Ledo d.d.
Report for 2017

Zagreb, 11 July 2018

LEDO D.D.

ANNUAL REPORT FOR 2017
AND
INDEPENDENT AUDITOR'S REPORT

Contents

MANAGEMENT REPORT FOR 2017

Ledo is today the largest domestic producer of industrial ice cream and the largest frozen food distributor. It has been present on the Croatian market for 60 years, by combining tradition and innovation, sets standards, and leads trends in Croatia and in all other countries in the region. New innovative products that meet the high demands of LEDO consumers continually complement the wide range of Ledo products - ice cream, frozen fruits and vegetables, frozen fish, dough, ready meals and meat.

Significant business events in the reporting period

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 d.d. (the "Company") 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 Croatia in total). In February 2018, new Extraordinary Commissioner and his Deputy were appointed. The effects of the 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, the 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.

On 13 April 2017, following the consideration of the key provisions (amount, penalty interest rate, maturity, co-debtor rights and obligations), Ledo signed the loan agreement as a co-debtor for the loan of the related company Agrokor d.d. A contract was signed between Agrokor d.d. as the loan recipient and Zagrebačka banka d.d., Privredna banka Zagreb d.d., ERSTE Steiermaerkische d.d. and Raiffeisen Bank Austria d.d. as the loan provider in the amount of EUR 80,000,000. The Super Senior Term Facility Agreement settled the loan.

On 8 June 2017, Ledo signed, as a guarantor, 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 investors 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 d.d. 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. Due to the inability to meet its obligations at the end of March and beginning of April 2017, the Company was operating with a blocked bank account. Blocked funds collected through enforcement amounted to HRK 8,191 thousand, while the total amount of outstanding liabilities as per the blocked accounts register was HRK 36,377 thousand.

In accordance with the provisions of the Loan Agreement signed 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.

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.

According to the principal goal of the Extraordinary Administration the Settlement between creditors has been achieved on 4 July 2018. It is based on viability plans, the Entity Priority Model (EPM) and a detailed structure of the entire Settlement.

In accordance with the Settlement implementation, companies are categorised in the business unit transfer or in the 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 its assets will be transferred to a newly established Croatian company.

Total liabilities of the Company include 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.

In order to start with the implementation of the Settlement adopted by the Commercial Court on 6 July 2018, docket number St.1138/17, it is necessary for the Company to recognise its liabilities for pre-petition loan guarantees and also liabilities for guarantees under the Super Priority Term Facility Agreement in its financial statements. All guarantees relate to funds used to finance the entire Agrokor Group, resulting in growth and development of the Company'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.

The total amount of contingent liabilities of Ledo d.d. on the basis of co-debtorship and guarantees (subsidiary and solidarity) as at 31 December 2017 amounting to HRK 24,232,687 thousand, including the amount of HRK 7,213,102 thousand relating to the guarantee issued on the basis of the Super Priority Term Facility Agreement signed on 8 June 2017 by the parent company Agrokor d.d. and its related companies (Agrokor-trgovina d.o.o., Belje d.d., Jamnica d.d., Konzum d.d., Ledo d.d., PIK Vinkovci d.d., Sarajevski Kiseljak d.d., Vupik d.d., PIK Vrbovec d.d., Velpro d.d.).

The Company's contingent liabilities for issued bonds, borrowings and revolving bank guarantees on the basis of co-debtorship and 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. Part of the above amount of contingent 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 Company assumed new liabilities arising from guarantees, up to the maximum amount of EUR 1,060 million.

The guarantees in question are solidarity guarantees, which implies dividing obligations among guarantors and a recourse right to the overpaid amount by the principal debtor and other solidary guarantors. Although a creditor has an autonomous right to decide which debtor/guarantor to charge and in which proportion, each guarantor retains the recourse right to recover the overpaid amount from other guarantors and from the principal debtor. At the reporting date, the exercise of recourse right cannot be reliably estimated.

All related companies were solidary guarantors for loans contracted by the parent company, however, each company received various considerations arising from these guarantees. In order to estimate the total amount of liabilities to be settled by a particular company in the capacity of guarantor or co-debtor, the Entity Priority Model (EPM) was developed. In accordance with Annex 19 "EA Entities' Distributable Value" of the accepted Settlement by the creditors on 4 July 2018 and the EPM it has been assessed for the Company to settle guarantees in the amount of HRK 3,149.6 million. Of the total amount of guarantees distributed to the Company by the EPM, HRK 2,562.1 million refers to pre-petition loan guarantees, and HRK 587.5 million refers to the guarantee for the SPFA loan negotiated by the Extraordinary Administration. According to Annex 19 of the confirmed Settlement, the total value of SPFA liabilities distributed to the Company amounts to HRK 692.2 million, of which HRK 587.5 million refers to guarantees, while HRK 104.7 million refers to liabilities for the used loan amount. As at 31 December 2017, the used loan amount totalled HRK 57.9 million, and HRK 104.7 million on 20 June 2018.

In accordance with the Settlement confirmed by the Commercial Court on 6 July 2018, docket number St.1138/17, the Management Board reached the decision to recognise the guarantee liabilities in the business records, in the amount of HRK 3,149.6 million as estimated by the EPM.By recognising these liabilities in the business records, the Company no longer meets the required capital adequacy level. Therefore, business operations will be continued through a new Croatian company (as stated in the Settlement) that will not be the legal successor of the existing company and to which all assets, all contracts, staff, concessions, permits etc. and post-petition liabilities will be transferred.

Research and development activities

Ledo in Croatia is a synonym for the exceptional quality of frozen products, primarily ice cream and frozen desserts, followed by dough, fruit and vegetables, fish and meat and ready meals.

Despite the strong presence of world competition, Ledo is a market leader in all market categories in the domestic market. 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 LEDO consumers. The recognizable, always favourite and very popular Ledo wins with its excellent and varied offer, top quality and modern look. Carefully following the latest trends and consumer needs, Ledo launches a number of new products every year.

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

The top quality and safety of Ledo products confirms and combines a certified integrated management system based on the principles of quality management, food safety and environmental protection in accordance with the following international standards:

- ISO 9001
- HACCP
- ISO 14001
- IFS
- BRC
- Koscher
- HALAL
- ISO 50001
- UTZ.

Business operations in 2017

In 2017, in the ice cream segment, a significant focus was placed on the better positioning of the most profitable product groups and on the opening of new sales channels with a purpose of retaining and strengthening the leader market position; while at the same time achieving the sales growth of the ice cream category by 6%. In the structure of the assortment, Ledo responded to the needs of its customers and introduced new trends and innovations to the Croatian market. King Peanut Perfection, Maximo Brownie, Macho Chocoberry and Plasma were launched. Marketing communication was focused on the youngest consumers, through the Ledoland campaign new products Funny Bubble and Ledo Medo have been promoted and also two absolute innovations: Lolipop - the first ice cream with a lollipop on the market and the Mrak Ice Cream that is unique since it dyes the tongue in black and comes with attractive gifts for children as an added value.

Continuous work on innovations, tracking, and imposing trends has been recognized globally by IICCs, an independent ice cream company association, so Mrak Ice Cream and Maximo Brownie won 3rd place in the category of the most innovative and best ice cream. In the category of family ice cream, the focus was on the redesign and significant improvement of the recipe throughout the Grandissimo premium line. A new Grandissimo campaign has been announced *Grandissimo - ice cream art* through all channels of advertising aimed at strengthening the brand and introducing consumers to the new recipe. To bring consumers closer to the slogan *Art of Ice Cream*, the design of the packaging was complemented by the best works of the world's artists, so the design of Grandissimo vanilla ice cream is delighted by Van Gogh's *Art Nouveau*, Grandissimo biscuit/chocolate/hazelnuts by Klimt's *Kiss* and Grandissimo stracciatella/forest fruit by Seurat's *A Sunday Afternoon on the Island of La Grande Jatte*. In collaboration with Baileys from Ireland, a new ice cream, Grandissimo Baileys, was developed. The Quattro group was redesigned, and within this redesigned group, the new Quattro Buenissimo product was launched.

In frozen food categories, the emphasis was on optimizing the assortment in the retail and HORECA channel, with the aim of retaining profitable items and items with the highest turnover. The dough category had the greatest focus on improving positioning and marketing activity at the point of sale, which had a positive impact on excellent sales results and strengthening the position of Ledo on the market. The campaign *Fish 2x a week* was announced with the idea of encouraging consumers to consume fish by raising awareness of the positive impact of consuming fish on human health. In the fish category, the focus was on redesign with the aim of communicating the nutritional benefits on the packaging itself with the change of the visual identity of the category. With this campaign - *Therefore I choose Ledo* we have highlighted the key benefits of Ledo products in the categories of fish, vegetables and dough. Of all the new launches, the most significant ones are Vanilla/forest fruits and plum/cinnamon Dumplings and XXL articles in the fish category.

In the segment of frozen food, the market has grown in 2017, in all categories Ledo is the strongest market player. At the same time, competition activities are strong. The market becomes more price sensitive, and private brands have a more significant role. This is primarily expressed in the family ice cream segment with an increasing focus on low budget and multipack products. Small manufacturers also strengthened their position on the market. In order to preserve the market share of the Croatian market and to increase its share in other markets, the focus of Ledo is currently on a profitable and quality assortment, improving and rationalizing business processes and optimizing the business.

The most significant export markets for Ledo are the markets of the Adria region together with Hungary. In these markets Ledo d.d. operates through its subsidiaries for the past twenty years. Ledo d.d., Frikom Serbia and Ledo Bosnia and Herzegovina are companies that have their own production and strong distribution while Ledo's subsidiaries in the markets of Hungary, Slovenia, Montenegro, Kosovo and Macedonia are distribution companies for Ledo and Frikom' products. These markets continue to represent great potential for growth, given the still relatively low consumption of ice cream and frozen food per capita compared to the EU average.
In addition to the markets in the region, Ledo exported its products to the ten European Union countries and to three markets outside the borders of the European continent (USA, Israel, Azerbaijan) in 2017. In 2017 the markets were introduced and the first exports were made to the markets of Portugal, Poland and Malta. In November, the first ice cream deliveries in the USA were made and they continued in December. The importance of deliveries is the production of ice cream in the winter months, i.e. the extension of the production season and sale of ice cream which ends in September in the region.

The biggest export potential for Ledo is the entire EU market, but also the wider market of the Mediterranean. Export activities of the company will be largely directed towards these markets in the coming period. The biggest export potential are ice cream and frozen pastry.

Excluding one-off costs of impairments of loans and receivables and provisions for guarantees, the operating profit realised in 2017 amounts to HRK 146.5 million, representing 11% decrease compared to previous year when it amounted to HRK 164.4 million. Liquidity problems at the beginning of the year had a negative effect on inventory levels of finished products, and consequently on the sales results achieved in the first six months, especially in the frozen food segment. To ensure a satisfactory financial result, the company focused primarily on its own ice cream production (the key category in which growth was already gained in the first part of the season) and dough products.
By the end of 2017, the process of normalizing business processes was intense, in order to create all the prerequisites for the continuous expansion of the assortment and the achievement of positive trends, especially during the season. After the first quarter, which was a time of great challenge for the company, the customer's trust (primarily in the HORECA channel where the competition was very high) and well as the supplier's was to be restored, in order to renegotiate previous payment terms, to stabilize the assortment, and to reduce stock shortages. Non-recurring costs of impairments of receivables amounted to HRK 415.8 million, of which HRK 414.2 million relates to receivables from related companies within the Agrokor group. This impairment has been made in accordance with Annex 19 of the Settlement and recovery assessment for every company within the Agrokor Group. The provision for guarantees relating to loan liabilities arising from the EPM and in line with the legally effective Settlement, that had an effect on the profit and loss account amounted to HRK 2,561.1 million. Those are pre-petition guarantees, while guarantees for SPFA negotiated by the Extraordinary Administration were recorded as a part of retained earnings as provided by IAS.

Revenue of Ledo d.d. amounted to HRK 1,055.1 million in the current year, and HRK 1,201.8 in the previous year, and the decrease by 12% is a result of before mentioned liquidity difficulties at the beginning of 2017. Total income amounted to HRK 1,073.1 million in 2017, compared to HRK 1,304.9 million in 2016 (decrease of 18% as a result of liquidity difficulties and the fact that in 2017 there was no dividend income). Total expenses amounted to HRK 3,898.1 million compared to HRK 1,610.5 million in the previous year. The main reason for increased operating expenses are provisions for pre-petition guarantees. Without the provisions for guarantees, operating expenses amounted to HRK 1,336.0 million due to liquidity issues. Furthermore, the impairment of investments was made in 2016 and no further impairment was recognised in 2017.

The total pre-tax loss amounted to HRK 2,825.1 million, while normalised pre-tax profit excluding non-recurring costs amounted to HRK 152.9 million compared to HRK 248.5 million in the last year. The biggest impact on the difference in profit was a fall in finance revenues, since in 2016 income from dividends has been realised, contrary to 2017.

Operating risks

Foreign currency risk is one of the operating risks of Ledo d.d. since the significant portion of the loan liabilities and customer and supplier relations is based on foreign currencies (mostly EUR). Given the long-term policy of the Republic of Croatia related to maintaining the EUR exchange rate, the Company does not consider it to be significantly exposed to the negative impact of foreign currency risk.

The risk of high seasonality and the success of the tourist season also has a certain influence on the company's operations as well as on the ice cream market as a whole. Namely, business plans are based on average weather conditions and the results of the tourist season in previous years. If there are significant oscillations that are related to extremely poor weather conditions or disturbances in the tourist season, it would be necessary to redefine those same business plans in order to achieve the results.

The risk of significant increases in raw material prices in the global markets (chocolate, cocoa, sugar, butter) - prices of basic raw materials are influenced by movements in world markets, and if a large growth is achieved, it would be necessary to change the structure of the assortment and emphasize those items, which will be the least impacted by price fluctuations.

Credit risk – Ledo d.d. 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. The credit risk of other trade receivables is not significant since the Company minimises this collection risk as a result of its sales policy.

Liquidity risk - The Company monitors its cash flows and plans in detail cash flow movements and generates sufficient funds to meet its 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.

The Company owns the 100% share in the registered capital of Frikom d.o.o. Belgrade, Republic of Serbia, the 100% share in the registered capital of Ledo d.o.o. Čitluk, Federation of Bosnia and Herzegovina, the 100% share in the registered capital of Ledo d.o.o. Podgorica, Montenegro, the 100% share in the registered capital of Ledo d.o.o. Ljubljana, Republic of Slovenia, the 100% share in the registered capital of Ledo Kft Budapest, Republic of Hungary, the 100% share in the registered capital of Ledo d.o.o. Pristina, Republic of Kosovo, the 100% share in the registered capital of Irida d.o.o. Daruvar, Republic of Croatia. Investments in the above stated companies are measured at cost less impairment losses.

Expected future development of the Company

Regardless of the transfer of the business operations to a newly established company, further business development is based on the medium-term sustainability plan with certain investment 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.

At the beginning of 2018, several major lawsuits were initiated against the Company in connection with the establishment of claims challenged by the Extraordinary Administration. These are claims in which the Company 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.

CORPORATE GOVERNANCE STATEMENT

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 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 Dujsin were revoked, and new members, Vladimir Bošnjak, Teo Vujčić, Luka Cvitan and Zdravko Kačić, were appointed. At the time of writing the report, the Supervisory Board is composed of 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

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that 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 Company for that period.

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

In preparing the 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 financial statements; and
- the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Company will continue in business. Details on a going concern basis are set out in Note 2a.

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

Moreover, in accordance with the Accounting Act, the Management Board is obliged to prepare an Annual Report comprising the financial statements, Management Report and the Corporate Governance Statement. The Management Report was prepared in line with the requirements of Article 21 of the Accounting Act, and the Corporate Governance Statement in line with the requirements of Article 22 of the Accounting Act.

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

Dario Vrabec
President of the Management Board

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Ankica Slobođanac
Member of the Management Board

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Independent Auditor's Report

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

Report on the audit of the separate 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 separate financial statements give a true and fair view of the financial position of LEDO d.d. (the "Company") as at 31 December 2017, and of its financial performance and its 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 Company's separate financial statements comprise:

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

Basis for qualified opinion

1. As described in Note 31 to the separate financial statements, the Company did not recognise a liability for penalty interest of HRK 25,041 thousand. Since the Company 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 25,041 thousand.

2. As explained in Note 2.a to the separate financial statements, the Company 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 Company 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. As disclosed in Note 16 to the separate financial statements, the Company recognised investments in subsidiaries of HRK 1,052,229 thousand at 31 December 2017, of which investments where impairment indicators have been identified in 2017 amounted to HRK 262,847 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 subsidiaries, 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 Separate 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 Company 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 Company in the period from 1 January 2017 to 31 December 2017.

Basis of preparation not on a going concern basis

As disclosed in Note 2.a. to the separate 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

Materiality	• Overall materiality for the separate financial statements: HRK 10,440 thousand
Key audit matters	• Impairment of loans granted to related parties and receivables from related parties • Provision for issued guarantees

How we tailored our audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the separate 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 separate financial statements, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate 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 separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate financial statements 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 separate financial statements.

Overall materiality	HRK 10,440 thousand
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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements, and in forming our opinion thereon, and we do not provide a separate 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 matters	How our audit addressed the Key audit matter
Impairment of loans granted to related parties and receivables from related parties	
The Company performed a recoverability assessment of amounts due from companies subject to the Extraordinary Administration and in relation to the settlement agreement as explained in more detail in Note 2 to the accompanying separate financial statements. The company used the Entity Priority Model ("EPM") developed by the parent company and its advisors. As a result, part of the Company's loans, trade and other receivables were impaired as at 31 December 2017. We focused on this area because of the size of the impairment and the fact that Management made subjective judgements about the enterprise value as the basis for recoverability.	We 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 loans and receivables 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, key inputs to the model. We concluded that the loans and receivables do not require material adjustment as of 31 December 2017.

Key audit matters	How our audit addressed the Key audit matter
Provision for issued guarantees	
The Company recognised provisions for financial guarantees issued on or before 31 December 2017. Refer to Notes 23 and 31 to the accompanying separate financial statements. As explained in Note 2.a, the Company 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 Company'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 Company's Annual Report, which includes the Management Report and Corporate Governance Statement, but does not include the separate financial statements and our independent auditor's report thereon.

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 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 separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 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 Company 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 the Corporate Governance Statement. As described in items 1 and 2 of the Basis for qualified opinion section above, the Company 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 item 3 of the Basis for qualified opinion section above, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the investments in subsidiaries as at 31 December 2017. Therefore, we are unable to conclude whether or not the Management Report is materially misstated with respect to this matter.

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

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so. As explained in Note 2.a to the accompanying separate financial statements, the Company will not be able to continue as a going concern.

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

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

Our objectives are to obtain reasonable assurance about whether the separate financial statements 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 separate 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 separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 Company'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 separate 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate 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 2 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.

Profit and loss statement of Ledo d.o.o.

For the year ended 31 December 2017

	Note	2017 in thousands of HRK	2016 in thousands of HRK
Revenue	4	1,043,970	1,184,533
Other income	5	11,100	17,284
		1,055,070	1,201,817
Change in value of inventories		11,430	(8,394)
Cost of raw materials and supplies	6	(379,400)	(350,279)
Cost of goods sold		(237,189)	(348,144)
Service costs	7	(103,550)	(124,515)
Staff costs	8	(122,900)	(121,873)
Depreciation and amortisation	14, 15	(36,397)	(38,639)
Impairment of receivables	9	(415,841)	(428,755)
Impairment of investments	9	-	(125,268)
Provisions	23	(2,562,849)	-
Other costs	10	(39,861)	(45,566)
		(3,886,557)	(1,591,433)
Finance income	11	17,992	103,126
Finance costs	12	(11,592)	(19,033)
		6,400	84,093
Loss before tax		(2,825,087)	(305,523)
Income tax	26	(29,489)	(38,075)
Net loss		(2,854,576)	(343,598)
Loss per share (in HRK)			
Loss per share – basic	13	(9,093)	(1,095)
Loss per share – diluted	13	(9,093)	(1,095)

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

Statement of other comprehensive income of Ledo d.d.
For the year ended 31 December 2017

	Note	2017 in thousands of HRK	2016 in thousands of HRK
LOSS FOR THE YEAR		(2,854,576)	(343,598)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in future periods:			
Fair value (losses)/gains on available-for-sale financial assets	17	(2,370)	834
Tax effect		427	(150)
Effect of change in tax rate		-	(34)
Net other comprehensive (loss)/income may be reclassified to profit or loss in future periods		(1,943)	650
Other comprehensive income that will not be reclassified to profit or loss in future periods			
Revaluation of land		-	(991)
Tax effect		-	178
Effect of change in tax rate		-	1,278
Net other comprehensive income that will not be reclassified to profit or loss in future periods		-	465
Other comprehensive (loss)/income for the year, net		(1,943)	1,115
Total comprehensive loss for the year, net		(2,856,519)	(342,483)

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

Statement of financial position of Ledo d.d.
as at 31 December 2017

	Note	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Non-current assets			
Intangible assets	14	3,940	4,895
Property, plant and equipment	15	182,588	194,950
Investments in subsidiaries	16	1,052,229	1,052,229
Financial instruments	17	44,561	40,382
Other receivables		623	1,359
Deferred tax assets		584	157
		1,284,525	1,293,972
Current assets			
Inventories	18	146,568	109,143
Financial assets	19	6,197	376,313
Receivables	20	211,553	135,146
Receivables based on recourse rights	27	19,850	17,500
Other current assets		1,804	622
Cash and cash equivalents	21	38,423	1,493
		424,395	640,217
TOTAL ASSETS		**1,708,920**	**1,934,189**
Equity	22		
Share capital		119,290	119,290
Capital reserves		713,233	713,233
Reserves from profit		50,653	50,653
Revaluation reserves		49,659	51,602
(Accumulated loss)/retained earnings		(2,919,833)	522,209
		(1,986,998)	1,456,987
Non-current liabilities			
Provisions	23	2,296	1,547
Loans from related parties	25	-	151,156
Deferred tax liabilities	26	11,484	11,484
		13,780	164,187
Current liabilities			
Trade payables	28	118,995	142,742
Borrowings	25	54,380	42,941
Loans from related parties	25	297,946	57,265
Income tax		12,154	15,982
Bills of exchange payable and liabilities based on recourse rights	25, 27	21,350	19,824
Provisions	23	3,149,566	
Other current liabilities	29	27,747	34,261
		3,682,138	313,015
Total liabilities		**3,695,918**	**477,202**
TOTAL EQUITY AND LIABILITIES		**1,708,920**	**1,934,189**

Statement of changes in equity of Ledo d.d.

For the year ended 31 December 2017

	Subscribed (share) capital	Capital reserves	Reserves from profit	Revaluation reserves	Reserve for available-for-sale financial assets	(Accumulated loss)/retained earnings	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	in thousands of HRK
Balance at 1 January 2016	119,290	713,233	50,653	51,852	(1,365)	999,226	1,932,889
Loss for the year	-	-	-	-	-	(343,598)	(343,598)
Other comprehensive income	-	-	-	465	650	-	1,115
Total comprehensive loss	-	-	-	465	650	(343,598)	(342,483)
Dividends paid	-	-	-	-	-	(133,419)	(133,419)
Balance at 31 December 2016	119,290	713,233	50,653	52,317	(715)	522,209	1,456,987
Loss for the year	-	-	-	-	-	(2,854,576)	(2,854,576)
Other comprehensive income	-	-	-	-	(1,943)	-	(1,943)
Total comprehensive loss	-	-	-	-	(1,943)	(2,854,576)	(2,856,519)
Transactions with owners (Note 23)	-	-	-	-	-	(587,466)	(587,466)
Balance at 31 December 2017	119,290	713,233	50,653	52,317	(2,658)	(2,919,833)	(1,986,998)

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

Statement of cash flows of Ledo d.d.
For the year ended 31 December 2017

	Note	2017 in thousands of HRK	2016 in thousands of HRK
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before tax		(2,825,087)	(305,523)
Depreciation and amortisation	14, 15	36,397	38,639
Impairment of receivables and loans	9	415,841	428,450
Impairment of investments		-	125,268
Additional provisions	23	2,562,849	(45)
Loss on sale of non-current assets		733	969
Interest income and net effect of foreign exchange differences	11, 12	(13,196)	(103,126)
Interest expense	12	6,796	19,033
Cash flow before adjustments for changes in working capital		184,333	203,665
Changes in inventories		(26,762)	72,322
Changes in receivables		(244,389)	(360,606)
Changes in trade payables		101,120	27,011
Changes in other current assets		(2,552)	(180)
Changes in other current liabilities		(5,678)	(28,677)
CASH GENERATED FROM OPERATIONS		6,072	(86,465)
Tax paid		(33,318)	(26,887)
Interest paid	25	(5,140)	(10,400)
NET CASH FLOW FROM OPERATING ACTIVITIES		**(32,386)**	**(123,752)**
CASH FLOW FROM INVESTING ACTIVITIES			
Change in long-term financial investments		(5,839)	(1,549)
Proceeds from sale of property, plant and equipment		53	2,730
Purchase of property, plant, equipment and intangible assets		(23,812)	(26,386)
Capital increase of subsidiary		-	(5,652)
Loans to related parties		(90,587)	(271,757)
Repayment of loans by related parties		43,629	292,294
Dividend received		-	64,025
Interest received		4,505	15,703
NET CASH FLOW FROM INVESTING ACTIVITIES		**(72,051)**	**69,408**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	25	202,862	314,493
Repayment of loans and borrowings	25	(61,495)	(127,997)
Dividends paid		-	(133,419)
NET CASH FLOW FROM FINANCING ACTIVITIES		**141,367**	**53,077**
TOTAL NET CASH FLOW		**36,930**	**(1,267)**
Cash and cash equivalents at the beginning of the year		1,493	2,760
Cash and cash equivalents at the end of the year	21	38,423	1,493
Increase/(decrease) in cash and cash equivalents		**36,930**	**(1,267)**

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

Notes to the financial statements
For the year ended 31 December 2017

1. Company profile

The company Ledo d.d. was registered as a joint-stock company at the Commercial Court of Zagreb on 4 January 1993 by 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").

As at 31 December 2017, the Supervisory Board of Ledo d.d. consisted of the following members:

Vladimir Bošnjak – President of the Supervisory Board – since 5 June 2017
Mislav Galić – Vice President of the Supervisory Board – since 5 June 2017 – Member of the Supervisory Board since 19 March 2013
Teo Vujčić – Member of the Supervisory Board – since 5 June 2017
Luka Cvitan – Member of the Supervisory Board – since 5 June 2017
Zdravko Kačić – Member of the Supervisory Board – since 5 June 2017
Milenko Arapović – Member of the Supervisory Board (workers' representative) since 20 March 2015

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

The principal activity of the Company is the production 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.

In 2017, the Company employed an average of 1,062 workers, in 2016, an average of 1,108 workers.

2. Summary of significant accounting policies

Basis of preparation of financial statements
These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The financial statements of the Company have been prepared on a historical cost basis, except for a part of property, plant and equipment and non-current investments which are recorded based on an estimate 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 Company's functional and presentation currency. The official foreign exchange rate published by the Croatian National Bank as at 31 December 2017 was HRK 7.513648 for EUR 1 (31 December 2016: HRK 7,557787 for EUR 1). The amounts disclosed in the financial statements are expressed in thousands of HRK unless otherwise stated.

The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group"). In the consolidated financial statements, subsidiaries are fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements for the year ended 31 December 2017 in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

The preparation of the financial statements was affected by the circumstances set out in Note 2a. relating to the going concern assumption.

2.a. Going concern assumption

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. The Settlement plan is based on viability studies, the Entity Priority Model (the "EPM") and a detailed structure of the overall Settlement.

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 financial statements have been prepared on the basis of the confirmed Settlement. In accordance with the above stated, the Company's Management 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 2 below.

Particular attention is drawn to the following:

- The Company 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 Company and the Group assessed that no provision for the termination of such contracts is required as at 31 December 2017.

The Company 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 Company, total assets will be realised at the same single point in time (i.e. point of sale to the NewCo) and therefore the Company 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 Company.

Revenue recognition
Revenue is recognised when it is probable that economic benefits will flow to the Company and when they can be reliably measured, regardless of when it will be charged. Revenue is measured at the fair value of the consideration received less discounts, rebates and taxes. The Company assesses its revenue transactions according to specific criteria to determine whether it acts in them as principal or as agent. The Company 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 Company by others are recognised when it is probable that the economic benefits associated with the transaction will flow to the Company 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 Company has established the right to a dividend.

Classification of current versus non-current
The Company 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.

For the reasons described in Note 2a. the Company continues to apply this classification method, irrespective of the ongoing restructuring and Settlement process.

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 profit or loss, loans and receivables, investments held 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 Company 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 to be effective hedging instruments. 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 Company has no financial assets designated at fair value through profit or loss.
Derivatives embedded in host contracts are recorded as separate derivatives and recognised at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value, 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. The losses arising from impairment are recognised in the income statement under Impairment of receivables and Impairment of investments.

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 losses are recognised in other income, or when it is determined that an impairment of investments has occurred, whereby the cumulative loss is reclassified 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 cannot be reliably measured are measured at cost.
The Company evaluates whether the intention of selling its instruments available for sale in the near future is still appropriate. When, in rare situations, the Company 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 Company 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 Company 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 Company has transferred substantially all the risks and rewards of the asset, or the Company has not transferred substantially all the risks and rewards of the assets, but has transferred control of the asset.
Impairment of financial assets
The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets has been impaired. A financial asset or group of financial assets has been impaired if there is objective evidence of impairment resulting from one or more events arising after the initial recognition of an asset and that event has an adverse impact on the estimated cash flows of a financial asset or group of financial assets that can be reliably estimated.
For financial assets valued at amortised cost: If there is objective evidence of impairment, the impairment loss is measured as the difference between the present value of the asset and the present value of the estimated future cash flows. The present value of estimated future cash flows is discounted using the original effective interest rate of financial assets. The present value of assets is impaired and a loss is recognised in the income statement.
For available-for-sale assets: when there is evidence of impairment, the cumulative loss, evaluated as the difference between the acquisition cost and the current fair value, less any impairment of investments that had previously been recognised in the income statement, is transferred from other comprehensive income and recognised in the income statement.

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

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

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities that are on initial recognition included in the category of financial liabilities at fair value through profit or loss.
Financial liabilities are classified in the category for trading if they are acquired for the purpose of selling in the short term. This category includes derivative financial instruments that are not designated as hedges in a hedging relationship. Separated embedded derivatives are also classified in the category for trading unless they are intended for effective hedging instruments.
Gains or losses on liabilities held for trading are recognised in the income statement.
Financial liabilities which at initial recognition are included in liabilities at fair value through profit or loss may be included in this category only if certain conditions are met.
The Company has no financial liabilities which are classified as at fair value through profit or loss.

Borrowings and loans
After initial recognition, interest bearing loans and 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.

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 Company measures financial instruments and other non-financial assets (if required by other standards) at fair value on 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 Company.

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

Buildings	25 years
Plant and equipment	3 to 15 years
Other assets	2 to 20 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.

Impairment of assets

The Company 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 Company 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.

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 Company is the lessee
Assets leased under a contract transferring all the risks and rewards of ownership (finance lease) to the Company, 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 property, plant and equipment 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. Finance costs are recovered by recognising finance costs in the income statement.
Capitalised assets under lease are depreciated 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 Company is the lessor
Leases where the Company 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.

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 products 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 receivable 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. The income tax charge is calculated according to Croatian tax regulations. 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 financial statements. Deferred taxes are calculated at the tax rate applicable in the years in which it is expected that the temporary differences will be recovered.
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 Company reassesses unrecognised deferred tax assets and the appropriateness of the present value of the tax asset.

Transactions in foreign currencies
The financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (its functional currency).

Transactions and balances:
Transactions in foreign currencies are initially recognised using the exchange rates prevailing on the transaction date.
At the reporting 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.

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 Company 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, as the chief decision maker, 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 of the Company.
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.

Pensions and employee benefits
In its normal course of business, the Company makes fixed contributions to mandatory pension funds on behalf of its employees. The Company 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 Company 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 Company 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.

Contingencies
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 Company'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.

Critical accounting judgements and estimates, assumptions

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:

a) Guarantees

The Company 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.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year unless otherwise stated and disclosed.

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year which were endorsed by the EU. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, their impact is described below:

(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 25.

(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 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 Company does not expect the application of this standard to have a significant impact on the Company's financial statements.

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)*

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)*

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

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

A new five-step process must be applied before revenue can be recognised:
- identify contracts with customers
- identify the separate performance obligation

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

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

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

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

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

The Company has not earlier adopted any International Financial Reporting Standard, the application of which was not mandatory at the reporting date.

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 Company 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 Company 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.

4. Segment reporting

Segment reporting is presented without the impact of one-off costs and is given below:

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	512,630	-	(388,356)	124,274
Frozen foods	520,554	-	(496,776)	23,778
Other	10,786	11,100	(22,735)	(849)
Total	1,043,970	11,100	(907,867)	147,203

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	479,004	-	(357,754)	121,250
Frozen foods	689,192	-	(653,352)	35,840
Other	16,337	17,284	(26,304)	7,317
Total	1,184,533	17,284	(1,037,410)	164,407

In 2016 and 2017, the Company had a single customer with whom sales revenues were realised exceeding 10%. These revenues refer to the related company Konzum d.d.

The Company does not monitor assets and liabilities by segments.

	2017	2016
	in thousands of HRK	in thousands of HRK
Operating profit by segment	147,203	164,407
One-off costs	(2,978,690)	(554,023)
Finance income – Note 11	17,992	103,126
Finance costs – Note 12	(11,592)	(19,033)
Income tax – Note 26	(29,489)	(38,075)
Total	(2,854,576)	(343,598)

Revenue by geographic segments:

	2017	2016
	in thousands of HRK	in thousands of HRK
Croatia	862,255	989,062
Rest of the world	181,715	195,471
Total	1,043,970	1,184,533

Notes to the financial statements
For the year ended 31 December 2017

5. Other income

The structure of other income consists of:

	2017 in thousands of HRK	2016 in thousands of HRK
Recharged and other income	5,440	5,650
Insurance reimbursements	1,953	5,883
Food tastings	1,038	1,458
Income from sale of fixed assets	53	969
Income from previous periods	546	521
Suppliers' credit notes	77	475
Collected receivables written off	313	305
Inventory surpluses	88	70
Other income	1,592	1,953
	11,100	17,284

6. 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	354,714	326,106
Energy consumed	19,217	17,528
Spare parts used	3,869	4,556
Write-off of small inventory and packaging	1,600	2,089
Total	379,400	350,279

7. Service costs

The structure of service costs consists of:

	2017 in thousands of HRK	2016 in thousands of HRK
Rentals	34,058	38,614
Marketing costs	5,506	19,713
External maintenance services	15,696	17,748
Cost of joint operations	13,714	15,589
Transport services	9,341	10,718
Agency services and student employment agency services	5,164	2,731
Postage, telephones	1,254	1,519
Other services	18,817	17,883
Total	103,550	124,515

8. Staff costs

The structure of staff costs consists of:

	2017 in thousands of HRK	2016 in thousands of HRK
Wages and salaries (net)	76,421	74,074
Taxes and surtaxes from salaries	8,731	9,880
Pension contributions	20,930	20,713
Contributions on salaries	16,818	17,206
Total	122,900	121,873

9. Impairment

The structure of impairment of receivables and financial assets and impairment of investments is given below:

	2017 in thousands of HRK	2016 in thousands of HRK
Impairment receivables and financial assets:		
Impairment of trade receivables	1,444	2,046
Impairment resulting from pre-bankruptcy settlement	237	199
Impairment of receivables from related parties	2,355	58,535
Impairment of loans granted to related parties	391,723	356,162
Impairment of interest receivable on loans granted to subsidiaries	20,082	10,010
Impairment of bills of exchange	-	1,800
Write-off of trade receivables	-	3
	415,841	428,755
Impairment of investments in subsidiaries:		
Impairment losses on investments	-	125,268
	415,841	554,023

Notes to the financial statements
For the year ended 31 December 2017

10. Other expenses

The structure of other costs is set out below:

	2017 in thousands of HRK	2016 in thousands of HRK
Group and restructuring cost	6,180	7,449
Other material employee benefits	8,830	8,565
Recharged expenses	5,683	6,148
Insurance costs	5,908	5,269
Business travel expenses	1,618	2,070
Entertainment expenses	1,211	2,094
Bank and payment transaction charges	1,085	2,151
Contributions, fees and taxes independent of result	1,284	1,411
Costs of temporary service contracts and authors' fees	1,467	1,134
Sanitary inspections of products and goods	536	737
Market research	845	770
Compensation to Supervisory Board members	768	686
Other costs	4,446	7,082
Total	39,861	45,566

11. Finance income

The structure of finance income consists of:

	2017 in thousands of HRK	2016 in thousands of HRK
Interest	10,620	32,309
Foreign exchange gains	7,372	6,792
Dividends	-	64,025
Total	17,992	103,126

12. Finance costs

The structure of finance costs consists of:

	2017 in thousands of HRK	2016 in thousands of HRK
Interest	6,796	14,877
Foreign exchange differences	4,796	4,156
Total	11,592	19,033

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For the year ended 31 December 2017

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

	2017	2016
Net loss in HRK	(2,854,576,132)	(343,598,274)
Weighted average number of shares	313,920	313,920
Loss per share in HRK	(9,093)	(1,095)

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

14. Intangible assets
Balances and movements in intangible assets are shown below:

	Software, patents and other rights	Assets under construction	Total
At 1 January 2016			
Opening net book amount	6,314	-	6,314
Investments during the year	-	1,866	1,866
Transfer from investments	1,583	(1,583)	-
Amortisation	(3,285)	-	(3,285)
Closing net book amount	4,612	283	4,895
At 31 December 2016			
Cost	35,392	283	35,675
Accumulated amortisation	(30,780)	-	(30,780)
Net book amount	4,612	283	4,895

	Software, patents and other rights	Assets under construction	Total
At 1 January 2017			
Opening net book amount	4,612	283	4,895
Investments during the year	-	1,389	1,389
Transfer from investments	1,672	(1,672)	-
Transfer from other categories	51	-	51
Disposals	(6)	-	(6)
Amortisation	(2,389)	-	(2,389)
Closing net book amount	3,940	-	3,940
At 31 December 2017			
Cost	16,200	-	16,200
Accumulated amortisation	(12,260)	-	(12,260)
Net book amount	3,940	-	3,940

15. Property, plant and equipment

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

	Land	Buildings	Plant, equipment and vehicles	Leasehold improvements	Assets not in use and other assets	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
At 1 January 2016						
Opening net book amount	71,251	31,816	100,817	4,846	912	209,642
Investments during the year	-	-	-	-	23,565	23,565
Transfer from investments	(5)	469	23,857	-	(24,321)	-
Revaluation	(991)	-	-	-	-	(991)
Advances	-		-	-	(98)	(98)
Disposals	(1,167)	(238)	(409)	-	-	(1,814)
Depreciation		(4,159)	(30,724)	(471)	-	(35,354)
Closing net book amount	69,088	27,888	93,541	4,375	58	194,950
At 31 December 2016						
Cost	69,088	108,103	492,114	28,760	58	698,123
Accumulated depreciation	-	(80,215)	(398,573)	(24,385)	-	(503,173)
Net book amount	69,088	27,888	93,541	4,375	58	194,950
At 1 January 2017						
Opening net book amount	69,088	27,888	93,541	4,375	58	194,950
Investments during the year	-	-	-	-	21,660	21,660
Transfer from investments	-	575	21,112	-	(21,687)	-
Advances	-	-	763	-	-	763
Transfer to another category	-	(2,083)	2,083	(51)	-	(51)
Disposals	-	(160)	(302)	(264)	-	(726)
Depreciation	-	(1,967)	(31,662)	(379)	-	(34,008)
Closing net book amount	69,088	24,253	85,535	3,681	31	182,588
At 31 December 2017						
Cost	69,088	105,405	500,582	26,143	31	701,249
Accumulated depreciation	-	(81,152)	(415,047)	(22,462)	-	(518,661)
Net book amount	69,088	24,253	85,535	3,681	31	182,588

In line with the provisions of the Loan Agreement dated 8 June 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 on 1 September 2017. 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 as well as all amendments (13 June 2017, 18 June 2017, 28 June 2017, 4 July 2017, 10 July 2017 and 30 August 2017.

Land at 31 December 2017	in thousands of HRK
Cost	5,181
Revaluation gain	63,907
Net book amount	69,088

The last revaluation was carried out in 2016 by the independent appraiser PLANKO KONZALTING 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.

16. Investments in subsidiaries

Investments in subsidiaries consist of:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Frikom d.o.o. Serbia	761,680	761,680
Irida d.o.o. Croatia	9,603	9,603
Ledo d.o.o. Montenegro	150,100	150,100
Ledo Kft Hungary	124,585	124,585
Ledo d.o.o. Bosnia and Herzegovina	83,967	83,967
Ledo d.o.o. Slovenia	40,030	40,030
Ledo d.o.o. Kosovo	7,532	7,532
Impairment of investments	(125,268)	(125,268)
Total	1,052,229	1,052,229

As at 31 December 2017, the Company owned 100% shares in its subsidiaries.

17. Financial instruments

Financial instruments consist of:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Available-for-sale securities	44,561	40,382
Total	44,561	40,382

Investment securities available for sale:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Equity instruments at cost	505	505
Equity instruments at fair value	44,056	39,877
Total	44,561	40,382

Investments in equity instruments available for sale that are not quoted in an active market are measured at cost. During 2017, the Company recognised a loss on investments in securities available for sale in the amount of HRK 2,370 thousand, while in 2016 gain was realised in the amount of HRK 834 thousand.

18. 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	67,606	52,186
Work in progress and unfinished goods	2,467	1,683
Trade goods	26,188	32,095
Finished goods	32,909	22,453
Advances	17,398	726
Total	146,568	109,143

In 2017, the cost of own goods sold amounted to HRK 427,317 thousand (2016: HRK 413,126 thousand). The Company's inventories have not been pledged. During 2017, an inventory deficit was identified in the amount of HRK 125 thousand (2016: HRK 196 thousand).

19. Financial assets

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Loans granted – Agrokor Group	802,283	742,482
Impairment of loans granted	(796,086)	(366,169)
Total	6,197	376,313

As at 31 December 2017, the Company had receivables from loans granted to related companies, members of the Agrokor Group, in the total amount of HRK 802,283 thousand. Management has decided to impair the value of the stated receivables according to Annex 19 to the Settlement Agreement in the total amount of HRK 411,805 thousand. As at 31 December 2016, the impairment of these receivables from loans granted amounted to HRK 366,169 thousand.

The 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 company:		
Agrokor d.d.	-	20,297
Subsidiaries of the Parent company:		
Konzum d.d.	4,468	350,751
A007 d.o.o.	-	318
Agrolaguna d.d.	1,728	1,560
Ledo d.o.o. Kosovo	1	3,387
Total	6,197	376,313

20. Receivables

Trade receivables consist of the following:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Trade receivables	79,818	65,341
Trade receivables – Agrokor Group	193,569	145,848
Impairment of trade receivables – Agrokor Group	(42,779)	(58,539)
Receivables from the state	904	678
Due from employees	309	117
Investments – cheques, bills of exchange	302	210
Other receivables	1,435	2,426
Impairment of trade receivables – third parties	(22,005)	(20,939)
Total	211,553	135,146

Movements in the impairment of trade receivables are as follows:

	2017 in thousands of HRK	2016 in thousands of HRK
At 1 January	79,474	19,655
Increase	1,793	61,588
Decrease	(16,483)	(1,769)
At 31 December	64,784	79,474

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	96,419	62,315	33,993	13,110	2,829	208,666
2016	105,236	20,530	3,923	636	1,454	131,779

Management believes that there are sufficient collateral for these receivables and that their carrying amount is recoverable.

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Trade receivables of members of the Agrokor Group are as follows:

in thousands of HRK	31 December 2017	31 December 2016
Subsidiaries of the Parent company:		
Frikom a.d.	22,276	126
Frikom Beograd dooel Macedonia	228	-
Konzum d.d.	66,798	61,717
Ledo d.o.o. Bosnia and Herzegovina	4,055	4,085
Ledo d.o.o. Kosovo	10,389	5,784
Ledo d.o.o. Slovenia	35,437	12,471
Ledo d.o.o. Podgorica	5,251	-
Ledo Kft. Hungary	69	-
Irida d.o.o.	443	-
Adriatica.net d.o.o.	-	3,354
Atlas d.d.	510	-
Kompas d.d.	1,509	-
Velpro centar d.o.o.	2,259	-80
PIK Vinkovci d.d.	104	-
VINKA d.d.	334	-
PIK Vrbovec d.d.	543	-
Roto dinamic d.o.o.	46	-
Tisak d.d.	413	-202
Žitnjak d.d.	111	58
Belje d.d.	6	-
Vupik d.d.	2	-
Kor Broker d.o.o.	3	-
Agrolaguna d.d.	3	-
Jamnica d.d.	1	-
Total	150,790	87,313

The currency structure of trade receivables of members of the Agrokor Group is as follows:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
HRK	71,575	63,462
EUR	79,215	23,851
Total	150,790	87,313

21. Cash and cash equivalents

Cash and cash equivalents consist of:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Cash at bank and on hand	38,423	1,493
Total	38,423	1,493

Almost all cash on accounts refers to cash with major Croatian business banks which are subsidiaries of renowned Italian and Austrian banking groups with the most common credit rating being BBB.

The currency structure of cash is as follows:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
HRK	37,673	1,049
EUR	270	436
USD	480	1
CHF	-	7
GBP	-	0.4
	38,423	1,493

Other than cash-settled transactions recorded in cash flow, significant non-cash transactions have occurred, which are mainly related to compensations and bills of exchange.

22. Capital and reserves

Capital includes own non-current assets intended for business. It includes the underlying equity capital together with capital reserves arising from the capital increase of the Company, reserves from profit comprising mandatory legal reserves consisting of five percent of the share capital and other reserves, revaluation reserves for land and financial assets available for sale and retained earnings. Retained earnings and other reserves are categories available for distribution to the Company's shareholders. Subscribed capital (shareholders' equity) in the court registry amounts to HRK 119,290 thousand. The total number of shares is 313,920 shares. The nominal value per share is HRK 380.00. The share capital has been fully paid.

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%
Other	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%
Other	65,603	380	24,929	20.90%
Total number of shares	313,920		119,290	100.00%

Gearing ratio:

		2017	2016
Leverage ratio	Total liabilities/total assets	2.16	0.25
Capital to assets ratio	Equity/total assets	(1.16)	0.75
Debt to equity ratio	Total debt/equity	(1.86)	0.33
Coverage level 1	Own capital/non-current assets	(1.55)	1.13
Coverage level 2	(own capital + non-current liabilities)/non-current assets	(1.54)	1.25

23. Provisions

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Non-current provisions:		
Provisions for termination benefits /i/	2,296	1,547
Current provisions:		
Provisions for guarantees within the group /ii/	3,149,566	-
	3,151,862	-

/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 based on the employee's monthly remuneration.

Movements of liabilities for employee 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	1,547	1,592
Increases during the year	749	-
Payments during the year	-	(45)
Net liability at the end of the year	2,296	1,547

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 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 profit or loss	2,562,100	-
Increases during the year recognised directly in equity	587,466	-
Provisions for guarantees at the end of the year	3,149,566	-

The total amount of the Company's liabilities for guarantees amounts to HRK 24,232,687 thousand. According to the Settlement confirmed on 6 July 2018 and its Annex 19, the Company recorded provisions for guarantees in the amount of HRK 3,149.6 million according to the distribution based on the EPM. Of the total amount of recorded guarantees, HRK 2,562.1 million relates to pre-petition liabilities for guarantees, while HRK 587.5 million relate to SPFA guarantees for a loan contracted by the Extraordinary Administration. According to the EPM, the total amount of SPFA liabilities the Company was allocated an amount of HRK 692.2 million, but the total amount of the guarantees is reduced by the liabilities for the utilised portion of the loan that has not been repaid yet. The liabilities under the SPFA loan as at 20 June 2018 amount to HRK 104.7 million.
The Company recognised the amount of guarantees determined according to the EPM i.e. the adopted Settlement) in its business records while the remaining portion of the guarantees is disclosed as a contingent liability in Note 31.

24. Commitments

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

Maturity	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Over 5 years	64	352
From 2 to 5 years	11,536	10,169
From 1 to 2 years	12,505	6,264
Within 1 year	13,924	10,713
Total	38,029	27,498

25. Borrowings and loans

The structure of borrowings and loans is given below:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Long-term loans		
Long-term loans – Ledo d.o.o. Bosnia and Herzegovina	-	151,156
Total long-term loans	-	151,156
Short-term borrowings and loans		
Bank borrowings	54,380	42,941
Short-term loans – Agrokor Group	297,946	57,265
Issued bills of exchange payable and recourse rights (Note 27)	21,350	19,824
Total short-term borrowings and loans	373,676	120,030
Total borrowings and loans	373,676	271,186

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

Since the beginning of the Extraordinary Administration, two borrowing agreements have been concluded, whereby the Company has signed one agreement as a co-debtor in the amount of EUR 80 million and the other as a guarantor together with its related companies in the total maximum amount of EUR 1,060 million. Of the total borrowing amount approved, the Company 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 given below:

	2017 in thousands of HRK	2016 in thousands of HRK
Subsidiaries of the Parent company:		
Agrokor d.d.	58,431	-
Agrokor-trgovina d.o.o.	8	304
Frikom d.o.o.	70,862	45,582
Ledo d.o.o. Čitluk	150,479	-
Kor Broker d.o.o.	2,322	2,292
Ledo d.o.o. Bosnia and Herzegovina	-	1,736
Ledo d.o.o. Montenegro	15,476	588
Ledo Kft Hungary	-	6,763
mStart d.o.o.	355	-
PIK Vinkovci d.d.	13	-
Total	297,946	57,265

Short-term loans are granted for a period up to 12 months at the annual interest rate prescribed by the Ministry of Finance. In 2017, interest rates ranged from 4.50% - 5.50%, while in 2016 they ranged from 4.50% - 6%.

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
EUR	236,817	54,673
HRK	61,129	2,592
Total	297,946	57,265

The currency structure of short-term borrowings from banks and other financial institutions is as follows:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
HRK	54,380	42,941
Total	54,380	42,941

The currency structure of current liabilities from securities is as follows:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
HRK	21,350	19,824
Total	21,350	19,824

Movements in liabilities from financing activities were as follows:

	2017 in thousands of HRK
At 1 January	***271,186***
Proceeds from borrowings	202,862
Repayment of borrowings	(61,495)
Net cash flow	141,367
Foreign exchange differences and other non-cash movements	(38,877)
At 31 December	***373,676***

26. Taxes

The tax liability for one year is presented below:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Domestic income tax	29,489	38,075
Total	29,489	38,075

The income tax paid in 2017 amounted to HRK 33,318 thousand (2016: HRK 26,887 thousand).

The reconciliation of the accounting profit/(loss) with the theoretical income tax expense based on the tax rate applicable to the profit for the years ended 31 December was as follows:

	2017 in thousands of HRK	2016 in thousands of HRK
Loss before tax	(2,825,087)	(305,523)
Income tax calculated by applying the prescribed income tax rate	(508,516)	(61,105)
Tax effects:		
Non-deductible items	538,311	10,930
Effect of non-taxable income	(306)	(12,893)
Unrecognised deferred tax assets based on tax loss	-	101,143
Income tax expense	29,489	38,075

The deferred tax liability relates to the deferred tax liability related to the revaluation of land, and the deferred tax liability related to the valuation of securities in the available-for-sale portfolio.

Movements in the deferred tax liability are as follows:

	2017 in thousands of HRK	2016 in thousands of HRK
Deferred tax liability as at 1 January	11,484	12,940
Deferred tax resulting from revaluation of land	-	(178)
Effect of change in tax rate	-	(1,278)
Deferred tax liability as at 31 December	11,484	11,484

27. Receivables and liabilities for bills of exchange and based on recourse rights

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Liabilities for discounted bills of exchange (i)	1,500	2,324
Receivables and liabilities from 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 Company 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 Company, and then the Company 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 Company 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.

28. 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	48,278	62,392
Foreign trade payables	22,987	58,220
Trade payables – Agrokor Group	47,702	21,600
Uninvoiced goods payable	28	530
Total	118,995	142,742

The currency structure of trade payables is as follows:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
EUR	39,680	49,166
USD	2,971	9,054
HRK	76,316	83,992
Total	118,967	142,212

Trade payables to members of the Agrokor Group are as follows:

	2017 in thousands of HRK	2016 in thousands of HRK
Parent company:		
Agrokor d.d.	1,681	-
Subsidiaries of the Parent company:		
Agrokor AG Zug	1,931	5,730
Agrokor-trgovina d.o.o.	878	-
Atlas d.d.	6	-
Adriatica.net d.o.o.	-	6
Belje d.d.	901	-
Frikom a.d.	15,931	8,644
Irida d.o.o.	4,836	4,025
Jamnica d.d.	15	118
Konzum d.d.	5,849	-
Ledo d.o.o. Ljubljana	82	40
Ledo Kft. Hungary	66	67
Mercator Group	1,712	9
mStart d.o.o.	2,431	1,298
Mondo-Tera d.o.o.	124	-
PIK Vrbovec d.d.	1,174	-
Roto dinamic d.o.o.	14	-
Solana Pag d.d.	9	-
Tisak d.d.	28	343
Velpro-centar d.o.o.	1,660	1,320
VINKA d.d.	8,106	-
Zvijezda d.d.	268	-
Total	47,702	21,600

29. Other current liabilities

Other current liabilities consist of:

	31 December 2017 in thousands of HRK	31 December 2016 in thousands of HRK
Taxes and contributions (other than income tax)	9,596	20,595
Due to employees	6,304	6,342
Liabilities for accrued bonus	3,527	-
Liabilities for distribution of profit	273	273
Other current liabilities	2,943	1,725
Liabilities for unused vacation	5,105	5,326
Total	27,747	34,261

30. Related party transactions

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

	Revenue		Expenses	
	2017	2016	2017	2016
Parent company:				
Agrokor d.d.	684	248	(9,426)	(79,441)
Subsidiaries of the Parent company:				
A007 d.o.o.	1	133	-	(554)
Agrokor AG Zug	28	-	-	-
Agrokor-trgovina d.o.o.	-	-	(1,619)	-
Agrolaguna d.d.	30	42	-	-
Atlas d.d.	15	-	(114)	(232)
Belje d.d.	81	90	(4,650)	(4,259)
Jamnica d.d.	1	-	(296)	(281)
Kompas d.d.	3	-	-	-
Konzum d.d.	216,580	269,018	(19,896)	(52,361)
Kor Broker d.o.o.	3	-	(30)	(92)
360 Marketing d.o.o.	-	-	-	(1,868)
Mercator Grupa	-	-	(1,639)	(197)
Mondo tera d.o.o.	-	-	(368)	-
mStart d.o.o.	-	19	(5,795)	(6,186)
PIK Vinkovci d.d.	412	1,094	(12,514)	-
PIK Vrbovec d.d.	3,263	3,582	(5,191)	(9,238)
Roto dinamic d.o.o.	164	142	-	(2)
Roto ulaganja d.o.o.	-	-	(150)	(251)
Solana Pag d.d.	-	-	(22)	-
Tisak d.d.	10,383	11,911	(1,050)	(2,694)
Velpro-centar	17,769	33,392	(9,096)	(16,188)
Velpro d.o.o. Sarajevo	-	-	-	(111)
VINKA d.d.	483	-	-	-
Vupik d.d.	8	19	-	-
Zvijezda d.d.	170	712	(6,142)	(4,665)
Žitnjak d.d.	505	506	-	-
Subsidiaries of Ledo d.d.:				
Frikom d.o.o.	28,537	55,272	(28,659)	(32,488)
Frikom Beograd dooel	518	617	-	-
Irida d.o.o.	1,156	622	(15,501)	(17,264)
Ledo d.o.o. Bosnia and Herzegovina	60,847	83,843	(6,969)	(7,166)
Ledo d.o.o. Slovenia	52,850	62,967	(1,278)	(46)
Ledo d.o.o. Montenegro	7,191	21,087	(141)	(437)
Ledo kft	18,133	16,420	(1,062)	(267)
Ledo d.o.o. Kosovo	7,943	7,352	-	-
Total	**427,758**	**569,088**	**(131,608)**	**(236,288)**

a) *Income from related party transactions:*

The Company sold its goods to related companies and provided services. With the largest buyer, Konzum d.d., the Company usually realises the following types of transactions: sales of own products, trade goods and distribution services.

b) Expenses from related party transactions:

During the year, the parent company Agrokor d.d. provided management and restructuring services for which the Company was charged in the amount of HRK 6,180 thousand (2016: HRK 7,449 thousand).

In 2017, total expenses from related party transactions amounted to HRK 131,608 thousand (2016: HRK 236,288 thousand). The most significant expenses related to the procurement of goods were realised with Frikom d.o.o. in the amount of HRK 28,659 thousand (2016: HRK 32,488 thousand).

c) Key management compensation:

Key management consisted of 2 members of the Management Board who received compensation in 2017 in the amount of HRK 1,967 thousand (2016: 2 members of the Management Board, compensation amounted to HRK 1,896 thousand).

31. Contingent liabilities

a) Co-debtorship, guarantees

The Company'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 Company'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 Company'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 Company'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 Company assumed new liabilities arising from guarantees, up to the maximum amount of EUR 1,060 million.

Of the total amount of guarantees issued, the liabilities arising from guarantees were recognised in business records in the amount of HRK 3,149.6 million as at the reporting date according to Annex 19 to the confirmed Settlement (Note 24). The remaining amount up to the total amount of guarantees issued is disclosed as a contingent liability in the amount of HRK 21,083,121 thousand.

b) Penalty interest

As at 31 December 2017, the Company's contingent liabilities arising from penalty interest amounted to HRK 25,041 thousand.

32. Fair value measurement

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

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

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

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
Construction land		69,088		69,088
Available-for-sale securities		44,056		44,056

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

(in thousands of HRK)

	Level 1	Level 2	Level 3	Total
Construction land	-	69,088	-	69,088
Available-for-sale securities	-	39,877	-	39,877

Available-for-sale assets also include investments valued at cost in the amount of HRK 505 thousand (2016: HRK 505 thousand).

33. Financial instruments and risk management

(a) Financial instruments

The Company has no derivative financial instruments or any financial instruments that could potentially subject the Company to concentrations of credit risk. The Company's policy is to enter into financial instruments with a diversity of creditworthy counterparties. Consequently, the Company 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 Company's 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 Company 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 contracted interest rates do 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 Company'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 Company is exposed to international markets. As a result, the Company may be affected by changes in foreign exchange rates. The Company 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 Company does not use derivative instruments either to manage risk or for speculative purposes.

Credit risk

2017

	Counterparties without credit rating				
Type of asset	New customers	Related parties	Customers paying within maturity period	Customers paying with defaults	TOTAL
Non-current assets					
Investment securities	-	-	-	44,056	44,056
Loans, deposits and similar assets	-	-	280	-	280
Other non-current financial assets	-	-	-	505	505
Other receivables	-	-	-	343	343
Current assets					
Trade receivables	1,071	150,790	10,837	45,968	208,666
Investment securities	-	19,850	228	-	20,078
Loans, deposits and similar assets	-	6,197	-	-	6,197

2016

Type of asset	Counterparties without credit rating				
	New customers	Related parties	Customers paying within maturity period	Customers paying with defaults	TOTAL
Non-current assets					
Investment securities	-	-	-	39,876	39,876
Loans, deposits and similar assets	-	-	991	-	991
Other non-current financial assets	-	-	-	505	505
Other receivables	-	-	-	368	368
Current assets					
Trade receivables	-	87,313	8,857	35,609	131,779
Investment securities	-	17,710	-	-	17,710
Loans, deposits and similar assets	-	376,313	-	-	376,313

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

The Company considers that its maximum exposure is reflected in the amount of receivables net of provisions for impairment recognised at the balance sheet date. The Company's assets, which potentially subject them to concentrations of credit risk, primarily include loans receivable, trade and other receivables.
The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. The Company's credit risk is lower, since receivables are dispersed among a large group of customers.
In the reporting period, the Company has reduced credit risk by implementing strict policies for collection of receivables and delivery of goods, as well as securing receivables by standard collateral instruments (bills of exchange and promissory notes).

Liquidity risk
Liquidity risk, also referred to as funding risk, is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The following table presents the maturity of financial liabilities of the Company as at 31 December 2017 in accordance with contracted undiscounted payments:

31 December 2017	Contracted cash flows	Not past due	Up to 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Borrowings	54,380	-	-	54,380	-	-	-
Loans from related parties	297,946	150,518	58,217	89,211	-	-	-
Trade payables and liabilities to related parties	118,995	54,838	16,109	48,048	-	-	-
Total	471,321	205,356	74,326	191,639	-	-	-

31 December 2016	Contracted cash flows	Not past due	Up to 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
Borrowings	43,473	-	532	42,941	-	-	-
Loans from related parties	59,066	-	7,479	51,587	-	-	-
Trade payables and liabilities to related parties	142,742	56,575	81,903	4,248	16	-	-
Total	245,281	56,575	89,914	98,776	16	-	-

The following overview shows the maturity structure of trade payables, bills of exchange payable and other liabilities of the Company as of 31 December 2017 and 2016 expressed in thousands of HRK:

	< 90 days	90 - 180 days	180 - 270 days	> 270 days		
	in thousands of HRK	in thousands of HRK	in thousands of HRK	in thousands of HRK	Not past due	Total
Trade payables						
At 31 December 2017	14,106	1,988	16,189	31,947	54,765	118,995
At 31 December 2016	115,052	23,178	3,835	677	-	142,742

Other liabilities						
At 31 December 2017	24,201	-	-	19	3,527	27,747
At 31 December 2016	34,262	-	-	-	-	34,262

Liquidity risk is affected by the contingent and recognized liabilities of Ledo d.d. based on co-debtor relations and guarantees (subsidiary and solidarity) according to the confirmed Settlement.

Interest rate risk
Most of the interest-bearing assets and liabilities of the Company represent borrowings. As long-term loans have been received at a fixed interest rate, the Company is not significantly exposed to interest rate risk.
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.

Foreign currency risk
Most of the Company's assets are denominated in HRK. A part of trade payables is denominated in other currencies, primarily EUR. Consequently, the Company 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 Company does not consider it to be significantly exposed to further negative impact of this exposure.

The following table shows the sensitivity of the Company'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	+/- 5%	
EUR	+/- 5%	7,226
USD	+/- 5%	759
2016		
EUR	+/- 5%	2,365
USD	+/- 5%	453
GBP	+/- 5%	(0.02)
CHF	+/- 5%	(0.35)

Capital management
The primary objective of the Company's capital management is to support the business and maximise shareholder value. The capital structure of the Company represents shareholders' equity 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 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

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 of Zagreb. The principal goal of the Extraordinary Administration was conclusion of the Settlement with creditors.

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.

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.

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.

At a session held on 19 June 2018, the members of the Interim Creditors' Council unanimously accepted the Settlement plan between the Debtor and all creditors, which was submitted to the Council by the Extraordinary Commissioner. The Council gave their consent to the Commissioner to submit the agreed text to all creditors via the e-notice board of the Commercial Court.

Given the number of companies within the Group and the complexity of financial restructuring, the creditors confirmed the EPM (Entity Priority Model) as the best model for the recovery of creditors' claims. This is a claim recovery model used in major international company restructuring processes and is widely accepted by international creditors. The same model was used in preparation of the Company's financial statements for 2017, i.e. the Company impaired its receivables from the Agrokor Group entities according to the EPM .

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.

Significant legal disputes against the Company

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 financial statements

The financial statements presented on the pages above have been prepared and approved by the Company's Management Board on 11 July 2018.

Signed on behalf of the Management Board:

Dario Vrabec
President of the Management Board

____

Ankica Slobođanac
Member of the Management Board

____

Dioničko društvo za proizvodnju i promet sladoleda i smrznute hrane

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Upisano u registar Trgovačkog suda
u Zagrebu pod brojem: MBS 080002964
Temeljni kapital Društva iznosi
119.289.600,00 kuna uplaćen u cijelosti.
Izdano je 313.920 dionica u nominalnom
iznosu od 380,00 kuna po dionici.

Uprava
Predsjednik Uprave
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Ankica Slobođanac, dipl.oec
Izvanredni povjerenik
Fabris Peruško
Predsjednik Nadzornog odbora
Vladimir Bošnjak

Statement of responsibility for preparation of financial statements

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 company Ledo d.d.

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

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

MANAGEMENT BOARD

Zagreb, 12th 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 12th July 2018 the following:

DECISION

It is proposed to the General Assembly to pass the Decision on the distribution of loss achieved in the year 2017 which reads:

I. Net loss of the company achieved in the year 2017 amounts to HRK 2,854,576,131.70 . Since the Company's loss cannot be entirely covered by the Company's capital and reserves, due to its height, pursuant to the Article 29.1.2. of the Settlement from 4th July 2018 concluded in the procedure of Extraordinary Administration before the Commercial Court of Zagreb, No. St-1138/17, after the Decision from 6th July 2018 based on which the Settlement was confirmed becomes final, the Company shall not continue the business operations but its business shall be transferred to a newly established company.

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

PRESIDENT OF THE MANAGEMENT BORD
mr.sc. Dario Vrabec