Ledo Group

Report for 2017

Zagreb, 11 July 2018

CONSOLIDATED ANNUAL REPORT FOR 2017
AND INDEPENDENT AUDITOR'S REPORT

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CONSOLIDATED MANAGEMENT REPORT OF THE LEDO GROUP

In 2017, operating revenues of Ledo Group amounted to HRK 2,096 million, while in 2016 they amounted to HRK 2,180 million. To achieve amount of revenues of 96.17% in 2017 compared to 2016 is a great result for the Ledo Group given the circumstances in which the Group was operating in 2017.

Excluding one-off costs of impairments of loans and receivables and provisions for guarantees, the operating profit realised in 2017 amounted to HRK 294.07 million, which represents a decrease of 6.29% compared to the previous year when it amounted to HRK 313.8 million.
As at 31 December 2017, due to the uncertainty of collection, the Management Board has made an adequate impairment of the value of receivables which have not been collected up to the date of the report, in the amount of HRK 459.9 million. This impairment has been made in accordance with the Annex 19 to the Settlement Agreement and the recovery assessment for every company of the Agrokor Group.

Non-recurring costs of impairment of receivables and provisions for guarantees resulted in a pre-tax loss of HRK 3,240.02 million. Normalised pre-tax profit excluding non-recurring costs and provisions for guarantees amounted to HRK 294.9 million.

The provisions for guarantees relating to loan liabilities arising from the EPM and in line with approved Settlement, that had an effect on profit and loss account amounted to HRK 3,058.3 million. Those are pre-petition guarantees, while guarantees for SPFA negotiated by the Extraordinary Administration were debited against retained earnings in accordance with the requirements of International Accounting Standards.

The consolidated statements of the Ledo Group for 2017 are consisted of Ledo d.d. Zagreb and its subsidiaries: Frikom d.o.o. Beograd, Ledo d.o.o. Čitluk, Ledo d.o.o. Podgorica, Ledo d.o.o. Ljubljana, Frikom Beograd d.o.o.e.l. Macedonia, Ledo Kft. Budapest, Ledo Sh.p.k Kosovo, Irida d.o.o. Daruvar i Agkor d.o.o. Beograd. The Group has two associated companies – Kikindski mlin a.d., Kikinda and Konzum d.o.o., Sarajevo.

<u>**Significant business events in the reporting period**</u>

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

On 10 April 2017 the Commercial Court in Zagreb issued a Decision on Initiating the Extraordinary Administration Procedure over Agrokor and its related companies and subsidiaries in the Republic of Croatia including the company Ledo d.d. On the basis of the aforementioned Decision, on 10 April 2017 the Extraordinary Commissioner took over the management of Agrokor d.d. as well as control over the Agrokor companies covered by the Extraordinary Administration (77 companies in total). In February 2018, new Extraordinary Commissioner and his Deputy were appointed. The effects of Extraordinary Administration are, among others, the ban on the initiation of civil, enforcement and other proceedings during and until the end of the Extraordinary Administration. Claims of creditors made prior to the opening of the Extraordinary Administration procedure are subject to submission and Settlement.

In accordance with article 47 of the Act, Extraordinary Administration procedure ends by:

- Enforceable resolution on the suspension of the Extraordinary Administration procedure or
- Settling the Settlement or
- 15 months starting from the date of the opening of the extraordinary administration procedure if no Settlement has been made within the time limit.

Garantees and co-debtor obligations
On 8 June 2017, Ledo and Irida signed, as guarantors, a Super Priority Term Facility Agreement concluded by Agrokor d.d., together with its related companies (Agrokor-trgovina d.o.o., Belje d.d. Darda, Jamnica d.d., Konzum d.d., Ledo d.d., Pik-Vinkovci d.d., Sarajevski Kiseljak d.d., Vupik d.d., Zvijezda d.d., PIK Vrbovec d.d., Velpro d.o.o. and others). This is a Loan Agreement with different international and domestic inventors up to EUR 1,060,000,000 the highest, divided in two tranches: first one up to EUR 960,000,000 and the second one up to EUR 100,000,000. The loan Agreement matures on each day preceding 10 July 2018 or the day of judicial

validation of the Settlement or the day of starting the bankruptcy proceedings. The loan amount was used also for the early repayment of loan amounting to EUR 80 million granted as of 13 April. Loan was granted under the condition of refinancing (settlement) of part of old debt existing before the initiation of Extraordinary Administration procedure in the ratio of cash remaining at company's disposal and cash used for refinancing (settlement) of part of old debt 1:1. As a security, the loan agreement defines a potential pledge over non-current tangible and intangible assets of all guarantors.
Funds secured with this loan have allowed Ledo to stabilise its operations, solve liquidity problems after blockage of bank accounts, and fund inventory and prepare for the tourist season as a going concern prerequisite.

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

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

The lien was also created against properties of the company Irida.

On 15 September 2017. the Agreement on the Establishment of a Pledged Right to Certain Marks (brands) of issuers between Agrokor d.d., its related companies including the issuer, all as insurance opposites on one side, and Madison Pacific Limited as the Proponent of Insurance on the other, for the purpose of establishing and perfecting insurance in the benefit of the Proponent of Insurance to secure the current and future claims that each borrower owes to the secured parties, as defined in accordance with the oldest loan agreement of 8 June 2017.

Significant legal disputes against the Group
At the beginning of 2018, several major lawsuits were initiated against Ledo d.d. in connection with the establishment of claims challenged by the Extraordinary Administration. These are claims in which Ledo d.d. has a role of a guarantor. The total amount of such court proceedings is HRK 11,695 million, and is described in more detail in note 34. Events after the balance sheet date.
On 7 June 2017, The Commercial Court in Belgrade issued a decision on a provisional measure prohibiting the Company from disposing and using the 100% share of the company Ledo d.d. in the company Frikom d.o.o. as security for receivables of Sberbank d.d. in the amount of EUR 100,000,000 (principal amount) and EUR 1,323,493 (accrued interest on 25 May 2017) arising from a guarantee on the basis of a loan agreement signed on 21 February 2017.

Expected future development of the Group

For all individual companies within the Group, future development is based on a medium-term business plan with planned investments in manufacturing equipment, thus increasing efficiency in business operations, thereby improving domestic competitiveness and significantly boosting competitiveness in foreign markets where the Company's Management sees a lot of potential for growth and development. Development activities are based on the assumptions of maintaining the leading position in the region market, expanding to new foreign markets, entering the segment of private brand production for retail customers with revenue growth, optimization of business processes and cost reduction, resulting in profit growth in the company. All the activities of the company will be based on maximizing free cash flow, as one of the basic prerequisites for future business.

Research and development activities

Despite the strong presence of world competition, Ledo Group members are market leaders. This market position is achieved first and foremost with a wide range of quality products that are continually complemented by the new innovative products that meet the high standards of consumers. Carefully following the latest trends and consumer needs, Ledo launches a number of new products every year.

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

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

Operating risks
Foreign currency risk - most of the Group's assets are denominated in HRK. A significant portion of the Group's loan liabilities is based in foreign currencies (primarily EUR). Consequently, the Group is exposed to the risk of exchange rate fluctuations. Given the long-term policy of the Republic of Croatia related to maintaining the EUR exchange rate, the Group does not consider it to be significantly exposed to further negative impact of this exposure.

Credit risk - The Group is exposed to credit risk, that represents the risk that the debtor will not be able to meet obligations at maturity. The Group manages the level of risk by establishing credit risk exposure limits to one debtor or group of debtors. The Group believes that the maximum exposure to credit risk relates to receivables from loans granted as well as to trade receivables from related companies, which is why the impairment of part of these receivables as at 31 December 2017 was recognised in accordance with Annex 19 of the Settlement.

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

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

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

The Management and Supervisory Board make significant efforts and gradually develop the Ledo d.d management system, directing it towards a comprehensive implementation of the Code, however the Company's Management Board considers that the disclosure of the Code for 2017 is not practical and sufficiently transparent as the Company is in the process of extraordinary administration in accordance with the Act on Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of Croatia (OG 32/2017), and further to all so far publicly available information published by the Extraordinary Administration regarding the draft of the future Settlement and any implications that this Settlement would have on certain principles of the Corporate Governance Code.

Furthermore, the Management, together with the Extraordinary Commissioner, continuously disclose all significant facts or privileged information, all in accordance with the stipulated Capital Market Act and relevant EU Regulations, some of which are subject to Corporate Governance Code, such as the announcement the invitation to a General Assembly, the announcement of the decisions made by the General Assembly, disclosure of the changes made within the Supervisory Board and similar.

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

Internal control and control of operations is carried out continuously, through several business functions, i.e. organisational departments in Ledo d.d. (e.g. controlling services, internal control services, business intelligence department etc.), and internal accounting controls of the relevant employees.

Shareholders of the Company execute their rights at the General Assembly of the Company in accordance with the provisions of the Companies Act and the Company Articles of Association. Invitations to Assembly meetings together with the agenda and proposed decisions are publicly announced on the web sites of the Company and the Stock Exchange, and the Assembly's decisions are also published in the same way. All shareholders, who register for participating in the Assembly's work on time, have the right to attend the meetings. The General Assembly decides on changes to the Articles of Association; election and dismissal of members of the Supervisory Board, annual financial statements and distribution of profit; discharging members of the Management and Supervisory Board; appointment of the Company's auditor; increase and decrease of Company's share capital; listing and delisting on a regulated market; the Company's termination. In 2017, three sessions of the General Assembly were held: on 15 May 2017 at which the new certified auditor of the Company was appointed and the former certified auditor of the Company was dismissed; on 5 June 2017 at which certain members of the Supervisory Board were dismissed and new members were appointed and on 28 November 2017 where decisions on the approval of annual financial statements for Ledo d.d. and Ledo Group for 2016, on the loss coverage for 2016, granted approval of action to Management and Supervisory Board and the appointment of the Company's auditor for 2018 were made.

The Company's Supervisory Board consists of seven members, one of which is the workers' representative; however, as of 31 December 2017 the Board had six members. The Supervisory Board acts in accordance with the provisions of the Companies Act, the Company's Articles of Association and the Rules of Procedure of the Supervisory Board. During 2017, five Supervisory Board meetings were held. Among other things, the annual financial statements for 2016 and the proposed draft decisions for the General Assembly were considered. During 2017, there was a change in the membership of the Supervisory Board since on 15 February 2017, Mr. Kristijan Buk ceased to be a Supervisory Board member at his own request, Mr. Srećko Žganec passed away on 19 April 2017, and in June 2017, based on the decision of the Company's General Assembly, Ljerka Puljić, President of the Supervisory Board, the members Ante Todorić and Marica Guina Torres Dujšin were revoked, and new members, Vladimir Bošnjak, Teo Vujčić, Luka Cvitan and Zdravko Kačić, were appointed. At the time of writing the report, the Supervisory Board is composed of five members: Vladimir Bošnjak – President, Mislav Galić - Vice President, Zvonimir Mršić – member, Hido Lajtman – member and Milenko Arapović – member; members Teo Vujčić (3.4.2018), Luka Cvitan (1.1.2018) and Zdravko Kačić (15.5.2018) resigned their position as Supervisory Board members.

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

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

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

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

In accordance with the Settlement confirmed by the Commercial Court of Zagreb on 6 July 2018, the restructuring of the Parent company Ledo will be performed by transferring the structure from the present group to the new group. Consequently, for the Parent Company the business unit will be transferred, but it will operate through a newly established company and therefore Ledo group not be able to continue as a going concern.

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

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

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

Also, in accordance with the Accounting act, the Management is responsible for the preparation of Consolidated Annual report comprising consolidated financial statements, consolidated Management report and the Declaration on the application of the corporate governance code. Consolidated Management report has been prepared in accordance with the requirements of article 21 and 24 of Accouting act, and the Declaration on the application of the corporate governance code were prepared in accordance with the requirements of article 22 of Accounting act.

The consolidated Annual Report was authorised for issuance by the Management Board on 11 July 2018.

Dario Vrabec
President of the Management Board

Ankica Slobođanac
Member of the Management Board

Independent Auditor's Report

To the Shareholders, Supervisory Board and Management Board of LEDO 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 consolidated financial position of LEDO 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.

Our qualified opinion is consistent with our additional report to the Supervisory Board performing the functions of the Company's Audit Committee dated 29 June 2018.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated profit and loss 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 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 described in Note 30 to the consolidated financial statements, the Group did not recognise a liability for penalty interest of HRK 25,113 thousand. Since the Group has not been released from those obligations as at 31 December 2017 either through approval of the settlement or completion of bankruptcy proceedings, the financial liabilities and loss for the year are understated by HRK 25,113 thousand.

2. As explained in Note 1 to the consolidated financial statements, the Group is unable to continue operating on a going concern basis. As a result of this matter and the expected manner of settlement with creditors, the Group did not have an unconditional right to defer settlement of its liabilities for more than twelve months from the end of the reporting period, nor was it able to avoid the realisation of its assets within twelve months. Consequently, the presentation of assets and liabilities as non-current items in the statement of financial position is not appropriate as of 31 December 2017.

3. We were unable to obtain sufficient appropriate audit evidence of the recoverable value of intercompany loan receivables totalling HRK 80,480 thousand at 31 December 2017 (note 15 and 17) 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 unable to obtain sufficient appropriate audit evidence of the recoverable value of investment property of HRK 242,327 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.
5. As disclosed in Note 14 to the consolidated financial statements, the Group recognised investments in associates of HRK 76,540 thousand at 31 December 2017, of which investments where impairment indicators have been identified in 2017 amounted to HRK 76,220 thousand. The Management did not carry out an impairment assessment in accordance with the requirements of IAS 36 *Impairment of Assets* in order to assess the recoverable amount, and hence whether any impairment loss should have been recognised as at 31 December 2017. In the absence of information to assess the recoverability of these investments in associates, we were unable to satisfy ourselves as to the respective carrying amount, related impairment losses and the impairment disclosures by other audit procedures.

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.

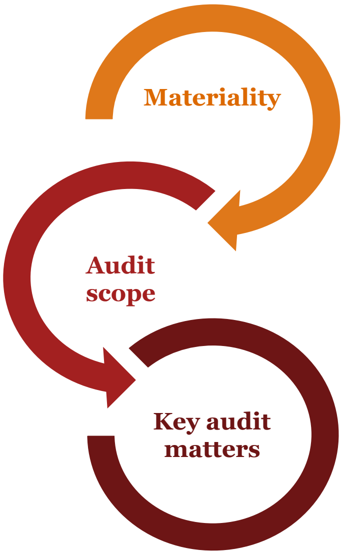
To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No. 537/2014, and furthermore, we have not provided any other permitted non-audit services to the Group in the period from 1 January 2017 to 31 December 2017.

Basis of preparation not on a going concern basis

As disclosed in Note 1 to the consolidated financial statements, the entity's business will be transferred and the reporting entity will not be able to continue as a going concern. Our opinion is not further modified in respect of this matter.

Our audit approach

Overview



- Overall materiality for consolidated financial statements as a whole: HRK 20 million, which represents 1% of total revenue

- We conducted audit work at six legal entities and performed analytical review of one legal entity, in five countries in total.
- Our audit scope addressed 95% of the Group's revenues and 98% of the Group's absolute value of underlying profit.

- Provision for issued guarantees

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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	HRK 20 million
How we determined it	We based our materiality on revenue. The materiality level represents 1% of revenue.
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because, in our view, it is the most appropriate benchmark, taking into account the significant fluctuations of results in previous periods, and it is a generally accepted benchmark.

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 structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at reporting units by us, as the group engagement team, or component audit teams operating under our instructions. Where the work was performed by component audit teams, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group's consolidated financial statements as a whole.

Together with the parent entity, we identified 6 significant reporting units where full-scope audit procedures were performed, while no additional audit procedures were considered necessary for 3 not significant reporting units audited by local auditors.

The audit work performed at all the significant components and by the group engagement team related to 98% of the Group's total assets, 95% of the Group's revenue and 98% of the Group's absolute value of underlying profit.

By performing the procedures at all the significant components combined with additional procedures at the Group level, we 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters. In addition to the matters described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the Key audit matter
Provision for issued guarantees	
The Group recognised provisions for financial guarantees issued on or before 31 December 2017. Refer to Notes 24 and 30 to the accompanying consolidated financial statements. As explained in Note 1, the Group agreed settlement with its creditors on 4 July 2018, that was subsequently approved by a court resolution dated 6 July 2018. We focused on this area due to the materiality of the amounts recognised for the outstanding guarantees, the complexity of the underlying model used to determine the settlement amount and ability of the parties to appeal the court decision.	We have obtained an understanding of the terms and conditions of the issued guarantees and assessed whether a present obligation as a result of past events exists. We also considered events after the end of the reporting period, such as the settlement arrangement with the Group's creditors concluded in July 2018. We assessed the amounts recognised in the financial statements for the guarantees outstanding at 31 December 2017 against settlement values with the creditors as supported by the underlying valuation and allocation model ("*Entity Priority Model*"). We engaged our internal valuation specialists to assess reasonableness of the enterprise value calculations that define the settlement amounts. We also tested, on a sample basis, the guarantee related and other inputs to the model. We concluded that the provisions for issued guarantees do not require material adjustment as of 31 December 2017 and that the disclosures of related contingent obligations are adequate in the circumstances.

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 and Corporate Governance Statement, but does not include the consolidated financial statements and our independent auditor's report thereon.

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

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

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

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

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

- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. As described in items 1 and 2 of the Basis for qualified opinion section above, the Group has not recognised provision for penalty interest and has inappropriately classified certain items in its statement of financial position as non-current. We have concluded that the other information is materially misstated for the same reasons as described in the Basis for qualified opinion section above. In addition, as described in items 3, 4 and 5 of the Basis for qualified opinion section above, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the intercompany loan receivables, investment property and investments in associates as at 31 December 2017. Therefore, we are unable to conclude whether or not the Management Report is materially misstated with respect to these matters.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. As explained in Note 1 to the accompanying consolidated financial statements, the Group will not be able to continue as a going concern.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report.
- 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.

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 on 28 November 2017 by the General Assembly representing a total period of uninterrupted engagement appointment of two years.

The certified auditor engaged as partner on the audit resulting in this independent auditor's report is Kristina Dimitrov.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
11 July 2018

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

Consolidated profit and loss statement
For the year ended 31 December 2017

	Note	2017 In thousands of HRK	2016 In thousands of HRK
Revenue	3	2,072,701	2,161,777
Other operating income	3	23,705	19,201
		2,096,406	2,180,978
Change in value of inventories of work in progress and finished goods		(12,872)	(7,130)
Cost of raw materials and supplies	4	(695,116)	(599,254)
Cost of goods sold		(422,547)	(557,294)
Service costs	5	(246,749)	(258,661)
Staff costs	6	(254,994)	(246,557)
Depreciation and amortisation	12, 13	(86,691)	(90,938)
Impairment	7	(459,890)	(562,331)
Provisions	22	(3,075,035)	(215)
Other costs	8	(83,368)	(107,144)
		(5,337,262)	(2,429,524)
Finance income	9	48,866	71,996
Finance costs	10	(47,359)	(32,937)
		1,507	39,059
Share in result of an associate	14	(670)	(1,442)
Loss before tax		(3,240,019)	(210,929)
Income tax	25	(40,906)	(58,913)
Net loss		(3,280,925)	(269,842)
Attributable to:			
Equity holders of the parent company in the Group		(3,280,925)	(269,842)
Non-controlling interests		-	-
Loss per share (in HRK)	11		
Loss per share – basic		(10,451.46)	(859.59)
Loss per share – diluted		(10,451.46)	(859.59)

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

Consolidated statement of other comprehensive income
For the year ended 31 December 2017

	Note	2017 In thousands of HRK	2016 In thousands of HRK
LOSS FOR THE YEAR		(3,280,925)	(269,842)
Other comprehensive income			
Other comprehensive (loss)/income which will be reclassified as profit or loss in future periods:			
Foreign exchange differences from translation		15,583	(15,844)
Gains/(losses) on financial assets available for sale		(2,370)	684
Tax effect		427	(34)
Net other comprehensive (loss)/income which will be reclassified as profit or loss in future periods		13,640	(15,194)
Other comprehensive income which will not be reclassified as profit or loss in future periods:			
Revaluation of land		-	(773)
Tax effects (including the change in the tax rate)		-	1,296
Net other comprehensive income that will not be reclassified to profit or loss in future periods		-	523
Actuarial losses		(1,255)	(100)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in future periods		(1,255)	423
Other comprehensive (loss)/income for the year, net		12,383	(14,771)
Total comprehensive loss for the year, net		(3,268,540)	(284,613)
Attributable to:			
Equity holders of the parent company in the Group		(3,268,540)	(284,613)
Non-controlling interests		-	-

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

Consolidated statement of financial position
As at 31 December 2017

ASSETS	Note	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Non-current assets			
Intangible assets	12	91,113	92,611
Property, plant and equipment	13	416,693	429,481
Investment properties	13	242,327	-
Investments in associates	14	76,540	771
Financial instruments	15	103,218	103,541
Deferred tax assets		11,394	10,141
Receivables		343	368
		941,628	636,913
Current assets			
Inventories	16	317,267	338,771
Assets held for sale		1,396	1,349
Current investments	17	88,917	731,804
Receivables	18	369,500	336,303
Receivables based on recourse rights	26	19,850	17,500
Other current assets		11,343	7,197
Cash and cash equivalents	20	80,721	17,998
		888,994	1,450,923
TOTAL ASSETS		**1,830,622**	**2,087,836**
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY IN THE GROUP	21		
Share capital		119,290	119,290
Reserves		(2,662,540)	1,194,408
Total equity		(2,543,250)	1,313,698
Non-current liabilities			
Provisions	22	23.889	4,943
Borrowings and loans	24	131,742	2,936
Deferred tax liabilities	25	12,428	12,430
		168,059	20,309
Current liabilities			
Trade payables	27	180,637	215,010
Borrowings and loans	24	296,048	446,224
Bills of exchange payable and liabilities based on recourse rights	26	21,350	19,824
Income tax		12,749	19,870
Provisions	22	3,646,708	-
Other current liabilities	28	48,321	52,901
		4,205,813	753,829
Total liabilities		**4,373,872**	**774,138**
TOTAL EQUITY AND LIABILITIES		**1,830,622**	**2,087,336**

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

Consolidated statement of changes in equity
For the year ended 31 December 2017

			Available for equity holders of the parent company in the Group					TOTAL
	Share capital In thousands of HRK	Premium In thousands of HRK	Revaluation surplus In thousands of HRK	Reserve for available for sale financial assets In thousands of HRK	Foreign exchange differences In thousands of HRK	Retained earnings In thousands of HRK	Total In thousands of HRK	In thousands of HRK
Balance at 1 January 2016	**119,290**	**713,233**	**57,548**	**(1,365)**	**(18,275)**	**863,068**	**1,614,209**	**1,733,499**
Loss for the year	-	-	-	-	-	*(269,842)*	*(269,842)*	*(269,842)*
Other comprehensive loss	-	-	*523*	*650*	*(15,844)*	*(100)*	*(14,771)*	*(14,771)*
Total comprehensive loss	-	-	*523*	*650*	*(15,844)*	*(269,942)*	*(284,613)*	*(284,613)*
Dividends paid	-	-	-	-	-	(135,188)	(135,188)	(135,188)
Balance at 31 December 2016	**119,290**	**713,233**	**58,071**	**(715)**	**(34,119)**	**457,938**	**1,194,408**	**1,313,698**
Loss for the year	-	-	-	-	-	*(3,280,925)*	*(3,280,925)*	*(3,280,925)*
Other comprehensive income	-	-	-	*(1,943)*	*15,583*	*(1,255)*	*12,385*	*12,385*
Total comprehensive loss	-	-	-	*(1,943)*	*15,583*	*(3,282,180)*	*(3,268,540)*	*(3,268,540)*
Transactions with owner (Note 22)	-	-	-	-	-	*(588,408)*	*(588,408)*	*(588,408)*
Balance at 31 December 2017	***119,290***	***713,233***	***58,071***	***(2,658)***	***(18,536)***	***(3,412,650)***	***(2,662,540)***	***(2,543,250)***

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

Consolidated statement of cash flows

For the year ended 31 December 2017

	Notes	2017 In thousands of HRK	2016 In thousands of HRK
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax		(3,240,019)	(210,929)
Depreciation and amortisation	12,13	86,691	90,938
Impairment of receivables	7	459,890	559,592
Movements in provisions	22	3,075,035	203
(Gain)/loss from sale of non-current tangible and intangible assets		(439)	918
Unrealised foreign exchange differences		6,583	(11,219)
Change in fair value and other non-cash items		(4,101)	(1,879)
Cash flow before adjustments for changes in working capital		**383,640**	**427,624**
Changes in inventories		21,458	71,798
Changes in receivables		(23,724)	(272,036)
Changes in trade payables		(38,195)	62,524
Changes in other current assets		-	6,820
Changes in other current liabilities		(1,420)	10,021
CASH FLOW FROM OPERATING ACTIVITIES		**341,759**	**306,751**
Tax paid	25	(54,941)	(53,267)
Interest paid		(12,605)	(26,544)
NET CASH FLOW FROM OPERATING ACTIVITIES		**274,213**	**226,940**
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		643	14,142
Purchase of property, plant and equipment		(65,348)	(52,662)
Loans given and deposits		(5,981)	(352,824)
Repayment of loans given and deposits		1,979	322,317
Investments in associate	14	(134,988)	-
Interest received		8,217	43,857
NET CASH FLOW FROM INVESTING ACTIVITIES		**(195,478)**	**(25,170)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	24	271,756	555,183
Repayment of loans and borrowings	24	(287,768)	(629,682)
Dividends paid		-	(135,188)
NET CASH FLOW FROM FINANCING ACTIVITIES		**(16,012)**	**(209,687)**
TOTAL NET CASH FLOW		**62,723**	**(7,917)**
Cash and cash equivalents at beginning of period		17,998	25,915
Cash and cash equivalents at end of period	20	80,721	17,998
Increase/(decrease) in cash and cash equivalents		**62,723**	**(7,917)**

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

Notes to the consolidated financial statements
for the year ended 31 December 2017

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

The majority shareholder of the company is Agrokor d.d., Zagreb, Trg D. Petrovića 3, with a 48.1148% share as at 31 December 2017. However, based on the Decision of the Commercial Court of Zagreb no. St-1138/17 as of 10 April 2017, the Extraordinary Administration Procedure was initiated and the Extraordinary Commissioner took over all the powers within Agrokor d.d., the further ownership sequence is irrelevant, since this ownership cannot be exercised during the procedure. As of 10 April 2017, the ultimate owner of Agrokor d.d. is defined as described in the Act on Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of Croatia ("the Act").

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

As at 31 December 2017, the Ledo Group had 2,623 employees, while as at 31 December 2016 the Group had 2,321 employees.

1. Summary of significant accounting policies

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

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

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

The financial statements are presented in Croatian kuna (HRK), which is the functional currency of the Parent company and the presentation currency of the consolidated financial statements. The official foreign exchange rate published by the Croatian National Bank as at 31 December 2017 was HRK 7.513648 for EUR 1, HRK 6.269733 for USD 1 (31 December 2016: HRK 7.557787 for EUR 1, HRK 7.168536 for USD 1). The amounts disclosed in the financial statements are expressed in thousands of HRK unless otherwise stated.

Going concern assumption

Extraordinary Administration
The Commercial Court of Zagreb appointed the Extraordinary Commissioner for Agrokor (Decision number 47 St -1138/17-2151). On 28 February 2018, the Extraordinary Commissioner, who has been an officer from 10 April 2017 until 28 February 2018, was dismissed, and another Extraordinary Commissioner and his Deputy were appointed. The Extraordinary Administration effects, among other, are the prohibition of initiating litigation, enforcement and other proceedings during and until termination of the Extraordinary Administration. The creditors' pre-petition claims, are subject to filing and settlement.

Settlement
According to the principal goal of the Extraordinary Administration, a Settlement was reached with creditors on 4 July 2018 and confirmed by the Commercial Court of Zagreb od 6 July 2018. The Settlement plan is based on viability studies, the Entity Priority Model (the "EPM") and a detailed structure of the overall Settlement.

Notes to the consolidated financial statements
for the year ended 31 December 2017

In accordance with the Settlement implementation, companies will be categorised in business unit transfer groups or in share transfer groups. The group is determined based on the assessment of the Extraordinary Administration using the viability and insolvency criteria.

The Company is included in the business unit transfer group, so all the Company's assets will be transferred to a newly established Croatian company that will not be a legal successor of the Company (all assets, contracts, staff, concessions, permits etc. and post-petition liabilities).

These consolidated financial statements have been prepared on the basis of the confirmed Settlement. In accordance with the above stated, the Company's Management and the Group has not prepared these financial statements on a going concern basis.

Given the duration of the Extraordinary Administration, it was assessed that the Company's assets do not meet the requirements to be classified as held for sale under IFRS 5 Non-Current Assets Held for Sale.

When the going concern accounting assumption is no longer applicable, assets shall be recorded at the lower of the current carrying amount and fair value less costs to sell.

In the light of the confirmed Settlement, the Company does not consider fire sale values as the appropriate fair values for the purpose of preparing the 2017 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).

The relevant accounting policies are set out in Note 32. Given the achieved Settlement, the Group has valued its assets at fair value according to the price that could be received by selling an asset or paying to transfer a liability in an orderly transaction between market participants at the measurement date (consistent with IFRS 13 Fair values).

Particular attention is drawn to the following:

- The Group performed a 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 the asset transfer of insolvent companies will be performed as a business unit transfer that, among other things, includes the transfer of all contracts (including employment contracts), the Group assessed that no provision for the termination of such contracts is required as at 31 December 2017.

The Group continues to present assets and liabilities in the balance sheet based on the current/non-current classification due to the following:

- from the perspective of the Group, total assets will be realised 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 the business unit, the current/non-current classification will remain as currently reported by the Group.

Consolidation principles
The consolidated financial statements include the Parent company and subsidiaries as at 31 December 2017. Control is achieved where the Group is exposed, or is entitled to, variable returns from its relationships with the companies in which it has invested and when it has the ability to influence those returns through its power over the society in which it has invested. More specifically, the Group has control over another company, if and only if the Group has:

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

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

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

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

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

Business Combinations and Goodwill
Business combinations are recorded using the acquisition method of accounting. The cost of an acquisition is measured as the sum of the consideration transferred, measured at fair value at the acquisition date and the amount of any non-controlling interest in the acquiree. For each business combination the acquirer evaluates the non-controlling interest in the acquiree either at fair value or at the proportionate share of identifiable net assets of the acquiree. Incurred acquisition-related costs are expensed as incurred.
When the Group acquires a business, it assesses the financial assets and liabilities in accordance with the appropriate classification and sorts them according to the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.
If the business combination occurs in stages, previously held equity interests in the acquiree, are again carried at fair value at the acquisition date.
Contingent compensation classified as an asset or liability which is considered a financial instrument in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes recognised in the income statement.
Goodwill is initially measured at cost, which is the difference between the total amount paid and the amount recognised for non-controlling interests, as well as any previously existing shares and acquired net identifiable assets and liabilities assumed. If the fair value of net assets acquired and obligations assumed is greater than the total amount paid, the Group reassesses whether it correctly identified all the assets acquired and all the liabilities assumed and reviews the procedures used for the evaluation of the said amount recognised at the

acquisition date. In the case when reassessment still results in excess of fair value of acquired net assets in relation to the total amount paid, then the gain is recognised in the income statement.
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination as of the date of acquisition is allocated to each cash-generating unit within the Group that is expected to benefit from the business combination, irrespective of the fact whether the assets or liabilities of the acquired company are assigned to these units.
Where goodwill has been allocated to a cash-generating unit and a part of the operations within that unit is disposed of, then the goodwill belonging to the disposed of the project includes the current value of the operations when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operations in the retained part of the operations of the cash-generating unit.

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2017

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

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

All other assets are considered non-current.

Liabilities are considered current when:

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

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

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

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

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, as well as financial assets initially designated as at fair value through profit or loss. Financial assets are classified as held for trading if acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are intended for instruments of effective protection.
Financial assets at fair value through profit or loss are recognised in the statement of financial position at fair value with net changes in fair value reported in the income statement.
Financial assets designated upon initial recognition as at fair value through profit or loss, are distributed on the day of their initial recognition and only if certain criteria are met. The Group has no financial assets designated at fair value through profit or loss.

Notes to the consolidated financial statements
for the year ended 31 December 2017

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

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

Investments available for sale
Investments available for sale include equity and debt instruments. Equity instruments classified as available for sale are those that are not classified as held for trading nor distributed at fair value through profit or loss. Debt instruments in this category are those for which there is an intention to hold for an indefinite period of time which may be sold in response to needs for liquidity or in response to changes in market conditions.
After initial recognition, investments available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in reserves for instruments available for sale until the time of derecognition, when the cumulative gains or loses are recognised in other income, or when it is determined that an impairment of investments has occurred, whereby the cumulative loss reclassifies from reserves for instruments available for sale in the income statement. Interest earned during the holding of investments available for sale are reported as interest income using the effective interest rate.
Investments in equity instruments available for sale for which there is no quotation in an active market and for which fair value can not be reliably measured are measured at cost.
The Group evaluates whether the intention of selling its instruments available for sale in the near future is still appropriate. When, in rare situations, the Group is unable to trade these financial instruments because there is no active market, and there has been a change in the intention of the Board to do so in the foreseeable future, the Group may decide to reclassify this financial asset.
For financial assets reclassified from available-for-sale category, its present value at the date of reclassification (fair value of the instrument on the day) becomes the new amortised cost and all previous gains and losses recognised in equity are amortised in the income statement over the remaining life of investment using the effective interest rate. Any difference between the new amortised cost and the amount at maturity is also amortised over the remaining life of assets using the effective interest rate. If assets are subsequently impaired, the amount recorded in equity should be reclassified to the income statement.

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

Impairment of financial assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets has been impaired. A financial asset or group of financial assets has been impaired if there is objective evidence of impairment resulting from one or more events arising after the initial recognition of an asset and that event has an adverse impact on the estimated cash flows of a financial asset or group of financial assets that can be reliably estimated.

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For financial assets valued at amortised cost: If there is objective evidence of impairment, the impairment loss is measured as the difference between the present value of the asset and the present value of the estimated future cash flows. The present value of estimated future cash flows is discounted using the original effective interest rate of financial assets. The present value of assets is impaired and a loss is recognised in the income statement. For available-for-sale assets: when there is evidence of impairment, the cumulative loss, evaluated as the difference between the acquisition cost and the current fair value, less any impairment of investments that had previously been recognised in the income statement, is transferred from other comprehensive income and recognised in the income statement.

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Trade payables

Trade payables are liabilities to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the regular operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

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

Financial guarantee contracts

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

Derecognition

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

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

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

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

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

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

Intangible assets
Individually purchased intangible assets are stated at cost. The cost of intangible assets acquired in a business combination is its fair value at the acquisition date. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Internally developed intangible assets, excluding development costs, are not capitalised and expenditure of the amount recorded in the income statement when they are incurred. The useful lives of intangible assets are assessed to be either limited or unlimited.
Intangible assets with limited useful lives are amortised over their useful lives and any impairment of the assets is assessed whenever there is an indication that the value of such assets may be impaired, as described in the accounting policy Impairment of assets. Intangible assets with a limited useful life are amortised using the straight-line amortisation method over the expected useful life of the asset not exceeding ten years. The amortisation period and the amortisation method for an intangible asset with a limited useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or model of utilising future economic benefits embodied in the assets are recorded as a change in the amortisation period or method, whichever is applicable, and is treated as a change in accounting estimate.

Intangible assets with unlimited useful lives are not amortised, but are tested for impairment at least annually, either individually or at the cash-generating unit level. The rating of unlimited useful life is checked once a year to determine whether it is still possible to support such unlimited useful life. If this is not the case then the useful life is changed unlimited to limited from the moment of such determination onwards.
Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net proceeds realised and the present value of assets and are recognised in the income statement at the time of recognition of the asset.

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

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

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

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

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

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

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Impairment of assets

The Group assesses at each balance sheet date whether there are any indicators of impairment of assets. If any such indication exists, or when an annual test of loss in value is required, the Group estimates the recoverable value of assets.

The recoverable amount is estimated as the higher of fair value less costs of sales of an asset or cash-generating unit to which the asset belongs and the value of the property in use. The recoverable amount is estimated for each individual asset or, if this is not possible, for the cash-generating unit to which the asset belongs. Cash-generating units are determined on a company basis. Where the carrying amount exceeds the estimated recoverable amount, the asset is impaired to its recoverable amount.

The following criteria apply when assessing the impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment of goodwill is determined by evaluation of the recoverable amount for each cash-generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its present value, an impairment loss is recognised. Impairment losses on goodwill in future periods cannot be undone.

Leases

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

The Group as the lessee

Assets leased under a contract transferring all the risks and rewards of ownership (finance lease) to the Group, are capitalised at the lower of the fair value of the asset or the present value of the minimum rent at the beginning of the lease period and are recorded as tangible assets under lease. Lease payments are recorded as a finance cost and a decrease in lease obligations to achieve a constant interest up to the end of the contract period. Financial expenses shall be reimbursed directly from profits.

Capitalised assets under lease are amortised over the shorter of the lease term and the useful life. Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Payments made under operating leases are charged to the income statement over the period of the lease.

The accounting treatment of sales and lease transactions depends on the type of lease. If the transaction is a sale and lease resulting in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the period of the lease. If the transaction is a sale and lease resulting in an operating lease, the transaction is carried at fair value and any profit or loss is recognised immediately.

The Group as the lessor

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

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Investment properties
Investment properties are classified as such in case of properties held in order to earn lease income to for capital appreciationor or both. Investment properties are initially measured at cost. After initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. The cost of investment properties includes purchase price and all direct costs. Investment property in progress is classified as such also during the construction. When in use, the investment property is amortised during the assessed useful life.

Inventories
Inventories are stated at the lower of cost or net realisable value.
Costs incurred in bringing each product to its present location and condition are stated as follows:
Raw materials - stated at the lower of cost or net realisable value. Cost is determined using the weighted average method.
Finished goods and work in progress are stated at the value which includes the cost of direct materials and labour and attributable production overheads based on normal production capacity.
Inventories of trade goods are stated at the lower of cost or net realisable value.
Net realisable value is the estimated net selling price in the normal course of business decreased by estimated cost of completion and estimated costs needed to complete the sale.

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

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

Taxes
The tax calculation is based on the accounting profit for the year and is adjusted for permanent and temporary differences between the taxable and accounting income. Income tax is calculated in accordance with the tax regulations of the countries in which the Group companies operate. The tax returns of companies are subject to the tax authorities. Since the application of tax laws and regulations is subject to many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the Tax Authority.
Deferred taxes are calculated using the liability method for all temporary differences at the date of preparation of the financial statements due to differences in the treatment of certain items for taxation and accounting purposes within the consolidated financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to taxable profit in the years in which the temporary differences are expected to be reversed or settled.
Deferred tax assets are recognised when it is probable that sufficient taxable profits will be generated against which they can be utilised. At each balance sheet date, the Group reassesses unrecognised deferred tax assets and the appropriateness of the present value of the tax asset.

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

Notes to the consolidated financial statements
for the year ended 31 December 2017

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

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

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

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

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

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

Pensions and employee benefits
In its normal course of business, the Group makes fixed contributions to mandatory pension funds on behalf of its employees. The Group does not participate in any other pension plans, and consequently, there are no legal or other obligations to make further contributions if the funds do not contain sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
The Group pays benefits to employees including termination benefits and jubilee and scholarships for children of workers who died in a work-related accident. Liabilities and expenses of termination benefits and jubilee awards are determined using the projected unit credit method per employee. The projected unit credit method per employee considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.
Past service costs for employees are calculated on a straight-line basis over the average period until certain employee benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs.
The termination benefit obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

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

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

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

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

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

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

a) Guarantees
The Group recognized provisions for guarantees in 2017 as distributed by the EPM and in accordance with the confirmed Settlement. Key indicators of uncertainty related to the amount and timing of outflows are as follows:
- Most claims are currently disputed and subject to court proceedings in which the Company, in accordance with Art. 34 of the Act on Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of Croatia ("the Act") should be represented by the contestors. Accordingly, the Company cannot give an adequate estimate of their outcomes.
- The confirmed Settlement is still not legally valid.

Summary – EPM

The estimated recoverability of the claims against the Agrokor Group companies that are subject to extraordinary administration, as well as the provisions for guarantees was based on the recovery calculation model called the Entity Priority Model („EPM“). In simple terms, the EPM represents a waterfall analysis used to determine the claims recovery for the creditors.

The allocation of the recovery is determined by allocating distributable value according to the rights and priorities of creditors' claims for each company within the Agrokor Group subject to the extraordinary administration procedure.

The distributable value is calculated as a sum of estimated business value („EV“), excess cash, estimated value of assets used for non-core business activities and the value of intra-Group receivables and shares in subsidiaries. The EV represents the value of business operations in a scenario that does not presume fire sale and is estimated by applying three methods of valuation: market multiples , previous transactions using EBITDAR, EBITDA and EBIT multiples and discounted cash flow analysis (“DCF“).

Distributable values are allocated to each claim in accordance with its (contractual) rights, settlement order and characteristics. In this way, a waterfall structure of settlement priority order in each company is formed, and claims are roughly grouped according to the following settlement priority order: costs of procedure, secured claims, claims under the Super Priority Term Facility Agreement (SPFA) and unsecured claims. Any remaining value in the settlement waterfall of a particular company is distributed to equity holders.

Claims under the SPFA have priority of recovery over all unsecured claims and have appropriate collaterals for the transferred amounts of loans (i.e. the amounts borrowed by Agrokor d.d. under the SPFA and subsequently transferred to its subsidiaries) and have a pledge over all Group assets that were unencumbered at the time of entering into the SPFA.

Claims secured by guarantees (i.e. claims with co-debtors) are a subcategory of claims guaranteed for by some other companies beside the main debtor. The main debtor and the guarantors are solidary debtors for claims secured by the guarantees. Consequently, creditors may request a recovery from all debtors and guarantors. The model assumes that all guarantees for claims secured by guarantees for all companies under extraordinary administration are collected at the same time and on a pro rata basis from all guarantors under extraordinary administration. Claims secured by guarantees have the same recovery priority as other unsecured claims.

Certain secured claims have a right of separate settlement on certain Group assets. The estimated value of those assets shall be compared with a right to a separate settlement in order to determine if there is any indication of impairment. If there is an indication of impairment, the difference between the right to separate settlement and the estimated asset value constitutes an insufficiently secured claim which then has the same recovery priority as unsecured claims. If the original claim was secured by guarantees, the insufficiently secured claim will be secured with guarantees from the same guarantors. If the original claim was secured by guarantees, the insufficiently secured claim will also be secured by guarantees from the same guarantors.

Since claims secured by guarantees are settled by multiple guarantors, their recovery consists of a cumulative recovery from the main debtor and all guarantors. Claims secured by guarantees cannot be settled in an amount exceeding the total amount of the principal claim.

According to the waterfall, guarantees were allocated to each company and an assessment was made of the recoverability percentage for claims from subsidiaries.

b) Impairment of goodwill

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

c) Impairment of trade receivables from Agrokor Group companies and loan receivables granted to Agrokor Group companies

In 2017, the Group impaired the value of trade receivables and loan receivables granted to the Agrokor Group by a total amount of HRK 459,890 thousand in accordance with Annex 19 to the Settlement.

d) Fair value of the land

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

Changes in accounting policies

(a) New and amended standards – applicable as of 1 January 2017

The following standards and interpretations are applicable for the first time to financial reporting periods beginning on or after 1 January 2017:

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017)
Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

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

Disclosure Initiative – Amendments to IAS 7
Entities are required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions (business combinations), disposals, accretion of interest and unrealised exchange differences.
Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.
Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.
The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.
The stated initiative resulted in an additional disclosure in Note 24.

(b) Forthcoming requirements

The following standards and interpretations have been issued, but are not mandatory for annual reporting periods ending 31 December 2017:

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

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, early adoption is permitted. The Company is currently planning to apply IFRS 9 as of 1 January 2018.

Since the consolidated financial statements have not been prepared on a going concern basis due to the facts further explained in Note 2.a. Going concern assumption, the Group does not expect the application of this standard to have a significant impact on the consolidated financial statements of the Group..

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 *(for annual periods beginning on or after 1 January 2018 or when the entity first applies IFRS 9)*

In September 2016, the IAS Committee published amendments to IFRS 4 which deals with problems of insurance companies related to different dates of setting into force IFRS 9 Financial insruments and the upcoming new standard about insurance contracts. The addendum provides two different solution for insurance companies: temporary exemption for application of IFRS 9 for subjects that fulfill certain demands (applied on the level of the reporting subject) and "overlap approach". Both are optional.
IFRS 4 (including amendments) will be replacing the upcoming new standard on insurance contracts. Consequently, it is expected that the temporary exemption and "overlap" approach will no longer be applied after new standards come into force.
Changes in accounting policies due to the transition to IFRS 9 will be applied retrospectively to 1 January 2018, but without any changes in comparative data from previous periods. The difference between the carrying amount of financial instruments measured under IFRS 9 and the carrying amount of financial instruments measured under IAS 39 shall be reported as part of the opening balance of retained earnings. The total estimated amount of this difference on the date of transition to the new standard is not material.

IFRS 15 Revenue from contracts with customer and associated amendments to various other standards *(effective for annual periods beginning on or after 1 January 2018)*

The IAS Committee has issued a new standard for revenue recognition. It will be replacing IAS 18 Revenue that covers contracts for goods and services and IAS 11 that covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:
- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

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

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

Entities will have a choice of full retrospective application, or prospective application with additional disclosures, whereby the Company opted for prospective application.

Since the consolidated financial statements have not been prepared on a going concern basis due to the facts further explained in Note 2a. Going concern assumption, the Group does not expect the application of this standard to have a significant impact on the Group's financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)
The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

IFRS 16 Leases *(effective for annual periods beginning on or after 1 January 2019, early adoption is permitted only if IFRS 15 is adopted at the same time)*
IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.
The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.
Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.
Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 - The adoption by the EU is postponed because the IASB's effective date was postponed for an indefinite period
The IASB introduced limited-scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures.
The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).
Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investments in the associate or joint venture.
The amendments apply prospectively.

The Group is currently preliminarily assessing the impact of the new standards on its financial statements, which will be subject to changes resulting from more detailed analyses. The Group plans to adopt these new standards on their effective date, and when adopted by the EU.

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

The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows: (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is recognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

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for the year ended 31 December 2017

2. Group structure

31 December 2017	Country	Equity share Ledo d.d.	Equity share of	Voting right - Group	Ownership - Group
Agkor d.o.o.	Serbia		100,00%[1)]	100.00%	100.00%
Frikom d.o.o.	Serbia	100.00%		100.00%	100.00%
Irida d.o.o.	Croatia	100.00%		100.00%	100.00%
Ledo d.o.o. Čitluk	Bosnia and Herzegovina	100.00%		100.00%	100.00%
Ledo d.o.o.	Kosovo	100.00%		100.00%	100.00%
Ledo kft	Hungary	100.00%		100.00%	100.00%
Ledo d.o.o.	Slovenia	100.00%		100.00%	100.00%
Ledo d.o.o. Podgorica	Montenegro	100.00%		100.00%	100.00%
Frikom Beograd dooel	Macedonia		100,00%[1)]	100.00%	100.00%

1) owned by Frikom d.o.o.

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

1) owned by Frikom d.o.o.

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

Notes to the consolidated financial statements
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3. Segment reporting

Segment reporting is presented below (excluding the impact of one-off costs):

2017	Revenue	Other income	Total expenses	Operating profit
	In thousands of HRK	In thousands of HRK	In thousands of HRK	In thousands of HRK
Ice cream	1,250,586	685	(1,024,283)	226,988
Frozen foods	1,100,337	232	(1,041,848)	58,721
Other	34,371	31,205	(57,216)	8,360
Total	2,385,294	32,122	(2,123,347)	294,069
Eliminations	(312,593)	(8,417)	321,010	-
Consolidated	2,072,701	23,705	(1,802,337)	294,069

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

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

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

	2017 In thousands of HRK	2016 In thousands of HRK
Operating profit by segment	294,069	313,785
Finance income – Note 9	48,866	71,996
Finance costs – Note 10	(47,359)	(32,937)
One-off costs (provisions for Group guarantees, impairments of receivables and other)	(3,534,925)	(562,331)
Share in result of an associate	(670)	(1,442)
Income tax	(40,906)	(58,913)
Total	(3,280,925)	(269,842)

Sales revenues by geographic segments:

	2017 In thousands of HRK	2016 In thousands of HRK
Croatia	864,839	701,733
Serbia	639,045	524,067
Bosnia and Herzegovina	296,221	231,692
Montenegro	96,250	88,800
Slovenia	85,924	62,769
Macedonia	38,542	41,664
Hungary	21,464	22,894
Kosovo	14,630	13,521
Norway	-	8,089
USA	2,729	-
Rest of the world	13,057	466,548
Total	2,072,701	2,161,777

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

4. Cost of raw materials and supplies

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

	2017 In thousands of HRK	2016 In thousands of HRK
Raw materials and supplies used	603,458	512,951
Energy consumed	69,417	61,821
Spare parts used	12,954	15,933
Write-off of small inventory and packaging	9,287	8,549
Total	695,116	599,254

5. Service costs

The structure of service costs consists of:

	2017 In thousands of HRK	2016 In thousands of HRK
Rentals	82,718	85,485
Marketing	39,189	58,216
External maintenance services	33,851	36,625
Transport services	14,213	14,569
Postage, telephones	3,350	4,280
Other services	73,428	59,486
Total	246,749	258,661

6. Staff costs

The structure of staff costs consists of:

	2017 In thousands of HRK	2016 In thousands of HRK
Wages and salaries (net)	157,656	151,413
Taxes and contributions from salaries	64,163	60,773
Contributions on salaries	33,175	34,371
Total	254,994	246,557

In 2017, pension contributions amounted to HRK 42,759 thousand, while in the previous year they amounted to HRK 43,148 thousand.

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7. Impairment of assets

The structure of impairment of assets is given below:

	2017 In thousands of HRK	2016 In thousands of HRK
Impairment of investments in shares – Agrokor Group	8,802	-
Impairment of trade receivables – third parties	4,959	8,652
Impairment of trade receivables - Agrokor Group	553	76,446
Impairment of loans granted - Agrokor Group	443,163	474,247
Other	2,413	2,986
Total	459,890	562,331

8. Other costs

The structure of other costs is given below:

	2017 In thousands of HRK	2016 In thousands of HRK
Management fees	9,639	17,892
Other employee benefits	20,292	19,523
Entertainment expenses	5,272	7,285
Insurance costs	9,384	8,703
Contributions, fees and taxes independent of result	3,003	4,818
Bank charges and payment transaction services	2,573	3,934
Business travel expenses	2,809	3,457
Inventory shortages	8,051	3,140
Other costs	22,345	38,392
Total	83,368	107,144

9. Finance income

The structure of finance income consists of:

	2017 In thousands of HRK	2016 In thousands of HRK
Interest	25,832	57,843
Foreign exchange gains	22,897	14,153
Other finance income	137	-
Total	48,866	71,996

11. Finance costs

The structure of finance costs consists of:

	2017 In thousands of HRK	2016 In thousands of HRK
Interest	18,240	26,127
Foreign exchange differences	28,644	6,810
Other finance costs	475	-
Total	47,359	32,937

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11. Loss per share

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

	2017	2016
Net loss in HRK	(3,280,923,598)	(269,841,701)
Weighted average number of shares	313,920	313,920
Basic loss per share in HRK	(10,451.46)	(859.59)

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

12. Intangible assets

Balances and movements in intangible assets are shown below:

At 1 January 2016	Goodwill In thousands of HRK	Other intangible assets In thousands of HRK	Assets under construction In thousands of HRK	Total In thousands of HRK
Cost	85,921	55,489	-	141,410
Accumulated amortisation	-	(46,909)	-	(46,909)
Net book amount	85,921	8,580	-	94,501
At 1 January 2016				
Opening net book amount	85,921	8,580	-	94,501
Additions during the year	-	-	2,035	2,035
Transfer	-	1,752	(1,752)	-
Amortisation	-	(3,897)	-	(3,897)
Foreign exchange differences	-	(28)	-	(28)
Closing net book amount	85,921	6,407	283	92,611
At 31 December 2016				
Cost	85,921	56,094	283	142,298
Accumulated amortisation	-	(49,687)	-	(49,687)
Net book amount	85,921	6,407	283	92,611
At 1 January 2017				
Opening net book amount	85,921	6,407	283	92,611
Additions during the year	-	41	1,461	1,502
Transfer	-	1,744	(1,744)	-
Amortisation	-	(2,864)	-	(2,864)
Foreign exchange differences	-	(7)	-	(7)
Other	-	(129)	-	(129)
Closing net book amount	85,921	5,192	-	91,113
At 31 December 2017				
Cost	85,921	36,163	-	122,084
Accumulated amortisation	-	(30,971)	-	(30,971)
Net book amount	85,921	5,192	-	91,113

As at 31 December 2017 and 31 December 2016, goodwill relates to the acquisition of the company Frikom d.o.o.

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

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

13. Property, plant and equipment

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

	Land	Buildings	Plant and equipment	Leasehold improve-ments	Other	Assets not in use	Investment properties	Total
Opening net book amount								
Cost	97,603	311,502	1,167,139	32,342	1,532	4,209	-	1,614,327
Accumulated depreciation	-	(176,319)	(924,315)	(26,696)	-	-	-	(1,127,330)
Net book amount	97,603	135,183	242,824	5,646	1,532	4,209	-	486,997
At 1 January 2016								
Opening net book amount	97,603	135,183	242,824	5,646	1,532	4,209	-	486,997
Additions during the year	-	-	-	-	-	50,384	-	50,384
Transfer from investments	(5)	1,991	52,462	-	-	(54,448)	-	-
Advances	-	-	-	-	244	-	-	244
Disposals	(10,614)	(2,641)	(1,615)	(188)	-	-	-	(15,058)
Revaluation	(996)	-	-	-	-	-	-	(996)
Depreciation	-	(10,411)	(76,043)	(587)	-	-	-	(87,041)
Foreign exchange differences	(381)	(1,827)	(3,055)	335	(35)	(86)	-	(5,049)
Closing net book amount	85,607	122,295	214,573	5,206	1,741	59	-	429,481
At 31 December 2016								
Cost	85,607	305,397	1,185,188	32,236	1,741	59	-	1,610,228
Accumulated depreciation	-	(183,102)	(970,615)	(27,030)	-	-	-	(1,180,747)
Net book amount	85,607	122,295	214,573	5,206	1,741	59	-	429,481
At 1 January 2017								
Opening net book amount	85,607	122,295	214,573	5,206	1,741	59	-	429,481
Additions during the year	373	1,854	15,697	-	(582)	285,233	-	302,575
Transfer from investments	-	1,132	45,680	-	-	(283,539)	236,727	-
Advances	-	-	-	-	765	-	-	765
Disposals	-	(160)	(621)	(547)	-	-	-	(1,328)
Revaluation	-	(8,270)	(73,016)	(473)	-	-	(2,068)	(83,827)
Depreciation	(74)	1,557	2,214	(7)	34	12	7,668	11,404
Foreign exchange differences	-	(2,083)	2,071	(38)	-	-	-	(50)
Closing net book amount	85,906	116,325	206,598	4,141	1,958	1,765	242,327	659,020
At 31 December 2017								
Cost	85,906	308,856	1,231,515	28,852	1,958	1,765	244,463	1,903,315
Accumulated depreciation	-	(192,531)	(1,024,917)	(24,711)	-	-	(2,136)	(1,244,295)
Net book amount	85,906	116,325	206,598	4,141	1,958	1,765	242,327	659,020

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Land at 31 December 2017	in thousands of HRK
Cost	14,183
Revaluation gain	71,723
Net book amount	85,906

The total amount stated in the land column refers to construction land. The last revaluation was carried out in 2017 for 31 December 2016 by the independent appraiser Planko Consulting d.o.o. using the comparative method based on the assumption that the recently determined prices of similar properties in the same market, are a good indicator of the market value of properties; the law prescribes a recent period of 48 months. At the balance sheet date, a part of the Group's assets is mortgaged as security for a loan of EUR 33.7 million.

On 1 September 2017, Agrokor d.d., its related companies, including Ledo d.d., all as Opponents of the collateral on the one hand, and Madison Pacific Trust Limited as the Proponent of the collateral on the other, signed an Agreement on creating a lien against properties. This Agreement was concluded for the purpose of establishing and perfecting the collateral in favour of the Proponent of the collateral in order to secure the present and future claims that each Debtor owes to the Secured Parties, all as defined in and in accordance with the Super Priority Term Facility Agreement as of 8 June 2017 and with all the changes and amendments (13.06.2017, 18.06.2017, 28.06.2017, 04.07.2017, 10.07.2017 and 30.08.2017). In order to postpone a due loan from Komercijalna banka, Ledo d.o.o. Čitluk has made a pledge over the warehouse and manufacturing building. Ledo Podgorica made a pledge for objects in Podgorica and Kovačko polje according to a signed loan agreement at 24 October 2017 with Hipotekarna banka.
The lien was made over properties of the company Ledo d.d., which comprise the following business facilities: administrative building, business buildings, commercial buildings (ice cream factory) and courtyard in Zagreb, M. Čavića 9, total area 23129 m2; two buildings, a shed and an industrial yard in Osijek, Ulica vukovarska 314, with a total area of 5051 m2; a building and yard in Slavonski Brod, Ljudevita Posavskog bb, total area of 5563 m2; the factory yard in Zagreb, Čavićeva 9, with a total area of 235 ftm2 or 845 m2.

Frikom d.o.o. Beograd has acquired properties in the total amount of HRK 231,357 thousand from the company Idea d.o.o. Beograd during 2017. The value of the property was used to settle its receivables for loans granted to the company Idea d.o.o.

14. Investments in associates

Associates

	2017 In thousands of HRK	2016 In thousands of HRK
At 1 January	771	2,367
Acquisition	134,988	-
Impairment of investment	(59,802)	-
Share in loss	(670)	(1,442)
Foreign exchange differences	1,253	(154)
At 31 December	76,540	771

The Group's share in the company Kikindski mlin a.d. is 23,97%.
The Group’s share in the company Konzum d.o.o. Sarajevo is 38.28% and was acquired during 2017.
Financial advisors for restructuring and also an independent auditor engaged by Ledo d.o.o. Čitluk, have reviewed possible restructuring models for Konzum d.o.o. Sarajevo, and concluded that a model of capital increase by related parties Ledo d.o.o. Čitluk and Sarajevski kiseljak d.d. was the most appropriatee option. According to the Company Law in Bosnia and Herzegovina, a capital increase can only be made in cash, therefore the capital increase for the company Konzum d.o.o. Sarajevo was made in cash.

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

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Current assets	81,160	125,897
Non-current assets	80,001	80,017
Current liabilities	(76,410)	(121,507)
Non-current liabilities	(6,840)	(7,182)
Net assets	77,911	77,225

	2017 In thousands of HRK	2016 In thousands of HRK
Income	127,581	104,769
Loss	(2,794)	(6,016)

Condensed financial information of the associated company Konzum d.o.o. Sarajevo

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Current assets	304,441	529,240
Non-current assets	201,645	384,013
Current liabilities	(722,092)	(1,104,391)
Non-current liabilities	-	-
Net assets	(216,006)	(191,138)

	2017 In thousands of HRK	2016 In thousands of HRK
Income	2,125,528	2,895,075
Loss	(241,698)	(169,085)

15. Financial assets

Financial assets consist of:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Loans granted	47,812	54,922
Loans granted - Agrokor Group	2,180	2,192
Available-for-sale securities	49,286	42,624
Long-term deposits	2,019	3,803
Investments held until maturity	1,921	-
Total	103,218	103,541

Long-term deposits are mainly related to deposits arising from operating leases that do not bear interest and are due on the date of repayment of contractual obligations.
Long-term loans were given for a period of 3 to 20 years at an annual interest rate ranging from 2%-6%.

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

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Parent's subsidiaries:		
M profil d.o.o.	349	351
Nova sloga d.o.o.	1,831	1,841
Total	2,180	2,192

The loans were granted at an interest rate of up to 6% p.a. (2016: up to 6% p.a.).

16. Inventories

The structure of inventories is given below:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Raw materials and supplies	105,326	105,215
Work in progress	69,493	86,384
Trade goods	70,239	95,295
Finished goods	53,896	50,580
Advances	18,313	1,298
Total	317,267	338,772

The cost of products sold in 2017 amounted to HRK 810,706 thousand, and in 2016 amounted to HRK 741,751 thousand.

17. Short-term investments

Short-term investments consist of:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Loans granted – Agrokor Group	961,508	1,194,869
Impairment of loans granted– Agrokor Group	(877,012)	(474,426)
Loans granted	4,421	11,355
Other financial assets	-	6
Total	88,917	731,804

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

Loans granted to Agrokor Group members:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Parent:		
Agrokor d.d.	3	23,723
Parent's subsidiaries:		
A007 d.o.o.	-	318
Agrolaguna d.d.	1,728	1,560
Idea d.o.o. Serbia	28,797	260,537
MG Mivela d.o.o. Serbia	17,783	18,129
Kikindski mlin a.d.	27,666	27,559
Konzum d.d.	4,469	350,757
Konzum d.o.o. Sarajevo	-	17,828
Mprofil d.o.o. Serbia	1,503	802
Nova sloga d.o.o.	2,547	3,779
Zvijezda Sarajevo d.o.o.	-	15,457
Total	84,496	720,449

The loans are short-term at an annual interest rate of 4.97% (during 2016 from 5.14%) in Croatia, and for the other countries in the range of 5.4% and 5.9% and were mostly granted in HRK.

18. Receivables

Receivables consist of the following:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Trade receivables	250,369	241,513
Impairment of trade receivables	(64,945)	(63,426)
Trade receivables – Agrokor Group	190,779	212,994
Impairment of receivables – Agrokor Group	(42,881)	(76,514)
Receivables from the state	29,566	16,365
Due from employees	959	873
Other receivables	5,425	4,288
Received bills of exchange	228	210
Total	369,500	336,303

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

	2017 In thousands of HRK	2016 In thousands of HRK
At 1 January	139,940	58,789
Increase in provisions recognised in P&L	3,938	85,166
Decrease in provisions recognised in P&L	(17,824)	(590)
Write-offs from the balance sheet	(704)	(3,425)
Transfer to impairment of investments in shares	(17,524)	-
At 31 December	107,826	139,940

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

	Not past due In thousands of HRK	0-90 days In thousands of HRK	90-180 days In thousands of HRK	180 – 270 days In thousands of HRK	Over 270 days In thousands of HRK	Total In thousands of HRK
2017	194,434	111,742	24,146	1,731	1,269	333,322
2016	204,855	61,819	33,061	8,936	5,896	314,567

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

Trade receivables from member companies of the Agrokor Group are as follows:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Parent:		
Agrokor d.d.	81	-
Subsidiaries of the parent:		
Atlas d.d.	510	3,354
Agrolaguna d.o.o.	3	-
Belje d.d.	6	-
Dijamant a.d.	8	-
Idea d.o.o.	8	96
Jamnica d.d	127	109
Kompas d.d.	1,510	-
Konzum d.d.	66,797	66,717
Konzum d.o.o. Sarajevo	7,025	30,792
Kor Broker d.o.o.	4	-
M profil SPV d.o.o.	2	-
Mercator Grupa	67,953	35,512

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PIK Vinkovci d.d.	104	-
PIK Vrbovec d.d.	568	-
Roto dinamic d.o.o.	46	-
Sarajevski kiseljak d.d.	2	3
Tisak d.d.	413	(202)
Velpro centar d.o.o.	2,259	(81)
Velpro d.o.o.	-	121
Vinka d.d.	334	-
Vupik d.d.	2	-
Zvijezda d.d.	25	-
Žitnjak d.d.	111	59
Total	147,898	136,480

The currency structure of trade receivables is as follows:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
HRK	130,320	100,819
BAM	44,594	61,382
RSD	111,313	120,594
HUF	718	940
EUR	39,280	30,832
Other currencies total	7,097	-
Total	333,322	314,567

19. Credit quality

An overview of assets based on the credit quality of counterparties as at 31 December 2017 is given below:

	Counterparties without credit rating				
Type of asset	New customers	Related parties	Customers paying within maturity period	Customers paying with some defaults	TOTAL
Non-current assets					
Investment in securities	1,921	-	322	44,056	46,299
Loans given, deposits, etc.	-	2,180	49,816	15	52,011
Other non-current financial assets	-	-	4,403	505	4,908
Other receivables	-	-	-	343	343
Total	1,921	2,180	54,541	44,919	103,561
Current assets					
Trade receivables	6,158	135,611	113,129	78,424	333,322
Other receivables	-	2,220	468	2,737	5,425
Investment in securities	-	19,850	-	228	20,078
Loans given, deposits, etc.	2	84,496	4,409	10	88,917
Total	6,160	242,177	118,006	81,399	447,742

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

Type of asset	Counterparties without credit rating

Notes to the consolidated financial statements
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	New customers	Related parties	Customers paying within maturity period	Customers paying with some defaults	TOTAL
Non-current assets					
Investment in securities	-	-	2,242	40,382	42,624
Loans granted, deposits, etc.	-	2,199	58,300	418	60,917
Other receivables	-	-	-	368	368
Total	-	2,199	60,542	41,168	103,909
Current assets					
Trade receivables	540	136,480	72,361	105,186	314,567
Other receivables	-	-	421	3,866	4,287
Investment in securities	-	-	-	210	210
Loans granted, deposits, etc.	-	720,449	11,355	-	731,804
Total	540	856,929	84,137	109,262	1,050,868

20. Cash at bank and on hand

Cash at bank and on hand consists of the following:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Cash at bank	79,131	17,998
Deposits up to 3 months	1,590	-
Total	80,721	17,998

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

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
A (S&P)	551	-
BBB+ (S&P)	249	2
BBB (S&P)	420	35
BBB- (S&P)	11,618	71
BB (S&P)	986	913
BB+ (S&P)	-	2,605
BB+ (Fitch)	32,649	-
Without rating	34,248	14,372
Total	80,721	17,998

21. Capital and reserves

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

The ownership structure as at 31 December 2017 is as follows:

	Number of shares	Nominal 1 share In HRK	Total Nominal value In thousands of HRK	Participation in share capital (%)
Agrokor d.d.	151,042	380	57,396	48.11%
Small shareholders	45,143	380	17,154	14.38%
Pension funds	51,280	380	19,487	16.34%
Others	66,455	380	25,253	21.17%
Total number of shares	313,920		119,290	100.00%

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

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

Retained earnings include legal reserves and reserves from foreign currency translations. Legal reserves amounting to HRK 26,756 thousand are not distributable.

22. Provisions

Provisions in the balance sheet are consisted of the following:

	2017 In thousands of HRK	2016 In thousands of HRK
Non-current provisions:		
Provisions for termination benefits /i/	7,741	4,943
Provisions for court and tax proceedings /ii/	16,064	-
Other provisions	84	-
	23,889	4,943
Current provisions:		
Provisions for guarantees within the group /iii/	3,646,708	-
	3,670,597	**4,943**

/i/ Provisions for termination benefits

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

Movements of Provisions for termination benefits stated in the balance sheet are as follows:

	2017 In thousands of HRK	2016 In thousands of HRK
Net liability at the beginning of the year	4,943	4,740
Increases during the year recognised in P&L	1,204	2,353
Payments during the year recognised in P&L	(24)	(2,150)
Increases during the year recognised in OCI	1,255	-
Foreign exchange differences and other movements	363	-
Net liability at the end of the year	7,741	4,943

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

	2017	2016
Discount rate (annual)	2.50%	4.00%
Wage and salary increases (annual)	0.50%	0.50%

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

/ii/ Provisions for tax and court proceedings

	2017 In thousands of HRK	2016 In thousands of HRK
Net liability at the beginning of the year	-	-
Increases during the year recognised in P&L	15,555	-
Foreign exchange differences	509	-
Net liability at the end of the year	16,064	-

Frikom recognized provisions for court proceeding in the amount of HRK 9,181 thousand at the balance sheet date. Provisions were made for all court proceedings in 2017 in which Frikom is the respondent party and based on an success assessment of 50% or less.
During 2017 Frikom was subject to tax audit by Tax authorities in relation to revenues realised in 2014 and 2015. According to the findings of tax audit, Frikom was not entitled to tax deductible costs so Frikom was obliged to make a payment in the amount of HRK 6,883 thousand in accordance with the Minute and Resolution. The Ministry of Finance in second instance tax procedure, after Frikom's complaint, annuled the decision of Tax authorities, but the decision of first instance commision of the Ministry is still waited for, so for the potential negative outcome a provision was made in the same amount as in stipulated in Tax authority's findings.

/iii/ Provisions for guarantees within the group

Movements in provisions for guarantees within the group were as follows:

	2017 in thousands of HRK	2016 in thousands of HRK
Provisions for guarantees at the beginning of the year	-	-
Increases during the year recognised in P&L	3,058,300	-
Increases during the year recognised directly in equity	588,408	-
Provisions for guarantees at the end of the year	3,646,708	-

Out of the total amount of issued guarantees, the amount of HRK 3,646.7 million was recognized in the consolidated financial statements on reporting date, according to Annex 19 and 20 of the confirmed Settlement. The amount of HRK 3,149.6 million refers to Ledo d.d. the parent company, the amount of HRK 0.943 million refers to Irida d.o.o. and the amount of HRK 496.2 million refers to Ledo d.o.o Čitluk, subsidiaries.
The above stated amount of guarantees determined according to the EPM i.e. the adopted Settlement is recognized in the consolidated financial statements while the remaining portion of the guarantees is disclosed as a contingent liability of the Group in Note 30.

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23. Lease liabilities

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

	2017 In thousands of HRK	2016 In thousands of HRK
From 4 to 5 years	-	231
From 3 to 4 years	228	707
From 2 to 3 years	703	1,116
From 1 to 2 years	1,109	1,116
Within 1 year	1,109	1,116
Impairment for future interest	(265)	(469)
Amount of liability included in Note 25	2,884	3,817
Less: current portion	(964)	(914)
Total non-current liabilities	1,920	2,903

Operating lease liabilities
Operating lease liabilities include the lease of business premises, equipment and vehicles.

Maturity	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Over 5 years	64	353
From 2 to 5 years	54,503	19,339
From 1 to 2 years	29,892	13,416
Within 1 year	34,041	32,704
Total	118,500	65,812

Capital commitments
The contractual capital commitments at the balance sheet date amounted to HRK 27,664 thousand, which is entirely related to non-current tangible assets, while on the same day of the previous year they amounted to HRK 13,698 thousand.

24. Borrowings and loans

The structure of borrowings and loans is as follows:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Long-term borrowings		
Bank borrowings	181,219	-
Loans from Agrokor Group	-	34
Finance leases	2,884	3,816
Total long-term borrowings and loans	184,103	3,850
Current portion of long-term borrowings		
Bank borrowings	(51,397)	-
Finance leases	(964)	(914)
Total current portion of long-term borrowings	(52,361)	(914)
Long-term borrowings and loans	131,742	2,936
Short-term borrowings and loans		
Bank borrowings	108,875	400,075
Loans	5,807	-
Short-term loans – Agrokor Group	129,005	45,235
Total short-term borrowings and loans	243,687	445,310
Total borrowings and loans	427,790	449,160

Notes to the consolidated financial statements
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The interest rate was in the range of 3% to 6% in 2017, and 4,68% to 7% in 2016. The borrowings have a maturity date up to 4 years. As a collateral for long term borrowings, a pledge over the real estate was made. Most of the loans have fixed interest rate.

Since the beginning of the extraordinary administration, two loan agreements were made, in which the parent company signed one contract as a co-debtor in the amount of EUR 80 million, and the other as a guarantor together with its related parties, up to EUR 1,060 million. Out of total amount of loan granted, the Group used HRK 117,910 thousand in 2017, part of which was paid and an amount of HRK 57,950 thousand remaining to be repaid.

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

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Parent Company		
Agrokor d.d.	59,057	-
Parent's subsidiaries:		
Agrokor trgovina d.o.o.	7	304
Agrokor Zagreb d.o.o.	21,368	23,770
Dijamant a.d.	45,849	18,869
Kor broker d.o.o.	2,322	2,292
Nova sloga d.o.o.	34	-
PIK Vinkovci d.d.	13	-
MStart Business Solutions d.o.o.	355	-
Total	129,005	45,235

	2017. in thousands of HRK
At 1 January	449,160
Proceeds from borrowings	271,756
Repayment of borrowings	(287,768)
Net cash flow	(16,012)
Foreign exchange differences and other non-cash movements	(5,358)
At 31 December	427,790

25. Taxes

The tax liability is presented below:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Domestic income tax	29,489	38,224
Foreign income tax	11,417	20,689
Total	40,906	58,913

The income tax paid in 2017 amounted to HRK 54,941 thousand (2016: HRK 53,267 thousand).

	2017 In thousands of HRK	2016 In thousands of HRK
Loss before tax	(3,240,019)	(210,929)
Income tax calculated using the average weighted tax rate on profits of companies earned in the respective countries	(509,264)	(56,587)
Tax effects:		
Non-deductible items	551,650	128,096
Effect of non-taxable income	(435)	12,949
Utilised tax losses carried forward	(73)	41
Tax relief	(2,012)	-
Unrecognised deferred tax assets	1,040	(25,586)
Income tax expense	40,906	58,913

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

The deferred tax liability refers to the deferred tax liability for land revaluation. The underlying deferred tax liability as at 31 December 2017 amounted to HRK 12,428 thousand, while on the same day last year it was HRK 12,430 thousand.

Movements in the deferred tax liability are as follows:

	2017 In thousands of HRK	2016 In thousands of HRK
Deferred tax liability at 1 January	12,430	13,954
Deferred tax resulting from revaluation of land and valuation of available-for-sale investments recognised in other comprehensive income	(2)	(1,524)
Deferred tax liability at 31 December	12,428	12,430

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

26. Liabilities for bills of exchange and based on recourse rights

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Discounted bills of exchange (i)	1,500	2,324
Liabilities and receivables on the basis of bills of exchange with recourse rights (ii)	19,850	17,500
Total	21,350	19,824

(i) This refers to bills of exchange issued to suppliers and that the supplier discounted for the purposes of the bank/factoring company.
(ii) The Group also accepts bills of exchange as a means of payment from customers and thus closes its receivables towards customers for the sale of goods and products. Bills of exchange received are with rights of recourse and

in case of activating the recourse, the obligation of collecting bills of exchange is transferred to the Group, and then the Group exercises the right to the receivable for uncollected bills of exchange towards the initial issuer of the bills of exchange. As at 31 December 2017, the Group recorded a liability and receivable related to the right of recourse under the bills of exchange, discounted by financial institutions, in the total amount of HRK 19,850 thousand (31 December 2016: HRK 17,500 thousand).

The above stated bills of exchange payable and based on recourse rights were filed to claims.

27. Trade payables

Trade payables relate to the following:	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Domestic trade payables	92,235	105,593
Foreign trade payables	40,577	86,256
Suppliers – Agrokor Group	47,825	22,631
Uninvoiced goods payable	-	530
Total	180,637	215,010

Trade payables to companies within Agrokor Group are as follows:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Parent company:		
Agrokor d.d.	7,103	2,928
Subsidiaries of the Parent company:		
Agrokor Ag	1,930	5,730
Atlas d.d.	6	29
Agrokor-trgovina d.o.o.	878	-
Agrokor Zagreb d.o.o.	93	14
Adriatica.net d.o.o.	-	6
Belje d.d.	901	-
Dijamant a.d. Serbia	2,187	2,360
Jamnica d.d.	15	120
MG Mivela d.o.o. Serbia	5	5
Jamnica d.o.o. Slovenia	1	-
Kikindski mlin a.d.	768	717
Konzum d.d.	6,002	-
360 marketing d.o.o.	485	714
Mercator Grupa	6,329	4,207
mStart d.o.o.	4,451	2,059
Mondo-Tera d.o.o.	124	-
M-profil SPV d.o.o.	7	-
mStart Business Solutions d.o.o.	12	-
Napred projekt 52 d.o.o.	4,681	-
Nova sloga d.o.o.	6	1,570
PIK Vrbovec d.d.	1,174	-
Roto dinamic d.o.o.	14	-
Solana Pag d.d.	9	-
Vinka d.d.	8,252	-
Tisak d.d.	28	352
TPDC Sarajevo d.d.	430	499
Velpro – centar d.o.o.	1,660	1,320
Zvijezda d.d.	274	1
Total:	47,825	22,631

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28. Other current liabilities

Other current liabilities consist of:

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Due to employees	15,401	14,736
Taxes and contributions (other than income tax)	12,048	22,925
Advances payable	1,694	3,649
Liabilities for distribution of profit	367	364
Other current liabilities	1,806	813
Liabilities for unused vacation	-	4,256
Accrued costs and deferred income	17,005	6,158
Total	48,321	52,901

29. Related party transactions

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

	Income		Expenses	
	2017	2016	2017	2016
Parent:				
Agrokor d.d.	2,083	471	(14,608)	(18,245)
Subsidiaries of the parent:				
Agrokor Zagreb d.o.o. Bosnia and Herzegovina	-	-	(1,138)	(1,429)
Belje d.d.	81	90	(4,650)	(4,259)
Dijamant a.d. Serbia	1,938	248	(661)	(8,469)
Idea d.o.o. Serbia	12,770	21,659	(249,588)	(1,192)
MG Mivela d.o.o. Serbia	1,381	1,866	(1,137)	(36)
Kikindski mlin a.d. Serbia	1,529	1,165	(4,259)	(2,749)
Konzum d.d.	216,580	269,018	(19,977)	(52,441)
Konzum d.o.o. Bosnia and Herzegovina	38,345	43,700	(199)	(4,334)
Kron d.o.o.	452	1,417	(818)	(54)
360 Marketing d.o.o.	21	-	(52)	(2,587)
Mercator Grupa	126,250	124,142	(16,035)	(27,245)
mStart d.o.o.	65	21	(11,821)	(12,076)
M-profil d.o.o. Serbia	68	43	(2,538)	(2,439)
Nova sloga d.o.o.	334	926	(5,614)	(8,374)
PIK Vinkovci d.d.	412	1,094	(12,684)	-
PIK Vrbovec d.d.	3,427	3,582	(5,203)	(9,238)
Tisak d.d.	10,383	11,917	(1,063)	(2,911)
TPDC Sarajevo d.o.o.	696	956	(1,815)	(1,833)
Velpro centar d.o.o.	17,769	33,392	(9,822)	(16,700)
Zvijezda d.d.	334	712	(6,170)	(4,666)
Zvijezda d.o.o. Bosnia and Herzegovina	1,108	1,747	-	-
Other subsidiaries	2,462	1,228	(2,813)	(1,646)
Total	438,488	519,394	(372,665)	(182,923)

a) Income from related party transactions:

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

b) Expenses from related party transactions:

During the year, the parent company Agrokor d.d. provided corporate governance services for which the Group was charged in the amount of HRK 12,732 thousand (2016: HRK 17,892 thousand). In 2017 the above stated amount includes restructuring cost in the amount of HRK 1,659 thousand.

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

In the year ending 31 December 2017, total compensation paid to key personnel in the Group Management Board amounted to HRK 6,108 thousand (2016: HRK 5,979 thousand). The compensations refer to 13 key persons.

	2017 In thousands of HRK	2016 In thousands of HRK
Net salaries including bonuses	3,643	3,156
Contributions from and on salaries	1,718	2,636
Taxes and surtaxes on salaries	747	187
Termination benefits	545	-
Total	6,653	5,979

30. Contingent liabilities

a) Co-debtorship, guarantees

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

All guarantees relate to funds used to finance the entire Agrokor Group, resulting in the growth and development of the Group's operations. Through synergic effects, there were benefits for all Group business segments, including Ledo d.d. The financing of Agrokor d.d. was a centralised function and common for many years, so that legal affairs were contracted and monitored centrally by Agrokor d.d.

Assessment of the financial impact of issued guarantees

The total nominal amount of the Group's issued guarantees as at 31 December 2017 amounts to HRK 24,232,687 thousand, including the amount of HRK 7,213,102 thousand relating to the guarantee issued under the Super Priority Term Facility Agreement signed on 8 June 2017 by the parent company Agrokor d.d. and its related companies.

The Group's liabilities on the basis of co-debtorship and guarantees for promissory notes issued, loans received and framework bank guarantees issued before 10 April 2017, prior to initiating the Extraordinary Administration Procedure, and in accordance with the Schedule of Senior Creditor Claims published on the notice board of the Commercial Court of Zagreb on 9 November 2017, docket number St-1138/17, amounted to HRK 19,814,523 thousand.

A portion of the above mentioned amount of liabilities arising from co-debtorship and guarantees issued before 10 April 2017 was settled in line with the roll-up model of the Super Priority Term Facility Agreement signed by the Company as a guarantor on 8 June 2017.

Based on the Super Priority Term Facility Agreement dated 8 June 2017, the Group assumed new liabilities arising from guarantees, up to the maximum amount of EUR 1,060 million.

Out of the total amount of issued guarantees, the amount of HRK 3,646.7 million was recognized in the consolidated financial statements on reporting date, according to Annex 19 and 20 of the confirmed Settlement. The amount of HRK 3,149.6 million refers to Ledo d.d., the amount of HRK 0.943 million refers to subsidiary Irida d.o.o. and the amount of HRK 496.2 million refers to subsidiary Ledo d.o.o Čitluk (Note 22).
The remaining amount up to the total amount of guarantees issued is disclosed as a contingent liability in the amount of HRK 20,585,979 thousand.

b) Penalty interest

As at 31 December 2017, contingent liabilities arising from penalty interest amounted to HRK 25,113 thousand.

c) Prohibition of disposition of share

On 7 June 2017, Commercial court in Belgrade made a decision of temporary prohibition for the Company to use and dispose of 100% share in the company Frikom d.o.o. That is used as a collateral for receivables of Sberbank d.d. in the amount of EUR 100 million (principal amount) and EUR 1,323,493 (interest as at 25 May 2017) that arise from guarantees based on loan agreement signed on 21 February 2017.

31. Fair value measurement

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

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

The fair value measurement hierarchy for assets as at 31 December 2017:

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
Available-for-sale securities	-	44,056	5,230	49,286
Construction land	-	-	85,906	85,906

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

(in thousands of HRK)

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

32. Transactions with associates

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

	31 December 2017 In thousands of HRK	31 December 2016 In thousands of HRK
Receivables		
Trade receivables	7,025	-
Other	27,666	27,559
Liabilities		
Trade payables	768	717
Income		
Sales	36,689	-
Other income	3,185	1,165

33. Financial instruments and risk management

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

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

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

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

Loans granted
During 2017, the loans assessed as non-recoverable were impaired, while with respect to other loans Management believes that their fair value does not differ significantly from their carrying amount.

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

Borrowings
The fair value of current liabilities depends on the Settlement and the overall restructuring process, as fair value has not been assessed.

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

	2017 In thousand HRK	2016 In thousand HRK
Total borrowings (Note 24)	427,790	449,160
Less: Cash and cash equivalents (Note 20)	(80,721)	(17,998)
Net debt	347,069	431,162
Capital and reserves	(2,543,250)	1,313,698
Gearing ratio	-13.65%	32.82%

Credit risk
The Group is exposed to credit risk, which is the risk that the debtor will not be able to meet the maturity obligations. The Group manages the level of risk by establishing credit risk exposure limits to one debtor or group of debtors.

Notes to the consolidated financial statements
for the year ended 31 December 2017

The Group considers that its maximum exposure is reflected in the amount of receivables net of provisions for impairment recognised at the balance sheet date, taking the confirmed Settlement into consideration.

Liquidity risk
Liquidity risk, also referred to as funding risk, is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group is currently in the Settlement implementation and restructuring process, so the liability settlement at maturity depends on available funds in the restructuring process.
Most of the borrowings and loans are short-term and the contracted undiscounted cash flows do not significantly differ from discounted cash flows, therefore the Group does not disclose the maturity structure of these payments.

The following overview shows the maturity structure of trade payables and other liabilities of the Group as of 31 December 2017 and 2016 expressed in thousands of HRK:

	< 90 days	90 – 180 days	180 – 270 days	> 270 days	Not past due	Total
	In thousands of HRK	In thousands of HRK	In thousands of HRK	In thousands of HRK	In thousands of HRK	In thousands of HRK
Trade payables						
At 31 December 2017	39,054	2,426	11,304	32,504	95,349	180,637
At 31 December 2016	211,190	2,287	1,494	39	-	215,010
Other liabilities						
At 31 December 2017	28,935	5,186	-	608	13,592	48,321
At 31 December 2016	52,901	-	-	-	-	52,901

Interest rate risk
Most of the interest-bearing assets and liabilities of the Group represent borrowings. Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rates which apply to the financial instrument. Interest rate risk related to cash flow is the risk that the financial instrument interest expense will fluctuate over time.

The following table shows the sensitivity of profit before tax of the Group on a possible change in interest rates, with other variables held constant (through the impact on variable rate on borrowings):

	Increase/decrease in basis points	Effect on profit before tax in thousands of HRK
2017		
EUR	+/- 1	1,220
RSD	+/- 1	219
BAM	+/- 1	104
2016		
EUR	+/- 1	1,049
RSD	+/- 1	-
BAM	+/- 1	90

Foreign currency risk
Most of the Group's assets are denominated in HRK. A significant portion of the Group's loan liabilities is denominated in foreign currencies (primarily EUR). Consequently, the Group is exposed to the risk of exchange rate fluctuations. Given the long-term policy of the Republic of Croatia related to maintaining the EUR exchange rate, the Group does not consider it to be significantly exposed to further negative impact of this exposure.

Notes to the consolidated financial statements
for the year ended 31 December 2017

The following table shows the sensitivity of the Group's profit before tax on a reasonably possible change in exchange rates, with other variables held constant, and due to a change in the fair value of monetary assets and liabilities:

	Increase/decrease in exchange rate	Effect on profit before tax in thousands of HRK
2017		
EUR	+/- 5%	(5,244)
USD	+/- 5%	(1,131)
RSD	+/- 5%	3,247
BAM	+/- 5%	5,472
HUF	+/- 5%	4
MKD	+/- 5%	6
2016		
EUR	+/- 5%	17,021
USD	+/- 5%	(2,540)

Capital management
The primary objective of the Group's capital management is to support the business and maximise shareholder value. The capital structure of the Group is applicable to share capital comprising subscribed capital, reserves and retained earnings.
As part of the Extraordinary Administration Procedure, the Management Board was provided with a Settlement Model (the so-called “EPM”) which is an estimate of the liabilities for the issued guarantees that will have to be settled by a particular company, which was confirmed by the Agrokor Group’s creditors vote as part of the Settlement. Since the Settlement was voted by creditors on 4 July 2018 and confirmed by the Commercial Court on 6 July 2018, the Company recognised its liabilities arising from issued guarantees in accordance with the EPM in its business records. Having recognised those liabilities in its business records, the Company became insolvent, as the capital adequacy requirement is no longer met.

34. Events after the balance sheet date

On 28 February 2018, the Extraordinary Commissioner, who held this post from 10 April 2017 until 28 February 2018, was dismissed and another Extraordinary Commissioner and his Deputy were appointed.

In January (15 January 2018), a Decision on Determined and Contested Claims was published on the court’s notice board. Suppliers who have filed their claims and entered into Agreements on Settlement of Creditors’ Claims have been paid 40% of the old debt, while the remaining suppliers have been paid 9.7%. The remaining portion of filed and determined claims will be subject to Settlement.

The Extraordinary Administration achieved its main goal when the Settlement was reached and confirmed by the Commercial Court on 6 July 2018. The agreed term sheet includes the corporate structure of the new Agrokor Group, the treatment and form of recovery of pre-petition claims, the new debt of the new Agrokor Group and its capital structure, a special arrangement with the suppliers on the settlement of the so-called border debt and the 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 was especially established that the main criteria of determining the amount of particular claim is the EPM model (Entity Priority Model), that is developed by international institutions and is used in major international company restructuring processes.

The appeals filed against the first-instance Decision of the Commercial Court of Zagreb docket number St-1138/2017 dated 15 January 2018 on the claims of creditors determined and contested in the Extraordinary Administration Procedure have been decided on by the High Commercial Court of Zagreb’s decision docket no. Pž-1834/2018 dated 26 April 2018, and the first-instance Decision was confirmed and/or modified.

On 2 May 2018, the Constitutional Court of the Republic of Croatia adopted the Decision no: U-I-1694/2017 et al. whereby the Constitutional Court did not accept the petition for review of compliance with the Constitution, Articles 1, 4, 5, 11, 12, 14, 15, 18, 19, 21 para. 1, 29, 30, para. 3, 4 and 5, 33 para. 1, 35 para 1, 39, 40, 41 and 43 of the Act on Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of Croatia (Official Gazette no. 32/17), nor with the Act as a whole.

Significant legal disputes against the Group

On 1 February 2018, WPC Agro 5 d.o.o., Ivana Lučića 2a, Zagreb, (previously WPC ETA d.o.o. and S IMMORENT EPSILON d.o.o.) as the creditor in the Extraordinary Administration Procedure filed a lawsuit against the Company in order to determine the claim in the amount of HRK 48,619,626.50, contested by the Extraordinary Commissioner. The subject claim is based on the Lease Agreement entered into by WPC Agro 5 d.o.o. and KONZUM d.d., for which claim a guarantee was assumed by Ledo d.d.

On 1 February 2018, WPC AGRO II 17-17 B.V., the Netherlands, 1077XX Amsterdam, Strawinskylaan 741, Toren C, 7e verdieoing (previously SOPOT ADRIATIC d.o.o.) as the creditor in the Extraordinary Administration Procedure filed a lawsuit against the Company in order to determine the claim in the amount of HRK 37,406,672.18, contested by the Extraordinary Commissioner. The subject claim is based on the Lease Agreement entered into by WPC AGRO II 17-17 B. V. and KONZUM d.d., for which claim a guarantee was assumed by Ledo d.d.

On 1 February 2018, WPC AGRO I 17-13 B.V., the Netherlands, 1077XX Amsterdam, Strawinskylaan 741, Toren C,7e verdieoing (previously Agro LDCII d.o.o.), as the creditor in the Extraordinary Administration Procedure filed a lawsuit against the Company in order to determine the claim in the amount of HRK 62,559,988.70, contested by the Extraordinary Commissioner. The subject claim is based on the Lease Agreement entered into by WPC AGRO I 17-13 B. V. and KONZUM d.d., for which claim a guarantee was assumed by Ledo d.d.

On 28 February 2018, the BANK of NEW YORK MELLON, One Canada Square, London E14 5AL, England, as the creditor, filed a lawsuit against the Company within the Extraordinary Administration Procedure in order to determine the claims in the amount of HRK 4,605,794,534.96, contested based on the guarantee by EUROHERC osiguranje d.d., AGROLAGUNA d.d. and AGRAM INVEST d.d. The subject claim is based on the Bonds Issue Agreement entered into by The BANK of NEW YORK MELLON and AGROKOR d.d., for which claim a guarantee was assumed by Ledo d.d.

On 28 February 2018, the BANK of NEW YORK MELLON, One Canada Square, London E14 5AL, England, as the creditor, filed a lawsuit against the Company within the Extraordinary Administration Procedure in order to determine the claims in the amount of HRK 4,605,794,534.96, contested by ADRIS GRUPA d.d. and ALCA ZAGREB d.o.o. The subject claim is based on the Bonds Issue Agreement entered into by The BANK of NEW YORK MELLON and AGROKOR d.d., for which claim a guarantee was assumed by Ledo d.d.

On 20 April 2018, VOX KOMUNIKACIJE d.o.o. from Zagreb, Vice Vukova 6, Croatia, as the creditor, filed a lawsuit against the Company within the Extraordinary Administration Procedure in order to determine the claims based on non-performance of contracted services in the amount of HRK 252,763.16.

On 23 April 2018, BNY MELLON CORPORATE TRUSTEE SERVICES LIMITED, One Canada Square, London E14 5AL, England, as the creditor, filed a lawsuit against the Company within the Extraordinary Administration Procedure in order to determine the claims based on the bonds contested by ADRIS GRUPA d.d and ALCA ZAGREB d.o.o. in the amount of HRK 2,335,165,796.94.

35. Approval of the consolidated financial statements

The consolidated financial presented on the pages above have been prepared and approved by the Management Board on 11 July 2018.

Signed on behalf of the Management Board:

Dario Vrabec
President of the Management Board

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Ankica Slobođanac
Member of the Management Board

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Statement of responsibility for preparation of financial statements

Consolidated financial statements of the company Ledo d.d. for the period of January 1, 2017 –December 31, 2017, are fairly and truthfully presented in accordance with the International Financial Reporting Standards, which have consistently been applied in relation to the previous year.

All materially relevant transactions are appropriately recorded in the accounting records on which the financial statements are based. They provide a true and complete overview of assets and liabilities, financial position and operations of the Ledo Group.

Director of Accounting Department	Finance Director
Jelena Lisjak	Ankica Slobođanac

LEDO
Joint stock company
for production and sale of
ice cream and frozen foods
Zagreb, Čavićeva 1a

COMPANY'S MANAGEMENT BOARD

Zagreb, 12 July 2018

Pursuant to Article 12 of the Articles of Association of LEDO joint stock company for the production and sale of ice-cream and frozen foods, Zagreb, Čavićeva 1, the Management Board composed of Dario Vrabec, the Chairman and Ankica Slobođanac, a member, adopted on 12 July the following:

DECISION

Proposal for the General Assembly to pass the Decision on the adoption of the basic financial statements for the year 2017 which reads:

1. The basic financial statements of the Company Ledo d.d. for the year 2017 are hereby adopted, namely: the statement of financial position, income statement, cash flow statement, statement of changes in equity, statement of other comprehensive income and notes to the financial statements.

2. The basic consolidated financial statements of the Company Ledo d.d. and its related companies (consolidated statements for the Ledo Group) for the year 2017 are hereby adopted, namely: the consolidated statement of financial position, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity, consolidated statement of other comprehensive income and notes to the financial statements.

3. This Decision shall enter into force on the date of its adoption.

PRESIDENT OF THE MANAGEMENT BORD
mr.sc. Dario Vrabec