(continued)*

17.2 BIOLOGICAL ASSETS AT COST

a) CURRENT BIOLOGICAL ASSETS

(in thousands of HRK)

	2017	**2016**
Crops	111,049	146,037
Total	**111,049**	**146,037**

b) NON-CURRENT BIOLOGICAL ASSETS

(in thousands of HRK)

Movement of biological assets during the year	**2017**	**2016**
Net book value as at 1 January	**254,131**	**256,739**
Impairments	(121,669)	-
Loss of control over a subsidiary	(3,106)	-
Increase due to purchases and livestock growth	66,840	79,598
Decreases due to sales and other disposals	(53,008)	(55,333)
Depreciation	(23,533)	(26,872)
Net book value of biological assets as at 31 December	**119,655**	**254,132**

Cost as an approximation of the fair value is used for crop husbandry, vineyards, apple orchards and olive groves valuation, due to the fact no active market for those biological assets in its present condition exists and no reliable estimate of future cash flows is available.

Fair value of livestock is determinated based on market prices of livestock of similar age breed, and genetic merit. The fair value of crops is determined based on market prices in regional area. Revenues related to biological assets are included in Sales and costs are included in other expenses..

17.3 GOVERNMENT GRANTS

(in thousands of HRK)

	2017	**2016**
Fattening of livestock	54,061	52,734
Agricultural production (sowing, orchards and vinyards)	77,988	83,829
Total	**132,049**	**136,563**

Government grants are unconditional and relate to biological assets measured at its fair value less estimated point-of-sale costs. Income is recognised (*Note 6*) when the government grant becomes receivable.

NOTE 18. LOANS, DEPOSITS AND OTHER NON-CURRENT FINANCIAL ASSETS

(in thousands of HRK)

	2017	*Restated* **2016**
Investment securities available for sale	315,246	413,842
Held-to maturity investments	1,944	85,232
Loans	225,902	454,107
Long-term deposits	259,891	787,139
Other long term financial assets	61,624	345,495
Balance at 31 December	**864,607**	**2,085,815**

Long term deposits mainly relate to lease contract deposits which bear no interest and are due upon repayment of contractual liabilities. Other long term deposits bear an annual interest of 2% to 4% and are due from 2 to 10 years.

Available for sale investments

(in thousands of HRK)

	2017	**2016**
Unquoted equity investments measured at cost	136,955	285,539
Quoted equity investments	178,291	128,303
Total	**315,246**	**413,842**

Investments securities available for sale that are not quoted on active markets and otherwise cannot be reliably measured at fair value are measured at cost.

NOTE 19. INVENTORIES

(in thousands of HRK)

	2017	*Restated* **2016**
Raw material and supplies	517,335	503,431
Work in progress	344,760	761,931
Finished goods	380,566	471,220
Merchandise goods	2,808,001	3,502,096
Total	**4,050,662**	**5,238,678**

NOTE 20. ASSETS CLASSIFIED AS HELD FOR SALE

(in thousands of HRK)

	2017	2016
Land and buildings	916,567	122,870
Other	87	-
Total	**916,654**	**122,870**

As at 31 December 2017, Mercator group has reallocated HRK 880,192 thousand of non-current assets to assets held for sale, in line with IFRS 5.

NOTE 21. LOANS AND DEPOSITS

(in thousands of HRK)

	2017	2016
Loans granted	262,006	678,868
Deposits	43,648	108,784
Advance payments	115,682	54,987
Loans, deposits granted to associates	-	195
Total	**421,336**	**842,834**

Loans granted and other short term placements in the normal course of business which bear interests at annual rate of 0 -12 %; with maturity from 3 to 12 months.

Decrease of loans granted in 2017 is the result of partial impairment loss on the loans granted, as well as acquisition of Vinka d.d.. In 2016, loans granted to Vinka d.d. amounted HRK 129 million.

(in thousands of HRK)

Loans granted	**2017**	**Maturity**	**Interest**
Merchandise loans	24,684	up to 12 months	0-7%
Other loans	237,322	up to 12 months	0-12%
Total	**262,006**		

(in thousands of HRK)

Loans granted	**2016**	**Maturity**	**Interest**
Merchandise loans	359,296	up to 12 months	4-8%
Other loans	319,572	up to 12 months	4-10%
Total	**678,868**		

NOTE 22. ACCOUNTS RECEIVABLE

(in thousands of HRK)

	2017	2016
Trade accounts receivable	4,840,746	4,868,891
Impairment provision for trade receivables	(1,533,994)	(1,409,682)
Total	**3,306,752**	**3,459,209**

As at 31 December, the ageing analysis of trade receivables is as follows expressed in thousands of HRK:

	Total	Neither past due nor	due			
		impaired	< 90 days	90 - 180 days	180 - 270 days	> 270 days
2017	3,306,752	1,723,540	1,155,835	134,803	99,003	193,571
2016	3,459,209	2,259,376	848,062	142,212	60,969	148,590

Movements in the provision for impairment of trade receivables is as follows:

(in thousands of HRK)

	2017	2016
Balance 1 January	1,409,682	956,795
Acquisitions of subsidiaries	6,033	0
Impairment charge	197,276	564,155
Amounts written off	(78,997)	(111,268)
Total	**1,533,994**	**1,409,682**

NOTE 23. OTHER CURRENT ASSETS

(in thousands of HRK)

	2017	*Restated* 2016
Receivables from employees and similar	16,343	31,254
Receivables from the State and other institutions	330,184	373,293
Other receivables	155,532	263,193
Other financial assets	8,798	776
Advance payments for inventories	84,011	32,401
Accrued expenses and deferred income	336,486	554,349
Total	**931,354**	**1,255,266**

Accrued expenses and deferred income mainly relates to accrued suppliers bonuses and rental charges.

NOTE 24. CASH AND CASH EQUIVALENTS

(in thousands of HRK)

	2017	2016
Cash in bank and cash on hand	2,373,472	556,986
Total	**2,373,472**	**556,986**

Credit quality by ratings on 31 December 2017 and 31 December 2016:

	2017	2016
A (S&P)	84,609	30,495
BBB+(S&P)	87,886	26,753
BBB(S&P)	289,552	5,604
BBB-(S&P)	28,933	124,083
BB+(S&P)	164,875	203
BB(S&P)	1,332,450	30,740
Other	92,215	626
No rating	292,952	338,482
Total	**2,373,472**	**556,986**

NOTE 25. SHARE CAPITAL AND RESERVES

Equity comprises share capital together with capital reserves, reserves from profit, available-for-sale reserves, accumulated loss and loss for the year. Share capital (share equity) in the court registry amounts to HRK 180,123 thousand. Share capital is divided into 360,246 ordinary shares with a nominal value of HRK 500 per share. Share capital is paid in full. Legal reserves of HRK 9,007 thousand are not distributable.
Reserves from profit or statutory reserves and capital reserves relate to statutory and capital reserves as defined by the Company Law (Official Gazzete no 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15). These reserves may be used to cover losses from the current or previous period and are not distributable.

Ownership structure at 31 December 2017 and at 31 December 2016:

	Number of shares	Nominal value of 1 share In HRK	Total nominal value 000 HRK	Particip. in share capital (%)
Adria Group Holding BV	344,120	500	172,060	95.52%
Banks	7,468	500	5,216	2.08%
Small shareholders	5,698	500	1,367	1.58%
Treasury shares	2,965	500	1,480	0.82%
Total number of shares	**360,251**		**180,123**	**100.00%**

During 2016 the Company acquired an additional 2,965 treasury shares (0,82%) which are included in the Small shareholders line as the process of registering those shares to the Company is still ongoing.

NOTE 26. FINANCE LEASE LIABILITIES

Assets acquired under finance leases are real estate and transportation equipment. Future minimum leases payments are payable as follows:

(in thousands of HRK)

	2017	2016
Payable over 5 years	2,293,626	2,709,002
Payable in 1 to 5 years	1,813,913	1,975,512
Payable within 1 year	582,514	459,903
Less future finance charges	(1,484,938)	(1,727,810)
Included in borrowings (Note 28)	**3,205,115**	**3,416,607**
Less current portion of obligation	(384,596)	(246,732)
Total lease	**2,820,519**	**3,169,875**

NOTE 27. LEASE LIABILITIES AND CAPITAL COMMITMENTS

Future minimum lease payments under non-cancellable leases are due as follows:

(in thousand of HRK)

	2017	*Restated* 2016
Payable over 5 years	2,203,031	2,708,219
Payable in 2 to 5 years	1,458,149	1,166,293
Payable in 1 to 2 years	750,967	483,370
Payable within 1 year	824,275	612,325
Total	**5,236,422**	**4,970,207**

Operating lease commitments relate primarily to land, buildings (including leased retail shops), equipment and motor vehicles.

NOTE 28. BORROWINGS

(in thousands HRK)

Long-term borrowings	2017	*Restated* 2016
Bank loans	5,515,157	18,245,384
Bonds	-	6,828,570
Non-bank loans	-	441,565
Liabilities for advances received	6,644	-
Finance leases (Note 26)	3,205,115	3,416,607
Total long-term borrowings	**8,726,916**	**28,932,126**
Current portion of long-term borrowings		
Bank loans	(494,937)	(1,248,380)
Non-bank loans	-	(106,149)
Finance leases (Note 26)	(384,596)	(246,732)
Total current portion of long-term borrowings	**(879,533)**	**(1,601,261)**
Long-term loans and borrowings	**7,847,383**	**27,330,865**
Short-term borrowings		
Current portion of long-term borrowings	879,533	1,601,261
Bank loans	21,187,747	2,792,941
Financial bills of exchange	5,246,605	6,151,191
Bonds	4,993,465	-
Non-bank loans	2,358,346	2,439,463
Total short-term borrowings	**34,665,696**	**12,984,856**
TOTAL BORROWINGS	**42,513,079**	**40,315,721**

Maturity of long term bank loans can be analysed as follows:

(in thousands HRK)

Maturity	Total
2019	945,817
2020	877,366
2021	3,185,183
2022	3,910
2023 and later	7,944
Total	**5,020,220**

NOTE 28. BORROWINGS *(continued)*

Currency linkage of long term bank loans can be analysed as follows:

(in thousands of HRK)

Maturity	EUR	Other currencies	Total
2019	839,184	106,632	945,816
2020	783,341	94,025	877,366
2021	3,118,355	66,828	3,185,183
2022	3,911	-	3,911
2023 and later	7,944	-	7,944
Total	**4,752,735**	**267,485**	**5,020,220**

During 2016 and earlier periods the Agrokor Group financed itself mainly through Agrokor d.d. via a combination of fixed income instruments and variable rate loans. Variable interest rates were predominantly linked to EURIBOR. The coupons/interest rates range between 3% and 10% p.a.

Bonds - Senior Notes

Agrokor Restricted Group debt consists primarily of two Senior Notes and other bilateral facilities with banks and financial and non-financial institutions. The 2019 Senior Notes were issued at par in an aggregate principal amount of EUR 300 million. The 2019 Senior Notes were scheduled to mature on 1 May 2019 and accrued interest at a rate of 9.875% per annum. The euro-denominated 2020 Notes were issued at par in an aggregate principal amount of EUR 325 million. The euro-denominated 2020 Notes are scheduled to mature on 1 February 2020 and accrue interest at a rate of 9.125% per annum. The dollar-denominated 2020 Notes were issued at par in an aggregate principal amount of USD 300 million. The dollar-denominated 2020 Notes are scheduled to mature on 1 February 2020 and accrue interest at a rate of 8.875% per annum.
In August 2017 the Agrokor's bonds have been delisted from the Irish Stock Exchange.

Bank loans:

Refinanced debt

In the second half of 2016 the Company completed a wider refinancing exercise, extending c. EUR 840 million of existing debt to approximately 2-3 year maturities. Refinanced bilateral facilities consisted of two club facilities with BNP Paribas, Credit Suisse AG, London Branch, Goldman Sachs International Bank, J.P. Morgan Securities plc in the amount of EUR 100 million each, one scheduled to mature on 14 September 2018 and the other on 14 September 2019. Both facilities accrue interest at a rate of EURIBOR plus a margin of 5.00%.

Sberbank loans

At 31 December 2016 the Company has a EUR 600 million loan with Sberbank of Russia and Sberbank Europe AG and a EUR 350 million loan with Sberbank of Russia, the former scheduled to mature on 14 September 2023 with interest rate of EURIBOR plus a margin of 5.30% and the latter scheduled to mature on 14 September 2022 with interest rate of 6.00% fixed. The Company also had a EUR 50 million loan with Sberbank Europe AG scheduled to mature on 14 September 2018 with interest rate of EURIBOR plus a margin of 5.00%.

VTB loans

At 31 December 2016 Agrokor had a EUR 360 million with VTB Bank Austria AG, of which EUR 50 million was scheduled to mature on 14 September 2018 with interest rate of EURIBOR plus a margin of 5.00%, EUR 250 million scheduled to mature on 14 September 2019 with interest rate of EURIBOR plus a margin of 5.00% and EUR 60 million scheduled to mature on 21 June 2020 with interest rate of EURIBOR plus a margin of 3.62%.

NOTE 28. BORROWINGS *(continued)*

Non bank loans
At 31 December 2016 Agrokor Restricted Group also had several other facilities with local and international institutions with fixed and variable interest rates of which the most material ones were EUR 130 million from Adris Grupa d.d. scheduled to mature on 31 December 2017 with interest rate of 4.00%, EUR 50 million from Zagrebačka banka d.d. scheduled to mature on 17 April 2017 with interest rate of EURIBOR plus a margin of 4.75%, EUR 50 million from Aquarius scheduled to mature on 8 August 2017 with interest rate of EURIBOR plus a margin of 5.50%, EUR 50 million from Tvornica Duhana Rovinj d.d. scheduled to mature on 30 November 2021 with interest rate of 2.50%. Other smaller facilities were scheduled to mature between 2017 and 2028 with interest rates between 3% and 10% p.a.

Loans raised during 2017
On 21 February 2017 Agrokor signed a loan agreement with Sberbank of Russia as Lender. The total loan amount is EUR 100 million. The loan has a bullet repayment on 1 October 2017. The loan is guaranteed by the following subsidiary companies: Agrokor-trgovina d.o.o., Belje d.d. Darda, Jamnica d.d., Konzum d.d., Konzum d.o.o. Sarajevo, Ledo d.d., Ledo d.o.o. Čitluk, Pik-Vinkovci d.d., Sarajevski Kiseljak d.d., Vupik d.d. and Zvijezda d.d.
On 13 April 2017 the Company signed a loan agreement as a borrower with Zagrebačka banka d.d., Privredna banka Zagreb d.d., ERSTE Staiermerkische d.d. and Raiffeisenbank Austria d.d. as loan providers. The total loan amount was EUR 80 million. The loan had a bullet repayment at the expiration of 12 months from the date of the opening of the Extraordinary Administration proceeding or at the expiration of 15 months from the date of the opening of the Extraordinary Administration proceeding if the Extraordinary Administration proceeding is prolonged. The loan is signed as co-debtors by the following subsidiary companies: Belje d.d. Darda, Jamnica d.d., Konzum d.d., Ledo d.d., Pik Vrbovec – mesna industrija d.d., Pik-Vinkovci d.d., Vupik d.d. and Zvijezda d.d. The loan has since been repaid in full from the proceeds of the loan concluded on 8 June 2017.
On 8 June 2017 the Company signed a loan agreement with various investors and banks as loan providers. The total loan amount is up to EUR 1,060 million. The loan has a bullet repayment on the earlier of 10 July 2018, the settlement date under the extraordinary administration proceeding and opening of insolvency proceedings. The loan is guaranteed by the subsidiary companies incorporated in Croatia and are subject to the extraordinary administration proceeding which include but are not limited to: Agrokor-trgovina d.o.o., Belje d.d. Darda, Jamnica d.d., Konzum d.d., Ledo d.d., Pik-Vinkovci d.d., Vupik d.d., Tisak d.d. (from 2018) and Zvijezda d.d. In addition the loan is also secured by long-term tangible and intangible assets of obligors. The loan has a super-priority status as provided for in the Law on extraordinary administration proceeding in companies of systemic importance for the Republic of Croatia and allows for the refinancing of debt incurred prior to entering into the extraordinary administration applying 1:1 ratio between new money and refinanced debt. Interest is calculated as Euribor + 4% per annum PIK accruing yearly or 3.8% cash payable annually at the election of each individual Lender. Default interest amounts to Euribor + 10 per cent, per annum payable annually in arrears in cash, Euribor floor at 0. Outstanding amount at 31 December 2017 amounts to EUR 960 millions.

As at 31 December 2017 all liabilities, except those of Mercator Group, have been classified as short term as in accordance with the Law all claims towards the Company which were outstanding as of 10 April 2017 became due with the opening of the Extraordinary Administration and therefore at 31 December 2017 there is no unconditional right to defer the repayment of the principal beyond 12 months after the balance sheet date. The Super Priority Facility Agreement has a bullet repayment on the earlier of 10 July 2018, the settlement date under the extraordinary administration proceeding and opening of insolvency proceedings which makes it a short term as at 31 December 2017.
Mercator's debt consists of the "wider group" deal, the Serbian deal, finance lease agreements and other smaller bilateral debt facilities. The various tranches of the wider group deal and Serbian deal have a range of maturities falling between 2018 and 2021. The blended yearly weighted average interest rate for the period from the signing of the facilities in June 2014 to the maturity of the final tranche in June 2021 is 3.5%.

NOTE 28. BORROWINGS *(continued)*

Loans obtained during 2017 *(continued)*

The wider group transaction comprises the restructured Mercator debt in the Federation of Bosnia and Herzegovina, Republic of Srpska, Croatia, Montenegro and Slovenia. Borrowers under the wider group transaction are Mercator and its subsidiaries including Poslovni sistem Mercator, Mercator - BH, d.o.o., Mercator - H, d.o.o., Mercator - CG, d.o.o., and Mercator - Emba, d.d. These entities are also guarantors for the wider group transaction together with Mercator subsidiaries Mercator IP, d.o.o. and M - Energija, d.o.o. The Borrower under the Serbian deal is Mercator S and the obligations under the Serbian Facility are secured over material assets of Mercator S.

NOTE 29. PROVISIONS

All employees are covered by the State pension fund. Provisions are established for other employee benefits payable in respect of retirement and jubilee (length of service) as well as scholarships for children of employees that died at work. Retirement benefits are dependent on the employees fulfilling the required conditions to enter retirement from the Group and jubilee benefits are dependent on the number of years of service. The amount of all benefit entitlements is determined by the respective employee’s monthly remuneration.

The movement in the liability for employee benefits is recognised in the balance sheet as follows:

(in thousands of HRK)

	2017	**2016**
Net liability, beginning of year	263,294	251,137
Acquisition of subsidiaries	9,190	-
Net change recognised in the income statement	15,042	36,010
Payments made during the year	(21,664)	(23,853)
Net liability, end of year	265,862	263,294
Other provisions	267,436	178,039
Total provisions	**533,298**	**441,333**

The principal actuarial assumptions used to determine retirement benefit obligations as of 31 December were as follows:

	2017	**2016**
Discount rate (annual)	0.8% - 6.0%	4.0%
Wage and salary increases (annual)	0.0% - 2.0%	0,5%-1,2%

For 2017 the average annual discount rate for Croatia is 2.5%, whilst for other countries it varies from 0.8% (Slovenia) to 6.0% (Bosnia and Herzegovina).

Other long-term employee benefits are determined by using a method of predictable employer liability per employee. Gains and losses which arise from changes in actuarial assumptions are recognized as revenue/cost in the period in which they occur.

NOTE 30. ACCOUNTS PAYABLE

(in thousands HRK)

	2017	2016
Trade payables - domestic	7,489,003	8,135,634
Trade payables - foreign	919,405	1,266,514
Accruals for goods received and not invoiced	18,248	120,666
Commodity commercial loans	410,906	491,556
Other payables	-	42,278
Bills of exchange - not discounted	688,624	542,789
Total	**9,526,186**	**10,599,437**

Bills of exchange relate to liabilities toward suppliers for goods delivered and services provided for which the bill of exchange was issued.

NOTE 31. BILLS OF EXCHANGE AND RECOURSE

The Group accepted bills of exchange as a means of payment from customers and thus settles its claims towards customers for the sale of goods and products. Received bills of exchange are recourse and the Group provides a guarantee in the event that the factoring companies fail to collect from the customer. In the case of re-activation, the billing obligation is transferred to the Group, and then the Group exercises the right to claim for uncollected bills of exchange to the original issuers of the bills of exchange. The Group has the right to claim for uncollected bills of exchange totalling HRK 28,338 thousand.

Borrowing obligations are related to bills of exchange issued by the Group as a means of paying liabilities to suppliers for received goods and products.

On 10 April 2017, the Zagreb Commercial Court issued a Decision to initiate the Extraordinary Administration Procedure over Agrokor d.d. and its affiliated and controlled companies (together 77 companies in Croatia).
In accordance with the Law all claims towards the Group which were outstanding as of 10 April 2017 became due with the opening of the Extraordinary Administration. After 10 April 2017 Group companies in Croatia did not issue bills of exchange which led to a significant decrease in the obligations for discounted Bills of exchange.

Bills of exchange and recourse liabilities: *(in thousands of HRK)*

	2017	2016
Bills of exchange - discounted	315,991	1,459,688
Recourse liabilities	28,338	258,691
Total	**344,329**	**1,718,379**

Recourse receivables: *(in thousands of HRK)*

	2017	2016
Recourse receivables	28,338	468,658
Total	**28,338**	**468,658**

NOTE 32. OTHER CURRENT LIABILITIES

(in thousands of HRK)

	2017	2016
Deferred expenses and accrued income	759,597	875,159
Liabilities for taxes, contributions and similar expenses (excluding corporate income tax)	311,298	628,936
Liabilities to employees	257,221	266,858
Short term liabilities for advances received, deposits and reccourses	155,844	436,207
Other current liabilities	964,221	268,945
	2,448,181	**2,476,105**

Deferred expenses and accrued income predominantly relates to costs for accrued interest, costs of unused vacation and revenues for unused discounts related to loyalty cards.

Other current liabilities mainly relate to interest liabilities.

NOTE 33. INCOME TAX PAYABLE

(in thousands of HRK)

Tax charge for the year	**2017**	**2016**
Croatian corporate taxation	(114,139)	(143,271)
Foreign corporate taxation	52,429	264,984
Total income tax obligation for year	***(61,710)***	***121,713***
Deferred tax asset	303,561	199,237
Deferred tax liability	101,363	593,194

In accordance with Croatian tax law, companies within the Group from the Republic of Croatia are independently liable for corporate tax at a rate of 18% (2016: 20%). Several subsidiaries have tax losses which are available to be carried forward against their future taxable income. Due to the uncertainty as to whether these assets could be utilised in the foreseeable future no deferred tax asset has been recognised.
In accordance with the regulations of the Republic of Croatia, the Tax Authority may at any time inspect the Company's books and records within 3 years following the year in which the tax liability is reported, and may impose additional tax assessments and penalties. The same regulations apply to other subsidiaries of the Group in Croatia. Foreign subsidiaries abroad must comply with tax regulations of the country in which they operate.

NOTE 33. INCOME TAX PAYABLE *(continued)*

(in thousands of HRK)

Overview of deferred tax liabilities	**Deferred tax liability for land revaluation**	**Impairment of brands**	**Other**	**Total**
Balance as at 1 January previous year	659,251	270,282	107,372	**1,036,905**
Stated in the statement of comprehensive income	(69,239)	-	-	**(69,239)**
Increase/(decrease) through other equity changes	-	(270,282)	(84,797)	**(355,079)**
Effect of changing the tax rate	-	-	(19,393)	**(19,393)**
Balance as at 31 December previous year	**590,012**	**-**	**3,182**	**593,194**
Stated in the Statement of Comprehensive income	(126,123)		2,333	**(123,790)**
Increase/(decrease) through other equity changes	-		62	**62**
Effect of changing the tax rate	-		1,002	**1,002**
Income tax effect - correction of previous years	(369,105)		-	**(369,105)**
Balance as at reporting date	**94,784**	**-**	**6,579**	**101,363**

Deferred taxation obligations for revalued land occurred due to the fact that according to the present applicable regulations revaluation surplus is taxable in the year of realisation, and not in the year of conducting the revaluation. The remaining deferred taxation liabilities were created as a consequences of aligning depreciation rates of some subsidiaries with the group policies.

Based on the analysis perform the Group released in 2017 deferred tax liability through equity which related to previous period in the amount of HRK 369,105 thousand.

Tax losses carried forward

Reconciliation and expiry of unutilised tax losses carry forward at 31 December 2017 is as follows:

(in thousands of HRK)

	2017
Expires in 2017	
Expires in 2018	2,731,264
Expires in 2019	838,277
Expires in 2020	1,941,344
Expires in 2021	3,430,879
Expires in 2022	1,937,476
Total	**10,879,240**

At 31 December 2016 and at 31 December 2017 the Group did not recognize a deferred tax asset in respect of unutilized tax losses carried forward as it is not probable that future taxable income will be available agains which those tax losses may be utilized.

NOTE 33. INCOME TAX PAYABLE *(continued)*

Deferred tax assets originates from:

(in thousands of HRK)

Overview of deferred tax assets	financial instruments available for sale	amortisation and depreciation	long-term provisions for severance payments	long-term provisions for jubilee awards	long-term provisions for reorganisation	long-term provisions for issued guarantees and warranties	impairment of inventories	calculated public duties/ fees not paid in the current tax period	impairment of receivables	unused tax losses	court proceedings	impairment of goodwill	**Total**
Balance as at 1 January previous year	14,327	30,571	10,444	3,514	2	-	344	56	20,395	81,791	-	179	**161,623**
Sale of investments in Group subsidiaries	(11)	-	-	-	-	-	-	-	-	-	-	-	**(11)**
Investments in Group subsidiaries	(150)	-	-	-	-	-	-	-	-	-	-	-	**(150)**
Stated in profit and loss account	2,961	2,915	194	1,142	(2)	156	(280)	60	9,322	20,994	-	(179)	**37,283**
Effects of changing the tax rate	(357)	-	641	(4)	-	-	-	-	-	212	-	-	**492**
Balance as at 31 December previous year	**16,770**	**33,486**	**11,279**	**4,652**	**-**	**156**	**64**	**116**	**29,717**	**102,997**	**-**	**-**	**199,237**
Investments in Group subsidiaries	427	-	-	-	-	-	-	-	-	-	-	-	**427**
Stated in the Profit and loss account	10,008	7,287	458	(1,227)	-	2,487	1,045	(50)	(122)	87,309	17	1,462	**108,674**
Effects of changing the tax rate	-	-	166	-	-	-	-	-	-	(4,945)	-	-	**(4,779)**
Balance as at reporting date	**27,205**	**40,773**	**11,903**	**3,425**	**-**	**2,643**	**1,109**	**66**	**29,595**	**185,361**	**17**	**1,462**	**303,561**

Tax losses not recognized as deferred tax asset

In the financial statements, the Group did not recognize deferred tax assets for all the tax losses carried forward since it is not probable that all those tax losses will be utilized.

NOTE 34. CHANGES IN FINANCIAL ACTIVITIES

	(in thousand of HRK)
	Borrowings
1 January 2017	***40,315,721***
Cash flow, net	2,474,083
Foreign exchange differences and other non-cash movements	(276,725)
31 December 2017	***42,513,079***

NOTE 35. CONTINGENCIES

Based on the legal interpretation of the Law penalty interest cannot be charged during the period of the Extraordinary Administration and in the case of successful finalization of the Settlement creditors would not be entitled to such charges.

However, in the case the Group would breach the conditions of the Law and/or the Settlement Plan would not be approved by the majority of creditors, the bankruptcy process would trigger charging of penalty interest on related payables. The Group has estimated that penalty interest charges for the period from 10 April 2017 to 31 December 2017 would amount to HRK 2,017,687 thousand. As the Extraordinary Administration believes that successful Settlement is probable no penalty interest has been recognized in the financial statements for the year ended 31 December 2017.

Contingencies also relate to external guarantees that the Group issued for liabilities of bank guarantees and other corporate guarantees. The total amount of issued guarantees at 31 December 2017 amounts to HRK 200,598 thousand.

Significant court proceedings against the Group

As stated above, the Law prescribes a prohibition or freeze of all proceedings in Croatia against the Agrokor d.d. and its affiliated and controlled companies subject to Extraordinary Administration. Therefore no proceedings have been initiated or continued during the Extraordinary Administration in Croatia. Requests for recognition of the Extraordinary Administration Proceeding have been filed in 2017 in the UK, Slovenia, Serbia, Montenegro and Bosnia and Herzegovina, for the prohibition or stay of proceedings to take effect in those jurisdictions, and has been granted in the UK, while rejected in Serbia. In Slovenia and Bosnia and Herzegovina, the respective supreme courts have issued a final decision rejecting the Company's request for recognition of the Extraordinary Administration Proceeding. With respect to Slovenia this means that the enforcement (EUR 3,282 thousand) and temporary injunction proceedings (security for EUR 450 million) initiated by Sberbank entities will continue. In Serbia, decisions on three temporary injunctions (for claims of EUR 15,392 thousand and EUR 350 million) with respect to shares in Serbian companies have become final, while certain pledges over shares in Serbian companies have been removed after unsuccessful enforcement proceedings. In certain litigation proceedings Serbian courts have declared themselves incompetent. In Bosnia and Herzegovina, courts have declared themselves incompetent to hear proceedings regarding temporary injunctions.

Other court proceedings against the Group

In the ordinary course of business, the Group is defendant and plaintiff in pending legal proceedings. In Management's opinion, the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2017.

NOTE 36. RELATED PARTY TRANSACTIONS

The Group has transactions with the following related parties: significant shareholders and other companies owned or controlled by the ultimate owner of the Company ('other affiliated parties') and key management.

(in thousands of HRK)

	2017	2016
RECEIVABLES		
Ultimate parent	209,827	200,153
Ultimate parent – impairment provision	(209,824)	(200,153)
Ultimate controlling party (Mr. I. Todorić)	-	219,163
Associates	111,955	151,005
Total receivables	**111,958**	**370,168**
LIABILITIES		
Associates	19,828	54,036
Total liabilities	**19,828**	**54,036**

	2017	2016
INCOME		
Ultimate parent	9,803	10,738
Ultimate controlling party	-	203,006
Associates	9,945	31,754
Total income	**19,748**	**245,498**
COST		
Associates	-	3,777
Total cost	**-**	**3,777**

Until 10 April 2017 ultimate controlling party of Agrokor d.d. was Mr. I. Todorić and ultimate parent controlling the Group was Agrokor projekti d.o.o. Starting from 10 April 2017 the ultimate controlling party of Agrokor d.d. is defined as described in the Law for the Extraordinary Administration for Companies with Systemic Importance for the Republic of Croatia and further explained in *Management Report*.

NOTE 37. FAIR VALUE MEASUREMENT

Based on the calculation of their fair value, financial instruments are divided into three levels:

- Level 1: quoted (stock) prices for assets or liabilities in active markets,
- Level 2: assets or liabilities not included in Level 1, the value of which is determined directly or indirectly based on observable market data
- Level 3: assets or liabilities, the value of which is not based on observable market data.

NOTE 37. FAIR VALUE MEASUREMENT *(continued)*

Recurring fair value measurements for assets as at 31 December 2017:

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
Property, plant and equipment measured at fair value	-	-	4,904,786	4,904,786
Biological assets measured at fair value	-	-	202,316	202,316
Available-for-sale financial assets	178,291	-	-	178,291

Recurring fair value measurements for assets as at 31 December 2016:

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
Property, plant and equipment measured at fair value	-	-	6,413,552	6,413,552
Biological assets measured at fair value	-	-	182,201	182,201
Available-for-sale financial assets	128,303	-	-	128,303

NOTE 38. RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk and interest rate risk. The Management reviews and agrees policies for managing each of these risks and they are summarised below.
The Group is exposed to international markets. As a result, it can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does uses derivative instruments to manage risk especially foreign exchange risk related to the USD.

Credit risk

The Group is exposed to credit risk representing risk that the debtor will not be able to repay its liabilities to the Group as they fall due. Within the period of the Extraordinary Administration the Group places funds only to related party companies. The Group is a significant creditor to the Group. This credit risk is mitigated by super priority status of all such loans as this status is provided for in the Extraordinary Administration Law.
The Group considers that its maximum exposure is reflected by the amount of debt financial assets net of provisions for impairment recognised at the balance sheet date.

Liquidity risk

Liquidity risk, also referred to as financing risk, is the risk that an enterprise will encounter difficulty in raising funds to meet obligations associated with financial instruments.

As part of its activities in 2017, the Group continually monitors liquidity to provide sufficient funds for its operations. Currently available cash from the SPFA is assumed to be sufficient for managing the Group's Company's operations until the planned settlement date while repayment of SPFA will be agreed as part of the settlement. Based on the term sheet signed in April 2018, SPFA will be refinanced by a new loan at the Croatian holding company level in the new group structure, or maturity extended by the current SPFA creditors. Terms of that loan are yet to be determined.

NOTE 38. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Interest rate risk

As majority of long term debt bears variable interest, the Group considers itself to be exposed to risk of adverse change in interest rates at an acceptable level.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate which applies to the financial instrument. Interest rate risk related to cash flow is the risk that the interest cost of an instrument will fluctuate over time.

Taking into account an increase/ decrease of 50 base points, the sensitivity to a reasonably possible change in the interest rates, through the impact on floating rate borrowings (with all other variables held constant), of the Group's profit before tax amounts to HRK 174,482 thousand for the EUR, HRK 22,073 thousand for the RSD and HRK 3,332 thousand for the BAM.

Foreign currency risk

Most of the assets of the Group are denominated in Croatian Kuna. A significant portion of loan liabilities is linked to foreign currency (predominantly EUR). Accordingly, the Group is exposed to risk of changes in foreign exchange rates. Considering the long term policy of the Republic of Croatia related to maintenance of the Croatian kuna exchange rate to the EUR, the Group does not consider this risk to be significant.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities:

(in thousands HRK)

2017	Increase/Decrease in rate	Effect on profit before tax
EUR	+/- 5%	1,628,211
USD	+/- 5%	55,893
CHF	+/- 5%	(5,981)

Capital management

The Group is currently operating within the parameters of the Extraordinary Administration and as of the date of these financial statements has liabilities which significantly exceed the carrying value of its assets. For this reason the Group is focused on achieving a settlement with its creditors in the current settlement process through which, in case of a successful settlement, a new sustainable capital structure for the Group is to be established.

NOTE 39. EVENTS AFTER THE REPORTING PERIOD

In connection to the Super-Priority Term Facilities Agreement (up to EUR 1,060,000 thousand) dated 8 June 2017, the Company has established in 2018 the Incremental Facility tranche by utilizing, during February, March and April, additional amounts from Trade Creditors. With these additional amounts drawn as at the date of this report the Company utilized a total of EUR 1,056,384 thousand of the maximum EUR 1,060,000 thousand.

Extraordinary Administration Procedure

In April 2018 the Company, the members of the Interim Creditors' Council and certain other creditors have signed non-binding term sheet on key elements for a settlement plan. They have confirmed this by drafting and executing a non-binding term sheet which represents the framework upon which actual text of the settlement based on filed claims and their legal status will be drafted.

The non-binding term sheet includes the corporate structure of the new Agrokor Group, treatment and form of settlement of pre-petition claims, new debt of the new Agrokor Group and its capital structure, special arrangement with suppliers on settlement of the so-called border debt and settlement implementation. The business operations of the future group will rely on the arm's length principle in company relationships within the group meaning that parties will be equal and independent in mutual relations.

It has particularly been established that the main criteria for determining individual claim recoveries is the EPM model (Entity Priority Model) which has been developed by international institutions and used in the largest international corporate restructurings.

Given that the creditors have agreed on a term sheet, the Extraordinary Commissioner has proposed to the Commercial Court of Zagreb that the period of the Extraordinary Administration Proceeding be extended by an additional three months because creditors require additional time to agree and finalize the text of the settlement. The Commercial Court of Zagreb has issued a decision on 6 April 2018 granting the Extraordinary Commissioner's proposal and extending the duration of the Extraordinary Administration Proceeding by three months.

The creditors of the Agrokor Group will use the additional period in the proceeding to agree and finalize the final text of the settlement. The Extraordinary Commissioner will deliver such a final settlement proposal to the Creditors' Council, which will once established, replace the Interim Creditors' Council, for its approval. When the Creditors' Counsel approves the settlement proposal the Extraordinary Commissioner shall submit the proposal to the court and the Commercial Court of Zagreb shall set a settlement voting hearing.