**LISTING PROSPECTUS**

# Agrokor d.d.

# €150,000,000 10% Senior Notes due 2016

*Guaranteed on an unsecured senior basis by certain subsidiaries of Agrokor d.d.*

Agrokor d.d., a company incorporated under the laws of Croatia (the "Issuer"), is offering (the "Offering") €150,000,000 aggregate principal amount of its 10% Senior Notes due 2016 (the "Additional Notes"). The Additional Notes are being offered as additional Notes under an indenture dated as of December 7, 2009 (the "Indenture") pursuant to which the Issuer issued €400,000,000 of 10% Senior Notes due 2016 (the "Original Notes" and, together with the Additional Notes, the "Notes"). The Additional Notes and the Original Notes will constitute a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase.

Certain of the Issuer's subsidiaries, including Agrokor trgovina d.d., Jamnica d.d., Konzum d.d., Ledo d.d., Ledo d.o.o. Čitluk, PIK Vinkovci d.d., Sarajevski kiseljak d.d. and Zvijezda d.d. (each, a "Subsidiary Guarantor" and, collectively, the "Subsidiary Guarantors") will guarantee the due and punctual payment of all amounts due and payable in respect of the Notes (the "Guarantees"). The Issuer will pay interest on the Additional Notes semi-annually in arrears on each June 7 and December 7 in each year, commencing June 7, 2011 at a rate of 10% per annum. The Notes will mature on December 7, 2016.

The Notes and the Guarantees will be senior indebtedness of the Issuer and each Subsidiary Guarantor, respectively, and will rank *pari passu* in right of payment with all existing and future senior indebtedness of the Issuer and the Subsidiary Guarantors, senior in right of payment to any future subordinated indebtedness of the Issuer and the Subsidiary Guarantors and effectively subordinated to any existing and future secured indebtedness of the Issuer and the Subsidiary Guarantors to the extent of the value of the assets securing such indebtedness.

At any time prior to December 7, 2013, the Issuer may, at its option, redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest (if any) plus a "make whole" premium. The Issuer also may redeem the Notes on or after December 7, 2013, in whole or in part, at its option at a redemption price equal to the principal amount thereof plus accrued and unpaid interest and a redemption premium and certain additional amounts (if any) to the redemption date. In addition, on or prior to December 7, 2013, the Issuer may redeem up to 35% of the original principal amount of the Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 110% of the principal amount thereof plus accrued and unpaid interest (if any) to the redemption date, provided that at least 65% of the original principal amount of the Notes remain outstanding after the redemption. In the event of certain developments affecting taxation or certain other circumstances, the Issuer may redeem the Notes in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest (if any) and additional amounts (if any) to the date of redemption. If the Issuer undergoes a change of control or sells certain of the Group's assets, the Issuer may be required to make an offer to purchase the Notes. See "Description of the Notes".

This listing prospectus includes information on the terms of the Additional Notes and the Guarantees, including redemption and repurchase prices, covenants and transfer restrictions.

Application has been made to admit the Additional Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market ("Euro MTF"). This listing prospectus constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on Prospectuses for Securities.

The Additional Notes will be issued in denominations of €50,000 and in integral multiples of €1,000 in excess thereof. On the closing date of the Offering, global notes representing the Additional Notes will be deposited and registered in the name of a nominee of a common depositary for Euroclear Bank S.A./NV ("Euroclear") and/or Clearstream Banking, *société anonyme* ("Clearstream"). The Additional Notes were delivered to the Initial Purchasers (as defined herein) on January 20, 2011 against payment therefor in immediately available funds.

**You should carefully consider the risk factors beginning on page 10 before investing in the Notes.**

Offering Price of the Additional Notes: 107.75% plus accrued interest from December 7, 2010.

We have not registered and will not register the Additional Notes or the related Guarantees under the US federal securities laws or the securities laws of any other jurisdiction. The Initial Purchasers are offering the Additional Notes and the related Guarantees only to (i) "qualified institutional buyers" in reliance on Rule 144A of the US Securities Act of 1933, as amended (the "US Securities Act"), and (ii) to certain persons outside the United States in accordance with Regulation S of the US Securities Act. See "Important Information for Investors," "Notice to Certain European Investors," "Plan of Distribution" and "Transfer Restrictions" for additional information about eligible offerees and transfer restrictions.

*Joint Bookrunners*

**BNP PARIBAS** **UniCredit (Zagrebačka banka)**

*Co-managers*

**Erste Group** **Privredna banka Zagreb, a bank of Intesa Sanpaolo**
**Raiffeisen Bank International AG** **Société Générale**

The date of this Listing Prospectus is 7 February 2011.

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## IMPORTANT INFORMATION FOR INVESTORS

We accept responsibility for the information contained in this listing prospectus (the "Listing Prospectus") and, to the best of our knowledge (having taken reasonable care to ensure that such is the case), the information is in accordance with the facts and contains no omission likely to affect the import of such information. As used in this Listing Prospectus, unless the context otherwise requires, references to the "Issuer" are to Agrokor d.d. and references to "Agrokor," "we," "us," "our," the "Group" and the "Agrokor Group" are to Agrokor d.d. and its consolidated subsidiaries.

This document does not constitute a prospectus for the purposes of Section 12(a)(2) of or any other provision of or rule under the US Securities Act.

This Listing Prospectus is based on information provided by us and other sources believed by us to be reliable. BNP Paribas, UniCredit (Zagrebačka banka), Erste Group Bank AG, Privredna banka Zagreb d.d., Raiffeisen Bank International AG and Société Générale (the "Initial Purchasers") are not responsible for, and are not making any representation or warranty to you concerning, our future performance or the accuracy or completeness of this Listing Prospectus.

In making an investment decision regarding the Additional Notes offered hereby, you must rely on your own examination of the Issuer and the Subsidiary Guarantors and the terms of this Offering, including the merits and risks involved. You should rely only on the information contained in this Listing Prospectus. We have not, and the Initial Purchasers have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this Listing Prospectus is accurate as of the date on the front cover of this Listing Prospectus only. Our business, financial condition, results of operations and the information set forth in this Listing Prospectus may have changed since that date.

You should not consider any information in this Listing Prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Additional Notes. We are not, and the Initial Purchasers are not, making any representation to any offeree or purchaser of the Additional Notes regarding the legality of an investment in the Additional Notes by such offeree or purchaser under appropriate investment or similar laws. This Listing Prospectus is to be used only for the purposes for which it has been published.

We obtained the market data used in this Listing Prospectus from internal surveys, industry sources and currently available information. These sources include the Croatian Bureau of Statistics and other publicly available information. We have obtained information regarding the food retail market from the market research bureau GfK Consumer Tracking, regarding the ice cream and frozen food market and the edible oils and margarine market from the market research bureau MEMRB and regarding the water and beverage market from the Croatian Association of Water and Beverages Producers, as well as from other sources. Although we believe that our sources are reliable, you should keep in mind that we have not independently verified information we have obtained from industry and governmental sources and that information from our internal surveys has not been verified by any independent sources. We accept responsibility for having correctly reproduced information obtained from industry publications or public sources. See "Presentation of Financial, Market and Other Information—Certain Market Data."

The contents of our website do not form any part of this Listing Prospectus.

We may withdraw this Offering at any time, and we and the Initial Purchasers reserve the right to reject any offer to purchase the Additional Notes in whole or in part and to sell to any prospective investor less than the full amount of the Additional Notes sought by such investor. The Initial Purchasers and certain related entities may acquire a portion of the Additional Notes for their own accounts.

The Additional Notes and the related Guarantees have not been and will not be registered under the US Securities Act or the securities laws of any state of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the US Securities Act ("Regulation S")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act.

The Additional Notes and the related Guarantees are being offered and sold outside the United States in reliance on Regulation S and within the United States to "qualified institutional buyers" ("QIBs") in reliance on Rule 144A of the US Securities Act ("Rule 144A"). Prospective purchasers are hereby notified that the sellers of the Additional Notes may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A. For a description of these and certain other restrictions on offers, sales and transfers of the Additional Notes and the distribution of this Listing Prospectus, see "Transfer Restrictions."

**The Additional Notes and the Guarantees have not been approved or disapproved by the US Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering of the Additional Notes or the accuracy or adequacy of this Listing Prospectus. Any representation to the contrary is a criminal offence in the United States.**

The Additional Notes and the related Guarantees are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the US Securities Act and applicable state securities laws pursuant to registration thereunder or exemption therefrom. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

The distribution of this Listing Prospectus and the offer and sale of the Additional Notes may be restricted by law in certain jurisdictions. You must inform yourself about, and observe, any such restrictions. See "Important Information for Investors," "Notice to Certain European Investors" "Transfer Restrictions" and "Plan of Distribution" elsewhere in this Listing Prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Additional Notes or possess or distribute this Listing Prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the Additional Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. We are not, and the Initial Purchasers are not, making an offer to sell the Additional Notes or a solicitation of an offer to buy any of the Additional Notes to any person in any jurisdiction except where such an offer or solicitation is permitted.

**IN CONNECTION WITH THIS OFFERING THE STABILIZING MANAGERS (OR AFFILIATES ACTING ON BEHALF OF THE STABILIZING MANAGERS) MAY OVER-ALLOT ADDITIONAL NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE ADDITIONAL NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGERS (OR AFFILIATES ACTING ON BEHALF OF A STABILIZING MANAGER) WILL UNDERTAKE STABILIZING ACTION. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED TIME.**

## NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## NOTICE TO CERTAIN EUROPEAN INVESTORS

**European Economic Area** This Listing Prospectus has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under Article 3 of Directive 2003/71/EC (the "Prospectus Directive"), as implemented in member states of the European Economic Area (the "EEA"), from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of the Notes should only do so in circumstances in which no obligation arises for us or any of the Initial Purchasers to produce a prospectus for such offer. Neither we nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the Initial Purchasers, which constitute the final placement of the Additional Notes contemplated in this Listing Prospectus.

In relation to each Member State of the EEA that has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), the offer is not being made and will not be made to the public of any Notes which are the subject of the Offering contemplated by this Listing Prospectus in that Relevant Member State, other than: (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of the Notes shall require us or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression an "offer of Notes to the public" in relation to the Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

**Austria** The Notes may be offered and sold in Austria only in accordance with the provisions of the Banking Act, the Securities Supervision Act of Austria (*Bankwesengesetz* and *Wertpapieraufsichtsgesetz*) and any other applicable Austrian law. The Notes have not been admitted to public offer in Austria under the provisions of the Capital Markets Act or the Investment Fund Act or the Exchange Act (*Kapitalmarktgesetz*, *Investmentfondsgesetz* or *Borsengesetz*). Consequently, in Austria, the Notes may not be offered or sold directly or indirectly by way of a public offering in Austria and will only be available to a limited group of persons within the scope of their professional activities.

**Croatia** The Notes may only be offered, sold and acquired, in the Republic of Croatia in accordance with the Capital Market Act (Official Gazette of the Republic of Croatia *Narodne novine* Nos. 88/2008, 146/2008 and 74/2009) (the "Capital Market Act," *Zakon o tržištu kapitala*). This Listing Prospectus has not been submitted for clearance by the Croatian Financial Services Supervisory Agency, and accordingly, the Notes may not be, and are not being, offered or advertised publicly. The Notes will only be offered to and this Listing Prospectus and any other offering material in relation to the Notes is directed only at persons who are qualified investors (*kvalificirani ulagatelji*) within the meaning of Article 343, point 6 of the Capital Market Act. The definition of the "qualified investors" under the abovementioned provision of the Capital Market Act corresponds in its material scope to the definition of the same term under the Prospectus Directive.

**France** This Listing Prospectus has not been prepared in the context of a public offering in France within the meaning of Article L. 411-1 of the *Code Monétaire et Financier and Title I of Book II of the Règlement Général of the Autorité des marchés financiers* (the "AMF") and therefore has not been submitted for clearance to the AMF. Consequently, the Notes may not be, directly or indirectly, offered or sold to the public in France, and offers and sales of the Notes will only be made in France to providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour le compte de tiers*) and/or to qualified investors (*investisseurs qualifiés*) and/or to a closed circle of investors (*cercle restreint d'investisseurs*) acting for their own accounts, as defined in and in accordance with Articles L. 411-2 and D. 411-1 of the Code of Monétaire et Financier. Neither this Listing Prospectus nor any other offering material may be distributed to the public in France.

**Germany** The Offering of the Notes is not a public offering in the Federal Republic of Germany. The Notes may only be offered, sold and acquired in accordance with the provisions of the Securities Prospectus Act of the Federal Republic of Germany (the "Securities Prospectus Act," *Wertpapierprospektgesetz, WpPG*), as amended, and any other applicable German law. No application has been made under German law to publicly market the Notes in or out of the Federal Republic of Germany. The Notes are not registered or authorized for distribution under the Securities Prospectus Act and accordingly may not be, and are not being, offered or advertised publicly or by public promotion. Therefore, this

Listing Prospectus is strictly for private use and the offer is only being made to recipients to whom the document is personally addressed and does not constitute an offer or advertisement to the public. The Notes will only be available to and this Listing Prospectus and any other offering material in relation to the Notes is directed only at persons who are qualified investors (*qualifizierte Anleger*) within the meaning of Section 2, No. 6 of the Securities Prospectus Act. Any resale of the Notes in Germany may only be made in accordance with the Securities Prospectus Act and other applicable laws.

**The Netherlands** The Notes (including rights representing an interest in each global note that represents the Notes) may not be offered or sold to individuals or legal entities in The Netherlands unless a prospectus relating to the offer is available to the public which is approved by the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*) or by a supervisory authority of another member state of the European Union (the "EU"). Article 5:3 Financial Supervision Act (the "FSA") and article 53 paragraph 2 and 3 Exemption Regulation FSA provide for several exceptions to the obligation to make a prospectus available such as an offer to qualified investors within the meaning of article 5:3 FSA.

**Spain** This Offering has not been registered with the *Comisión Nacional del Mercado de Valores* (the "CNMV") and therefore the Notes may not be offered or sold or distributed in Spain except in circumstances which do not qualify as a public offer of securities in Spain in accordance with article 30 bis of the Securities Market Act ("*Ley 24/1988, de 28 de julio del Mercado de Valores*") as amended and restated, or pursuant to an exemption from registration in accordance with article 41 of the Royal Decree 1310/2005 ("*Real Decreto 1310/2005, de 4 de noviembre por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*").

**United Kingdom** This Listing Prospectus is for distribution only to, and is only directed at, persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, (the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) in connection with the issue or sale of any Notes may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This Listing Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The Notes are being offered solely to "qualified investors" as defined in the Prospectus Directive and accordingly the offer of Notes is not subject to the obligation to publish a prospectus within the meaning of the Prospectus Directive.

## LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

### United States Law

None of the directors and executive officers of the Issuer and the Subsidiary Guarantors are resident in the United States. All or a substantial portion of their and our assets are located outside the United States. As a result, it may not be possible for you to:

- effect service of process within the United States upon any directors and executive officers of the Issuer or the Subsidiary Guarantors; or
- enforce, in the United States, court judgments obtained in US courts against the Issuer or the Subsidiary Guarantors or any of the directors and executive officers of the Issuer or the Subsidiary Guarantors in any action, including actions under the civil liability provisions of US securities laws.

The Notes and the Guarantees are governed by the laws of the State of New York, and the Issuer and the Subsidiary Guarantors have agreed that disputes arising thereunder are subject to the non-exclusive jurisdiction of federal and state courts in the Borough of Manhattan in the City of New York.

### Enforcement of Judgments in Croatia

Our counsel has advised that there is doubt as to the enforceability in Croatia in original actions, or in actions for the enforcement of judgments of US courts, of civil liabilities predicated solely upon the laws of the State of New York and/or the federal laws of the United States. Our counsel has further advised that Croatia is not a party to any multilateral or bilateral treaty by which the judgments of US courts would be recognized and enforced, and that to their knowledge there are no cases whereby the “factual reciprocity” has been established. Therefore, the relevant Croatian conflict statutory laws will directly apply. Our counsel has further advised that in general, judgments of non-Croatian courts will have the same status and legal effect as of Croatian court judgments if they are recognized by a Croatian court. Such a decision will be recognized unless (i) the issue involved falls within the exclusive jurisdiction of a Croatian court; (ii) a Croatian court or another tribunal has rendered a final binding decision on the same issue, or if another foreign judicial decision rendered on the same issue has been recognized in Croatia; (iii) it is contrary to the public policy of Croatia; (iv) there is no reciprocity (currently, there is a rebuttable presumption (*praesumptio juris tanto*) such reciprocity exists); or (v) it is found that there were procedural irregularities in the proceedings before the non-Croatian court which are objected to by the party against whom judgment was made.

### Enforcement of Judgments in Bosnia and Herzegovina

Our counsel has advised us that there is doubt as to the enforceability in the Federation of Bosnia and Herzegovina in original actions, or in actions for the enforcement of judgments of US courts, of civil liabilities predicated solely upon the laws of the State of New York and/or the federal laws of the United States. Our counsel has further advised us that the Federation of Bosnia and Herzegovina is not a party to any multilateral or bilateral treaty by which the judgments of US courts would be recognized and enforced, and that to their knowledge there are no cases whereby the “factual reciprocity” has been established. Therefore, the relevant conflict statutory laws of the Federation of Bosnia and Herzegovina will directly apply. Our counsel has further advised us that in general, judgments of non-Bosnia and Herzegovina courts will have the same status and legal effect as judgments of courts in the Federation of Bosnia and Herzegovina if they are recognized by a court in the Federation of Bosnia and Herzegovina. Such a decision will be recognized unless (i) the issue involved falls within the exclusive jurisdiction of a court in the Federation of Bosnia and Herzegovina; (ii) a court in the Federation of Bosnia and Herzegovina or another tribunal has rendered a final binding decision on the same issue, or if another foreign judicial decision rendered on the same issue has been recognized in the Federation of Bosnia and Herzegovina; (iii) it is contrary to the public policy of the Federation of Bosnia and Herzegovina; (iv) there is no reciprocity (currently, there is a rebuttable presumption that such reciprocity exists); or (v) it is found that there were procedural irregularities in the proceedings before the non-Bosnia and Herzegovina court which are objected to by the party against whom judgment was made.

## INFORMATION REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this Listing Prospectus are not historical facts and are “forward looking” within the meaning of Section 27A of the US Securities Act and Section 21E of the US Securities Exchange Act of 1934, as amended (the “US Exchange Act”). This document contains certain forward looking statements in various sections, including, without limitation, under the headings “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business Description,” and in other sections where the Listing Prospectus includes statements about our intentions, beliefs or current expectations regarding our future financial results, plans, liquidity, prospects, growth, strategy and profitability, as well as the general economic conditions of the industry in which we operate. We may from time to time make written or oral forward looking statements in other communications. Forward looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries and the political and legal environment in which we operate and other information that is not historical information.

Words such as “believe,” “anticipate,” “estimate,” “expect,” “intend,” “predict,” “project,” “could,” “may,” “will,” “plan” and similar expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under “Risk Factors,” as well as those included elsewhere in this Listing Prospectus. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements. These factors include:

- changes in political, social, legal, regulatory or economic conditions in the markets in which we operate;
- the effects of, and changes in, the policies of the government in the markets in which we operate;
- our ability to obtain or comply with necessary regulatory approvals and licenses for our businesses;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our ability to successfully implement any of our business strategies;
- our ability to successfully consummate acquisitions or integrate acquired businesses;
- our ability to divest non-core assets and businesses on favorable terms;
- our ability to recruit and retain senior management and personnel;
- our expectations about growth in demand for our products and services;
- the effects of competition and pricing pressure;
- the effects of the seasonality of our business;
- the effects of international political events;
- the impact of fluctuations in commodity and raw material prices;
- inflation, interest rate and exchange rate fluctuations;
- the interests of our controlling shareholders;
- our reliance on our information technology systems;
- risks related to products liability claims or other consumer claims;

- the impact of diseases among or attributed to livestock or other biological products;
- disruptions of our business operations due to supply shortages, work stoppages or interruptions in our supply chain or at our production or distribution facilities;
- risks related to our ability to maintain the reputation of, control over and value associated with, our trademarks and our brand name; and
- our success in identifying other risks to our businesses and managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward looking statements will be achieved, and such forward looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

## PRESENTATION OF FINANCIAL, MARKET AND OTHER INFORMATION

### Presentation of Financial Information

We prepared our unaudited consolidated financial statements for the nine month periods ended September 30, 2009 and 2010 and our audited consolidated financial statements for the years ended December 31, 2007, 2008 and 2009 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. IFRS differs in certain significant respects from generally accepted accounting principles in the United States ("US GAAP"). Furthermore, our audited historical financial statements have been audited in conformity with IFRS, which differs in certain significant respects from generally accepted auditing standards in the United States. The financial information included in this Listing Prospectus is not intended to comply with SEC reporting requirements.

For the year ended December 31, 2008, we changed the presentation of certain amounts in our balance sheet in line with changes in certain accounting policies adopted starting in 2008. In order to conform the comparative 2007 amounts to the 2008 balance sheet presentation, we restated the comparative 2007 amounts in our 2008 audited consolidated financial statements included elsewhere herein. See Note 1.29 (Changes in accounting policies) to our 2008 audited consolidated financial statements. As a result, certain comparative December 31, 2007 balance sheet amounts contained in our 2008 audited consolidated financial statements will differ from the corresponding balance sheet amounts contained in our 2007 audited consolidated financial statements included elsewhere herein. No restatements were made to our 2007 audited consolidated income statements as a consequence of the aforementioned changes in accounting policies.

In various sections of this Listing Prospectus, we refer to our EBITDA. Except for "Consolidated EBITDA" in "Description of Notes," which is used as defined in that section, and for "EBITDA" in "Description of Other Financing Arrangements" which is used as defined in the agreements described in that section, EBITDA represents operating profit plus depreciation and amortization. We use EBITDA-based measures as internal measures of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA-based measures are measures used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe EBITDA-based measures are useful and commonly used measures of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA-based measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA-based measures and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA-based measures differently, so making comparisons among companies on this basis should be done very carefully. EBITDA-based measures are not measures of performance under IFRS and should not be considered in isolation or construed as substitutes for operating profit or net profit as an indicator of our operations in accordance with IFRS.

In addition to EBITDA, we have included other non-GAAP financial measures in this Listing Prospectus. We believe that it is useful to include these non-GAAP measures as they are used by us for internal performance analysis and the presentation by our business segments of these measures facilitates comparability with other companies in our industry, although our measures may not be comparable with similar measurements presented by other companies. These other non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS.

For the convenience of the reader, certain financial data in this Listing Prospectus has been subject to rounding and, as a result, the totals of the data presented herein may vary slightly from the actual arithmetic totals of such data.

### Certain Market Data

In this Listing Prospectus, we rely on and refer to information regarding our business and the market in which we operate and compete. Certain market data and certain economic and industry data and forecasts used in this Listing Prospectus were obtained from internal surveys, market research (including market research from UniCredit Research), governmental and other publicly available information, independent industry publications and reports prepared by industry consultants that we believe to be reliable, including the Croatian Bureau of Statistics and other publicly available information. Certain market share information and other statements presented herein regarding our position relative to our competitors with respect to the production or distribution of particular products are based on published statistical data or information obtained from independent third parties that we believe to be reliable, including the market research bureau GfK Consumer Tracking in connection with the food retail market; the research bureau MEMRB in connection with the ice cream and frozen food market and edible oils and margarines; and the Croatian Association of Water and

Beverages Producers in connection with the water and beverages market, and other sources, as well as on our knowledge of our sales and markets, our own investigation into market conditions and our calculations based on such information. We have also based these estimates on information obtained from our customers, trade and business organizations and associations and other contacts in our industries. However, we operate in a number of different market segments in a region in which it is difficult to obtain precise or current industry and market information, which makes the available industry and market information incomplete or non-comparable. In those cases where there was no readily available or reliable external information to validate market-related analyses or estimates or the data conflicted with other data or was non-comparable or internally inconsistent, we have relied on internally developed estimates which we believe to be accurate. There can be no assurance that any of these assumptions or estimates are accurate or correctly reflect our market share or our competitive position or those of the other market participants.

Although we believe that our sources are reliable, you should keep in mind that we have not independently verified information we have obtained from industry and other third-party sources and that information from our internal surveys and management estimates has not been verified by any independent sources.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. In addition, there is less publicly available information and data collection is generally less reliable and less up-to-date in our Primary Markets than in the European Union or North America. All of these factors make it more difficult to compile accurate market and other information. Accordingly, while we believe that these industry publications, surveys and forecasts are reliable but we have not independently verified them and cannot guarantee their accuracy or completeness. Where we have found information from different sources to be conflicting, we have used the information that we believe to be the most accurate and prepared on a basis consistent with the other sources we have used.

We cannot assure you that any of the assumptions underlying these statements are accurate or correctly reflect our position in the industry and none of our internal surveys or information have been verified by any independent sources. Neither we nor the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this information.

As used herein, the term “ton” refers to a metric ton of 1,000 kilograms.

## CURRENCY PRESENTATION

In this Listing Prospectus:

- "euro," "€" or "EUR" refer to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time;
- "Convertible Marks" or "BAM" refer to the lawful currency of Bosnia and Herzegovina;
- "Forint" or "HUF" refer to the lawful currency of Hungary;
- "Kuna" or "HRK" refer to the lawful currency of Croatia;
- "Serbian Dinar," "RSD" or "Dinar" refer to the lawful currency of Serbia; and
- "US dollars," "$," or "USD" refer to the lawful currency of the United States of America.

## HISTORICAL EXCHANGE RATE INFORMATION

The following tables set forth the high, low, average and period end Bloomberg Composite Rate, expressed as Kuna per €1.00 and Kuna per $1.00 for the periods indicated. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates may differ from the actual rates used in the preparation of the consolidated financial statements and certain other financial information appearing in this Listing Prospectus as we prepare our consolidated financial information utilizing the relevant exchange rate information made available by the National Bank of Croatia as of the relevant date or period end. In addition, in certain places in this Listing Prospectus we provide courtesy translations from HRK into euro on the basis of the National Bank of Croatia official rate for the relevant period or date (unless otherwise indicated). Neither we nor the Initial Purchasers represent that the euro, or US dollar amounts referred to below could be or could have been converted into such currencies at any particular rate indicated or any other rate.

The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The average rate for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

| | Bloomberg Composite Rate | | | |
|---|---|---|---|---|
| **Kuna per euro** | **Period End** | **Average** | **High** | **Low** |
| **Year ended December 31,** | | | | |
| 2006 | 7.3509 | 7.3172 | 7.4486 | 7.2365 |
| 2007 | 7.3320 | 7.3371 | 7.4290 | 7.2746 |
| 2008 | 7.3737 | 7.2230 | 7.3737 | 7.0681 |
| 2009 | 7.2961 | 7.3377 | 7.5395 | 7.2246 |
| 2010 | 7.3853 | 7.2935 | 7.4305 | 7.1831 |
| **Month ended** | | | | |
| July 31, 2010 | 7.2378 | 7.2195 | 7.2490 | 7.1831 |
| August 31, 2010 | 7.2745 | 7.2524 | 7.2828 | 7.2205 |
| September 30, 2010 | 7.3063 | 7.2846 | 7.3063 | 7.2514 |
| October 31, 2010 | 7.3468 | 7.3281 | 7.3468 | 7.2935 |
| November 30, 2010 | 7.4257 | 7.3826 | 7.4305 | 7.3422 |
| December 31, 2010 | 7.3853 | 7.3907 | 7.4266 | 7.3715 |
| January 2011 (through January 14, 2011) | 7.3978 | 7.3988 | 7.4058 | 7.3830 |

| | Bloomberg Composite Rate | | | |
|---|---|---|---|---|
| **Kuna per US dollar** | **Period End** | **Average** | **High** | **Low** |
| **Year ended December 31,** | | | | |
| 2006 | 5.5691 | 5.7868 | 6.2463 | 5.5224 |
| 2007 | 5.0250 | 5.3264 | 5.7147 | 4.9295 |
| 2008 | 5.2785 | 4.9360 | 5.7645 | 4.5340 |
| 2009 | 5.0795 | 5.2743 | 5.9629 | 4.8065 |
| 2010 | 5.5166 | 5.5313 | 6.0847 | 5.0163 |

| Kuna per US dollar | Bloomberg Composite Rate | | | |
|---|---|---|---|---|
| **Month ended** | Period End | Average | High | Low |
| July 31, 2010 | 5.5472 | 5.6409 | 5.7438 | 5.5428 |
| August 31, 2010 | 5.7376 | 5.6257 | 5.7656 | 5.4436 |
| September 30, 2010 | 5.3571 | 5.5699 | 5.7452 | 5.3533 |
| October 31, 2010 | 5.2663 | 5.2733 | 5.3407 | 5.2048 |
| November 30, 2010 | 5.7228 | 5.4162 | 5.7228 | 5.1708 |
| December 31, 2010 | 5.5166 | 5.5880 | 5.6520 | 5.4977 |
| January 2011 (through January 14, 2011) | 5.5235 | 5.6259 | 5.7332 | 5.5235 |

## CERTAIN DEFINITIONS

Unless otherwise specified or the context requires otherwise, in this Listing Prospectus:

"Additional Notes" refers to the €150,000,000 aggregate principal amount of the Issuer's 10% Senior Notes due 2016 being offered pursuant to this Listing Prospectus to be issued pursuant to the Indenture;

"Bilateral facilities" refers to our short-term and long-term bilateral credit facilities that we expect to be outstanding after the issuance of the Additional Notes and the use of proceeds therefrom as described under "Capitalization" and "Description of Other Financing Arrangements";

"CEE" or "Central and Eastern Europe" refers to the countries of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Montenegro, Poland, Serbia, Slovakia, Slovenia and Romania;

"Credit Agricole" refers to Credit Agricole Srbija Ad Novi Sad;

"EBITDA" is defined under "Presentation of Financial, Market and Other Information";

"EBRD" refers to the European Bank for Reconstruction and Development;

"EBRD facilities" refers to the 2009 EBRD Loan Agreement and the 2008 EBRD Loan Agreement as described under "Description of Other Financing Arrangements";

"IFC" refers to the International Finance Corporation;

"IFC facilities" refers to the 2009 IFC Loan Agreement, the 2008 IFC Loan Agreement and the 2006 IFC Loan Agreement as described under "Description of Other Financing Arrangements";

"Indenture" refers to the indenture dated as of December 7, 2009 among the Issuer, BNY Corporate Trustee Services Limited, as trustee, The Bank of New York Mellon, as transfer agent and principal paying agent, The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg listing agent, paying agent, transfer agent and registrar and the Guarantors, as supplemented;

"Issuer" refers to Agrokor d.d.;

"Original Notes" refers to the €400,000,000 aggregate principle amount of the Issuer's 10% Senior Notes due 2016 issued on December 7, 2009 pursuant to the Indenture;

"Primary Markets" refers to the countries of Croatia, Serbia and Bosnia and Herzegovina;

"Senior Credit Facility" refers to our term loan and revolving credit facility provided under our Senior Facilities Agreement, as described under "Description of Other Financing Arrangements";

"South Eastern Europe" refers to the countries of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Macedonia, Montenegro, Slovenia, Serbia and Romania; and

"Subsidiary Guarantors" refers to Agrokor trgovina d.d., Jamnica d.d., Konzum d.d., Ledo d.d., Ledo d.o.o. Čitluk, PIK Vinkovci d.d., Sarajevski kiseljak d.d. and Zvijezda d.d.

# SUMMARY

*This summary highlights information contained elsewhere in this Listing Prospectus about the Offering and our business, financial performance and prospects. This summary does not contain all of the information that may be important to you in deciding to invest in the Additional Notes and it is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Listing Prospectus. You should read the entire Listing Prospectus, including the section entitled "Risk Factors" and the financial statements and related notes contained in this Listing Prospectus before making an investment decision.*

## Our Business

We are one of the leading food retailers and wholesalers and food and beverages producers in Central and Eastern Europe (the "CEE"). The primary markets in which we currently operate are Croatia, Serbia and Bosnia and Herzegovina (our "Primary Markets"). In addition, we also sell our food and beverage products in Hungary, Macedonia, Montenegro and Slovenia. In total, our business operations cover a region having a population of more than 30 million people.

Our activities are organized into two principal divisions:

- Retailing and Wholesale; and
- Food Manufacturing and Distribution.

We are also engaged in commodity brokerage and other non core activities, (our "Other Businesses").

Our two main business divisions are complementary and together provide us with an integrated business model that covers the entire supply chain from sourcing raw materials, production and distribution, to direct contact with customers through our wholesale and retail sales outlets. In addition, the broad coverage of our retail network and the flexibility provided by our multi-format retail stores (which allows us to tailor store size and format to local demographics) provides us with greater access to consumers in our Primary Markets.

We had consolidated sales of HRK 26,476.7 million (€3,607.4 million) and EBITDA of HRK 2,185.3 million (€297.7 million) in 2009. For the nine months ended September 30, 2010, we had consolidated sales of HRK 19,712.5 million (€2,715.3 million) and EBITDA of HRK 1,734.2 million (€238.9 million). In addition, we had a total of 35,702 employees as of September 30, 2010. Our sales outside Croatia represented 24.4% of consolidated total sales in 2008, 25.5% in 2009 and 26.1% in the first nine months of 2010.

## Our Competitive Strengths

We believe that our business benefits from the following competitive strengths:

- ***Leading market positions supported by a diverse portfolio of leading brands and products.*** We hold leading market positions in a majority of our business segments in each of our Primary Markets, as well as in certain of our business segments in Slovenia and Montenegro. For example, our Retailing and Wholesale division has the leading market position in terms of sales in both Croatia and Bosnia and Herzegovina and the third leading market position in terms of sales in Serbia. In the Food Manufacturing and Distribution division, we have the leading market position in terms of volume in water in Croatia, as well as in Bosnia and Herzegovina. In ice cream and margarines, we have the leading market position in terms of volume in each of our Primary Markets and in Montenegro. Our leading market positions are supported by a diversified portfolio of leading brand names and products in both our Retailing and Wholesale and Food Manufacturing and Distribution divisions. We have been able to further strengthen this market position by responding to our customers' changing needs through the introduction of lower cost "B" brands in the Ice Cream and Frozen Food and the Water and Beverages segments to capture more price-sensitive customers. We believe that we operate in markets where there is a strong brand culture. Each of our brands has a high level of consumer awareness, and certain of our brand names, such as Zvijezda and Jamnica sell products that rank among the top ten products with the highest brand awareness in Croatia. In 2010, we received the "Most Trusted" brand award from Reader's Digest for our Zvijezda, Ledo and Jana products as well as for Konzum.

- ***Vertically integrated business model with local strategic partnerships.*** Our business model is based on the vertical integration of our operations, which include agriculture, animal feeding and breeding, as well as food manufacturing and distribution and food retail and wholesale. Through these businesses, we control the entire supply chain, from sourcing raw materials, production and distribution to direct contact with end customers through our retail and wholesale outlets and, as a result, we have full traceability, and enhanced quality control over our products. In addition, vertical integration enables us to quickly and efficiently adjust our Food Manufacturing and Distribution product portfolio to respond to shifts in consumer purchasing patterns and to support our product innovation and ability to lead and respond quickly to changes in market trends. We rely on strategic partnerships with local suppliers for whom we are often the largest buyer within our Primary Markets. The volume of our purchase orders often enables us to have more favorable terms and conditions with our suppliers. We believe that these strategic partnerships with local suppliers combined with our model of vertical integration present barriers to entry.

- ***Strong consumer access supported by broad distribution networks.*** Our extensive retail and wholesale coverage, supported by an efficient distribution network and the flexibility provided by our multi-format retail store model (tailored to local demographics in terms of size and format) provides us with broad access to consumers in our Primary Markets. For example, our Konzum supermarket chain has the largest number of stores and approximately 95% geographic coverage in Croatia and is supported by one of the largest distribution networks in the country. In addition, we have a wide range of products (up to 40,000 stock-keeping units) that we regularly adjust to satisfy changing consumer tastes and preferences. Furthermore, we are able to track these tastes and preferences on a store-by-store basis with the data we obtain through our Konzum Plus loyalty card program, which comprises more than 800,000 customers in Croatia, and our point-of-sale terminals. We then adjust our inventory, pricing and marketing activities accordingly. Our access to consumers is also supported by our extensive distribution network in each of our businesses, which we believe presents a strong barrier to entry. This is particularly important in Croatia due to its shape and geography, including more than 1,000 islands, which present significant challenges for efficient and timely distribution.

- ***Strong financial results in a resilient industry.*** We maintain a stable cash flow and produce strong financial results through our integrated business model, which includes a combination of food retail and wholesale operations and the production of food and beverages. The food industry tends to be less cyclical as a result of food consumption being less sensitive to economic fluctuations since it is less dependent on discretionary spending. For example, during 2009, the food retail market fell by only 3.6% in Croatia in real terms, while the total retail market according to the Croatian Bureau of Statistics, fell by 15.3% and the GDP of Croatia fell by 5.8%. Even during the challenging conditions during 2009 and 2010, we have continued to demonstrate the resilience and success of our business model, which is reflected in our stable revenues and increase in EBITDA margin during the recessionary environment in our Primary Markets. For the nine months ended September 30, 2010, our sales remained flat (a decrease of 0.1% compared to the same period last year), while the EBITDA margin increased from 8.0% to 8.8% compared to the nine months ended September 30, 2009 while the EBITDA margin increased from 8.0% to 8.8% compared to the nine months ended September 30, 2009. Our consolidated sales grew at a compound annual growth rate of 24.2% over the last nine years, while EBITDA grew at a rate of 22.5% over the same period. We believe that we will continue to generate stable cash flows due to the resilient nature of both the industries in which we operate, which are less affected than other industries by the still challenging economic environment that persists globally and in our Primary Markets.

- ***State-of-the-art facilities and cost efficiency.*** Our state-of-the-art facilities allow us to produce high-quality products that meet international standards in a cost efficient manner. During the period from 2006 to 2009, we invested more than HRK 7,239.3 million in modernizing and increasing the capacity of our production facilities. Since 2005, we have made a greenfield investment of more than HRK 1 billion in PIK Vrbovec, our red meat production facility, in order to automate the entire production process. Our investment in state-of-the-art facilities combined with our increasing purchasing power has enabled us to increase our cost and production efficiency, which has resulted in greater profitability. As we have completed the majority of our investment requirements in the Food Manufacturing and Distribution division, we do not expect these facilities to require significant capital expenditure in the medium term.

- ***Proven expertise of integrating and improving acquired companies.*** We have experienced significant growth by successfully acquiring and integrating new small to medium sized companies into our operations and turning around underperforming businesses. For example, within four years of our acquisition of PIK Vrbovec, we increased the volume sold from 8,000 tons of fresh processed red meat in 2004 to 52,000 tons in 2009 as a result of our investment in a new meat processing facility. In addition, in 2003 we acquired the ice cream producer Frikom, whose market share has grown from approximately 30% in 2003 to over 75% in 2009, gaining market share from both international and domestic competitors. We also acquired and integrated the Serbian edible oil producer Dijamant and carbonated water producers Sarajevski kiseljak in Bosnia and Herzegovina and Fonyódi in Hungary. Following these acquisitions, we implemented our management and operational practices in the acquired companies to maximize efficiency and to align their accounting policies, management information and reporting systems with ours. In addition, following these acquisitions to the extent necessary, we may invest in the production facilities, adjust and rebrand the product portfolio and integrate the supply of its products into our distribution network.

- ***Experienced and highly-focused management team.*** We have an experienced management team with deep knowledge of our industry, key markets and products. The members of our Supervisory Board and Management

Board have been with us for an average of nine years and 11 years, respectively. Our senior management team is highly focused with a long history of growing our business and identifying, negotiating and integrating strategic acquisitions. Furthermore, each of our subsidiaries is run by its own management team with industry-specific and local know-how and experience.

**Our Business Strategy**

We plan to increase the value of our business through growth in our Primary Markets and through opportunistic and strategic expansion. We intend to achieve this through the following primary objectives:

- ***Maintain and strengthen our leading market positions in our Primary Markets.*** We plan to achieve this by further building on our strong brand names and brand recognition, further developing our distribution networks, and building on our relationships with local strategic suppliers. By expanding our product portfolio through innovations aimed at satisfying local tastes and by adapting our portfolio to changing consumer tastes and preferences, we intend to remain at the forefront of the customers' needs and increase our market share in each of our Primary Markets.

- ***Focus on our core businesses.*** We intend to focus on our core Retailing and Wholesale and Food Manufacturing and Distribution divisions, with an emphasis on Retailing and Wholesale, as this is where we see significant growth potential. We also expect to continue to upgrade our facilities, distribution networks, processes and technology and to identify strategic bolt-on acquisitions. As part of our focus on core businesses, we have disposed of a number of our non-core businesses, such as Mlinar, Štampa and Kozmo. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

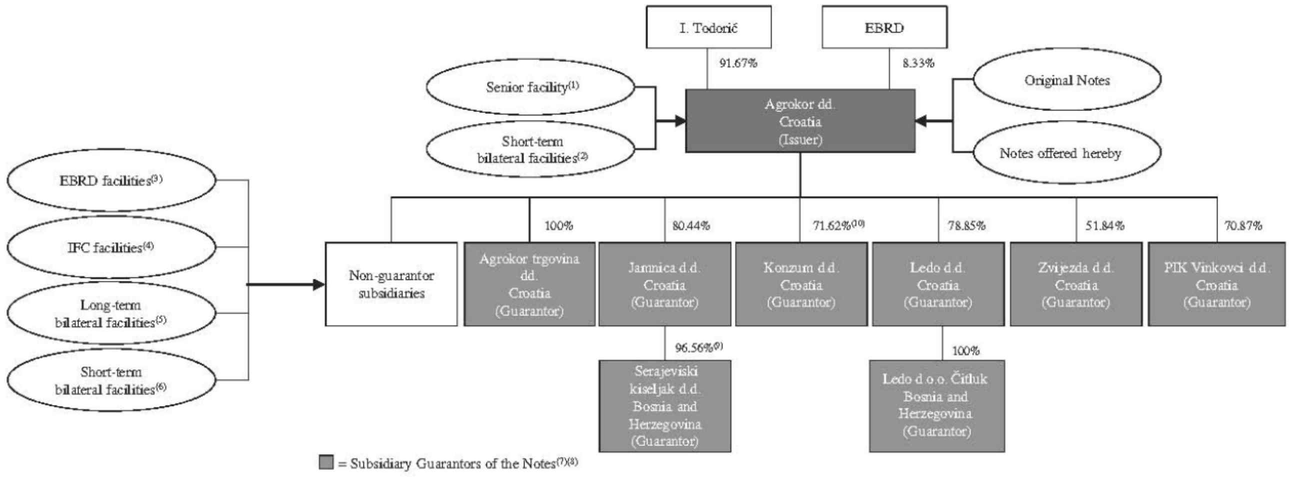
- ***Focus on operating profitability through vertical integration and efficiency measures***. We adopt a focused approach to enhancing our operating profitability by maximizing synergies through the vertical integration of our value chain and implementation of efficiency measures on both a subsidiary and parent level. We intend to continue to establish groupwide procurement contracts with large domestic and international suppliers and further optimize our logistics and distribution networks.

- ***Maintain our disciplined earnings and cash-flow oriented approach.*** We will continue to carefully assess the potential for earnings and cash-flow stability and growth when we evaluate the performance of our operations and new investment opportunities. In managing our business, we seek to improve our profitability by optimizing our work processes, maintaining a strong focus on employee efficiency, exploiting our extensive coverage and distribution, realizing synergies available within the Group, and continuing to build upon strategic relationships with local suppliers.

- ***Selectively expand into new markets and products.*** As a result of our regional expansion in the CEE, our sales outside the Croatian market have increased significantly. Sales of our non-Croatian companies represented 26.1% of our total consolidated sales for the first nine months of 2010 and 25.5% of our total consolidated sales in the year ended December 31, 2009, compared to 20.0% in 2007. We aim to capitalize on our competitive advantages and the growth potential of neighboring markets and other countries where acquisition opportunities may arise, and, in addition to opportunistic consolidation in our Primary Markets, we intend to continue to broaden our penetration into the CEE, while seeking to maintain our strong focus on profitability. In addition, we believe that certain of our products, for example water, have considerable export potential and we will continue to expand our marketing efforts for these products. Furthermore, we see significant growth potential in our Primary Markets coming from increased GDP and food consumption per capita which is expected to continue to converge towards the EU levels over time. We also plan to continue to introduce new products in response to changing consumer tastes or demand. For example, in response to increased consumer health concerns, we developed Omegol, the omega-3-rich product assortment. See "Business Description—Research and Development."

## Corporate Structure and Certain Financing Arrangements

The following chart shows a simplified summary of our corporate and financing structure as of September 30, 2010 adjusted to give effect to the Offering and the use of proceeds therefrom. The chart does not include all of our subsidiaries, nor all of our indebtedness. For a summary of our indebtedness identified in this diagram, please refer to the section entitled “Description of Notes,” “Description of Other Financing Arrangements” and “Capitalization.”




(1) HRK 2,536.8 million (€347.9 million) outstanding under our Senior Credit Facility maturing in June 2015. Our Senior Credit Facility is currently guaranteed on a senior basis by the Subsidiary Guarantors and secured by share pledges over all shares of the Guarantors owned, directly or indirectly, by the Issuer. See “Description of Other Financing Arrangements.”

(2) HRK 715.8 million (€98.1 million) of unguaranteed short-term bilateral facilities of which HRK 108.5 million (€14.9 million) is secured by liens on certain assets of certain subsidiaries of the Issuer that do not guarantee the Notes. See “Description of Other Financing Arrangements.”

(3) HRK 875.1 million (€120 million) outstanding under our two EBRD facilities maturing in October 2015 and May 2016. Our two EBRD facilities are secured by liens on certain assets of subsidiaries of the Issuer that do not guarantee the Notes and are guaranteed by the Issuer. See “Description of Other Financing Arrangements.”

(4) HRK 729.3 million (€100 million) outstanding under our three IFC facilities maturing on February 15, 2011, June 2013 and March 2015, respectively. Our IFC facility maturing on February 15, 2011, which we intend to refinance with the IFC and Credit Agricole, is secured by liens on certain assets of certain subsidiaries of the Issuer that do not guarantee the Notes and on the shares of certain subsidiaries of the Issuer that do not guarantee the Notes. Our IFC facilities maturing in June 2013 and March 2015 are secured by liens on certain assets of subsidiaries of the Issuer that do not guarantee the Notes and are guaranteed by the Issuer. See “Description of Other Financing Arrangements.”

(5) HRK 458.7 million (€62.9 million) of unguaranteed long-term bilateral facilities of which HRK 162.6 million (€22.3 million) are maturing within twelve months. HRK 205.2 million (€ 28.1 million) is secured by liens on certain assets.

(6) HRK 258.0 million (€ 35.4 million) of unguaranteed short-term bilateral facilities of which HRK 113.0 million (€15.5 million) is secured by liens on certain assets. See “Description of Other Financing Arrangements.”

(7) Certain of the Subsidiary Guarantors are borrowers under HRK 109.1 million (€15.0 million) of unguaranteed bilateral facilities, of which HRK 28.5 million (€3.9 million) is secured by liens on certain assets. See “Description of Other Financing Arrangements.”

(8) For the nine months ended September 30, 2010, the Subsidiary Guarantors represented 59.5% of our consolidated revenues, 73.3% of our consolidated EBITDA and 51.6% of our consolidated assets, respectively.

(9) Additional 3.3039% share capital owned by Agrokor—Zagreb d.o.o. which is a wholly-owned subsidiary of the Issuer which does not guarantee the Notes.

(10) Additional 11.0999% share capital owned by Jamnica d.d.

## The Offering

*The following is a brief summary of certain terms of this Offering and the principal terms of the Additional Notes. It may not contain all the information that is important to you. For additional information regarding the Additional Notes and the Guarantees, see "Description of Notes."*

| | |
|---|---|
| **Issuer**........................................ | Agrokor d.d., a company incorporated under the laws of Croatia with registered number (MBS) 080020970 (the "Issuer"). |
| **Additional Notes Offered** ................ | €150,000,000 aggregate principal amount of 10% Senior Notes due 2016 (the "Additional Notes"). |
| **Original Notes** ................................ | €400,000,000 aggregate principal amount of 10% Senior notes due 2016 (the "Original Notes" and together with the Additional Notes the "Notes"). |
| **Issue Date**...................................... | January 20, 2011 (the "issue date"). |
| **Offering Price**................................. | 107.75% of the aggregate principal amount of Additional Notes (plus accrued and unpaid interest from December 7, 2010). |
| **Maturity Date**.................................. | December 7, 2016. |
| **Interest Rate and Payment Dates** ........ | We will pay interest on the Additional Notes semi-annually in arrear on June 7 and December 7 of each year, commencing on June 7, 2011 at a rate of 10% per annum. Interest on the Additional Notes will accrue from December 7, 2010. |
| **Form and Denomination** .................. | The Additional Notes will be represented on issue by one or more Global Notes which will be delivered through Euroclear and Clearstream against payment therefor in immediately available funds. Interests in each Global Note will be exchangeable for the relevant definitive Notes only in certain limited circumstances. See "Book Entry, Delivery and Form." Each Global Note will have a minimum denomination of €50,000 and in integral multiples of €1,000 in excess thereof. Notes in denominations of less than €50,000 will not be available. |
| **Ranking of the Notes** ...................... | The Notes will be general unsecured senior obligations of the Issuer and:<br>• will rank *pari passu* in right of payment with all existing and future senior indebtedness of the Issuer;<br>• will be senior in right of payment to any future subordinated indebtedness of the Issuer;<br>• will be effectively subordinated to any existing and future secured indebtedness of the Issuer to the extent of the value of the assets securing such indebtedness; and<br>• will be effectively subordinated to all obligations of the Issuer's subsidiaries that are not Subsidiary Guarantors.<br>The Original Notes and the Additional Notes will form a single series of Notes and the holders of Additional Notes will vote on matters with the holders of the Original Notes. |
| **Subsidiary Guarantors**..................... | The Notes will be jointly and severally guaranteed on a senior basis, subject to certain limits imposed by local law and as set forth in the Indenture, by Agrokor trgovina d.d., Jamnica d.d., Konzum d.d., Ledo d.d., Ledo d.o.o. Čitluk, PIK Vinkovci d.d., Sarajevski kiseljak d.d. and Zvijezda |

d.d. The obligations of the Subsidiary Guarantors will be subject to legal and contractual limitations and may be released in certain circumstances. See "Description of Notes—Note Guarantees" and see "Risk Factors—Risks Relating to the Notes—The Guarantees may be limited by applicable laws or subject to certain limitations or defenses."

**Ranking of the Guarantees** ............................................. Each Guarantee will be a senior obligation of the respective Subsidiary Guarantor and:

- will be *pari passu* in right of payment with all existing and future senior indebtedness of that Subsidiary Guarantor;
- will be senior in right of payment to any future subordinated indebtedness of that Subsidiary Guarantor;
- will be effectively subordinated to any existing and future secured indebtedness of that Subsidiary Guarantor to the extent of the value of the assets securing such indebtedness; and
- will be effectively subordinated to all obligations of the subsidiaries of that Subsidiary Guarantor that are not Subsidiary Guarantors.

As of September 30, 2010, after giving pro forma effect to the Offering and the use of proceeds to repay certain indebtedness:

- the Issuer and its consolidated subsidiaries had approximately HRK 9,614.7 million (approximately €1,318.4 million) of indebtedness, of which €389.1 million represents the book value of the Original Notes and €150.0 million represents the principal amount of the Additional Notes;
- the Issuer and the Guarantors had approximately HRK 2,673.8 million (approximately €366.7 million) of secured financial indebtedness; and
- the non-guarantor subsidiaries of the Issuer had approximately HRK 2,321.5 million (approximately €318.3 million) of financial indebtedness.

As of and for the nine months ended September 30, 2010, the Subsidiary Guarantors represented 51.6% of consolidated total assets and 73.3% of consolidated EBITDA.

Although the Indenture contains limitations on the amount of additional indebtedness the Issuer and its restricted subsidiaries, including subsidiaries that are not Subsidiary Guarantors, will be allowed to incur, the amount of such additional indebtedness could be substantial.

**Use of Proceeds** ................................................................ We will use the gross proceeds from the Offering of the Additional Notes to repay indebtedness under certain of our bilateral facilities. See "Use of Proceeds" and "Capitalization."

**Additional Amounts**........................................................ Any payments made by the Issuer or any Subsidiary Guarantor with respect to the Notes will be made without withholding or deduction for taxes in any relevant taxing jurisdiction unless required by law. If we are required by law to withhold or deduct for such taxes with respect to a payment to the holders of Notes, we will pay the additional amounts (subject to certain exceptions) necessary so that the net amount received by the holders of Notes after the withholding is not less than the amount that they would have received in the absence of the withholding, subject to certain exceptions. See "Description of Notes—Additional Amounts."

**Tax Redemption**................................................................ In the event of certain developments affecting taxation or certain other circumstances, the Issuer may redeem the Notes in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See "Description of Notes—Redemption for Changes in Taxes."

**Optional Redemption** ...................................................... At any time prior to December 7, 2013, we may, at our option, redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable "make-whole" premium set forth in this Listing Prospectus, plus accrued and unpaid interest, if any. See "Description of Notes—Optional Redemption."

In addition, on or prior to December 7, 2013, we may redeem up to 35% of the original principal amount of the Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 110% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date provided that at least 65% of the original principal amount of the Notes remain outstanding after the redemption. See "Description of Notes—Optional Redemption."

We may redeem the Notes on or after December 7, 2013, in whole or in part, at our option at a redemption price equal to the principal amount thereof plus accrued and unpaid interest and a redemption premium and certain additional amounts, if any. The redemption price will initially be equal to 105% (expressed as a percentage of the principal amount of the Notes). The premium over par will decline ratably on each anniversary of such date decreasing to zero one year prior to the maturity of the Notes. See "Description of Notes—Optional Redemption."

**Asset Sales** ......................................................................... The Issuer will be required to offer to purchase the Notes with excess proceeds, if any, following certain asset sales at a purchase price equal to 100% of the principal amount of the Notes and accrued and unpaid interest to the date of purchase. See "Description of Notes—Repurchase at the Option of Holders—Asset Sales."

**Change of Control**............................................................. Upon the occurrence of certain change of control events, the Issuer will be required to offer to repurchase the Notes at a purchase price equal to 101% of the aggregate principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, to the date of the purchase. See "Description of Notes—Repurchase at the Option of Holders—Change of Control."

**Certain Covenants** ........................................................... The Indenture limits, among other things, our ability to:

- incur additional indebtedness;
- pay dividends on, redeem or repurchase our capital stock;
- make certain restricted payments and investments;

- create certain liens;
- impose restrictions on the ability of subsidiaries to pay dividends or other payments to the Issuer;
- transfer or sell assets;
- enter into unrelated businesses;
- merge or consolidate with other entities; and
- enter into transactions with affiliates.

Each of these covenants is subject to a number of important exceptions and qualifications. See "Description of Notes—Certain Covenants."

**Listing and Trading** ............ The Issuer has applied to the Luxembourg Stock Exchange for the Additional Notes to be admitted to the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF in accordance with its rules.

**Transfer Restrictions** ............ The Notes and the Guarantees have not been and will not be registered under the US Securities Act or the securities laws of any other jurisdiction. The Notes are subject to restrictions on transferability and resale. See "Important Information for Investors," "Notice to Certain European Investors," "Transfer Restrictions" and "Plan of Distribution." Holders of the Notes will not have the benefit of any exchange or registration rights.

**Limited Trading Market** ............ Application has been made to admit the Additional Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market in accordance with its rules. Although the Initial Purchasers have informed the Issuer that they intend to make a market in the Additional Notes, they are not obligated to do so and they may discontinue market making at any time without notice. Accordingly, the Issuer cannot assure you that an active trading market for the Additional Notes will develop or be maintained.

**Original Issue Discount** ............ It is expected that the Original Notes and the Additional Notes should be treated as part of the same issue for US federal income tax purposes and, as a result, the Additional Notes should be treated as having the same issue price as the Original Notes for US federal income tax purposes. The Original Notes were issued with original issue discount ("OID") for US federal income tax purposes. Accordingly, US holders of Additional Notes, whether on the cash or accrual method of tax accounting, may be required to include amounts representing OID in gross income (as ordinary income) on a constant yield to maturity basis for US federal income tax purposes in advance of receipt of cash payments to which such income tax is attributable, depending upon the price at which they purchase the Additional Notes. US holders who purchase Additional Notes for an amount in excess of the Notes' principal amount, however, will not be required to include amounts representing OID in gross income for US federal income tax purposes. For further discussion, see "Tax Considerations—United States Federal Income Taxation."

**Governing Law of the Notes, the Guarantees and the Indenture** ............ New York law.

**Trustee** ............ BNY Corporate Trustee Services Limited.

| | |
|---|---|
| **Transfer Agent and Principal Paying Agent** ................. | The Bank of New York Mellon. |
| **Registrar, Luxembourg Paying Agent and Listing Agent** ......................................................................... | The Bank of New York Mellon (Luxembourg) S.A., in Luxembourg. |

**Risk Factors**

You should refer to “Risk Factors” beginning on page 10 of this Listing Prospectus for an explanation of certain risks involved in investing in the Notes.

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following table presents summary consolidated financial information and other data as of and for each of the years ended December 31, 2007, 2008 and 2009 and as of and for the nine months ended September 30, 2009 and 2010 and pro forma financial information for the twelve months ended September 30, 2010. This summary financial information and other data as of and for the years ended December 31, 2007, 2008 and 2009 is derived from our audited financial statements and related notes prepared in accordance with IFRS for such years and included in this Listing Prospectus. The summary interim consolidated financial information and other data as of and for the nine months ended September 30, 2009 and 2010 is derived from our unaudited interim consolidated financial statements included in this Listing Prospectus. The unaudited pro forma financial information for the twelve months ended September 30, 2010 has been derived by adding the audited consolidated income statement for the year ended 2009 and the unaudited consolidated interim income statement for the nine months ended September 30, 2010 and subtracting the unaudited consolidated interim income statement for the nine months ended September 30, 2009.

The following table should also be read in conjunction with the information contained in "Presentation of Financial, Market and Other Information," "Use of Proceeds," "Capitalization," "Selected Consolidated Financial Information and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included in this Listing Prospectus. Our results for the nine months ended September 30, 2010 are not necessarily indicative of what our results will be for the full year or any other period.

| | For the Year Ended December 31, | | | For the Nine Months Ended September 30, | | *Pro Forma* For the Twelve Months Ended September 30, | |
|---|---|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2009** | **2010** | **2010** | **2010** |
| | **(Audited)[1]** | **(Audited)** | **(Audited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)[2]** |
| | **(HRK thousands)** | | | **(HRK thousands)** | | **(HRK thousands)** | **(EUR thousands)** |
| **Income Statement Data:** | | | | | | | |
| Sales | 20,698,624 | 27,662,914 | 26,476,657 | 19,727,982 | 19,712,457 | 26,461,132 | 3,642,125 |
| Cost of materials | (14,894,727) | (19,953,470) | (18,324,864) | (13,836,408) | (13,672,024) | (18,160,480) | (2,499,619) |
| Cost of services | (1,585,079) | (2,103,910) | (2,210,414) | (1,586,088) | (1,661,158) | (2,285,484) | (314,575) |
| Other income | 333,032 | 231,007 | 251,319 | 149,179 | 174,056 | 276,196 | 38,016 |
| Other expenses | (3,472,828) | (4,520,776) | (4,731,171) | (3,419,426) | (3,447,571) | (4,759,316) | (655,075) |
| Operating Profit | 1,079,022 | 1,315,765 | 1,461,527 | 1,035,239 | 1,105,760 | 1,532,048 | 210,872 |
| Excess of fair value of net assets over the cost of acquisition net of written off goodwill | (54,652) | (19,391) | (22,438) | — | 14,173 | (8,265) | (1,138) |
| Share of gain/loss of associates | — | (933) | 281 | — | — | 281 | 39 |
| Impairment of financial assets | (18,848) | (18,449) | (12,631) | (7,402) | (6,167) | (11,396) | (1,569) |
| Dividend income | 283 | 3,519 | 360 | 360 | 278 | 278 | 38 |
| Sale of subsidiaries | — | — | (127,712) | (167,351) | — | 39,639 | 5,456 |
| Sale of properties, net | 19,640 | 34,167 | (22,829) | (1,954) | (3,696) | (24,571) | (3,382) |
| Interest income | 70,925 | 112,107 | 68,821 | 62,121 | 72,968 | 79,668 | 10,966 |
| Interest expense | (492,389) | (684,995) | (744,308) | (490,380) | (602,442) | (856,370) | (117,871) |
| Net foreign exchange (loss)/profit | 7,214 | (235,667) | (150,484) | (103,553) | (237,794) | (284,725) | (39,190) |
| Profit before taxation | 611,195 | 506,123 | 450,587 | 327,080 | 343,080 | 466,587 | 64,221 |
| Taxation | (156,928) | (264,405) | (214,075) | (131,702) | (156,709) | (239,082) | (32,907) |
| Net profit for the year | 454,267 | 241,718 | 236,512 | 195,378 | 186,371 | 227,505 | 31,314 |
| Attributable to | | | | | | | |
| Equity holders of the parent | 298,521 | 83,334 | 75,571 | 81,183 | 98,445 | 92,833 | 12,778 |
| Minority interest | 155,746 | 158,384 | 160,941 | 114,195 | 87,926 | 134,672 | 18,536 |

| | As of December 31, | | | As of September 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2010 |
| | (Audited)(1) | (Audited) | (Audited) | (Unaudited) | (Unaudited)(3) (EUR thousands) |
| | (HRK thousands) | | | (HRK thousands) | |
| **Balance Sheet Data (at end of period):** | | | | | |
| Property, plant and equipment | 8,767,616 | 12,292,038 | 12,167,281 | 12,880,763 | 1,766,244 |
| Cash and cash equivalents | 873,207 | 706,157 | 895,797 | 849,781 | 116,524 |
| Working capital(4) | 215,774 | (212,471) | (224,882) | (821,140) | (112,597) |
| Total assets | 17,569,238 | 23,224,160 | 24,379,350 | 25,382,967 | 3,480,579 |
| Total equity | 4,898,408 | 5,817,799 | 5,831,000 | 5,871,109 | 805,062 |
| Total debt(5) | 5,998,423 | 8,352,711 | 9,018,114 | 9,614,676 | 1,318,390 |

| | For the Year Ended December 31, | | | For the Nine Months Ended September 30, | | *Pro Forma* For the Twelve Months Ended September 30, | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 | 2010 | 2010 |
| | (Audited)(1) | (Audited) | (Audited) | (Unaudited) | (Unaudited) | (Unaudited) (HRK thousands) | (Unaudited)(2) (EUR thousands) |
| | (HRK thousands) | | | (HRK thousands) | | | |
| **Other Financial Data:** | | | | | | | |
| EBITDA(6) | 1,551,832 | 1,929,478 | 2,185,308 | 1,576,911 | 1,734,170 | 2,342,567 | 322,432 |
| Capital Expenditures(7) | 2,142,672 | 2,511,527 | 1,575,265 | 1,302,357 | 967,303 | 1,240,211 | 170,703 |
| Acquisitions(8) | 622,809 | 1,410,871 | 450,967 | 341,486 | 308,387 | 417,868 | 57,516 |
| Net Interest Expense(9) | (421,464) | (572,888) | (675,487) | (428,259) | (529,474) | (776,702) | (106,906) |
| Net Debt(10) | 5,125,216 | 7,646,554 | 8,122,317 | 7,705,272 | 8,764,895 | 8,764,895 | 1,201,865(3) |
| Ratio of Net Debt to EBITDA(6)(10) | 3.30x | 3.96x | 3.72x | | | 3.74x | |
| Ratio of EBITDA to Net Interest Expense(6)(9) | 3.68x | 3.37x | 3.24x | | | 3.02x | |

(1) Restated in connection with the audit for the year ended December 31, 2008. See "Presentation of Financial, Market and Other Information" for further information.

(2) Amounts have been translated at an average rate for the twelve months ended September 30, 2010 of €1.00 = 7.2653 HRK based on the Bloomberg Composite Rate.

(3) Amounts have been translated at the period-end rate for the nine months ended September 30, 2010 of €1.00 = 7.2927 HRK based on the Croatian National Bank Rate.

(4) Working capital represents accounts receivable plus inventories minus accounts payable as shown in the balance sheets, in each case at the end of the period.

(5) "Total Debt" represents Total Borrowings as stated in the Group's financial statements contained herein.

(6) EBITDA represents operating profit plus depreciation and amortization. We use EBITDA-based measures as internal measures of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA-based measures are measures used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe EBITDA-based measures are useful and commonly used measures of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA-based measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA-based measures and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA-based measures differently, so making comparisons among companies on this basis should be done very carefully. EBITDA-based measures are not measures of performance under IFRS and should not be considered in isolation or construed as substitutes for operating profit or net profit as an indicator of our operations in accordance with IFRS. We believe that it is useful to include these non-GAAP measures as they are used by us for internal performance analysis and the presentation by our business segments of these measures facilitates comparability with other companies in our industry, although our measures may not be comparable with similar measurements presented by other companies. These other non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS.

EBITDA as presented here also differs from "Consolidated EBITDA" contained in "Description of Notes" and in certain other financing documents of the Group. In particular, "Consolidated EBITDA" contained in our Senior Facilities Agreement has a number of additional adjustments to our EBITDA as presented here, including the exclusion of gain or loss arising from the revaluation of assets. Loss arising from the revaluation of assets amounted to HRK 176.0 million in 2008.

The following table reconciles operating profit to EBITDA for the periods indicated:

| | For the Year Ended December 31, | | | For the Nine Months Ended September 30, | | *Pro Forma* For the Twelve Months Ended September 30, | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 | 2010 | 2010 |
| | (Audited)[1] | (Audited) | (Audited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited)[2] |
| | (HRK thousands) | | | (HRK thousands) | | (HRK thousands) | (EUR thousands) |
| Operating profit | 1,079,022 | 1,315,765 | 1,461,527 | 1,035,239 | 1,105,760 | 1,532,048 | 210,872 |
| Depreciation and amortization | 472,810 | 613,713 | 723,781 | 541,672 | 628,410 | 810,519 | 111,560 |
| EBITDA | 1,551,832 | 1,929,478 | 2,185,308 | 1,576,911 | 1,734,170 | 2,342,567 | 321,432 |

(7) "Capital Expenditure" represents additions to properties and intangible assets as shown in our cash flow statements, in each case for the applicable period.

(8) "Acquisitions" represents acquisitions of subsidiaries, net of cash acquired as shown in the cash flow statements, in each case for the applicable period.

(9) "Net Interest Expense" represents interest expense reduced by interest income as shown in our income statements, in each case for the applicable period.

(10) "Net Debt" represents total debt less cash and cash equivalents as shown in our balance sheet, in each case at the end of the applicable period.

## RISK FACTORS

*We believe that the following factors may affect our ability to fulfill our obligations under the Additional Notes. Most of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring.*

*We believe that the factors described below represent the principal risks inherent in investing in the Additional Notes, but our inability to pay interest, principal or other amounts on or in connection with the Additional Notes may occur for other reasons and we do not represent that the statements below regarding the risks of holding the Additional Notes are exhaustive. You should carefully read the risk factors described below and the other information in this Listing Prospectus prior to deciding to invest in the Additional Notes. The trading price of the Additional Notes could decline due to any of these risks, and investors may lose all or part of their investment. This Listing Prospectus also contains forward looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward looking statements as a result of certain factors, including the risks faced by us, described below and elsewhere in this Listing Prospectus.*

*Defined terms used in the statements below have the meanings assigned to them elsewhere in this Listing Prospectus, including under "Description of Notes."*

### General Region-Related Risks

***There can be no assurance that Croatia, Serbia and Bosnia and Herzegovina will continue to successfully implement their respective political and economic reforms and agendas. Delays in or failures of any of these reforms or agendas may have a material adverse effect on our business.***

*Croatia.* We are based and conduct the majority of our business in Croatia, which is an EU candidate country, and is expected to enter the European Union by the end of 2012. Recent governments in Croatia have pursued economic reforms designed to develop and stabilize its free market economy through privatization of state owned enterprises, attracting foreign direct investment, and implementing reforms necessary to join the EU. Croatia's reforms seek to address several key economic challenges, including: (i) reducing economic imbalances to ensure stability while introducing complementary reforms to address underlying structural causes of fiscal imbalances; (ii) increasing the flexibility of the economy and (iii) creating a business friendly environment that is conducive to attracting investment. Although Croatia has made the transition to a functioning market economy, rebuilding Croatia's infrastructure to a western European standard will require further investment and may take some years to complete. We cannot assure you that Croatia will achieve its intended aims with its reforms, that a political environment supportive of these reforms will be maintained or that the government will not implement regulations or fiscal or monetary policies, including regulations or policies relating to or affecting taxation, the agriculture industry, the environment, public procurement, compensation to owners of nationalized property or exchange controls, or otherwise take actions which could have a material adverse effect on our business.

*Serbia and Bosnia and Herzegovina.* A portion of our business is in Serbia and Bosnia and Herzegovina where political and economic reforms implemented by the respective governments are at a lesser developed stage than Croatia. Serbia officially gained its independence from the dissolved union of Serbia and Montenegro in 2006. The key risk to stability in Serbia remains the status of Kosovo's independence. While Serbia is currently a potential candidate country for EU accession, effectiveness has been postponed until Serbia fully co-operates with the International Criminal Tribunal for the former Yugoslavia. Serbia applied for the EU membership in December 2009 and is expecting to become a candidate country in 2011. Bosnia and Herzegovina ended its war with The Dayton Peace Agreement in 1995. Since the peace agreement, the country has made progress with strong international support. There has been a large degree of trade liberalization, and the country has been working towards accession to the EU, where it is currently a potential candidate country. Nevertheless, in such an environment there are evident risks that economic policy initiatives may be adversely affected. These former Yugoslavian countries, due to their joint history of political instability make it impossible to predict the occurrence of events or circumstances such as war or hostilities, or the impact of such occurrences, and no assurance can be given that we would be able to sustain our current profit levels in these countries if adverse political events or circumstances were to occur.

***The legal systems in Croatia, Serbia and Bosnia and Herzegovina are still developing which can result in legal uncertainties. We may be unable to obtain governmental authorizations or to enforce our rights successfully in these countries.***

Croatia, Serbia and Bosnia and Herzegovina each have short legislative, judicial and administrative histories and it is not possible to predict the effect of current and future legislation on our business. Company, commercial, contract, customs, currency, property, banking, bankruptcy, competition, securities, labor, tax and other laws and regulations in

Croatia, Serbia and Bosnia and Herzegovina (including those concerning privatization and the compensation of former owners) are still developing and continue to be substantially revised. In the case of Serbia and Bosnia and Herzegovina, there is little precedent for how these laws and regulations will be interpreted or implemented either by the courts or government agencies. Existing and future laws and regulations may be applied inconsistently. We may experience difficulties or delays in obtaining any permits or other governmental authorizations. Additionally, judicial systems in Croatia, Serbia and Bosnia and Herzegovina may not be fully independent of social, economic and political forces, and many courts in the respective countries experience a high volume of case backlogs. This often results in inconsistent judicial interpretation of laws and regulations and excessive delays in court proceedings. As a result of the foregoing, we may not be able to efficiently or successfully enforce our legal rights, including title to our real property, under the laws of Croatia, Serbia or Bosnia and Herzegovina.

**Risks Relating to the Group**

***We are affected by general global and regional economic conditions.***

Our businesses are susceptible to economic recessions or downturns. During periods of adverse economic conditions, we may experience decreased revenues or financial losses, and, for example, have experienced a decrease in revenues in 2009 as a result of the unfavourable economic situation in our Primary Markets. During such periods, we may also have difficulty in expanding our business and operations and be unable to meet our debt service obligations or other financial obligations as they become due. In addition, during periods of adverse economic conditions, we may have difficulty accessing financial markets, which could make it more difficult, more expensive or impossible to obtain funding for additional investments and adversely affect our business, financial condition and results of operations.

Our financial and operating performance has been adversely affected by these trends and could be further adversely affected by a worsening of general economic conditions in the markets in which we operate, as well as by international trading market conditions and/or related factors. More specifically the continuation of the existing economic environment could make it extremely difficult for us, as well as for our customers and suppliers, to access the necessary financing, and therefore maintain our existing volumes of sales and profitability. Additionally, we could face a decreased demand for our branded products, resulting in a loss of market share, as customers switch to private-label brands.

Our business is affected by the financial, political and general economic conditions prevailing from time to time in Croatia, Serbia and Bosnia and Herzegovina and the rest of the CEE. We cannot assure you that we would be able to sustain our current profit levels if adverse financial or economic events or circumstances continue to occur in the countries where we operate.

Per capita consumption of certain of our core products, such as water and ice cream, is lower in Croatia, Serbia and Bosnia and Herzegovina than in western Europe, largely as a result of the region's lower per capita gross domestic product ("GDP"). Our growth in those products will depend on an overall increase in consumption due to our strong market position. Accordingly, in order to maintain growth in Croatia, Serbia and Bosnia and Herzegovina, we will need to rely on (i) the region's ability to recover from the global financial crisis and stabilize its respective economies; (ii) increases in per capita consumption of our products in these markets and (iii) further expansion into the greater CEE and other foreign markets. There can be no guarantee that the economies of Croatia, Serbia and Bosnia and Herzegovina will experience growth in the future, that increase in per capita consumption of our products in these markets will occur or that our further expansion into the markets outside of our Primary Markets will be successful.

***We operate in a highly competitive environment.***

We currently face competition in all of our product categories from domestic and foreign companies. Competition in our core businesses is based, among other things, on price, product quality and brand reputation. This competition requires us to make continuing efforts to optimize costs, develop new products, sales and marketing techniques and make strategic investments and acquisitions in order to maintain our leading market positions. Although we currently have a strong presence in most of the markets in which we operate, there can be no assurance that we will be able to maintain our market share or margins in the future as many of our competitors are large international groups with greater financial resources. In addition, as a result of the increasing importance of private labels, which puts margins for our branded products under pressure, our Food Manufacturing and Distribution division will have to continually strive to maintain and strengthen the image of our branded products in order to maintain and increase our margins. Furthermore, our food retail business is subject to considerable margin pressure due to intense competition while at the same time seeking to successfully compete in the private-label market without undermining such margins.

***Our business may be adversely impacted by fluctuations in exchange rates which could affect our ability to comply with our financial covenants.***

We carry out many transactions in foreign currencies, principally the euro, US dollar, Serbian Dinar and Convertible Mark whereas most of our receipts are in Kuna, which is also our currency of account. The exchange rates between these currencies and the Kuna may fluctuate and the effect of these fluctuations may affect our results of operations both because we may buy and produce goods in one currency and sell them in another and as a result of the translation of the results of our non-Croatian subsidiaries into our Kuna-denominated financial statements. For example, during 2009 the Serbian Dinar depreciated against the Kuna by 13.5%, which was followed by a further depreciation of 9.1% in the first nine months of 2010, impacting both our revenues and EBITDA. Any negative impact from fluctuations in exchange rates on our EBITDA or net financial expenses may affect our ability to comply with our financial covenants. In addition, both local and international financing available to Croatian companies is typically denominated in, or indexed to, the euro, increasing their exposure to exchange rate fluctuations. Significant fluctuations in the exchange rate between foreign currencies and the Kuna may affect our ability to make payments due under the Notes and other borrowings denominated in foreign currencies. As we continue to implement our international expansion strategy, our international operations will represent a larger part of our business and such exchange rate fluctuations may have a greater impact on our business, financial condition and results of operations.

***Further acquisition opportunities depend on a variety of factors over which we have little or no control, and we may not be able to successfully consummate acquisitions or integrate acquired businesses, and any acquisition may carry unexpected liabilities and/or increases in indebtedness levels of the Group.***

Our strategy includes the expansion of our business both through organic growth and acquisitions. Historically, we have engaged in acquisitions which have been complementary to our organic growth. The continuation of this expansion strategy depends on, among other things, identifying suitable acquisition or investment opportunities and successfully completing those transactions. Where we have identified acquisition opportunities, we have historically faced competition for these acquisitions. Such competition could increase the cost of acquisitions and make them less attractive. Additionally, as a result of our leading positions in most of the markets in which we operate, anti-trust or similar laws may make it difficult for us to make additional acquisitions. Acquisitions also require significant financial and operating resources in order to integrate the acquired companies into our business, primarily but not limited to, greater operating costs, diversion of management resources away from daily operations, development and expansion of our financial and information control systems, training of management and other personnel and adequate employee supervision. Our ability to integrate and manage acquired businesses effectively and to handle any future growth will depend upon a number of factors, and failure to manage growth effectively could adversely affect our business, financial condition and results of operations.

In the past, we have focused primarily on bolt-on acquisitions in our Primary Markets. However, we could in the future undertake an acquisition of a much larger business, or of a business outside of our Primary Markets. Since we do not have experience undertaking such a large acquisition or in markets outside of our Primary Markets, such acquisition may not be successful, and our acquisition and integration costs may be higher. Acquisitions of large businesses would likely prove more difficult to integrate successfully, requiring greater financial and operating resources than have been required in the past. Acquisitions of businesses outside of our Primary Markets may present additional challenges due to cultural and linguistic differences and the difficulties presented by integrating and managing a business that is geographically more remote. We cannot provide any assurances that we will be able to adequately address the risks in making such an acquisition or in successfully integrating such business. Any failure to realize anticipated benefits and cost savings and potential increases in indebtedness in connection with the acquisition (including financing indebtedness as well as acquired indebtedness) may have a material adverse effect on our business, financial condition or results of operations.

In future acquisitions, as part of our evaluation process, we will have to make assumptions about the expected cost savings and synergies. These estimates are uncertain and subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause actual results to differ materially from the ones that we had originally estimated. We have not, and may not achieve all, or even a portion of, the anticipated cost savings and synergies that were anticipated at the time of an acquisition or from the integration of our existing business divisions. Typically, when we acquire a business, we acquire all of that business's liabilities, as well as its assets. Although we try to investigate each business thoroughly prior to acquiring it and to obtain appropriate representations and warranties with respect to its assets and liabilities, there can be no assurance that we will be able to identify all actual or potential liabilities of such business prior to the acquisition. If we acquire businesses or assets which result in our assuming unforeseen liabilities in respect of which we have not obtained contractual protections, this could adversely affect our business, financial condition and results of operations.

In addition, despite our principal shareholder, Mr. Ivica Todorić, holding 91.67% of the voting rights in respect of our share capital and controlling our management board, the Issuer may not be able to take certain strategic actions due to EBRD's right to approve certain decisions taken at the shareholders' meetings as a consequence of its ownership of our preference shares. Moreover, the Issuer agreed to maintain a minimum leverage ratio in connection with EBRD's acquisition of our preference shares. See "Principal Shareholders and Share Capital." Accordingly, the foregoing restrictions could enable EBRD to restrict us from executing strategic acquisitions or taking other actions that we believe would benefit our business.

***If we do not successfully manage our working capital, our operating cash flows could be materially adversely affected.***

The successful management of working capital is a critical feature of our business operations. We may experience significant pressure from both our competitors and our key suppliers to reduce our number of days of our accounts payable, while at the same time, we might experience pressure from our customers to extend the number of days before paying our accounts receivable. We have also made significant capital investments in our logistics systems in order to increase our inventory turnover and improve operational efficiency. While we have been able to maintain and improve our working capital position in the past, we cannot provide any assurances that we will be able to do so in the future and this may have a material adverse effect on our business, financial condition and results of operations.

***We depend on a substantial number of third-party producers and suppliers and interruptions in our supply chain could have a material adverse effect on our business, financial condition and results of operations.***

We primarily rely on third-party producers and suppliers for key raw materials (such as milk and butter for the production of ice cream) and for products sold in our food retail and wholesale businesses. Any major breakdown, disturbance or accident affecting these suppliers would have a material impact on the operation of our supply chain, which would adversely impact our producers' and suppliers' ability to produce and distribute our products in a timely manner. Also, many of our producers and suppliers have unionized work forces. Work stoppages or other disruptions of the business operations, strikes or similar measures at our suppliers' sites could adversely impact our ability to produce and deliver our products. This could, in turn, affect our product range and ability to meet customer orders. Any of the events described above could have a material adverse effect on our business, financial condition and results of operations.

***Significant disruptions in our production and/or distribution could adversely affect our business, financial condition and results of operations.***

The production and distribution of our products is concentrated in a relatively small number of facilities. Were any of these facilities to be disrupted in either a significant manner or for a significant period of time, it may have a material adverse effect on our business, financial condition and results of operations.

***Raw material prices impact our profitability and cash flows.***

Our results of operations are influenced by market prices for milk, sugar, oil seeds, meat and other raw materials. Volatility in the price of raw materials can result from poor harvests due to unfavorable weather conditions, disease, political instability and other factors. At the end of 2009 and during 2010, for example, the Croatian market saw a significant rise in commodity prices (e.g. wheat, sunflowers, barley, soybeans) which resulted in a reduced level of activity from our brokerage company and consequently lower profitability. Notwithstanding our hedging practices, we cannot fully eliminate the risks of movements in raw material prices. Furthermore, we cannot assure you that raw material prices will not increase in the future, adversely impacting our profitability and cash flows.

***The Issuer is controlled by certain shareholders whose interests may not be aligned with those of the Noteholders.***

Mr. Ivica Todorić, the President of Agrokor, beneficially owns 91.67% of the voting rights in Agrokor's share capital, and the EBRD holds the remaining 8.33% of voting rights. Consequently, we are effectively controlled by Mr. Todorić, who generally has sufficient voting power to determine the composition of most of the supervisory and management boards, as well as the outcome of most corporate transactions submitted to shareholder vote, although the EBRD has the right to approve certain significant corporate transactions as set out in the articles of association of the Issuer. See "Principal Shareholders and Share Capital." In certain circumstances, the interests of Mr. Todorić or the EBRD, as controlling shareholders of the Issuer, could be in conflict with the interests of the holders of the Notes.

***We depend on management and key personnel.***

We strongly rely on our employees as one of our major competitive strengths. As such, we need to compete for and retain top talent at all levels in order to maintain our leading position in the market. In particular, Mr. Ivica Todorić, our founder and CEO, has been the driving force behind our growth and strategic vision. We cannot assure you that Mr. Todorić or other key personnel will continue to be employed by us or that we will be able to attract and retain qualified personnel in the future. The loss of service of key personnel, especially to a competitor, or a failure to attract and retain new qualified personnel, could adversely affect our business. See "Management."

***Certain employment measures taken could weaken employee relations and result in labor disputes, which could adversely affect our business, financial condition and results of operations.***

In the past, we have implemented and may in the future continue to implement restructuring measures in order to increase efficiency, exploit synergies and respond to changing customer preferences. These measures could weaken our employee relations and result in labor disputes that could have a negative impact on our reputation and our business, financial condition and results of operations.

***We depend on our trademarks, proprietary rights and brands. Any negative impact on the reputation of our brand names or failure to protect our intellectual property rights may adversely affect our competitive position.***

The Food Manufacturing and Distribution division is focused on the production and distribution of branded products, which are key assets of the Group. Maintaining the reputation of and value associated with these brand names is central to the success of our business. If we are unable to control and guarantee the quality of our products, especially our own brand products, and services, our reputation may be negatively affected. Also, any dilution of brand value by infringement could have a material adverse effect on our business, results of operations and financial condition. We can provide no assurances that there will be no attempts to infringe, copy or otherwise diminish the value of our brands or that we would be able to effectively control or guarantee our own branded products or protect our intellectual property rights at a court of law.

***We depend on a variety of information technology systems, and systems failures may harm our business.***

We rely on numerous information technology systems that allow us to efficiently manage our distribution capability, communicate with customers and suppliers, manage and evaluate our employees, and gather all necessary information upon which management makes its business decisions. Our business is becoming increasingly dependent on the use of these systems so any potential system failures or disruptions resulting from computer viruses, hackers, hardware and software failures or other causes could have a material adverse effect on our business, financial condition and results of operations.

***We are susceptible to claims of anti-competitive practices.***

Part of our overall strategy is to be a market leader in the markets where we operate. For this reason and taking into consideration our leading position in most former Yugoslavian countries, we may be accused of the abuse of our position or the use of anti-competitive practices. Such allegations could adversely affect our reputation and potentially result in legal proceedings that could have an impact on our business, financial condition and results of operations.

***Our ability to make payments on the Notes will depend on our future operating performance.***

Our indebtedness presents risks to investors, including the possibility that we may be unable to generate sufficient cash to pay the principal of the Notes at maturity or earlier redemption, in accordance with the terms of the Notes. It is likely that we will need to generate cash from our operations or obtain external funds to repay the Notes if and when the holders of the Notes exercise their repurchase options pursuant to the terms of the Notes or at maturity, as the case may be. Our ability to pay the principal on the Notes will be dependent on our future operating performance, which is, in turn, dependent on a number of factors. If we do not have sufficient resources to repay the Notes when they become due for repayment, we may find it necessary to refinance our indebtedness before any further investment activities, and such refinancing may not be available on reasonable terms.

***Perishable food product losses could materially impact our results.***

Our overall business strategy places an emphasis on fresh products, such as fruits, vegetables and meat, and we have made a corresponding significant investment in our logistics distribution centers and distribution fleet to ensure the quality and safety of our perishable goods. We rely upon electrical power to operate our logistics distribution centers, distribution fleets and storage facilities. To attain maximum performance, these types of facilities must often operate on a continuous basis and at the appropriate pre-set temperatures. As a result, any shortage or interruption in power supply may have a material adverse effect on our operations. However, any extended power supply shortages or interruptions could result in perishable food losses which may have a material adverse effect on our business, financial condition and results of operations.

***We may incur liabilities or losses that are not covered by insurance.***

We maintain our insurance coverage at a level that is consistent with customary industry practice in our Primary Markets. Our insurance policies are primarily related to employee-related accidents and injuries, machinery breakdowns, property damages and fixed assets. Additionally, we are covered for adverse weather conditions relating to our agricultural business. However, not all liabilities and losses are insurable or are covered by insurance and, as a result, we cannot provide any assurance that we will not be exposed to a major incident which is not covered by our existing policies and that such incident would not have a material adverse effect on our business, financial condition and results of operations.

**Risks Relating to the Retailing and Wholesale Industry**

***To execute our retail strategy, we must continue to purchase, lease, rent or acquire a substantial number of retail properties on acceptable terms.***

In order to realize our retail strategy of growth, we will need to open new stores and lease, rent or purchase properties within the CEE. Specific locations for many suitable sites within the markets in which we operate have not yet been identified and therefore, the purchase, lease or acquisition terms have not yet been evaluated. We could fall short in achieving our planned number of new store openings and/or competition could drive up costs for these stores which may result in a lower than expected financial performance by us. We cannot guarantee that we will successfully identify, lease, rent, purchase and/or acquire suitable new properties on acceptable terms, and the failure to do so could have an adverse effect on our business, financial condition and results of operations. Furthermore, our existing leases or rentals can be subject to price increases in the rental property markets in which we operate. In addition, we may choose to lease or rent more of our new stores than we have traditionally done, which may result in an increase in the operating costs of our business and will increase our exposure to price increases of rental property. In addition, our operations are subject to price increases of various utilities and increases in local taxes and assessments in the areas in which we operate. Any unanticipated or sharp increase in our rental payments, payments for utilities, taxes or assessments could have a material adverse effect on our business, financial condition and results of operations.

***We could be subject to product liability claims if people are harmed by the products we sell in our retail stores.***

We may be subject to significant liability should the consumption of any of our products cause, or be alleged to cause, injury, illness or death. The sale of food products for human consumption involves the risk of injury to consumers. Such injuries may result from tampering by third parties, or product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents or residues introduced during the growing, storage, handling, processing or transportation phases of production.

While we are subject to governmental inspection and regulations and believe our facilities comply in all material respects with applicable laws and regulations, if the consumption of any of our products were to cause, or was alleged to have caused, an illness, injury or death, we may become subject to claims or lawsuits relating to such matters or be required to conduct product recalls. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused injury, illness or death could adversely affect our reputation with existing and potential customers and our corporate and brand image. We can provide no assurance that we will not face material product liability claims or product recalls in the future, that we will be able to successfully dispose of any such claims or effect product recalls within acceptable costs, or that we will be able to comply with existing or future regulations relating to the manufacturing, processing or packaging of our products at an acceptable cost. Any successful product liability claim or product recall could have an adverse effect on our business, financial condition and results of operations.

**Risks Relating to the Food Manufacturing and Distribution Industry**

***Certain products and aspects of the food and beverage industry are seasonal, which results in uneven cash flow or capital requirements. Also, sustained periods of abnormal weather can have a material adverse effect on our business.***

Sales of certain of our products and trading activities, including ice cream, water and agricultural products are seasonal, resulting in uneven cash flow and working capital requirements, as well as the need to adjust production in anticipation of fluctuating demand. In addition, certain products and brokerage activities are also dependent on weather conditions. There can be no assurance that we will continue to manage our seasonal businesses successfully, or that adverse weather conditions will not have a material adverse effect on our business.

***The food and beverages industry is highly regulated and could be materially adversely impacted by compliance with or changes in government regulation and legislation.***

As a manufacturer of products intended for human consumption, we are subject to extensive governmental regulation and licensing. In Croatia and each of the other jurisdictions in which we operate, we are subject to regulation with respect to the human health, safety of our products, the health, safety and working conditions of our employees, safety and protection of the environment (including those relating to emissions, noise, waste treatment and disposal and clean-up), composition, packaging, labeling, advertising and our competitive and marketplace conduct. The production of food and beverages produces waste, effluents and emissions into the atmosphere, and as a result, we are also required to obtain and comply with licenses for operations which cause emissions or a discharge of pollutants and for water extraction, waste treatment and disposal. While we believe we are currently in material compliance with those laws, regulations and specific licenses and within the deadlines set by legislative authorities, there can be no assurance that we will not incur significant costs to remedy violations of these laws, regulations or specific licenses or negative publicity or to comply with changes in existing laws and regulations or their enforcement, which could have a material adverse effect on our business, financial condition and results of operations.

Moreover, from time to time, additional legislative initiatives may be introduced or existing laws and regulations (or their interpretations) may change which may affect our operations and the conduct of our business, and there can be no assurance that in the future the cost of complying with such initiatives or changes or the effects of such initiatives or changes will not have a material adverse effect on our business, financial condition and results of operations.

***Any actual or alleged contamination or deterioration of food or beverages products could negatively impact our business.***

Our business could be negatively affected by the actual or alleged contamination or deterioration of our products, or of third-party products which we sell. A substantial portion of our products, primarily within the Ice Cream and Frozen Food and Meat and Agriculture business segments, must be maintained within certain temperatures to retain their flavor and nutritional value and avoid contamination or deterioration. Similar risks exist at each stage of the production cycle, as well as in purchasing and delivery of raw materials. Furthermore, risks can be associated with storage and shelving of finished products. With respect to water and beverages, the natural sources of our supply may be subject to pollution. In the event that certain of our products are found, or are alleged, to have suffered contamination or deterioration, whether or not while such products were under our control, our business, financial condition and results of operations could be materially adversely affected. In addition, reports or allegations of inadequate product quality control with respect to certain products of other food manufacturers could negatively impact sales of our products.

***Outbreaks of diseases among, or attributed to, livestock could significantly affect the production of and demand for certain of our products.***

While we take precautions to ensure that our livestock are healthy and that our farms and processing plants operate in a sanitary manner, we are subject to risks relating to our ability to maintain animal health and control potential diseases. Livestock health problems could adversely affect the production and supply of raw materials to our meat and agriculture business segment and our ability to sell meat products. Potential disease could reduce the number of existing livestock, impair growth of livestock to a finished size and/or require expensive vaccination programs. Additionally, actual or alleged diseased livestock could cause significant damage to our brands or cause consumer confidence in our meat products to deteriorate. Any of these factors could have a negative impact on our business, financial condition and results of operations.

## Risks Relating to the Notes

***Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position.***

Upon completion of the Offering of the Additional Notes, and the use of proceeds therefrom, we expect that we will have approximately HRK 9,614.7 million (€1,318.4 million) of total indebtedness. For a detailed description of our indebtedness, you should read the sections entitled “Capitalization,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Description of Other Financing Arrangements.”

Our substantial indebtedness could have a material adverse impact on our financial condition and results of operations that could have important consequences to you, including but not limited to:

- making it more difficult to make payments on the Notes;

- increasing our vulnerability to general economic and industry conditions;
- requiring us to dedicate a substantial portion of our cashflow from operations to making payments on our indebtedness, which would limit the availability of funds for working capital, capital expenditures and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our industry;
- limiting our ability to make investments necessary to maintain or improve our existing market shares or to enter into new markets;
- placing us at a competitive disadvantage compared to those of our competitors who have less indebtedness than we do; and
- limiting our ability to obtain additional financing in the future or increase the costs of any such additional financing.

If operating cash flows and other resources (for example any available debt or equity funding or the proceeds of asset sales) are not sufficient to repay obligations as they mature or to fund liquidity needs, any member of the Group may be forced to do one or more of the following:

- delay or reduce capital expenditures;
- forego business opportunities, including acquisitions; or
- restructure or refinance all or a portion of its debt on or before maturity.

Any or all of which could have an adverse effect on our business, financial condition and results of operations and therefore on the ability of the Issuer and the Subsidiary Guarantors to perform their respective obligations in respect of the Notes.

If any Group company were to fail to satisfy any of its debt service obligations or to breach any related financial or operating covenants, the lender could declare the full amount of the indebtedness to be immediately due and payable and could foreclose on any assets pledged as collateral. Further, certain of our financing arrangements contain cross default provisions such that a default under one particular financing arrangement could automatically trigger defaults under other financing arrangements. Such cross default provisions could, therefore, magnify the effect of an individual default. As a result, any default under any indebtedness to which a Group company is party could result in a substantial loss to us or could otherwise have a material adverse effect on the ability of the Issuer and the Subsidiary Guarantors to perform their respective obligations in respect of any Notes.

Despite our significant current leverage, the Issuer and its subsidiaries may incur substantial additional debt, including in connection with acquisitions, in the future. If we incur additional debt, the related risks we now face could intensify.

***We may have difficulty refinancing our short-term indebtedness.***

At September 30, 2010, we had total indebtedness of HRK 9,614.7 million (€1,318.4 million), of which HRK 2,751.7 million (€377.3 million), or 28.6%, constituted short-term indebtedness (including the current portion of long-term debt). On a pro forma basis, after giving effect to the sale of the Additional Notes and the use of proceeds therefrom to repay certain indebtedness, our short-term indebtedness at September 30, 2010 would have been approximately HRK 1,657.8 million (€227.3 million), or 17.2% of total indebtedness. While we have historically renewed our bilateral agreements at maturity and renewed or refinanced our other short-term debt, there is a possibility that we will be unable to renew or refinance certain short-term debt. If we are not able to renew our short-term debt as it matures, we will be forced to seek other sources of financing, to reduce or delay capital expenditures, to forego business opportunities or to dispose of assets or businesses. We may not be able to accomplish these alternatives on a timely basis or on satisfactory terms or at all. See "Description of Other Financing Arrangements."

***The Issuer is a holding company and depends on distributions from its subsidiaries to service and repay the Notes; certain covenants in our financing arrangements and other agreements may limit the availability of operating cash flow to the Issuer.***

The Issuer is a holding company and conducts its operations principally through, and derives its revenues principally from, its subsidiaries. The ability of the Issuer's subsidiaries to pay dividends or make other distributions or payments to the Issuer will be subject to the availability of profits or funds for such purpose which, in turn, will depend on the future performance of the subsidiary concerned which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that may be beyond its control. In addition, certain of our subsidiaries are subject to restrictions on the making of such distributions contained in its financing arrangements and in applicable laws and regulations. See "Description of Other Financing Arrangements." There can be no assurance that our subsidiaries will generate sufficient cash flow from operations or that alternative sources of financing will be available at any time in an amount sufficient to enable these subsidiaries to service their indebtedness, to fund their other liquidity needs and to make payments to the Issuer sufficient to allow all payment obligations under the Notes to be met.

***The Notes will be effectively subordinated to certain secured indebtedness of the Issuer and the Subsidiary Guarantors and structurally subordinated to the indebtedness and other obligations of our non-guarantor subsidiaries.***

The Notes and Guarantees are unsecured obligations of the Issuer and the Guarantors, respectively. Accordingly, the Notes will be effectively subordinated to obligations under our syndicated credit facility and to approximately €3.9 million of secured indebtedness of our subsidiary guarantors, in each case to the extent of the value of the security securing such indebtedness.

The Additional Notes will be structurally subordinated to any indebtedness of our subsidiaries that do not guarantee the Additional Notes. As of September 30, 2010, on a pro forma basis after giving effect to the issuance of the Additional Notes and the use of proceeds therefrom, our subsidiaries that do not guarantee the Notes would have had approximately HRK 2,321.5 million (approximately €318.3 million) of indebtedness outstanding in addition to approximately HRK 2,557.7 million (approximately €350.7 million) and approximately HRK 429.6 million (approximately €58.9 million) of trade payables and other liabilities outstanding, respectively. In the event of a liquidation, winding-up or dissolution or a bankruptcy, administration, reorganization, insolvency, receivership or similar proceeding of any of these non-guarantor subsidiaries, the non-guarantor subsidiaries will pay the holders of their own debt, their trade creditors and any preferred shareholders before they would be able to distribute any of their assets to the Issuer or any of the Subsidiary Guarantors.

***The Guarantees may be limited by applicable laws or subject to certain limitations or defenses.***

The Subsidiary Guarantors will guarantee the payment of the Notes on a senior unsecured basis. The Guarantees provide the holders of the Notes with a direct claim against the assets of the Subsidiary Guarantors. However, these Guarantees will be limited to the maximum amount that can be guaranteed by the particular Subsidiary Guarantor without rendering the Guarantee, as it relates to that Subsidiary Guarantor, voidable or otherwise ineffective under applicable laws, and enforcement of any of these Guarantees against any Subsidiary Guarantor would be subject to certain defenses available to guarantors generally or, in some cases, to limitations designed to ensure full compliance with statutory requirements applicable to the relevant Subsidiary Guarantors. These laws and defenses include those that relate to fraudulent conveyance or transfer, voidable preference, unfair consideration, financial assistance, corporate purpose, capital maintenance or similar laws and regulations or defenses affecting the rights of creditors generally. As a result, a Subsidiary Guarantor's liability under its respective Guarantee could be materially reduced or eliminated, depending upon the amounts of its other obligations and upon applicable laws. In particular, in certain jurisdictions, a guarantee issued by a company that is not in the company's corporate interests or the burden of which exceeds the benefit to the company may not be valid and enforceable. It is possible that a Subsidiary Guarantor, a creditor of a Subsidiary Guarantor or the bankruptcy trustee in the case of a bankruptcy of a Subsidiary Guarantor, may contest the validity and enforceability of the Guarantee and that the applicable court may determine that the Guarantee should be limited or voided. In the event that any Guarantees are invalid or unenforceable, in whole or in part, or to the extent that agreed limitations on the Guarantee obligations apply, the Notes would be effectively subordinated to all liabilities of the applicable Subsidiary Guarantor, including trade payables of such Subsidiary Guarantor.

***Enforcement of the Notes and the Guarantees across multiple jurisdictions may be difficult.***

The Issuer is incorporated under the laws of Croatia and the Subsidiary Guarantors are incorporated under the laws of Croatia and Bosnia and Herzegovina. In the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in any of these jurisdictions. The rights of the holders of the Notes under the Guarantees will thus be subject to the laws of these jurisdictions, and it may be difficult to effectively enforce such rights in multiple bankruptcy, insolvency and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. In addition, the bankruptcy, insolvency, administration and other laws of the Issuer's jurisdiction of organization and the jurisdiction of organization of the Subsidiary Guarantors may be materially different from, or in conflict with, one another, including creditors' rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability to realize any recovery under the Notes and the Guarantees.

***Relevant local insolvency laws may not be as favorable to you as bankruptcy laws in the jurisdictions with which you are familiar and may preclude holders of the Notes from recovering payments due on the Notes or the Guarantees.***

The Issuer is established under the laws of Croatia, and the Subsidiary Guarantors are established under the laws of Croatia and Bosnia and Herzegovina. Any insolvency proceedings with regard to the Issuer or any Subsidiary Guarantor would most likely be based on and governed by the insolvency laws of the jurisdiction under which the relevant entity is established. The insolvency laws of Croatia and Bosnia and Herzegovina may not be as favorable to your interests as creditors as the laws of jurisdictions with which you are familiar.

In addition, the insolvency, administration and other laws of the jurisdiction in which the Issuer and the Subsidiary Guarantors are established or operate may be materially different from, or conflict with, each other, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest, duration of proceedings and preference periods. The application of these laws, and any conflict between them, could call into question whether, and to what extent, the laws of any particular jurisdiction should apply, which could adversely affect your ability to enforce your rights under the Notes or Guarantees in these jurisdictions or limit any amounts that you may recover.

*Croatia*

*Reasons for Commencement of Bankruptcy Proceeding; Persons Authorized to Commence the Bankruptcy Proceeding*

Pursuant to Croatian insolvency law, an insolvency proceeding can be commenced in circumstances where the debtor is either insolvent or overindebted. The debtor will be considered insolvent if it has outstanding obligations recorded at the bank which transacts its payment operations for a period in excess of 60 days and which obligations, based on valid grounds for collection (such as a judgment), should have been collected from any of debtor's accounts without its consent. If, during that period of time, the debtor has sufficient financial assets in its other accounts with which it could settle such obligations, this would not signify that the debtor is solvent. Under the terms of the Croatian Bankruptcy Act, a bankruptcy proceeding can be commenced either by the debtor or by a creditor filing a petition for bankruptcy. In circumstances where a corporation is either insolvent or overindebted, the corporation is required to promptly file a petition for bankruptcy without delay or, at the latest, 21 days after the occurrence of overindebtedness or the debtor became unable to make payments when becoming due.

*Categories and ranking of Creditors*

The Croatian Bankruptcy Act differentiates between four categories of creditors:

1. creditors of the bankruptcy estate;

2. creditors with exemption rights;

3. separate creditors; and

4. bankruptcy creditors.

*Creditors of the Bankruptcy Estate*

During the Croatian bankruptcy proceeding, the costs incurred in connection with the bankruptcy proceeding and the "other obligations" of the bankruptcy estate shall be settled first out of the bankruptcy estate. "Other obligations" include (i) liabilities caused by the action or the inaction of the trustee in connection with the bankruptcy proceeding or in connection with the management of the bankruptcy estate, the liquidation or distribution of the assets of the bankruptcy estate, and which are not costs of the bankruptcy proceedings; (ii) claims of attorneys for their services rendered during the six months immediately prior to the commencement of the bankruptcy proceeding in connection with the protection of the debtor's rights upon the debtor's entry into the bankruptcy the estate; and (iii) other items prescribed in Articles 86 and 87 of the Croatian Bankruptcy Act. The costs incurred in connection with the bankruptcy proceeding and the other obligations of the bankruptcy estate shall be settled in the order in which they became due.

*Creditors with Exemption Rights*

Persons able to prove, based on a material or personal right, that a specific object does not belong to the bankruptcy estate, shall not be considered a bankruptcy creditor. The right to exempt such object from the bankruptcy proceeding shall be determined according to the provisions for enforcing of such rights in accordance with Croatian general law outside of bankruptcy proceedings.

*Separate Creditors*

Creditors who have a separate claim against real estate, fixtures or rights that are entered on a public register (for example, a land register, register of vessels, aircraft register, register of intellectual property and similar registers) shall have the right to separate satisfaction of their claim in accordance with the provisions of the Law on Enforcement Procedure of Croatia.

*Bankruptcy Creditors*

Creditors in a bankruptcy proceeding are personal creditors of the debtor who, at the time of the commencement of the bankruptcy proceeding, have legally-based claims against the debtor ("bankruptcy creditors"). Creditors are ranked according to their priority, which is based on the nature of their claims. Creditors of a lower priority may be satisfied only after creditors of a higher priority are satisfied in full. Creditors that rank *pari passu* rank with the same priority and are satisfied in proportion to the amount of their claims.

*Bankruptcy Creditors of a Higher Payment Priority*

Claims of creditors with a higher payment priority are classified in order of "first higher priority" and "second higher priority." Claims of the first higher priority include claims of the debtor's employees and ex-employees incurred up until the time of the commencement of the proceeding, any dismissal wages up to the amount specified by law or by collective agreement, and damages for industrial injury or professional illness. Claims of the second higher priority include all other claims against the debtor that are not categorized as a lower priority claim.

*Bankruptcy Creditors of a Lower Payment Priority*

After the claims of a higher payment priority are the claims of a lower payment priority. The following claims of a lower payment priority are satisfied in the following order:

1. interest on claims of bankruptcy creditors incurred since the date of the commencement of the bankruptcy proceeding;

2. costs incurred by the creditors during their participation in the bankruptcy proceedings;

3. monetary fines for criminal acts or infringements, as well as costs resulting from a penalty for a criminal act or infringement;

4. claims demanding a free performance by debtor; and

5. claims for the repayment of a loan extended to a member of the debtor where the loan was extended in exchange for capital or claims of a similar nature.

*Creditors' Claims*

Creditors report their claims to the trustee in writing. A claim shall be considered established if, during the examination hearing, it has not been refuted by the trustee or any of the creditors, or, in the case where is has been refuted, such refutation has been withdrawn. If the trustee in bankruptcy or any of the creditors has refuted a claim, the court shall direct the creditor to institute legal proceedings in order to establish the refuted claim.

*Bosnia and Herzegovina*

In an insolvency, claims against a Subsidiary Guarantor subject to insolvency law of the Federation of Bosnia and Herzegovina will be ranked according to their priority, which is determined in accordance with the Bankruptcy Proceedings Act of the Federation of Bosnia and Herzegovina. A bankruptcy creditor's priority of payment is classified in accordance with the type/nature of its claims. Creditors with a lower payment priority will have their claims paid only after the creditors of higher payment priority have had their claims paid in full. Bankruptcy creditors with an equivalent payment priority will have their claims paid pro rata with other creditors of an equivalent ranking. Claims of secured creditors are paid out of the secured property, and in the event of their claim is not paid in full, secured creditors and the remainder of their claim are ranked pari passu with creditors of a general payment priority.

Creditors' claims are paid from the existing assets of the unencumbered bankruptcy estate in accordance with the following priority scheme:

1. bankruptcy creditors of higher payment priority pursuant to Article 33 of the Bankruptcy Proceedings Act of the Federation of Bosnia and Herzegovina,

2. bankruptcy creditors of general payment priority pursuant to Article 32 of the Bankruptcy Proceedings Act of the Federation of Bosnia and Herzegovina, and

3. bankruptcy creditors of lower payment priority pursuant to Article 34 of the Bankruptcy Proceedings Act of the Federation of Bosnia and Herzegovina.

*Bankruptcy Creditors of Higher Payment Priority*

Claims incurred during the period of preliminary administration, which neither the interim bankruptcy trustee nor the bankruptcy trustee was able to pay, are paid before any other bankruptcy creditor claim.

Except for the creditors' claims referred to in the preceding paragraph, certain claims of the debtor's employees have priority in payment to other bankruptcy creditor claims. In particular, claims for employee wages earned during the eight months immediately preceding the commencement of the bankruptcy proceedings are paid in an amount equal to the minimum wage for each month, which is calculated in accordance with the General Collective Agreement for the Federation of Bosnia and Herzegovina, and other contributions in accordance with laws of Federation of Bosnia and Herzegovina. The same provision applies to payments of compensation for damages resulting from labor injuries. These payments must be paid in full.

*Bankruptcy Creditors of General Payment Priority*

Creditors which, at the time of the commencement of the bankruptcy proceeding, have an "allowed" property claim against the debtor ("bankruptcy creditors") are creditors of the general payment priority unless they are included in a higher or lower payment priority.

*Bankruptcy Creditors of Lower Payment Priority*

Claims with a priority below other claims of bankruptcy creditors are paid in accordance with the following priority scheme, but claim with the same priority are paid pro rata:

1. interest on the claims of the bankruptcy creditors incurred since the commencement of the bankruptcy proceeding;

2. costs of particular bankruptcy creditors incurred during their participation in the proceeding;

3. cash penalties and misdemeanor fees, as well as property damage resulting from criminal acts or misdemeanors;

4. claims related to particular gratuitous actions of the debtor; and

5. claims related to the repayment of a loan from an equity holder to replace capital or equivalent claims.

Claims for which the creditor and the debtor have agreed on a lower priority in the bankruptcy proceeding are paid after the claims listed in paragraph 1 immediately above.

Interest on the claims of the bankruptcy creditors of lower priority and the costs of the creditors incurred as a result of their participation in the proceeding have the same priority as the claims of these creditors of a lower payment priority.

***You may not be able to recover in civil proceedings for US securities laws violations.***

All of the directors and executive officers of the Issuer and certain of the Subsidiary Guarantors are, and are expected to continue to be, non-residents of the United States, and all of the assets of these companies are located outside of the United States. As a consequence, you may not be able to effect service of process on these non-US resident directors and officers in the United States or to enforce judgments of US courts in any civil liabilities proceedings under the US federal securities laws. There is also uncertainty about the enforceability in the courts of certain jurisdictions, including Croatia and Bosnia and Herzegovina, of judgments against the Issuer and certain of the Subsidiary Guarantors obtained in the United States and predicated upon the federal securities laws of the United States. See "Service of Process and Enforcement of Civil Liabilities."

***There may be a limited trading market for the Notes; the Notes are subject to transfer restrictions.***

The Issuer has applied for the listing of the Additional Notes on the Official List of the Luxembourg Stock Exchange. However, the Issuer cannot assure you that the Additional Notes will be listed on any exchange at the time they are issued or at any other time. If the Additional Notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors. Because the Additional Notes are being sold pursuant to an exemption from registration under applicable securities laws and, therefore, may not be publicly offered, sold or otherwise transferred in any jurisdiction where such registration may be required, no public market for the Notes will necessarily develop. Certain of the Initial Purchasers may make a market in the Notes after this offering is completed. However, they are not obligated to do so, and the Initial Purchasers may cease any such market making activities at any time. There can be no assurance that an active trading market for the Notes will develop, or if one does develop, that it will be sustained. See "Plan of Distribution" and "Transfer Restrictions."

The Notes have not been registered under the US Securities Act or any US state securities laws, and the Issuer has not agreed to and does not intend to register the Notes under the US Securities Act or under any other country's securities laws. Therefore, you may not offer or sell the Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable state securities laws. You should read the discussion under the heading "Transfer Restrictions" for further information about the transfer restrictions that apply to the Notes. It is your obligation to ensure that your offers and sales of Notes within the United States and other countries comply with all applicable securities laws.

***We may not have access to sufficient funds to satisfy the change of control offer required by the Notes.***

Upon the occurrence of certain change of control events, we are required to offer to repurchase all of the outstanding Notes at a price of 101% of the face amount of the Notes plus accrued and unpaid interest to the date of the repurchase. Because the Issuer is a holding company, it is dependent upon payments from its subsidiaries to fund a repurchase of the Notes. However, certain of our financing agreements restrict the ability of subsidiaries to pay dividends to the Issuer. In any event, we cannot assure you that our subsidiaries will have the cash available for distribution to us to fund our repurchase obligations following a change of control.

If our subsidiaries cannot make payments to the Issuer to fund a change of control offer in relation to the Notes, we could attempt to arrange debt or equity financing to fund our repurchase obligations. However, we may not be able to do so on favorable terms or at all. Any failure by us to repurchase Notes following a change of control will constitute an event of default with respect to the Notes. See "Description of Notes—Change of Control ."

***The Notes will initially be held in book-entry form and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.***

Unless and until Notes in definitive registered form, or definitive registered notes, are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or holders of Notes. Euroclear, Clearstream or their nominee, will be the registered holder of the Rule 144A global notes and Regulation S global notes for the benefit of its participants. After payment to the registered holder, the Issuer will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and/or Clearstream, and if you are not a participant in Euroclear and/or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder under the Indenture. See "Book-Entry, Delivery and Form."

Unlike the holders of the Notes themselves, owners of book-entry interests will not have any direct rights to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and/or Clearstream or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any matters on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and/or Clearstream. The Issuer cannot assure you that the procedures to be implemented through Euroclear and/or Clearstream will be adequate to ensure the timely exercise of rights under the Notes. See "Book-Entry, Delivery and Form."

***The Original Notes were issued with original issue discount ("OID") for US federal income tax purposes.***

It is expected that the Original Notes and the Additional Notes should be treated as part of the same issue for US federal income tax purposes and, as a result, the Additional Notes should be treated as having the same issue price as the Original Notes for US federal income tax purposes. The Original Notes were issued with original issue discount ("OID") for US federal income tax purposes. Accordingly, US holders of Additional Notes, whether on the cash or accrual method of tax accounting, may be required to include amounts representing OID in gross income (as ordinary income) on a constant yield to maturity basis for US federal income tax purposes in advance of receipt of cash payments to which such income tax is attributable, depending on the price at which they purchase the Additional Notes. US holders who purchase Additional Notes for an amount in excess of the Notes' principal amount, however, will not be required to include amounts representing OID in gross income for US federal income tax purposes. For further discussion, See "Tax Considerations—US States Federal Income Taxation".

## USE OF PROCEEDS

The gross proceeds from the Offering of the Additional Notes will be approximately €163.4 million. We expect to pay approximately €2 million of fees and expenses, including the Initial Purchasers' commission and the estimated Offering expenses, in respect of the Offering. The proceeds from the Offering of the Additional Notes will be used to repay indebtedness under certain of our bilateral facilities. See "Capitalization."

## CAPITALIZATION

The following table sets out our cash and cash equivalents and our consolidated capitalization as of September 30, 2010 on an actual basis and as adjusted to give effect to the issuance of Additional Notes (including the application of the gross proceeds therefrom) as if these events had occurred on September 30, 2010. The information provided on an actual basis was extracted from our unaudited consolidated financial statements as of September 30, 2010 and should be read in conjunction with "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements included elsewhere in this Listing Prospectus. Except as set forth below and elsewhere in this Listing Prospectus, there have been no other material changes to our capitalization since September 30, 2010.

| | As of September 30, 2010 | | |
|---|---|---|---|
| | **Actual** | **As Adjusted** | **As Adjusted(1)** |
| | **(HRK in millions)** | **(HRK in millions)** | **(€ in millions)** |
| **Cash and cash equivalents(2)** | **849.8** | **933.0** | **127.9** |
| Short term borrowings(3) | 2,016.0 | 991.8 | 136.0 |
| Current portion of long-term debt(3)(4) | 735.7 | 660.0 | 91.3 |
| **Total short-term debt** | **2,751.7** | **1,657.8** | **227.3** |
| Senior Credit Facility(5) | 2,498.2 | 2,498.2 | 342.6 |
| EBRD facilities(5) | 783.0 | 783.0 | 107.4 |
| IFC facilities(5) | 371.9 | 371.9 | 51.0 |
| Original Notes(6) | 2,837.9 | 2,837.9 | 389.1 |
| Additional Notes(7) | — | 1,093.9 | 150.0 |
| Other long-term debt(5)(8) | 372.0 | 372.0 | 51.0 |
| **Total long-term debt(5)** | **6,863.0** | **7,592.2** | **1,041.1** |
| **Total debt** | **9,614.7** | **9,614.7** | **1,318.4** |
| Attributable to: | | | |
| Equity holders of the parent | 3,494.5 | 3,494.5 | 479.2 |
| Minority interest | 2,376.6 | 2,376.6 | 325.9 |
| **Total shareholders' equity** | **5,871.1** | **5,871.1** | **805.1** |
| **Total capitalization(9)** | **15,485.8** | **15,485.8** | **2,123.5** |

(1) Amounts below have been translated at a rate of 1 euro = 7.292743 HRK based on the Croatian National Bank rate as of September 30, 2010.

(2) As adjusted columns reflect payment of fees and expenses in connection with the Offering out of cash. See "Use of Proceeds."

(3) As adjusted for the application of the gross proceeds from the issuance of the Additional Notes to repay certain short term indebtedness, we would have had HRK 1,542.0 million (approximately €211.4 million) of indebtedness outstanding in respect of both short-term and long-term bilateral credit facilities, which amount appears above under short-term borrowings and current portion of long-term debt depending on the tenor of the loan and the applicable maturity date. See "Use of Proceeds."

(4) Includes current portion of indebtedness under the Senior Credit Facility, EBRD facilities, IFC facilities and Other long-term debt.

(5) Excludes current portion of long-term debt.

(6) Represents book value of the Original Notes, reflecting original issue discount as of September 30, 2010.

(7) The amount of the Additional Notes offered hereby in the adjusted columns reflects the principal amount of the Additional Notes and not the offering price of 107.75%.

(8) Includes approximately HRK 11.2 million (approximately €1.5 million) of finance leases.

(9) Total capitalization is calculated as the sum of total debt and total shareholders' equity.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following table presents selected consolidated financial information and other data as of and for each of the years ended December 31, 2007, 2008 and 2009 and as of and for the nine months ended September 30, 2009 and 2010 prepared in accordance with IFRS. This selected consolidated financial information and other data as of and for the years ended December 31, 2007, 2008 and 2009 is derived from our audited financial statements and related notes for such years and included in this Listing Prospectus. The selected consolidated financial information and other data as of and for the nine months ended September 30, 2009 and 2010 is derived from our unaudited interim financial statements included elsewhere in this Listing Prospectus.

The following table should also be read in conjunction with "Presentation of Financial, Market and Other Information," "Summary Financial Information and Other Data," "Use of Proceeds," "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" located elsewhere in this Listing Prospectus, and our consolidated financial statements and related notes included elsewhere in this Listing Prospectus. Our results for the nine months ended September 30, 2010 are not necessarily indicative of what our results will be for the full year or any other period.

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2009** | **2010** |
| | **(Audited)[(1)]** | **(Audited)** | **(Audited)** | **(Unaudited)** | **(Unaudited)** |
| | **(HRK thousands)** | | | **(HRK thousands)** | |
| **Income Statement Data:** | | | | | |
| Sales | 20,698,624 | 27,662,914 | 26,476,657 | 19,727,982 | 19,712,457 |
| Cost of materials | (14,894,727) | (19,953,470) | (18,324,864) | (13,836,408) | (13,672,024) |
| Cost of services | (1,585,079) | (2,103,910) | (2,210,414) | (1,586,088) | (1,661,158) |
| Other income | 333,032 | 231,007 | 251,319 | 149,179 | 174,056 |
| Other expenses | (3,472,828) | (4,520,776) | (4,731,171) | (3,419,426) | (3,447,571) |
| Operating profit | 1,079,022 | 1,315,765 | 1,461,527 | 1,035,239 | 1,105,760 |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | (54,652) | (19,391) | (22,438) | — | 14,173 |
| Share of gain/loss of associates | — | (933) | 281 | — | — |
| Impairment of financial assets | (18,848) | (18,449) | (12,631) | (7,402) | (6,167) |
| Dividend income | 283 | 3,519 | 360 | 360 | 278 |
| Sale of subsidiaries | — | — | (127,712) | (167,351) | — |
| Sale of properties | 19,640 | 34,167 | (22,829) | (1,954) | (3,696) |
| Interest income | 70,925 | 112,107 | 68,821 | 62,121 | 72,968 |
| Interest expense | (492,389) | (684,995) | (744,308) | (490,380) | (602,442) |
| Net foreign exchange (loss)/profit | 7,214 | (235,667) | (150,484) | (103,553) | (237,794) |
| Profit before taxation | 611,195 | 506,123 | 450,587 | 327,080 | 343,080 |
| Taxation | (156,928) | (264,405) | (214,075) | (131,702) | (156,709) |
| Net profit for the year | 454,267 | 241,718 | 236,512 | 195,378 | 186,371 |
| Attributable to | | | | | |
| Equity holders of the parent | 298,521 | 83,334 | 75,571 | 81,183 | 98,445 |
| Minority interest | 155,746 | 158,384 | 160,941 | 114,195 | 87,926 |

(1) Restated in connection with the audit for the year ended December 31, 2008. See "Presentation of Financial, Market and Other Information" for further information.

| | As of December 31, | | | As of September 30, |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| | (Audited)[(1)] | (Audited) | (Audited) | (Unaudited) |
| | (HRK thousands) | | | |
| **Balance Sheet Data:** | | | | |
| Property, plant and equipment | 8,767,616 | 12,292,038 | 12,167,281 | 12,880,763 |
| Intangible assets | 668,217 | 1,058,920 | 1,329,408 | 1,305,202 |
| Inventories | 2,687,174 | 3,204,151 | 3,707,158 | 3,637,957 |
| Accounts receivable | 3,012,895 | 3,718,896 | 3,779,776 | 3,642,028 |
| Other current assets | 237,791 | 371,215 | 250,132 | 433,649 |
| Cash and cash equivalents | 873,207 | 706,157 | 895,797 | 849,781 |
| Total assets | 17,569,238 | 23,224,160 | 24,379,350 | 25,382,967 |
| Total equity | 4,898,408 | 5,817,799 | 5,831,000 | 5,871,109 |
| Borrowings | 3,868,002 | 4,140,314 | 5,780,404 | 6,862,958 |
| Total long-term liabilities | 4,366,044 | 4,893,524 | 6,463,612 | 7,585,229 |
| Accounts payable | 5,484,295 | 7,135,518 | 7,711,816 | 8,101,125 |
| Bank borrowings | 1,820,977 | 3,123,788 | 2,292,675 | 1,990,041 |
| Total current liabilities | 8,304,786 | 12,512,837 | 12,084,738 | 11,926,629 |

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2009 | 2010 |
| | (Audited)[(1)] | (Audited) | (Audited) | (Unaudited) | (Unaudited) |
| | (HRK thousands) | | | (HRK thousands) | |
| **Cash Flow Data:** | | | | | |
| Net cash flows from operating activities before changes in working capital | 1,462,882 | 1,755,588 | 2,015,720 | 1,452,749 | 1,478,789 |
| Net cash inflow from operating activities before interest and taxes | 1,445,697 | 2,097,550 | 1,993,881 | 1,972,763 | 1,348,092 |
| Net cash provided from operating activities | 963,815 | 1,313,494 | 1,115,505 | 1,407,780 | 603,741 |
| Net cash used in investing activities | (2,147,798) | (3,747,565) | (1,496,822) | (1,383,287) | (1,186,811) |
| Net cash from financing activities | 1,609,433 | 2,267,021 | 570,957 | (123,640) | 537,054 |
| Net increase/decrease in cash and cash equivalents | 425,450 | (167,050) | 189,640 | (99,147) | (46,016) |

(1) Restated in connection with the audit for the year ended December 31, 2008. See “Presentation of Financial, Market and Other Information” for further information.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements for the three years ended December 31, 2007, 2008 and 2009 and our unaudited consolidated financial statements for the nine months ended September 30, 2009 and 2010 and the related notes and other financial information included elsewhere in this Listing Prospectus. Our consolidated financial statements have been prepared in accordance with IFRS. In the following discussion, certain balance sheet amounts for the year ended December 31, 2007 have been restated to conform to the presentation for the year ended December 31, 2008. See "Presentation of Financial, Market and Other Information."*

*This discussion includes forward-looking statements based on assumptions about our future business that involve risks and uncertainties. The forward- looking statements are not historical facts, but rather are based on our current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from those contained in the forward-looking statements.*

## Overview

We are one of the leading food retailers and wholesalers and food and beverages producers in Central and Eastern Europe (the "CEE"). The primary markets in which we currently operate are Croatia, Serbia and Bosnia and Herzegovina (our "Primary Markets"). In addition, we also sell our food and beverage products in Hungary, Macedonia, Montenegro and Slovenia. In total, our business operations cover a population of more than 30 million people.

Our activities are organized into two principal divisions:

- Retailing and Wholesale
- Food Manufacturing and Distribution

We also engage in commodity brokerage and other non-core activities, which we refer to as Other Businesses.

Our two main business divisions are complementary and together provide us with an integrated business model that covers the entire supply chain from sourcing raw materials, production and distribution, to direct contact with customers through our wholesale and retail sales outlets. In addition, the broad coverage of our retail network and the flexibility provided by our multi-format retail stores (which allows us to tailor store size and format to local demographics) provides us with greater access to consumers in our Primary Markets.

We had consolidated sales of HRK 26,476.7 million (€3,607.4 million) and EBITDA of HRK 2,185.3 million (€297.7 million) in 2009. For the nine months ended September 30, 2010, we had consolidated sales of HRK 19,712.5 million (€2,715.3 million) and EBITDA of HRK 1,734.2 million (€238.9 million). In addition, we had a total of 35,702 employees as of September 30, 2010. Our sales outside Croatia represented 24.4% of consolidated total sales in 2008, 25.5% in 2009 and 26.1% in the first nine months of 2010.

## Recent Developments

During 2010, we continued our focus on:

- increasing operational profitability;
- maintaining and improving our market positions;
- reducing capital expenditures;
- extending the maturity profile of our indebtedness;
- significantly reducing the number of our acquisitions; and
- disposal of non-core businesses.

The continuous implementation of our cost optimization programs during previous periods and development of internal synergies among our portfolio companies combined with the positive effects from previous years' investments have contributed to an increase in EBITDA margin to 8.8% during the first nine months of 2010 compared to 8.0% for the corresponding period of 2009, notwithstanding the challenging economic environment in all of our Primary Markets.

Cost cutting measures were implemented both at the Group level, as well as at each subsidiary in order to maximize efficiency throughout the value chain. The most significant savings were realized through optimization and improvement in the efficiency of the logistics and distribution system (including the reorganization and optimization of transport routes, the commissioning and delivery of goods, as well as by consolidating a number of dislocated warehouses into the central warehouse, optimization of inventory management, and negotiation of better purchasing conditions). A number of other steps were taken to increase efficiency and reduce costs in production, administration and marketing, and by optimizing the number and allocation of employees. Most of these measures have already had a significant impact on our operating profitability and, to the extent that effects of these measures are winding down, we expect that their impact on operating profitability going forward will not be as significant.

We managed to increase market shares in all of our Primary Markets in most of our businesses despite an overall fall in consumption and resulting changes in consumer behavior. In our Retailing and Wholesale division we adjusted our pricing strategy through our consumer-centric retailing approach (see "Business Description") and continuous focus on customer care and service quality. Although our Food Manufacturing and Distribution division came under pressure from customer price sensitivity and a stronger orientation towards cheaper and lower quality products, we managed to increase our market shares through effective marketing strategies, promotions and innovations in our leading brands portfolio as well as through adjusting our product assortment by introducing lower-price brands in some of our businesses.

We reduced our capital expenditure to HRK 967.3 million during the first nine months of 2010, a decrease of 25.7% compared with HRK 1,302.4 million for the corresponding period of 2009. Our capital expenditure related to maintenance of continuing operations has remained relatively stable, in the range of HRK 550 to 650 million per year during the periods under review. Our reduction in capital expenditure compared to pre-financial crisis periods is mainly the result of the completion of the capital investment cycle in our Food Manufacturing and Distribution division, as well as from reducing the rate of expansion of our retail network. We currently expect capital expenditure levels for 2011 to be substantially consistent with full year 2010 levels.

Building further on our strategic decision to reduce our reliance on short term financing, after our issuance of €400 million of Original Notes in December 2009, we refinanced our 2006 Senior Facility Agreement by signing in June 2010 a new €352 million Senior Facility Agreement maturing in 2015 (the "Senior Facility Agreement"). See "Description of Other Financing Arrangements." Through these two transactions, we significantly improved our debt maturity profile, bringing our long term debt (including the short term portion of such debt) to more than 70% of our total indebtedness as of September 30, 2010. Currently, we are in the process of refinancing the €40 million Frikom IFC loan, which matures on February 15, 2011. On December 30, 2010 we amended and restated this agreement and on January 10, 2011 Frikom entered into a parallel loan agreement with Credit Agricole to refinance this loan. The two agreements have substantially the same terms and amortize over four years, with a final maturity date of January 15, 2015. Effectiveness of the two agreements is subject to satisfaction of customary conditions precedent, which are expected to be satisfied by the end of January 2011. See "Description of Other Financing Arrangements."

In December 2010, we agreed with the EBRD, the IFC and our other financial creditors to align the financial covenants in our outstanding financing arrangements with those generally found in our Senior Facility Agreement.

In November and December 2010, Standard & Poor's and Moody's both improved our credit rating outlook, with Standard & Poor's improving from B "negative" to "stable" and Moody's improving from B2 "stable" to "positive". The ratings above are not a recommendation to buy, sell or hold the Additional Notes offered hereby. The ratings may be subject to revision or withdrawal at any time by Moody's or Standard and Poor's. Each of the ratings above should be evaluated independently of any other rating.

In light of the challenging economic environment, in 2009 we decided to significantly reduce our acquisition program, primarily looking to undertake small, opportunistic acquisitions that we consider to offer significant potential. During the first quarter of 2010 we purchased 83.1% of Croatian agricultural conglomerate Vupik d.d. for HRK 30.0 million, with an obligation for further investment of HRK 430.0 million in the following five years. After assigning 20.7% of total share to Vupik employees and 6.7% to the Association of Croatian War Veterans, we currently own 55.8% stake in Vupik. During 2010, we also acquired management control of book publishing company Znanje d.d. through the purchase of a 84.9% stake in Znanje d.d. for HRK 41.8 million. Finally, in October 2010, our Croatian kiosk retail company Tisak acquired the remaining 50% stake for HRK 76.2 million in Slobodna Dalmacija Trgovina which operates the same business as Tisak but predominately covers Dalmatia. We believe that the acquisition should be a strategic fit for Tisak which currently holds a 100 per cent stake in the company.

Following the divestment of our drugstore chain Kozmo at the end of 2009, we are currently considering divesting our billboard advertising company Media d.o.o and are in the process of negotiating with potential buyers. Media is part of our non core group of businesses and its revenues are not material to the Group.

We are currently engaged in preliminary discussions with Kerum d.o.o. regarding the long-term lease of 83 stores in Croatia, which would be re-branded as Konzum stores if a transaction were to be completed. In 2009, these stores generated sales to Kerum d.o.o. of approximately HRK 1,159 million, according to information provided to us by them. We are considering this as an opportunistic transaction that would increase our penetration in certain areas of Croatia where we believe we are currently underrepresented. However we have not yet agreed the principal terms of a transaction or entered into any binding agreement in respect of it. Completion of any such transaction would be subject to satisfactory due diligence, negotiation of definitive documentation acceptable to both parties, approval of the Croatian anti-monopoly agency and other customary conditions.

**Acquisitions and disposals**

During the periods under review, we completed a number of acquisitions through which we increased the size of our operations. These acquisitions also impact the comparability of our results of operations over each of the periods under review. In addition to the principal acquisitions described below, we made a series of smaller bolt-on acquisitions. Following an acquisition, we typically make significant investments in the acquired company, integrating its accounting and management information systems into ours and generally introducing best management and operational practices throughout its business. For acquisitions in the Food Manufacturing and Distribution division, the most significant post-acquisition capital expenditures are typically in modernizing the acquired company's production facilities, whereas in the Retailing and Wholesale division, the most significant capital expenditures are typically in opening new and refurbishing existing stores.

***Acquisitions***

Our principal acquisitions during the periods under review were as follows:

*Tisak*

We acquired a 54.2% ownership interest in Tisak d.d. for a total consideration of HRK 344.1 million in 2007, paid entirely in cash. Tisak is Croatia's leading distributor of print media, tobacco and pre-paid mobile phone cards. We entered into this transaction in order to extend our presence in the retail market for specialized high margin impulse products. The acquisition also generated synergies through joint purchasing with other subsidiaries within the Group, a broader customer base and more efficient use of our logistics and distribution network. Tisak d.d.'s acquisition of the remaining 50% stake in Slobodna Dalmacija Trgovina, which operates primarily in Dalmatia, is expected to be strategically advantageous for the Group because of better coverage of the Dalmatia region.

*SL Gross*

In 2008, we acquired a 100% ownership interest in SL Gross d.o.o. through IDEA d.o.o., the Group's retail subsidiary in Serbia, for a total consideration of HRK 370.7 million, paid entirely in cash. The main business activity of SL Gross is wholesale and retail trade. We entered into the transaction in order to expand our operations in this segment in Serbia. The acquisition included three wholesale centers. Through this acquisition, we strengthened our position in the areas around the cities of Niš, Čačak and Leskovac in central Serbia, increasing our coverage of the retail and wholesale market in central Serbia and optimizing our operations and logistics.

*Lokica*

In 2008, we acquired a 100% ownership interest in the Croatian retail chain Lokica d.o.o. through Konzum d.d. for a total consideration of HRK 170.7 million. Lokica has prime locations throughout the Šibenik area located on the southern Croatian coast, which is an important tourism region and which also provides us with better coverage of the coastal part of the country. This acquisition was an important step in our strategy to increase the density of the coverage of our retail operations across Croatia.

***Disposals***

During the periods under review, we also made three significant disposals: In June 2009, we sold the bakery business of Mlinar, together with our remaining bakery business, we divested Štampa, our kiosk retail chain in Montenegro, and we divested Kozmo, our drug-store chain in Croatia, all as part of our strategy to divest non-core assets and businesses.

## Certain Factors Affecting Financial Condition and Results of Operations

Our results of operations for the periods under review have been primarily affected by:

### *Macroeconomic factors*

Macroeconomic conditions in the countries in which we operate may have a significant effect on our results of operations. The food industry is generally impacted less by economic downturns than other industries that rely on a greater amount of discretionary spending. However, in periods of recession, when the gross domestic product declines in any or all of the markets in which we operate, customers may reduce their consumption of certain products, reducing our sales volumes, or switch from premium brands to lower cost brands and private-label products, which may reduce the average prices we can achieve. In such an economic environment, we may also need to reduce our prices (including through price-based promotions) in response to increased competition. These trends have been evident in the current downturn and we have responded by adjusting our product offering, pricing and marketing strategies accordingly.

The following is a short overview of macroeconomic environment in our Primary markets in 2010 through the end of the third quarter, based on publicly available information:

*Croatia*

According to UniCredit Research, after a GDP contraction of 2.5% year-on-year in the first half of 2010, trends have started to improve in the third quarter of 2010. There is some indication that negative trends in personal consumption are beginning to slow, and perhaps reverse, with retail trade expanding by 0.7% year-on-year in real terms during July 2010, which was the first increase in 24 months, according to UniCredit Research. These trends have also been positively affected by the abolishment of the crisis tax rate of 2% on an individual's income between HRK 3,000 and 6,000 per month, which was introduced as one of the measures of the Croatian government as a response to the crisis. A further increase in consumption is expected and should gain strength in 2011 following the elimination in November 2010 of the 4% crisis tax on salaries above HRK 6,000 per month. Changes in wage taxation introduced in July 2010 have led to a somewhat lower average tax burden, as the previously four tax rates of 15%, 25%, 35% and 45% were replaced by three rates of 12%, 25% and 40%. Therefore, the average take-home wage of Croatian workers has been less affected by downward pressures than the average gross wage. In the tourist industry, data for first nine months showed an increase in overnight stays of 2.7% with the rise predominantly coming from foreign tourists, according to the Central Bureau of Statistics. In December 2010, Standard & Poor's lowered Croatia's long-term sovereign credit rating to BBB− from BBB, citing the country's deteriorated fiscal position and weak external financing.

*Serbia*

According to UniCredit Research, domestic demand showed signs of recovery during the first three quarters of 2010, driven by the anticipated wage hikes in the public sector (and consequently the growth outlook to improve). However, the Serbian economy appears to be subject to inflation risk due to domestic demand trends and the ongoing pass-through impact on inflation from the depreciation of the Dinar, to which the National Bank has reacted with tighter monetary policy. The EUR/RSD rate is considered vulnerable, due to the wider current account deficit, rising foreign debt and foreign debt service obligations, and inflationary pressures. In second quarter of 2010 the economy grew 2% year-on-year, with seasonally adjusted quarter-on-quarter data revealing a strong rise of 0.8% according to UniCredit Research. Expected GDP growth for the year was revised to 1.5% and even stronger growth is expected in 2011, according to UniCredit Research. Serbia's unemployment rate (19.2% in April 2010 according to the Statistical Office of the Republic of Serbia) still represents the biggest issue for the macroeconomic environment since it directly constrains personal consumption.

*Bosnia and Herzegovina*

According to UniCredit Research, industrial production continued to grow, with a 7.1% year-on-year increase due to rise of the manufacturing output which increased 14.4% year-on-year in August 2010. Domestic demand remained weak and according to estimates it will not contribute to economic growth in 2011. Real gross wages fell by 1.0% year-on-year in July 2010, and the unemployment rate stood at 27.2% in April 2010, while annual GDP growth forecast remained at 0.5% for this year, and has been revised for 2011 from 1.2% to 1.8%, according to UniCredit Research.

### *Economies of scale*

As our business has grown, we have achieved certain economies of scale as a result of our increased size. Our greater purchasing power allows us to negotiate more favorable prices with suppliers. In particular, as we have expanded throughout the region, we have been able to enter into agreements with certain suppliers to purchase goods for the entire region, achieving greater economies of scale. Even with local suppliers, our greater size and financial resources compared to many of our competitors make us a preferred customer, giving us better pricing and purchasing terms.

In addition, as we have filled out our geographic footprint in new countries, we have achieved economies of scale in terms of transportation, distribution and sales and marketing. Accordingly, our margins tend to be lower when we enter a new market and invest in essential infrastructure and brand awareness. However, our margins in new markets tend to improve over time as our coverage broadens and we begin to realize a return on our investments.

***Raw material prices***

Our key raw materials include wheat and corn (for animal feed), beef, pork and other meats (for our fresh and processed meat industry), milk and butter (for the production of ice cream and cheese), sunflower and other oil seeds (for the production of margarine and vegetable oils), as well as plastic bottle pre-forms and other packaging materials.

The Food Manufacturing and Distribution division is affected by the prices of the raw materials used. The Retailing and Wholesale division is also affected by the prices of raw materials as it affects the costs of goods sold.

In general, we try to pass on price increases to our customers although competitive and other factors may make it difficult for us to pass on the full amount of price increases. In addition, our ability to pass on price increases can be more limited for commodity-based products such as edible oils than for higher value-added products such as ice cream.

*Wheat, corn and other cereal crops*

Wheat, corn and other cereal crops are key raw materials for animal feed, edible oils and flour production, and are brokerage commodities for Agrokor trgovina. They are heavily dependent on movements in the commodities markets, although the prices in our Primary Markets are insulated to a degree by state subsidies. Our strategy is to source the majority of our requirements internally through production and contract farming and to obtain the rest through the commodity markets.

In general, prices for wheat, barley and soybean in Croatia increased gradually in 2007 and more steeply in 2008 before declining significantly in 2009 as a result of the global economic crisis. In 2010 prices increased due to the rise in global demand backed by signs of economic recovery and poor weather conditions. Sunflower seed prices increased sharply in 2007 and declined in 2008 and 2009 before increasing again in 2010. Corn prices also peaked in 2007 before declining in 2008 and then recovering marginally in 2009 and more significantly in 2010.

*Meat*

The key raw material in our meat segment is livestock, principally pork, beef and veal. The market price of livestock depends on supply and demand, as well as on the price of animal feed. In 2007 and 2008, market prices for pigs declined as a result of oversupply, then increased in 2009 before falling again in 2010. Cattle prices have been more stable, declining somewhat in 2007 before increasing in 2008 and 2009 but decreasing again in 2010. Our strategy is to source approximately half of our livestock needs internally in order to reduce the impact of fluctuations in market prices.

*Milk and butter*

Fresh milk, skimmed milk powder and butter are key raw materials for ice cream and cheeses. We source these products both internally and through suppliers. Fresh milk prices tend to follow market trends, but are also insulated to a degree by state subsidies. The primary factors influencing prices include supply (which in turn is influenced by the weather) and demand, and subsidies in the European Union. In general, pasteurized milk and butter prices in Croatia increased in 2007 and 2008, then declined in 2009 and rose again in 2010. Prices for milk powder peaked in 2007 due to drought in Australia and North America then declined to the end of 2008 and 2009 and rose again in 2010.

*Oil seeds and crude vegetable oil*

The principal raw materials used in the production of edible oils, margarine and mayonnaise are oil seeds (including sunflower, soybean and rapeseed), as well as crude and refined vegetable oils (including sunflower, soy, rape and, to a lesser extent, palm oil). In addition, soy meal is an important ingredient in animal feed. Oil seeds and crude vegetable oils are exchange-traded commodities with significant volatility reflecting global supply and demand. During the periods under review oil seed prices increased significantly during the second half of 2007 and the first half of 2008, but then decreased significantly during the global economic crisis. In 2010, prices recovered to 2008 levels. We source the majority of our requirements through our own production and long-term contracts with local farmers in order to ensure supply stability and to reduce price volatility.

*Pre-forms*

Pre-forms are plastic tubes with the bottle neck (including threads) on one end that are used in the manufacture of polyethylene terephtalate ("PET") plastic bottles. Being a petroleum derivative, the price of pre-forms tends to fluctuate with world oil prices, although with generally lower volatility. Pre-form prices declined by 13% during 2009 compared to 2008, while in 2010 they have recovered, increasing by 12%. We have a strategic supplier from whom we source the majority of our requirements and obtain the remainder principally from one alternate supplier.

***Expansion strategy***

We expanded significantly up until the beginning of 2009 as a result of a combination of organic growth and acquisitions, which resulted in increases in substantially all of the line items in our financial statements over the past several years through 2009. In response to the more unfavorable environment, starting in 2009 we significantly slowed the pace and number of acquisitions and reduced our capital investments. However we believe that our expansion strategy will continue to be an important driver of profitability given the importance of economies of scale in our industry and the potential synergies available to us. Our growth can be characterized in a number of respects which have impacted our financial results.

*International expansion*

We have expanded our business internationally since 2000 and now have operations in Croatia, Serbia, Bosnia and Herzegovina, Hungary, Montenegro, Macedonia and Slovenia, and export to countries around the world. Following our entry into a new market, it generally will take some time in order for us to develop a critical mass in terms of new stores or customers, to build out our distribution network and to achieve efficiencies in sales and marketing. As a result, our margins tend to be lower following our entry into a new market and improve as we develop economies of scale. See "—Economies of Scale." In addition, when we enter countries with lower GDP per capita such as Serbia and Bosnia and Herzegovina we need to adjust our pricing in order to remain competitive. However, as we have acquired or built production facilities in these countries, we have generally been able to offset lower sales prices by lower costs.

*Product range expansion*

We have also sought to expand the range of products that we offer. For example, in Retailing and Wholesale, we have introduced private labels in categories that do not directly compete with our Food Production and Distribution businesses in order to capture this segment of the market as we see evidence that an increasing number of consumers are focused on private label products due to the reduction of their purchasing power. In Food Manufacturing and Distribution, we have introduced new products such as frozen foods and fruit juices in order to reduce the seasonality of our ice cream and mineral water businesses (See "—Seasonality" below), introduced "B" Brands (line of cheaper products than our main or "A" branded products, i.e. Jamnica's "To" "B" brand vs. "Juicy" "A" brand) in certain categories to better respond to consumer demands in the current economic environment and also broadened our product portfolio in order to capture sales in products that are complementary to our existing products. The margins on these new products are often lower than those on certain of our core products such as ice cream and mineral water due, among other things, to higher production costs. However, by broadening our product range we believe that we can achieve synergies in terms of the purchase of raw materials and distribution costs and to capture a larger percentage of the total market. Notably we have expanded PIK Vrbovec's product portfolio by not only expanding the existing product assortment but also by initiating production of packed fresh meat which has generated growth in both revenues and operating margins due to consumer preference for both quality and safety.

*New store openings*

In the Retailing and Wholesale division, we have expanded our market coverage by opening new stores in the countries in which we operate. While new store openings increase our sales, we incur high fixed costs during the construction and/or refurbishment period at a time when the store is generating no sales. In addition, following a store opening, there is a period of one to four years, depending on store format, during which sales at the store typically do not meet our projected sales targets.

At September 30, 2010, we had a total of 929 stores (including 27 Velpro wholesale stores) which we own or operate under operating leases and rental arrangements. When we lease or rent a store property, we are generally responsible for the refurbishment and fit-out of the store. Our store leases and rentals are typically long-term (10 to 15 year) agreements that are terminable at our option prior to their maturity without material penalty. We normally would be obliged to pay about three months' rent or lease payments, or, in a small number of cases, three to 12 months. Our leases and rents do not permit the landlord to terminate during the term of the agreement as long as we continue to make lease or rental payments and otherwise comply with the provisions of the agreement. Lease or rental payments are generally set at a fixed base amount, although a small number of agreements have payments that increase by reference to the retail price or another reference index. Lease and rental payments typically represent between two to four percent of total sales of a store.

The table below shows new retail (excluding wholesale) store openings and closings by country in each of 2007, 2008, 2009 and for the first nine months of 2010.

| | Start of Period | | Store Openings | | Store Closings | | Format Change | Period End | |
|---|---|---|---|---|---|---|---|---|---|
| **Nine Months Ended September 30, 2010** | **Number** | **Sales Area** | **Number** | **Sales Area** | **Number** | **Sales Area** | **Sales Area** | **Number** | **Sales Area** |
| | | **(sqm)** | | **(sqm)** | | **(sqm)** | **(sqm)** | | **(sqm)** |
| Konzum (Croatia) | 628 | 220,281 | 59 | 21,820 | (25) | (6,850) | 1,289 | 662 | 236,540 |
| Konzum Sarajevo (Bosnia and Herzegovina) | 115 | 56,068 | 13 | 6,345 | (3) | (813) | — | 125 | 61,600 |
| IDEA (Serbia) | 97 | 40,851 | 19 | 8,486 | (1) | (203) | (56) | 115 | 49,078 |
| **Group Total** | **840** | **317,200** | **91** | **36,651** | **(29)** | **(7,866)** | **1,233** | **909** | **347,218** |
| **Year Ended December 31, 2009** | | | | | | | | | |
| Konzum (Croatia) | 658 | 199,808 | 51 | 31,749 | (81) | (14,308) | 3,032 | 628 | 220,281 |
| Konzum Sarajevo (Bosnia and Herzegovina) | 85 | 37,399 | 45 | 20,979 | (15) | (2,221) | (89) | 115 | 56,068 |
| IDEA (Serbia) | 85 | 34,641 | 13 | 6,366 | (1) | (156) | — | 97 | 40,851 |
| **Group Total** | **828** | **271,848** | **109** | **59,094** | **(97)** | **(16,685)** | **2,943** | **840** | **317,200** |
| **Year Ended December 31, 2008** | | | | | | | | | |
| Konzum (Croatia) | 587 | 178,283 | 87 | 22,584 | (16) | (1,617) | 558 | 658 | 199,808 |
| Konzum Sarajevo (Bosnia and Herzegovina) | 62 | 27,364 | 25 | 11,418 | (2) | (1,383) | — | 85 | 37,399 |
| IDEA (Serbia) | 39 | 25,267 | 46 | 10,551 | — | — | (1,177) | 85 | 34,641 |
| **Group Total** | **688** | **230,914** | **158** | **44,553** | **(18)** | **(3,000)** | **(619)** | **828** | **271,848** |
| **Year Ended December 31, 2007** | | | | | | | | | |
| Konzum (Croatia) | 526 | 153,873 | 79 | 26,107 | (18) | (2,032) | 335 | 587 | 178,283 |
| Konzum Sarajevo (Bosnia and Herzegovina) | 18 | 3,282 | 46 | 24,592 | (2) | (510) | — | 62 | 27,364 |
| IDEA (Serbia) | 7 | 9,834 | 32 | 15,433 | — | — | — | 39 | 25,267 |
| **Group Total** | **551** | **166,989** | **157** | **66,132** | **(20)** | **(2,542)** | **335** | **688** | **230,914** |

### *Exchange rate fluctuations*

We are subject to currency transaction risks when our revenues and costs are denominated in different currencies. For example, our revenues have principally been denominated in Kuna, our currency of account, whereas our debt and operating expenses have been denominated both in Kuna and in a number of foreign currencies, principally euro, in which a greater proportion of our indebtedness is denominated. We attempt to manage this currency transaction risk principally by matching revenues and costs in the same currency. However, our ability to match our euro denominated costs, particularly financing costs, in this manner is limited.

In addition, we are subject to currency translation risk in that the results of each of our subsidiaries are reported in the operating currency of the jurisdiction in which it primarily operates. These amounts, if not reported in Croatian Kuna, are then translated into Kuna for inclusion in our consolidated financial statements. Accordingly, changes in foreign exchange rates may impact the contribution of our non-Croatian subsidiaries to our financial results in a manner different to the changes in the results of those subsidiaries in their local currencies. The principal currencies of account of our subsidiaries include Kuna, Convertible Marks (which are pegged to the euro), Serbian Dinars and Forint. Recently the Serbian Dinar has been under pressure and, during 2009, it depreciated against the Kuna by 13.5% followed by a further depreciation of 9.1% during the first nine months of 2010 which impacted our revenues and operating profit primarily because of adverse translation impacts on sales. Such adverse changes in exchange rates might impact our financial covenant compliance through decreased EBITDA and our payment capacity.

As we continue to expand internationally, currency transaction and currency translation risks may more significantly impact our financial results. During the period under review, approximately 70% of foreign exchange differences represented unrealized losses.

### *Seasonality*

Sales from certain of our products and brokerage activities, including ice cream, mineral water and agricultural products are seasonal, resulting in uneven cash flow and working capital requirements, as well as the need to adjust production in anticipation of fluctuating demand. In addition, certain products and brokerage activities, such as ice cream, mineral water and agricultural products, are also dependent on weather conditions. As a result, our revenues do not occur evenly throughout the year.

In addition, to a certain extent, our businesses are dependent on the success of the tourist season, which has a seasonal character and whose success directly impacts our profitability. For example, ice cream and mineral water sales are particularly affected by the tourist season, and a poor tourist season would adversely affect our sales in these products in the second and third quarters. Croatia had approximately 56.0 million, 57.1 million and 56.3 million tourist nights in 2007, 2008 and 2009, respectively, according to the Croatian Bureau of Statistics. Our fourth quarter results are also impacted by volume purchase rebates, which are typically received from suppliers by companies in our Retailing and Wholesale division (and granted to customers by companies in our Food Manufacturing and Distribution division) at the end of the year. Our Retailing and Wholesale division is also positively affected by the year-end holiday season.

The table below shows our sales by quarter (by amount and as a percentage of annual sales for that entity) in each of 2007, 2008 and 2009 and for the first three quarters of 2010 for three of our subsidiaries, Ledo, Jamnica, Konzum and the consolidated Group to illustrate the seasonality of those businesses.

| | Ledo | | Jamnica | | Konzum | | Consolidated Group | |
|---|---|---|---|---|---|---|---|---|
| | HRK millions | % of Year | HRK millions | % of Year | HRK millions | % of Year | HRK millions | % of Year |
| First quarter 2007 | 144.7 | 14.4 | 155.4 | 16.5 | 2,260.7 | 20.9 | 3,435.4 | 16.6 |
| Second quarter 2007 | 356.6 | 35.4 | 281.8 | 29.8 | 2,628.2 | 24.3 | 4,854.7 | 23.5 |
| Third quarter 2007 | 339.2 | 33.7 | 322.2 | 34.1 | 3,021.6 | 28.0 | 6,462.5 | 31.2 |
| Fourth quarter 2007 | 165.8 | 16.5 | 185.4 | 19.6 | 2,896.0 | 26.8 | 5,946.1 | 28.7 |
| First quarter 2008 | 196.4 | 16.9 | 176.2 | 16.5 | 2,483.4 | 19.6 | 5,195.4 | 18.8 |
| Second quarter 2008 | 393.9 | 33.9 | 298.5 | 28.0 | 2,973.1 | 23.5 | 6,755.1 | 24.4 |
| Third quarter 2008 | 419.4 | 36.1 | 369.3 | 34.6 | 3,712.9 | 29.4 | 7,912.0 | 28.6 |
| Fourth quarter 2008 | 153.3 | 13.2 | 222.5 | 20.9 | 3,470.4 | 27.5 | 7,800.4 | 28.2 |
| First quarter 2009 | 194.2 | 17.3 | 169.7 | 16.8 | 2,602.1 | 20.8 | 5,475.4 | 20.7 |
| Second quarter 2009 | 373.2 | 33.2 | 303.7 | 30.2 | 3,193.7 | 25.5 | 6,759.4 | 25.5 |
| Third quarter 2009 | 579.5 | 34.3 | 344.5 | 34.2 | 3,647.3 | 29.1 | 7,493.1 | 28.3 |
| Fourth quarter 2009 | 172.2 | 15.3 | 189.4 | 18.8 | 3,090.4 | 24.7 | 6,748.7 | 25.5 |
| First quarter 2010 | 171.1 | — | 178.9 | — | 2,592.5 | — | 5,478.5 | — |
| Second quarter 2010 | 342.6 | — | 309.9 | — | 3,053.9 | — | 6,721.7 | — |
| Third quarter 2010 | 369.2 | — | 392.6 | — | 3,778.2 | — | 7,512.3 | — |

We seek to minimize the effects of seasonality in a number of ways. For example, in our ice cream business, we have introduced lines of frozen pastry, fruit and vegetables and fish to reduce the seasonality of our ice cream sales which peak during the summer months. In addition, we had a marketing campaign aimed at promoting ice-cream consumption throughout the year.

## Principal Income Statement Items

The following is a description of the principal line items in our income statement.

### *Sales*

Sales principally consist of revenues from the sale of products and services and other sales revenue. Changes in sales are driven by changes in sales volumes and changes in prices, the main drivers of which are discussed in "—Certain Factors Affecting Financial Condition and Results of Operations" above.

### *Cost of materials*

Cost of materials includes raw material costs, the cost of goods sold and change in inventory during the period. It is also driven by changes in volumes and prices. Higher volume purchases can also result in lower prices, to the extent that our increased purchasing power enables us to negotiate more favorable terms with suppliers.

### *Cost of services*

Cost of services includes other external costs, including utilities costs, external distribution costs, operating lease expense, rent and maintenance. Cost of services has a high percentage of fixed costs and accordingly increases as a percentage of sales when sales decrease, and decreases as a percentage of sales when sales increase.

### *Other income*

Other income consists of gain on sale of subsidiaries and investments classified as available-for-sale but excluding extraordinary gain; government grants (primarily granted to our agricultural companies; the amount depends on the level of the activities); reversal of value adjustments; reversal of provisions for litigation; collected receivables that had been written off; other revenues; and adjustments to the value of receivables.

***Other expenses***

Other expenses consists of wages and salaries; taxes, social insurance and pension costs; depreciation and amortization; research and development costs; net write-offs of bad debts and other short-term assets; and other expenses. Changes in wages and salaries and in taxes, social insurance and pension costs are driven principally by headcount and, to a lesser extent, by inflation and the relative employment costs in the countries in which we operate. Depreciation and amortization is driven principally by the size of our depreciable assets (which in turn is affected by investments and acquisitions) and by our depreciation policies.

***Operating profit***

Operating profit is sales plus other income, less cost of materials, cost of services and other expenses.

***Excess of fair value of net assets over the cost of acquisition, net of written off goodwill***

Excess of fair value of net assets over the cost of acquisition, net of written off goodwill consists of (i) the amount by which the fair value of net assets acquired during the period exceeds the cost of acquisition of those assets, less (ii) the amount of goodwill written off during the period. Goodwill is subject to impairment testing on each reporting date. The excess of the fair value of the acquired assets over the acquisition cost is shown as gain in the income statement in the year of acquisition. See "—Critical Accounting Policies—Goodwill" and "—Key sources of estimation."

***Share of gain/loss of associates***

Share of gain/loss of associates represents our attributable share of the gain or loss of entities that we account for as associates (over which we have significant influence but not control, generally which are 20%–50% owned) and is carried in the balance sheet of the lower of the equity-accounted amount and the recoverable amount, and the attributable share of the income/(loss) of associates is included in income. See Note 1.3 (Investments in Associates) to our 2009 financial statements.

***Impairment of financial assets***

Impairment of financial assets represents (i) the decline in the fair value of financial assets classified as financial assets at fair value through the profit and loss, (ii) impairment of available-for-sale investments and (iii) impairment of other financial assets that are intended to be held until maturity.

***Dividend income***

Dividend income represents dividends declared by entities accounted for as investments.

***Gain/(loss) from sale of subsidiaries***

Gain/(loss) from sale of subsidiaries represents the gain or loss from the sale of a consolidated subsidiary, which represents an extraordinary gain or loss.

***Interest income***

Interest income consists principally of income on deposits with banks, as well as interest received on trade finance loans granted by the Group and interest income from customers.

***Interest expense***

Interest expense consists of interest on our outstanding bank loans and bonds, as well as interest paid to suppliers.

***Net foreign exchange (loss)/profit***

Net foreign exchange (loss)/profit represents the difference between positive (revenues) and negative (expenses) exchange differences. They principally are incurred due to the fact that on the date of the balance sheet, all items denominated in a foreign currency are translated into Kuna, our reporting currency. Foreign exchange differences in the income statement are principally non-realized foreign exchange differences calculated on the principal amount of our indebtedness. During the period under review, approximately 70% of foreign exchange differences each year are unrealized.

### *Taxation*

Taxation in each year represents the tax charge payable by us in respect of our taxable income for the year. For interim financial periods, taxation is calculated on the basis of the effective tax rate at the end of the preceding year and the final calculation of income tax is done at the end of the business year. Taxation consists of Croatian corporate taxes, foreign corporate taxes and deferred taxation. The Croatian corporate tax rate is 20%. However, our effective tax rate can be significantly different as a result of disallowable items, tax loss carry forwards and tax relief. See Note 26 to our 2009 financial statements.

### *Results of Operations*

The following table presents our results of operations for the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010:

## Profit and Loss Account

| | For the Year Ended December 31, | | | | | | For the Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | **% of Sales** | **2008** | **% of Sales** | **2009** | **% of Sales** | **2009** | **% of Sales** | **2010** | **% of Sales** |
| | **Audited[(1)]** | | **Audited** | | **Audited** | | **Unaudited** | | **Unaudited** | |
| | (HRK millions, except percentages) | | | | | | (HRK millions, except percentages) | | | |
| Sales | 20,698.6 | 100.0 | 27,662.9 | 100.0 | 26,476.7 | 100.0 | 19,728.0 | 100.0 | 19,712.5 | 100.0 |
| Cost of materials | (14,894.7) | 72.0 | (19,953.5) | 72.1 | (18,324.9) | 69.2 | (13,836.4) | 70.1 | (13,672.0) | 69.4 |
| Cost of services | (1,585.1) | 7.7 | (2,103.9) | 7.6 | (2,210.4) | 8.3 | (1,586.1) | 8.0 | (1,661.2) | 8.4 |
| | **4,218.8** | **20.4** | **5,605.5** | **20.3** | **5,941.4** | **22.4** | **4,305.5** | **21.8** | **4,379.3** | **22.2** |
| Other income | 333.0 | 1.6 | 231.0 | 0.8 | 251.3 | 0.9 | 149.2 | 0.8 | 174.1 | 0.9 |
| Other expenses | (3,472.8) | 16.8 | (4,520.8) | 16.3 | (4,731.2) | 17.9 | (3,419.4) | 17.3 | (3,447.6) | 17.5 |
| **Operating profit** | **1,079.0** | **5.2** | **1,315.8** | **4.8** | **1,461.5** | **5.5** | **1,035.2** | **5.2** | **1,105.8** | **5.6** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | (54.7) | 0.3 | (19.4) | 0.1 | (22.4) | 0.1 | — | — | 14.2 | 0.1 |
| Share of gain/loss of associates | — | — | (0.9) | — | 0.3 | — | — | — | — | — |
| Impairment of financial assets | (18.8) | 0.1 | (18.4) | 0.1 | (12.6) | — | (7.4) | — | (6.2) | — |
| Dividend income | 0.3 | — | 3.5 | — | 0.4 | — | 0.4 | — | 0.3 | — |
| Sale of subsidiaries | — | — | — | — | (127.7) | 0.5 | (167.4) | 0.8 | — | — |
| Sale of properties, net | 19.6 | 0.1 | 34.2 | 0.1 | (22.8) | 0.1 | (2.0) | — | (3.7) | — |
| Interest income | 70.9 | 0.3 | 112.1 | 0.4 | 68.8 | 0.3 | 62.1 | 0.3 | 73.0 | 0.4 |
| Interest expense | (492.4) | 2.4 | (685.0) | 2.5 | (744.3) | 2.8 | (490.4) | 2.5 | (602.4) | 3.1 |
| Net foreign exchange (loss)/profit | 7.2 | — | (235.7) | 0.9 | (150.5) | 0.6 | (103.6) | 0.5 | (237.8) | 1.2 |
| **Profit before taxation** | **611.2** | **3.0** | **506.1** | **1.8** | **450.6** | **1.7** | **327.1** | **1.7** | **343.1** | **1.7** |
| Taxation | (156.9) | 0.8 | (264.4) | 1.0 | (214.1) | 0.8 | (131.7) | 0.7 | (156.7) | 0.8 |
| **Net profit for the period** | **454.3** | **2.2** | **241.7** | **0.9** | **236.5** | **0.9** | **195.4** | **1.0** | **186.4** | **0.9** |
| Attributable to: | | | | | | | | | | |
| Equity holders of the parent | 298.5 | 1.4 | 83.3 | 0.3 | 75.6 | 0.3 | 81.2 | 0.4 | 98.4 | 0.5 |
| Minority interest | 155.7 | 0.8 | 158.4 | 0.6 | 160.9 | 0.6 | 114.2 | 0.6 | 87.9 | 0.4 |

(1) Restated in connection with the audit for the year ended December 31, 2007. See “Presentation of Financial, Market and Other Information” for further information.

## Segmental Analysis

We have two principal business operating segments:

- Retailing and Wholesale, which includes our Konzum, Konzum Sarajevo and IDEA retail chains and our Tisak and Slobodna Dalmacija Trgovina kiosks; and
- Food Manufacturing and Distribution, which includes Ledo and Frikom ice cream and frozen foods, Jamnica, Sarajevski kiseljak and Fonyódi water and beverages, Zvijezda and Dijamant margarine and vegetable oils, PIK Vrbovec meat production, and Agroprerada, Belje, Vupik and PIK Vinkovci agricultural production.

For purposes of the segmental analysis in our financial statements, we also analyze our business operations by Other Businesses, which includes agricultural brokerage through Agrokor trgovina sourcing agricultural raw materials and other food related businesses, and Agrokor Holding, which includes the management fees paid by subsidiaries for treasury, accounting, audit and other centralized services, as well as certain sales from the rental of certain assets to third parties.

Geographically, we divide our operations into Croatia, which includes all sales within Croatia, and Other European Countries, which predominantly includes Bosnia and Herzegovina, Serbia and Hungary, but also includes sales elsewhere in the world, including North America and Asia.

Our intersegment sales include the following:

- Companies in our Food Manufacturing and Distribution division sell products to our Retailing and Wholesale division. For example, Ledo and Jamnica supply ice cream, frozen foods, mineral water and other beverages to our Konzum supermarkets for resale.

- Companies within the Food Manufacturing and Distribution division sell products to each other. For example, PIK Vinkovci sells animal feed to Belje, which sells livestock to PIK Vrbovec to produce fresh and processed meat for sale.

- Agrokor trgovina sells agricultural and other commodities that it has acquired in market transactions to companies in the Food Manufacturing and Distribution division.

- Agrokor Holding provides treasury, accounting, audit, centralized purchasing and centralized marketing services to other companies within the Group.

Transfer pricing between segments is based on cost plus an appropriate margin, as specified by Group accounting policies.

The table below provides information on our business segments:

***Business segments***

| | Agrokor Holding | Food Manufacturing and Distribution | Retailing and Wholesale | Other Businesses | Intersegment Sales | Consolidated |
|---|---|---|---|---|---|---|
| | | | (HRK millions, except percentages) | | | |
| **To September 30, 2010 (unaudited)** | | | | | | |
| Sales to external customers | 30.5 | 3,717.7 | 14,879.4 | 1,084.9 | — | — |
| Intersegment sales | 324.9 | 3,336.4 | 585.4 | 574.6 | (4,821.4) | — |
| **Total sales** | **355.4** | **7,054.1** | **15,464.8** | **1,659.5** | **(4,821.4)** | **19,712.5** |
| **Operating profit** | **(256.0)** | **816.9** | **535.9** | **8.9** | **—** | **1,105.8** |
| Operating profit margin (%) | — | 11.6 | 3.5 | 0.5 | — | 5.6 |
| Depreciation and amortization(1) | 19.2 | 312.3 | 285.0 | 11.9 | — | 628.4 |
| EBITDA(2) | (236.8) | 1,129.3 | 820.9 | 20.8 | — | 1,734.2 |
| **To September 30, 2009 (unaudited)** | | | | | | |
| Sales to external customers | 28.8 | 3,857.3 | 14,597.7 | 1,244.1 | — | — |
| Intersegment sales | 267.6 | 2,912.3 | 597.8 | 586.6 | (4,364.3) | — |
| **Total sales** | **296.4** | **6,769.6** | **15,195.5** | **1,830.7** | **(4,364.3)** | **19,728.0** |
| **Operating profit** | **(208.2)** | **727.3** | **486.8** | **29.4** | **—** | **1,035.3** |
| Operating profit margin (%) | — | 10.7 | 3.2 | 1.6 | — | 5.2 |
| Depreciation and amortization(1) | 20.2 | 280.2 | 235.0 | 6.2 | — | 541.7 |
| EBITDA(2) | (188.0) | 1,007.5 | 721.8 | 35.6 | — | 1,577.0 |
| **2009 (audited)** | | | | | | |
| Sales to external customers | 59.6 | 5,012.9 | 19,596.9 | 1,807.2 | — | — |
| Intersegment sales | 368.9 | 4,094.3 | 852.0 | 755.4 | (6,070.6) | — |
| **Total sales** | **428.6** | **9,107.3** | **20,448.9** | **2,562.6** | **(6,070.6)** | **26,476.7** |
| **Operating profit** | **(408.9)** | **901.5** | **836.3** | **132.6** | **—** | **1,461.5** |
| Operating profit margin (%) | — | 9.9 | 4.1 | 5.2 | — | 5.5 |
| Depreciation and amortization(1) | 28.6 | 380.5 | 306.4 | 8.3 | — | 723.8 |
| EBITDA(2) | (380.3) | 1,282.0 | 1,142.7 | 140.9 | — | 2,185.3 |
| **2008 (audited)** | | | | | | |
| Sales to external customers | 26.3 | 5,815.5 | 18,848.2 | 2,973.0 | — | — |
| Intersegment sales | 337.7 | 4,206.4 | 556.4 | 1,409.5 | (6,510.1) | — |
| **Total sales** | **364.0** | **10,021.9** | **19,404.6** | **4,382.5** | **(6,510.1)** | **27,662.9** |
| **Operating profit** | **(484.8)** | **729.2** | **726.5** | **344.9** | **—** | **1,315.8** |
| Operating profit margin (%) | — | 7.3 | 3.7 | 7.9 | — | 4.8 |
| Depreciation and amortization(1) | 16.0 | 339.2 | 253.4 | 5.1 | — | 613.7 |
| EBITDA(2) | (468.8) | 1,068.4 | 979.9 | 350.00 | — | 1,929.5 |
| **2007 (audited)** | | | | | | |
| Sales to external customers | 74.3 | 4,676.0 | 14,164.1 | 1,784.2 | — | — |
| Intersegment sales | 300.7 | 2,972.4 | 352.2 | 859.8 | (4,485.1) | — |

| | Agrokor Holding | Food Manufacturing and Distribution | Retailing and Wholesale | Other Businesses | Intersegment Sales | Consolidated |
|---|---|---|---|---|---|---|
| | (HRK millions, except percentages) | | | | | |
| **Total sales** | **375.0** | **7,648.4** | **14,516.2** | **2,644.0** | **(4,485.1)** | **20,698.6** |
| **Operating profit** | **(194.5)** | **626.5** | **584.9** | **62.2** | **—** | **1,079.0** |
| Operating profit margin (%) | — | 8.2 | 4.0 | 2.4 | — | 5.2 |
| Depreciation and amortization(1) | 10.2 | 304.1 | 155.8 | 2.7 | — | 472.8 |
| EBITDA(2) | (184.3) | 930.6 | 740.7 | 64.9 | — | 1,551.8 |

(1) Depreciation and amortization is reported under "Other expenses" in our consolidated income statement. It is shown separately here solely for purposes of calculating EBITDA.

(2) EBITDA represents operating profit plus depreciation and amortization. We use EBITDA-based measures as internal measures of performance to benchmark and compare performance, both between our own operations and as against other companies. EBITDA-based measures are measures used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe EBITDA-based measures are useful and commonly used measures of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA-based measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA-based measures and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA-based measures differently, so making comparisons among companies on this basis should be done very carefully. EBITDA-based measures are not measures of performance under IFRS and should not be considered in isolation or construed as substitutes for operating profit or net profit as an indicator of our operations in accordance with IFRS. We believe that it is useful to include these non-GAAP measures as they are used by us for internal performance analysis and the presentation by our business segments of these measures facilitates comparability with other companies in our industry, although our measures may not be comparable with similar measurements presented by other companies. These other non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS.

EBITDA as presented here also differs from "Consolidated EBITDA" contained in "Description of Notes" and in certain other financing documents of the Group. In particular, "Consolidated EBITDA" contained in our Senior Facilities Agreement has a number of additional adjustments to our EBITDA as presented here, including the exclusion of gain or loss arising from the revaluation of assets. Loss arising from the revaluation of assets amounted to HRK 176.0 million in 2008.

## Comparison of the Nine Months Ended September 30, 2009 and September 30, 2010

### *Sales*

Sales remained stable, with a slight decrease of HRK 15.5 million or 0.1%, from HRK 19,728.0 million in the nine months ended September 30, 2009 to HRK 19,712.5 million in the nine months ended September 30, 2010. Sales in Croatia in the first nine months of 2010 represented 73.9% of total revenues while sales in Other European Countries represented 26.1% of total sales, compared to the first nine months of 2009 when they amounted to 74.9% and 25.1%, respectively. Stable revenues were achieved despite the negative impacts of depreciation of the Serbian Dinar against the Kuna, a reduction in activities in crop husbandry due to volatile commodity prices, and a general decline in consumer spending in our Primary Markets, driven by continuing unfavourable economic conditions. The average exchange rate of the Dinar to the Kuna depreciated by 9.1% during the first nine months of 2010 compared to the corresponding period of 2009. The decrease in sales was also limited in comparison to the general decline in economic conditions. According to estimates by the Croatian Central Bureau of Statistics, real GDP contracted by 2.5% during the first half of 2010.

Excluding intersegment sales, Retailing and Wholesale sales increased moderately by HRK 281.7 million, or 1.9%, from HRK 14,597.7 million in the first three quarters of 2009 to HRK 14,879.4 million in the corresponding period of 2010, principally driven by new store openings and organic growth, particularly in Serbia and Bosnia and Herzegovina, which experienced sales growth of 4.2% and 11.5%, respectively. Our kiosk retailer Tisak also contributed to total growth with a sales increase of 7.0%.

Excluding intersegment sales, Food Manufacturing and Distribution sales decreased by HRK 139.6 million, or 3.6%, from HRK 3,857,3 million in the first three quarters of 2009 to HRK 3,717.7 million in the corresponding period of 2010, driven principally by lower sales volume in Serbia due to the depreciation of the Dinar against the Kuna, lower revenues of our agricultural companies due to our strategic decision to reduce contract farming, lower revenues in the Ice Cream and Frozen Food segment due to unfavourable weather conditions and lower sales in the Edible Oils and Margarines segment due to a temporary fall in retail prices of edible oils in the first half of 2010 due to market conditions.

### *Cost of materials*

Cost of materials decreased by HRK 164.4 million, or 1.2%, from HRK 13,836.4 million in the nine months ended September 30, 2009 to HRK 13,672.0 million in the nine months ended September 30, 2010. As a percentage of sales, cost of materials decreased from 70.1% in the first nine months of 2009 to 69.4% in the corresponding period of 2010 reflecting increased efficiencies in production, purchasing, distribution and inventory management as part of our overall efficiency program as well as better terms from suppliers due to certain increases in market shares.

***Cost of services***

Cost of services increased by HRK 75.1 million, or 4.7%, from HRK 1,586.1 million in the first nine months of 2009 to HRK 1,661.2 million in the corresponding period of 2010 driven primarily by higher rental costs due to store openings. The increase was offset in part by cost cutting measures during the first nine months of 2010, particularly in respect of distribution costs. As a percentage of total sales, cost of services increased slightly from 8.0% in the first nine months of 2009 to 8.4% in the corresponding period of 2010.

***Other income***

Other income increased by HRK 24.9 million, or 16.7%, from HRK 149.2 million in the nine months ended September 30, 2009 to HRK 174.1 million in the nine months ended September 30, 2010. The increase was driven principally by additional incentives in the form of government subsidies as a result of an increase of our agricultural production. As a percentage of total sales, other income increased from 0.8% to 0.9%.

***Other expenses***

Other expenses increased by HRK 28.1 million, or 0.8%, from HRK 3,419.4 million in the nine months ended September 30, 2009 to HRK 3,447.6 million in the nine months ended September 30, 2010. The increase was driven principally by a HRK 86.7 million increase in amortization and depreciation expense as a result of increased investments during previous periods. Excluding the increase in amortization and depreciation, other expenses decreased by 58.6 million or 2.0% due to our cost initiatives implemented during the first nine months of 2010. As a percentage of total sales, other expenses increased from 17.3% in the first nine months of 2009 to 17.5% in the corresponding period of 2010.

***Operating profit***

Operating profit increased by HRK 70.5 million, or 6.8%, from HRK 1,035.2 million in the nine months ended September 30, 2009 to HRK 1,105.8 million in the nine months ended September 30, 2010. Operating profit margin increased from 5.2% to 5.6% mainly as a result of cost cutting measures taken to reduce our cost of materials and other expenses.

By operating segment, the increase in operating profit margin was principally due to increased profitability in Food Manufacturing and Distribution where operating profit margin grew from 10.7% to 11.6% mainly driven by an increase in the operating profitability of our Meat and Agriculture segment. In Retailing and Wholesale, we also increased our operating profit margin from 3.2% to 3.5% driven by our Croatian operations but also our Serbian retail operations which began to positively contribute to our EBITDA for the first time this year, as well as by larger price rebates from suppliers in all of our Primary Markets due to increased market shares.

***Impairment of financial assets***

Impairment of financial assets decreased by HRK 1.2 million, from HRK 7.4 million in the nine months ended September 30, 2009 to HRK 6.2 million in the nine months ended September 30, 2010 due to declines in the fair values of financial assets intended for sale, reflecting adverse market conditions.

***Dividend income***

Dividend income decreased by HRK 0.1 million, from HRK 0.4 million in the nine months ended September 30, 2009 to HRK 0.3 million in the nine months ended September 30, 2010, as a number of companies in which we have minority shareholdings decided not to pay out dividends during the first nine months of 2010.

***Sale of subsidiaries***

We did not sell any subsidiaries in the nine months ended September 30, 2010 compared to a loss of HRK 167.4 million in the first nine months of 2009, which resulted from the sale of Mlinar following the transfer of its food retailing and agricultural businesses to other companies in the Group, causing the sale price to be lower than the cost of acquisition.

***Sale of properties, net***

Net sale of properties decreased by HRK 1.7 million, from a loss of HRK 2.0 million in the nine months ended September 30, 2009 to a loss of HRK 3.7 million in the nine months ended September 30, 2010. The decrease was principally due to the disposal of non-core assets at a loss.

***Interest income***

Interest income increased by HRK 10.8 million, or 17.5%, from HRK 62.1 million in the nine months ended September 30, 2009 to HRK 73.0 million in the nine months ended September 30, 2010 principally due to higher interest rates applicable to our deposits with financial institutions.

***Interest expense***

Interest expense increased by HRK 112.1 million, or 22.9%, from HRK 490.4 million in the nine months ended September 30, 2009 to HRK 602.4 million in the nine months ended September 30, 2010. The increase was principally due to more expensive sources of funding due to refinancing of our indebtedness by longer maturities at higher interest rates predominately driven by the issuance of the Original Notes in December 2009 with a 10% coupon as well as an increase in the amount of overall debt outstanding. As a percentage of sales, interest expense increased from 2.5% to 3.1%.

***Net foreign exchange (loss)/profit***

We had a net foreign exchange loss of HRK 103.6 million in the first nine months of 2009, compared to a loss of HRK 237.8 million in the corresponding period of 2010. The change principally reflects the fluctuation of the Kuna against the euro, as most of our indebtedness is euro denominated resulting in predominantly unrealized losses due to the decrease in value of the Kuna in respect of the euro and a consequent increase of indebtedness on our balance sheet. Additionally, net foreign exchange loss resulted from an increase in our euro denominated indebtedness, in particular the issuance of the Original Notes in December 2009.

***Profit before taxation***

As a result of the foregoing items, profit before taxation increased by HRK 16.0 million, or 4.9%, from HRK 327.1 million in the nine months ended September 30, 2009 to HRK 343.1 million in the nine months ended September 30, 2010.

***Taxation***

Taxation increased by HRK 25.0 million, or 19.0%, from HRK 131.7 million in the nine months ended September 30, 2009 to HRK 156.7 million in the nine months ended September 30, 2010. Our effective tax rate was 45.7% for the first nine months of 2010 compared to 40.3% in the corresponding period of 2009.

***Net profit***

Due to the factors discussed above, net profit decreased by HRK 9.0 million or 4.6%, from HRK 195.4 million in the nine months ended September 30, 2009 to HRK 186.4 million in the nine months ended September 30, 2010.

Net profit attributable to our equity holders increased by HRK 17.3 million from HRK 81.2 million to HRK 98.4 million, whereas minority interest decreased by HRK 26.3 million, or 23.0%, from HRK 114.2 million to HRK 87.9 million.

**Comparison of the Years Ended December 31, 2008 and December 31, 2009**

***Sales***

Sales decreased by HRK 1,186.3 million, or 4.3%, from HRK 27,662.9 million in the year ended December 31, 2008 to HRK 26,476.7 million in the year ended December 31, 2009. Sales in Croatia in 2009 represented 74.5% of total revenues while sales in Other European Countries represented 25.5% of total sales, compared to 2008 when they amounted to 76.5% and 23.5%, respectively. The decline was driven by several factors, including the decline in consumer spending triggered by the economic crisis, the introduction of higher VAT (from 22% to 23%), the introduction of a higher rate of crisis tax on personal incomes ranging from 2% to 4% in Croatia, which the Government raised as a recession measure, a decline in the activity of our commodity brokerage business due to volatile commodity prices, the reduction in contract farming due to increase in our own agricultural production and unsatisfactory quality of goods from suppliers' farms, and the depreciation of the Serbian Dinar against the Kuna. The average exchange rate of the Dinar to the Kuna during 2009 depreciated by 13.5% compared to 2008. However, the decrease in sales was limited in comparison to the general decline in economic conditions. According to estimates by the Croatian Central Bureau of Statistics, real GDP contracted by 5.8% during the year ended December 31, 2009 while the retail trade decreased by 15.3% during the same period.

Excluding intersegment sales, Retailing and Wholesale sales increased by HRK 748.6 million, or 4.0%, from HRK 18,848.2 million in the in the year ended December 31, 2008 to HRK 19,596.9 million in 2009, principally driven by new store openings and organic growth, particularly in Serbia and Bosnia and Herzegovina, which experienced Retailing and Wholesale sales growth of 16.3% and 30.1%, respectively. Our kiosk retailer Tisak operating in Croatia also contributed to the growth with an increase of 4.2% predominately through organic growth and the opening of new Tisak media stores. Despite the difficult environment in the Croatian retail market which was mainly caused by a decrease in consumer purchasing power due to the continuing economic crisis, our retail chain Konzum, which experienced a decrease in external revenues of 1.1%, still managed to strengthen its leading market position and increase its market share by adjusting its pricing policy through customer centric retailing and increasing promotional activities through constant monthly, weekly and daily promotions.

Excluding intersegment sales, Food Manufacturing and Distribution sales decreased by HRK 802.5 million, or 13.8%, from HRK 5,815.5 million in the year ended December 31, 2008 to HRK 5,012.9 million in 2009, driven principally by a decrease in overall consumption and lower sales in Serbia due to the depreciation of the Dinar against the Kuna. Sales of agricultural products declined as we reduced our commodity brokerage business activities and production for third-party sales in response to lower market prices. Additionally, the disposal of Mlinar also negatively impacted our revenues, as the company did not contribute to the 2009 revenues while it did contribute to the 2008 revenues.

***Cost of materials***

The table below illustrates the components of cost of materials during the periods shown:

| Cost of materials | For the Year Ended December 31, 2008 | 2009 |
|---|---|---|
| | (HRK millions) | |
| Cost of goods sold | 20,005.0 | 18,595.8 |
| Change in inventory | (51.5) | (271.0) |
| **Total** | **19,953.5** | **18,324.9** |

Cost of materials decreased by HRK 1,628.6 million, or 8.2%, from HRK 19,953.5 million in the year ended December 31, 2008 to HRK 18,324.9 million in the year ended December 31, 2009. As a percentage of sales, cost of materials decreased from 72.1% in the year ended December 31, 2008 to 69.2% in 2009 reflecting increased efficiencies in production, purchasing, distribution and inventory management as part of our overall efficiency program, as well as lower commodity prices for raw materials. In Retailing and Wholesale, cost of materials declined as a percentage of sales due to better terms from suppliers. In Food Manufacturing and Distribution, cost of materials declined as a percentage of sales due to better terms from suppliers in water, ice cream and edible oils.

***Cost of services***

Cost of services increased by HRK 106.5 million, or 5.1%, from HRK 2,103.9 million in the year ended December 31, 2008 to HRK 2,210.4 million in 2009 driven by higher rental costs due to store openings and increased marketing and sales activities conducted in order to maintain our market positions despite unfavorable market conditions. The increase was offset in part by cost optimization measures undertaken by us, particularly in respect of distribution costs. As a percentage of total sales, cost of services increased slightly from 7.6% in the year ended December 31, 2008 to 8.3% in the corresponding period of 2009.

***Other income***

The table below illustrates the components of other income during the periods shown:

| Other income | Year Ended December 31, 2008 | 2009 |
|---|---|---|
| | (HRK millions) | |
| Gain on sale of securities | 0.1 | 57.8 |
| Government grants | 152.7 | 143.5 |

| Other income | Year Ended December 31, 2008 | 2009 |
|---|---|---|
| | (HRK millions) | |
| Reversal of provision for litigation | 14.4 | 3.1 |
| Collected receivables written off | 57.5 | 25.5 |
| Other revenues | 68.2 | 46.9 |
| Value adjustment of receivables | (61.9) | (25.5) |
| **Total** | **231.0** | **251.3** |

Other income increased by HRK 20.3 million, or 8.8%, from HRK 231.0 million in the year ended December 31, 2008 to HRK 251.3 million in the year ended December 31, 2009. The increase was driven principally by an increase in gain on sale of subsidiaries of HRK 57.8 million and by a decrease in the value adjustment of receivables, which offset decreases in collected receivables written off, reversal of provision for litigation, government grants provided in our agricultural businesses and other revenues. As a percentage of total sales, other income increased from 0.8% to 0.9%.

***Other expenses***

The table below illustrates the components of other expenses during the periods shown:

| Other expenses | Year Ended December 31, 2008 | 2009 |
|---|---|---|
| | (HRK millions) | |
| Wages and salaries | 1,656.9 | 1,659.9 |
| Taxes, social insurance and pension costs | 1,142.8 | 1,161.9 |
| Depreciation and amortization | 613.7 | 723.8 |
| Research and development costs | 8.5 | 9.2 |
| Write-off of bad debts and other short-term assets, net | — | 57.8 |
| Other expenses | 1,098.9 | 1,118.6 |
| **Total** | **4,520.8** | **4,731.2** |

Other expenses increased by HRK 210.4 million, or 4.7%, from HRK 4,520.8 million in the year ended December 31, 2008 to HRK 4,731.2 million in the year ended December 31, 2009. The increase was driven principally by a HRK 110.0 million increase in depreciation and amortization expense as a result of increased investments during previous periods, a HRK 57.8 million increase in the write off of bad debts and other short-term assets and to a lesser extent an increase in taxes, social insurance and pension costs. As a percentage of total sales, other expenses increased from 16.3% in the year ended December 31, 2008 to 17.9% in 2009.

***Operating profit***

Operating profit increased by HRK 145.8 million, or 11.1%, from HRK 1,315.8 million in the year ended December 31, 2008 to HRK 1,461.5 million in the year ended December 31, 2009. Operating profit margin increased from 4.8% to 5.5% mainly as a result of measures taken to reduce operating costs and increase efficiency.

The increase in operating profit margin was principally due to increased profitability in Retailing and Wholesale, driven by better price rebates negotiated with suppliers and a decrease in other operating costs resulting from optimization and modernization of business processes and cost optimization measures. In Food Manufacturing and Distribution, the increase in operating profit margin was driven by substantial margin growth in the Meat and Agriculture segment, and to a certain extent in the Water and Beverages and Ice Cream and Frozen Food segments due to lower raw material prices and efficiency initiatives. The increase in profitability margin in both sectors offset a decrease in operating profit margin in Other Businesses resulting to a great extent from lower commodity business activities.

***Impairment of financial assets***

Impairment of financial assets decreased by HRK 5.8 million, from HRK 18.4 million in the year ended December 31, 2008 to HRK 12.6 million in the year ended December 31, 2009 due to decline in the fair value of financial assets intended for sale reflecting adverse market conditions.

***Dividend income***

Dividend income decreased by HRK 3.2 million, from HRK 3.5 million in the year ended December 31, 2008 to HRK 0.4 million in the year ended December 31, 2009, as a number of companies in which we have minority shareholdings reduced their dividends.

***Sale of subsidiaries***

We incurred a loss of HRK 127.7 million from the sale of subsidiaries in the year ended December 31, 2009, due to the sale of Mlinar following the transfer of its food retailing and agricultural businesses to other companies in the Group, and to the sale of Štampa and Acro, resulting from the sale price being lower than the cost of acquisition.

***Sale of properties, net***

Net sale of properties decreased by HRK 57.0 million, from a gain of HRK 34.2 million in the year ended December 31, 2008 to a loss of HRK 22.8 million in the year ended December 31, 2009. The decrease was principally due to the disposal of non-core assets.

***Interest income***

Interest income decreased by HRK 43.3 million, or 38.6%, from HRK 112.1 million in the year ended December 31, 2008 to HRK 68.8 million in the year ended December 31, 2009 principally due to one time item in 2008 related to litigation resolved in favor of Dijamant a.d due to the interest due on the given loan and the penalty interest received related to that loan.

***Interest expense***

Interest expense increased by HRK 59.3 million, or 8.7%, from HRK 685.0 million in the year ended December 31, 2008 to HRK 744.3 million in the year ended December 31, 2009. The increase was principally due to an increase in the amount of debt outstanding, during 2009 as compared to 2008, as well as more expensive sources of funds due to the refinancing of short-term debt at higher interest rates. As a percentage of sales, interest expense increased from 2.5% to 2.8%.

***Net foreign exchange (loss)/profit***

We had a net foreign exchange loss of HRK 235.7 million in the year ended December 31, 2008, compared to a loss of HRK 150.5 million in 2009. The change principally reflects adverse movements in the value of Serbian Dinar, as well as the seasonal fluctuations of Kuna against our principal foreign currencies. The period end exchange rate of the Dinar to the Kuna depreciated by 8.5% from December 31, 2008 to December 31, 2009.

***Profit before taxation***

As a result of the foregoing items, profit before taxation decreased by HRK 55.5 million, or 11.0%, from HRK 506.1 million in the year ended December 31, 2008 to HRK 450.6 million in the year ended December 31, 2009.

***Taxation***

Taxation decreased by HRK 50.3 million, or 19.0%, from HRK 264.4 million in the year ended December 31, 2008 to HRK 214.1 million in the year ended December 31, 2009. Our effective tax rate was 47.5% for the year ended December 31, 2009 compared to 52.2% in 2008.

***Net profit***

Due to the factors discussed above, net profit decreased by HRK 5.2 million or 2.2%, from HRK 241.7 million in the year ended December 31, 2008 to HRK 236.5 million in the year ended December 31, 2009.

Net profit attributable to our majority equity holders decreased by HRK 7.7 million from HRK 83.3 million to HRK 75.6 million, whereas minority interest increased by HRK 2.5 million, or 1.6%, from HRK 158.4 million to HRK 160.9 million. The greater decrease in net profit attributable to our equity holders was due to foreign exchange losses, loss on sale of subsidiaries and interest expense incurred at the level of our parent company.

### Comparison of the Years Ended December 31, 2007 and December 31, 2008

*Sales*

Sales increased by HRK 6,964.3 million, or 33.6%, from HRK 20,698.6 million in the year ended December 31, 2007 to HRK 27,662.9 million in the year ended December 31, 2008. Excluding acquired and newly established businesses, (principally SL Gross and Lokica) which represented 1.9% of total sales over the period, sales in 2008 would have been HRK 27.1 billion. Sales in Croatia in 2008 represented 76.5% of total revenues while sales in Other European Countries represented 23.5% of total sales compared to 2007 when it amounted to 80.0% and 20.0%, respectively.

Excluding intersegment sales, Retailing and Wholesale sales increased by HRK 4,684.1 million, or 33.1%, from HRK 14,164.1 million in the year ended December 31, 2007 to HRK 18,848.2 million in the year ended December 31, 2008. The highest contributors to this growth were operations in Serbia and Bosnia and Herzegovina, with growth of 110% and 75%, respectively, driven by both acquisitions and strong organic growth. In Croatia, our kiosk retailer Tisak, which was acquired on April 30, 2007, experienced 52% growth and our food retailer Konzum experienced 17% growth.

Excluding intersegment sales, Food Manufacturing and Distribution sales increased by HRK 1,139.5 million, or 24.4%, from HRK 4,676.0 million in the year ended December 31, 2007 to HRK 5,815.9 million in the year ended December 31, 2008, driven principally by 64% growth in agricultural production resulting from increases in volumes and prices of crops, oil seeds, fruit and vegetables and meats, as well as a turnaround of the segment resulting from investments in production and machinery, soil preparation and tillage. Edible oils and margarines contributed sales growth of 34% reflecting volume growth as a result of aggressive pricing. Fresh and processed meat grew by 35% due to a turnaround of the business following investment in production facilities. Ice cream and frozen food increased as well by 12% and water and beverages by 14%, driven by organic growth.

*Cost of materials*

The table below illustrates the components of cost of materials during the periods shown:

| Cost of materials | Year Ended December 31, 2007 | Year Ended December 31, 2008 |
|---|---|---|
| | (HRK millions) | |
| Cost of goods sold | 15,206.7 | 20,005.0 |
| Change in inventory | (312.0) | (51.5) |
| **Total** | **14,894.7** | **19,953.5** |

Cost of materials increased by HRK 5,058.8 million, or 34.0%, from HRK 14,894.7 million in the year ended December 31, 2007 to HRK 19,953.5 million in the year ended December 31, 2008, primarily related to higher sales volumes. As a percentage of total sales, cost of materials were stable at 72.0% in 2007 and 72.1% in 2008 as cost of materials increased in line with sales. The increase in cost of materials reflected increased costs in Retailing and Wholesale, as well as higher costs of oil seeds, crude vegetable oils and meat in 2008, notwithstanding lower milk prices.

*Cost of services*

Cost of services increased by HRK 518.8 million, or 32.7%, from HRK 1,585.1 million in 2007 to HRK 2,103.9 million in 2008 also due to higher sales volumes. As a percentage of total sales, cost of services decreased slightly from 7.7% in 2007 to 7.6% in 2008.

*Other income*

The table below illustrates the components of other income during the periods shown:

| Other income | Year Ended December 31, 2007 | Year Ended December 31, 2008 |
|---|---|---|
| | (HRK millions) | |
| Gain on sale of securities | 141.6 | 0.1 |
| Government grants | 102.3 | 152.7 |
| Reversal of value adjustment | 40.5 | — |
| Reversal of provision for litigation | 36.7 | 14.4 |
| Collected receivables written off | 35.7 | 57.5 |
| Other revenues | 21.0 | 68.2 |
| Value adjustment of receivables | (44.8) | (61.9) |

| | | |
|---|---|---|
| **Total** | **333.0** | **231.0** |

Other income decreased by HRK 102.0 million, or 30.6%, from HRK 333.0 million in the year ended December 31, 2007 to HRK 231.0 million in the year ended December 31, 2008. The decrease was driven principally by a HRK 141.6 million decrease in gain on sale of subsidiaries, notwithstanding a HRK 50.5 million increase in government grants. As a percentage of total sales, other income decreased from 1.6% to 0.8%.

***Other expenses***

The table below illustrates the components of other expenses during the periods shown:

| | **Year Ended December 31,** | |
|---|---|---|
| **Other expenses** | **2007** | **2008** |
| | **(HRK millions)** | |
| Wages and salaries | 1,309.9 | 1,656.9 |
| Taxes, social insurance and pension costs | 900.4 | 1,142.8 |
| Depreciation and amortization | 472.8 | 613.7 |
| Research and development costs | 6.7 | 8.5 |
| Write-off of bad debts and other short-term assets, net | 0.7 | — |
| Other expenses | 782.3 | 1,098.9 |
| **Total** | **3,472.8** | **4,520.8** |

Other expenses increased by HRK 1,048.0 million, or 30.2%, from HRK 3,472.8 million in the year ended December 31, 2007 to HRK 4,520.8 million in the year ended December 31, 2008. The increase was driven principally by a HRK 346.9 million, or 26.5%, increase in wages and salaries driven by higher headcount due to acquisitions and organic growth, a HRK 242.4 million, or 26.9%, increase in taxes, social insurance and pension costs also related to higher headcount, a HRK 140.9 million, or 29.8%, increase in depreciation and amortization and a HRK 316.6 million, or 40.5%, increase in other expenses. As a percentage of total sales, other expenses decreased slightly, from 16.3% in 2007 to 16.2% in 2008 as wages and salaries and taxes, social insurance and pension costs both decreased as a percentage of sales.

***Operating profit***

Operating profit increased by HRK 236.7 million, or 21.9%, from HRK 1,079.0 million in the year ended December 31, 2007 to HRK 1,315.8 million in the year ended December 31, 2008. Operating profit margin decreased from 5.2% to 4.8%, principally driven by the reduction in other income.

Retailing and wholesaling operating profit increased by HRK 141.6 million, or 24.2%, from HRK 584.9 million in the year ended December 31, 2007 to HRK 726.5 million in the year ended December 31, 2008, driven by better purchasing terms reflecting economies of scale. Food manufacturing and distribution operating profit increased by HRK 102.7 million, or 16.4%, from HRK 626.5 million in the year ended December 31, 2007 to HRK 729.2 million in the year ended December 31, 2008, driven by better margins in the edible oils and margarines segment reflecting favorable raw material prices and increased market share.

***Impairment of financial assets***

Impairment of financial assets declined slightly from HRK 18.8 million in the year ended December 31, 2007 to HRK 18.5 million in the year ended December 31, 2008.

***Dividend income***

Dividend income increased by HRK 3.3 million, from HRK 0.2 million in the year ended December 31, 2007, to HRK 3.5 million in the year ended December 31, 2008. The increase resulted from higher dividends declared in companies in which we hold a minority interest.

***Sale of properties, net***

Net sale of properties increased by HRK 14.6 million, or 74.0%, from HRK 19.6 million in the year ended December 31, 2007 to HRK 34.2 million in the year ended December 31, 2008. The increase was principally due to the disposal of non-core assets.

***Interest income***

Interest income increased by HRK 41.2 million, or 58.1%, from HRK 70.9 million in the year ended December 31, 2007 to HRK 112.1 million in the year ended December 31, 2008. The increase was principally due to the collection of receivables from prior years.

***Interest expense***

Interest expense increased by HRK 192.6 million, or 39.1%, from HRK 492.4 million in the year ended December 31, 2007 to HRK 685.0 million in the year ended December 31, 2008. The increase was principally due to a higher level of indebtedness to fund the growth of our business and financing of capital investments. As a percentage of sales, interest expense increased from 2.4% to 2.5%.

***Net foreign exchange (loss)/profit***

We realized a net foreign exchange profit of HRK 7.2 million in 2007, compared to a loss of HRK 235.7 million in 2008. The change principally reflects adverse movements in the value of the Serbian Dinar, as well as seasonal fluctuations of the Kuna against our principal foreign currencies. The year end exchange rate of the Dinar to the Kuna depreciated by 10.6% from December 31, 2007 to December 31, 2008.

***Profit before taxation***

As a result of the foregoing items, profit before taxation decreased by HRK 105.1 million, or 17.2%, from HRK 611.2 million in the year ended December 31, 2007 to HRK 506.1 million in the year ended December 31, 2008.

***Taxation***

Taxation increased by HRK 107.5 million, or 68.5%, from HRK 156.9 million in the year ended December 31, 2007 to HRK 264.4 million in the year ended December 31, 2008. The increase in income taxation, notwithstanding the decline in profit before taxation, was principally due to increased expenses that were not recognized for tax purposes. The biggest such item was in respect of the sale of re-valued assets, in which case the purchase price of such assets was not recognized as an expense upon sale. Our effective tax rate was 25.7% in 2007 compared to 52.2% in 2008.

***Net profit for the year***

Due to the factors discussed above, net profit for the year decreased by HRK 212.5 million, or 46.8%, from HRK 454.3 million in the year ended December 31, 2007 to HRK 241.7 million in the year ended December 31, 2008. Net profit attributable to our equity holders decreased by HRK 215.2 million, or 72.1%, whereas minority interest increased by HRK 2.6 million, or 1.7%. The decrease in net profit attributable to our equity holders was due to foreign exchange losses and interest expense incurred at the level of our parent company.

**Liquidity and Capital Resources**

Our principal sources of liquidity have traditionally consisted of net cash flows provided by our operating activities, financing from credit institutions and capital contributions from our shareholders. We believe that our operating cash flows and borrowing capacity, taken together, provide adequate resources to fund our ongoing operating requirements and future investments related to the expansion of our business, and that our cash flow from operations, financing activities and other sources of liquidity described below will be sufficient for us to meet our working capital and debt service requirements for the next 12 months.

At September 30, 2010, our total indebtedness was HRK 9,614.7 million (€1,318.4 million), 71.4% of which constituted long-term debt (including the current portion of long term debt that amounted to HRK 735,727 million (€100.9 million)), and 28.4% under short-term bilateral facilities, part of which we intend to refinance with the proceeds of the Offering. This capital structure which we believe provides us with increased financial stability resulted to a great extent from our efforts to convert a large part of our short-term debt into long term debt in accordance with our strategic guidelines. See “Risk Factors—Risks relating to the Notes—We may have difficulty refinancing our short-term debt,” “Capitalization” and “Description of Other Financing Arrangements.”

Our working capital requirements are seasonal as we are required to build up inventories prior to the agricultural season and also in respect of other seasonal businesses such as ice cream and mineral water. We have sought to minimize our working capital needs through improved inventory and raw material management, terms from suppliers and customer collections.

We have in the past derived, and we expect to continue to derive, substantially all of our revenues from funds generated by our operating subsidiaries, mainly in the form of management fees, intercompany loans and dividends, and therefore rely on the ability of these companies to transfer funds to us.

The table below presents our cash flows for each of the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010.

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| **Cash flows** | **2007** | **2008** | **2009** | **2009** | **2010** |
| | **(Audited)** | **(Audited)** | **(Audited)** | **(Unaudited)** | **(Unaudited)** |
| | | | **(HRK millions)** | | |
| **Net cash flows from operating activities before changes in working capital** | **1,462.9** | **1,755.6** | **2,015.7** | **1,452.8** | **1,478.8** |
| Interest paid | (382.3) | (583.1) | (624.4) | (361.8) | (545.2) |
| Changes in working capital | (11.9) | 321.6 | (91.5) | 384.3 | 202.8 |
| **Net cash provided by/(used in) operating activities** | **963.8** | **1,313.5** | **1,115.5** | **1,407.8** | **603.7** |
| Capex | (2,142.7) | (2,511.5) | (1,575.3) | (1,302.4) | (967.3) |
| Acquisitions of subsidiaries, net of cash acquired | (622.8) | (1,410.9) | (451.0) | (341.5) | (308.4) |
| **Net cash used in investing activities** | **(2,147.8)** | **(3,747.6)** | **(1,496.8)** | **(1,383.3)** | **(1,186.8)** |
| **Net cash from financing activities** | **1,609.4** | **2,267.0** | **571.0** | **(123.6)** | **537.1** |
| **Net increase/(decrease) in cash and cash equivalents** | **425.5** | **(167.1)** | **189.6** | **(99.1)** | **(46.0)** |

***Changes in working capital***

Working capital represents accounts receivable plus inventories minus accounts payable as shown on the balance sheet.

| | Year Ended December 31, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| **Cash flows** | **2007** | **2008** | **2009** | **2009** | **2010** |
| | **(Audited)** | **(Audited)** | **(Audited)** | **(Unaudited)** | **(Unaudited)** |
| | | | **(HRK millions)** | | |
| Change in receivables | (991.5) | (753.0) | (166.5) | (110.9) | 131.3 |
| Change in inventories | (690.6) | (576.6) | (501.3) | (208.8) | (317.8) |
| Changes in liabilities towards creditors | 1,670.2 | 1,651.2 | 576.3 | 703.9 | 389.3 |
| **Changes in working capital** | **(11.9)** | **321.6** | **(91.5)** | **384.3** | **202.8** |

Changes in working capital were HRK 384.3 million in the first nine months of 2009 compared to HRK 202.8 million in the corresponding period of 2010. The movement in changes in working capital was positively impacted by lower accounts receivable reflecting better collection from customers, and negatively impacted by an increase in inventories of livestock and crops (resulting primarily from the acquisition of Vupik) which offset the positive impact of the decreased level of other inventories due to better inventory management.

Changes in working capital were HRK 321.6 million in the year ended December 31, 2008 compared to HRK (91.5) million in 2009. The change in working capital in 2009 was driven by lower sales and negative movements in inventory as a result of building up inventories in order to use favourable commodity prices.

Changes in working capital were HRK (11.9) million in 2007 compared to HRK 321.6 million in 2008. The movement on changes in working capital was positively impacted by lower receivables due to better collections from customers and an increase in liabilities towards suppliers due to longer payment terms.

***Capital expenditure***

Capital expenditure decreased by HRK 335.1 million, or 25.7%, from HRK 1,302.4 million in the first nine months of 2009 to HRK 967.3 million in the corresponding period of 2010. The decrease was primarily due to the previous completion of a large investment cycle in our Food Manufacturing and Distribution division which reduced the need for capital investments during the first nine months of 2010, as well as a reduction of discretionary capital expenditure seeking to limit the negative impact of ongoing unfavourable economic conditions.

Capital expenditure decreased by HRK 936.3 million, or 37.3%, from HRK 2,511.5 million in 2008 to HRK 1,575.3 million in 2009, reflecting the completion of capital expenditure projects commenced in prior periods and a reduction of discretionary capital expenditure throughout all of 2009.

Capital expenditure increased by HRK 368.9 million, or 17.1%, from HRK 2,142.7 million in 2007 to HRK 2,511.5 million in 2008, reflecting both acquisitions and investments in production facilities to improve efficiency.

In the nine months ended September 30, 2010, the investments in our Retailing and Wholesale division included investments in the further development on our store network in Croatia, Serbia and Bosnia and Herzegovina, in the construction of additional distribution and logistic centers in Croatia and Serbia and in the implementation of a new ERP (Enterprise Resource Planning) system in our Croatian retail operations. During the nine month ended September 30, 2010, in the Food Manufacturing and Distribution division we have invested in new machines and equipment in all of our segments, the most significant investments being in dairy and pig farms, reconstruction of silos, new agricultural land and certain investments in the meat factory in our Meat and Agriculture segment.

In the year ended December 31, 2009 the investments in our Retailing and Wholesale division included the further development of our store network in Croatia, Serbia and Bosnia and Herzegovina and of our distribution and logistic centers in Croatia and Serbia. In the Food Manufacturing and Distribution division, we invested in the Agriculture (extension of production capacities), Ice Cream and Frozen Food segment (frozen food processing machines), Edible Oils and Margarines (state of the art storage and processing facilities) and in a new fruit and vegetables storage facility for Nova Sloga.

In 2008, in our Retailing and Wholesale division we invested in the expansion of our retail and wholesale network, especially in Serbia and Bosnia and Herzegovina, and the refurbishment of some existing stores, as well as in the construction of a new logistics and distribution center. In the Food Manufacturing and Distribution division, we invested in our Meat and Agriculture segment (including a new factory for PIK and new farms and machinery in Belje).

In 2007, we significantly invested in our Retailing and Wholesale division in new store openings, implementation of SAP software for Konzum and development of IT infrastructure in Tisak. In our Food Manufacturing and Distribution division, we invested heavily in the Meat and Agriculture segment (particularly PIK Vrbovec and Belje), in the enhancement of production facilities in the Water and Beverages segment (including the redesign of Jamnica bottles and crates), in the Edible Oils and Margarines segment (in a new refinery facility) and in the Ice Cream and Frozen Foods segment (in raw material dry storage and other equipment).

Upon acquiring Vupik, we have contractually committed to invest HRK 430 million over the 5-year horizon in Vupik d.d., of which we have invested approximately HRK 230 million to date.

### *Indebtedness*

We have historically financed a significant portion of our expansion through bank borrowings and bond issuances. In general, our financing agreements contain a number of covenants and restrictions, including financial covenants, limitations on incurring further indebtedness and granting liens on our properties and prohibitions on sales of assets. They also typically include cross defaults to other of our indebtedness. These covenants and restrictions impose limitations on the way in which we conduct our business, and may prevent us from raising further debt financing should we need to do so. See "Description of Other Financing Arrangements."

The following table summarizes our indebtedness at December 31, 2007, 2008 and 2009 and September 30, 2009 and 2010:

| Borrowings | As of December 31, 2007 | As of December 31, 2008 | As of December 31, 2009 | As of September 30, 2010 |
|---|---|---|---|---|
| | (Audited) | (Audited) | (Audited) | (Unaudited) |
| | | (HRK millions) | | |
| **Long-term Borrowings** | | | | |
| Bank loans | 3,059.7 | 3,898.5 | 3,820.6 | 4,723.2 |
| Bonds | 1,084.0 | 1,087.7 | 2,833.8 | 2,837.9 |
| Non-bank loans | 21.2 | 15.8 | 23.3 | 18.5 |
| Finance leases | 9.7 | 27.8 | 16.9 | 19.0 |
| **Total long-term borrowings** | **4,174.7** | **5,029.8** | **6,694.6** | **7,598.6** |
| Current portion of long-term borrowings | (306.7) | (889.4) | (914.2) | (735.7) |
| **Short-term borrowings** | | | | |
| Bank loans | 1,821.0 | 3,123.8 | 2,292.7 | 1,990.0 |

| | | | | |
|---|---|---|---|---|
| Non-bank loans | 2.8 | 199.2 | 30.8 | 26.0 |
| **Total short-term borrowings** | **1,823.8** | **3,322.9** | **2,323.5** | **2,016.0** |
| **Total borrowings** | **5,998.4** | **8,352.7** | **9,018.1** | **9,614.6** |

The increase in indebtedness in 2007 and 2008 was mainly due to increases in long-term and short-term bank loans used to finance acquisitions and our increased working capital requirements. In 2009 and the first nine months of 2010 the increase in indebtedness was primarily driven by working capital requirements and capital expenditures.

The average borrowing cost on our indebtedness was 8.2%, 8.2% and 8.3% as of December 31, 2007, 2008 and 2009, respectively, and 7.8% and 8.9% as of September 30, 2009 and 2010, respectively. See "Description of Other Financing Arrangements."

As of September 30, 2010, 38.8% of our debt had a fixed interest rate and 61.2% of our debt had a floating interest rate. As of September 30, 2010, we have not hedged our interest rate exposure.

The table below summarizes the maturity profile of our bank loan and bond debt as at September 30, 2010 (i.e. total borrowings less non-bank loans and finance leases):

| **Maturity** | **Total** |
|---|---|
| | **(HRK '000s)** |
| October 1, 2010–September 30, 2011 | 2,709,853 |
| October 1, 2011–December 31, 2011 | 182,938 |
| 2012 | 679,270 |
| 2013 | 715,518 |
| 2014 | 819,986 |
| 2015 | 1,545,758 |
| 2016, and thereafter | 2,897,816(1) |
| **Total** | **9,551,139** |

(1) Amount includes the aggregate principal amount of the Original Notes.

### *Off-balance sheet items*

We have certain operating leases relating principally to buildings (including leased retail shops), equipment and motor vehicles. The average cancellation period for our operating leases is between six and nine months. Leasing is a regulated business in Croatia, with only authorized entities permitted to be lessors under operating and finance leases. However, individuals and non-authorized entities may enter into rental arrangements for real property and other assets that do not constitute operating or finance leases. We record both operating lease expense and rental expense under cost of services.

Details of our operating lease commitments are set out in the table below:

| | **At December 31,** | | | **At September 30,** |
|---|---|---|---|---|
| **Operating Lease Commitments** | **2007** | **2008** | **2009** | **2010** |
| | **(Audited)** | **(Audited)** | **(Audited)** | **(Unaudited)** |
| | **(HRK '000s)** | | | |
| Payable over 5 years | 483,541 | 510,681 | 449,873 | 502,934 |
| Payable in 2 to 5 years | 466,985 | 553,401 | 469,443 | 353,998 |
| Payable in 1 to 2 years | 245,603 | 313,280 | 298,546 | 260,230 |
| Payable within 1 year | 277,673 | 352,801 | 364,453 | 432,978 |
| **Total operating lease commitments** | **1,473,802** | **1,730,163** | **1,582,315** | **1,550,140** |

## Quantitative and Qualitative Disclosures about Market Risk

### *Currency Risk*

Most of our assets and cashflows are denominated in Kuna. As we have expanded internationally, however, an increasing proportion of our assets and cash flows are denominated in other currencies, in particular Serbia Dinars and Convertible Marks. A significant portion of our loan liabilities are linked to foreign currencies, predominantly euro. Accordingly, we are exposed to the risk of changes in foreign exchange rates. However, considering the long-term policy of the Croatian National Bank to manage the exchange rate of the Kuna to the euro, we do not consider this risk to be significant and we do not currently hedge our currency exposure.

The table below illustrates the impact of a five percent increase or decrease in the exchange rate of the currencies listed on our profit before tax due to changes in the fair value of monetary assets and liabilities in each of the years shown:

| | Effect on profit before tax |
|---|---|
| | (HRK '000s) |
| **2009** | |
| Euro | 395,618 |
| US dollars | 567 |
| Swiss francs | 1,740 |
| Czech koruna | 8 |
| Pound sterling | 2 |
| Danish krona | 16 |
| **2008** | |
| Euro | 372,427 |
| US dollars | 1,962 |
| Swiss francs | 14,275 |
| Czech koruna | 195 |
| Swedish krona | 8 |
| **2007** | |
| Euro | 198,963 |
| US dollars | 983 |
| Swiss francs | 20,530 |
| Hungarian forint (100) | 23,422 |

***Interest Rate Risk***

The majority of our interest bearing assets and liabilities represent loans received.

The table below illustrates the impact of a 50 basis point increase or decrease in interest rates by currency listed on our profit before tax due to the impact on floating rate borrowings in each of the years shown:

| | Effect on profit before tax |
|---|---|
| | (HRK '000s) |
| **2009** | |
| Euro | 22,161 |
| US dollars | 4 |
| Hungarian forint (100) | 2,778 |
| Swiss francs | 174 |
| Croatian kuna | 185 |
| **2008** | |
| Euro | 28,031 |
| US dollars | 9 |
| Hungarian forint (100) | 3,523 |
| Swiss francs | 822 |
| Croatian kuna | 2,383 |
| **2007** | |
| Euro | 20,364 |
| US dollars | 140 |
| Swiss francs | 2,053 |
| Hungarian forint (100) | 2,342 |
| Croatian kuna | 427 |

***Liquidity Risk***

Exposure to adverse situations in the debt or capital markets can hinder or prevent us from obtaining the financing required to carry on our business activities and implement our business plan. However, we seek to mitigate this risk by maintaining our long standing relationships with banks both within and outside of Croatia. At September 30, 2010, we had total borrowings of HRK 9,614.7 million, of which HRK 2,751.7 million, or 28.6%, consisted of short-term debt and the current portion of long-term debt. After giving effect to the sale of the Notes and the application of the proceeds therefrom, on a pro-rata basis short-term debt and the current portion of long-term debt are expected to reduce to HRK 2,022.4 million, or 21.0% of total borrowings.

**Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with IFRS. The consolidated financial statements have been prepared on a historical cost basis, except for certain property, plant and equipment and long-term investments which are included at valuation, as described in the following accounting policy notes. The accounting policies have been consistently applied by us and are consistent with those of the previous year, except as described in Note 1.28 to our 2009 financial statements, Note 1.29 to our 2008 financial statements and Note 1.28 to our 2007 financial statements. Our consolidated financial statements are presented in Croatian Kuna (HRK) which is our functional currency. The effective exchange rate of the Croatian Kuna (expressed in HRK) at December 31, 2009 was HRK 5.09 per United States Dollar (USD) (2008: HRK 5.16; 2007: HRK 4.99) and HRK 7.31 per euro (2008: HRK 7.32; 2007: HRK 7.33). All amounts disclosed in the financial statements are stated in thousands of HRK if not otherwise stated.

***Revenue recognition***

In relation to the sale of goods, revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer and no significant uncertainties remain regarding the derivation of consideration, associated costs or the possible return of goods. In relation to the rendering of services, revenue is recognized by reference to the stage of completeness of the transaction, when no significant uncertainties remain concerning the derivation of consideration or associated costs. Interest and dividends arising from the use by others of our resources are recognized when it is probable that the economic benefits associated with the transaction will flow to us and the revenue can be measured reliably. Interest income is recognized as it accrues (taking into account the effective yield on the asset) unless collection is in doubt. Dividend income is recognized when a dividend is declared.

***Goodwill***

Goodwill and Excess of fair value of net assets over the cost of acquisition represent the difference between the cost of acquisition and the acquirer's interest in the fair value of the identifiable net assets at the date of acquisition. Goodwill is subject to impairment testing at each reporting date, as described in accounting policy 1.8.—Impairment of assets. Excess of fair value of net assets over the cost of acquisition is reported as a gain through the Profit and Loss Account in the year of acquisition.

***Impairment of assets***

We assess at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. The recoverable amount is estimated as the higher of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs. Cash-generating units are primarily identified at entity level. Where carrying values exceed this estimated recoverable amount the assets are written down to their recoverable value. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

***Leasing***

Finance leases, which effectively transfer to us substantially all the risk and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value of the leased property or present value of the minimum lease payments at the inception of the lease term and disclosed as leased property, plant and equipment. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income. Capitalized leased assets are depreciated over the shorter of the leased term and its useful life. Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and the transaction is established at fair value, any profit or loss is recognized immediately.

***Foreign currencies***

Transactions denominated in foreign currencies are recorded on initial recognition in the reporting currency by applying the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into the reporting currency using the reporting period closing exchange rate. Non-monetary assets and liabilities are translated using the exchange rate that existed when the values were determined. Exchange differences arising on foreign currency transactions and the translation of monetary and non-monetary assets and liabilities are recognized in the consolidated income statement in the period in which they arise. The assets and liabilities of our foreign subsidiaries are translated into the reporting currency using the Croatian National Bank middle exchange rate at the balance sheet date. Revenues and expenses are translated at the average exchange rate for the year. The effects of translating these items are included in reserves. Any goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of that foreign subsidiary and are translated at the closing rate.

***Pensions and employee benefits***

We, in the normal course of business, make fixed contributions into the State and mandatory and voluntary pension fund on behalf of its employees. We do not operate any other pension scheme or post retirement benefit plan, and consequently, has no legal or constructive obligation to make further contributions if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. We make payments to employees that include one-off retirement and jubilee benefits. The obligation and costs of these benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Past service costs are recognized on a straight-line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognized when the curtailment or settlement occurs. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

***Agriculture***

We recognize a biological asset or agricultural produce, such as live stock and crops, when there is control over the asset as a result of past events; it is probable that future economic benefits associated with the asset will flow to us and the fair value or cost of the asset can be measured reliably. A biological asset is measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs, except when the fair value cannot be measured reliably. Agricultural produce harvested from our biological assets is measured at its fair value less estimated point-of-our-sale costs at the point of harvest. For biological assets valued at cost, depreciation is recorded by a charge to income computed on a straight-line basis over the estimated useful life of the asset, as follows:

- Vineyards ...................................................... 10–20 years
- Apple orchards .............................................. 10 years
- Olive groves................................................... 20 years

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

***Government grants***

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

***Key sources of estimation***

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in our financial statements and notes thereto. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date 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.

***Impairment of goodwill***

We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. For additional information see Note 7 to our financial statements for the year ended December 31, 2009.

***Purchase price allocation***

Significant estimates are used in the purchase price allocation process and mainly relate to assessments of fair value of land, impairment of plant and equipment, valuation of allowances and doubtful debts, provisions for employee benefits, legal claims, as well as value of any separable intangible assets existing at the acquisition date.

***Other estimates***

Furthermore, in our normal course of business, estimates are used for, but not limited to: assessments of value of land, depreciable lives and residual values of property, plant and equipment and intangible assets, allowances for inventories and doubtful debts and provisions for employee benefits, legal claims and taxes. Future events and their effects cannot be perceived with certainty. Details of estimates and related amounts are disclosed in the respective accounting policies and notes to the financial statements.

## BUSINESS DESCRIPTION

### Overview

We are one of the leading food retailers and wholesalers and food and beverages producers in Central and Eastern Europe (the "CEE"). The primary markets in which we currently operate are Croatia, Serbia and Bosnia and Herzegovina (our "Primary Markets"). In addition, we also sell our food and beverage products in Hungary, Macedonia, Montenegro and Slovenia. In total, our business operations cover a region having a population of more than 30 million people.

Our activities are organized into two principal divisions:

- Retailing and Wholesale
- Food Manufacturing and Distribution

We are also engaged in commodity brokerage and other non-core activities, which we refer to as our Other Businesses.

Our two main business divisions are complementary and together provide us with an integrated business model that covers the entire supply chain from sourcing raw materials, production and distribution, to direct contact with customers through our wholesale and retail sales outlets. In addition, the broad coverage of our retail network and the flexibility provided by our multi-format retail stores (which allows us to tailor store size and format to local demographics) provides us with greater access to consumers in our Primary Markets.

We had consolidated sales of HRK 26,476.7 million (€3,607.4 million) and EBITDA of HRK 2,185.3 million (€297.7 million) in 2009. For the nine months ended September 30, 2010, we had consolidated sales of HRK 19,712.5 million (€2,715.3 million) and EBITDA of HRK 1,734.2 million (€238.9 million). In addition, we had a total of 35,702 employees as of September 30, 2010. Our sales outside of Croatia represented 24.4% of consolidated total sales in 2008, 25.5% in 2009 and 26.1% in the first nine months of 2010.

#### *Retailing and Wholesale division*

We are the leading food retailer and wholesaler in terms of combined sales in our Primary Markets. We are the largest food retailer and wholesaler in terms of sales in Croatia and Bosnia and Herzegovina, and the third largest in Serbia in 2009. We currently operate approximately 900 stores through four different retail formats: Small (which has up to 800 sqm of retail space), Maxi (800–1,300 sqm), Super (1,300–4,000 sqm) and Hyper (over 4,000 sqm). Taken together, these retail stores provide us with access to over 16.5 million residents in our Primary Markets. Our wholesale business, Velpro, operates 27 stores in our Primary Markets (18 in Croatia, seven in Serbia, two in Bosnia and Herzegovina). Our kiosk chain, Tisak, operates more than 1,350 kiosks in Croatia and we believe it held more than 55% of the Croatian kiosk market in terms of sales in 2009, according to our estimates.

#### *Food Manufacturing and Distribution division*

Our Food Manufacturing and Distribution division holds leading positions in terms of volume in each of our Primary Markets with respect to certain key products. This division consists of the following business segments: Ice Cream and Frozen Food, Water and Beverages, Edible Oils and Margarines and Meat and Agriculture. In most of these business segments, we hold market shares of over 50% in each of our Primary Markets. For example, in the carbonated water segment, we have a market share of over 80% in Croatia through the Jamnica and Sarajevski kiseljak brands. In the non-carbonated water segment, we hold a market share of more than 55% in Croatia through Jana, our most-recognized brand internationally. In the ice cream market, we hold a market share of more than 80% in Croatia and 75% in Serbia and Bosnia and Herzegovina through the Ledo and Frikom brands. In the margarine market, we hold a market share of more than 85% in Croatia, 55% in Serbia and 60% in Bosnia and Herzegovina through the Zvijezda and Dijamant brands. Our most significant customers are the largest retailers present in our Primary Markets, including Konzum (which generates intersegment sales), Billa, Delta, Kaufland, Mercator, Metro and Plodine.

#### *Other Businesses division*

Our Other Businesses include the commodity brokerage business Agrokor trgovina and other non-core businesses. Agrokor trgovina's main line of business is brokering agri-food products. Our other non-core businesses include a media buying company and a billboard advertising business, among others.

***Company organization***

The following chart sets out the organizational structure of our businesses, including the beneficial ownership in our major subsidiaries as at September 30, 2010:


Percentages refer to Agrokor d.d. ownership in the respective subsidiaries.
*B&H stands for Bosnia and Herzegovina.

**History**

Agrokor was founded by Mr. Ivica Todorić in 1976, although many of the businesses we have acquired since then have been operating for considerably longer. Our original business involved the cultivation and trading of flowers and flower seedlings. By the mid-1980s, we had become the market leader in the production and import of flowers within the former Yugoslavia and had developed our own distribution network. In 1989, we were incorporated as a joint stock company, by which time we had expanded into agricultural import-export trading opportunities.

With the introduction of privatization in Croatia and elsewhere in the former Yugoslavia, we were able to acquire majority shareholdings in a number of well-established companies with leading market positions. In 1992, we acquired Jamnica (producer of water and beverages) and, in 1993, we acquired Zvijezda (producer of edible oils, margarine and mayonnaise) and Konzum (food retail and wholesale chain). In 1994, we acquired Ledo (producer of ice cream and frozen food). The period from 1995 to 2000 was dedicated to integrating previously acquired companies, while making significant investments in new technologies, development of new products, distribution networks, marketing and employee education and training.

In 2000, we expanded internationally with our acquisition of Ledo Čitluk and Sarajevski kiseljak, producers of ice cream and frozen food and water and beverages in Bosnia and Herzegovina. In 2003, we entered the Serbian market by acquiring a majority stake in the ice cream and frozen food producer Frikom. In 2004, we entered the EU market with the acquisitions of water producer Fonyódi and ice cream producer Baldauf (now Ledo Kft.) in Hungary.

In 2005, we acquired the leading Serbian edible oil, margarines and mayonnaise producer Dijamant and entered the Serbian food retail and wholesale market through the acquisition of IDEA. In the same year, we also entered the meat production and processing and agricultural industries by acquiring the Croatian companies PIK Vrbovec and Belje. In 2006, the EBRD joined our ownership structure through a capital increase of €110 million, which resulted in the EBRD receiving an 8.33% ownership interest. In 2007, we acquired Tisak, the leading Croatian kiosk chain and distributor of newspapers, tobacco and other commercial goods. In 2008, we shifted our focus to significantly expanding our food retail network in our Primary Markets. In 2010, we expanded our Meat and Agricultural business with the acquisition of Vupik, one of the largest agricultural companies in Croatia.

**Competitive Strengths**

We believe that our business benefits from the following competitive strengths:

- ***Leading market positions supported by a diverse portfolio of leading brands and products.*** We hold leading market positions in a majority of our business segments in each of our Primary Markets, as well as in certain of our business segments in Slovenia and Montenegro. For example, our Retailing and Wholesale division has the leading market position in terms of sales in both Croatia and Bosnia and Herzegovina and the third leading market position in terms of sales in Serbia. In the Food Manufacturing and Distribution division, we have the leading market position in terms of volume in water in Croatia, as well as in Bosnia and Herzegovina. In ice cream and margarines, we have the leading market position in terms of volume in each of our Primary Markets and in Montenegro. Our leading market positions are supported by a diversified portfolio of leading brand names and products in both our Retailing and Wholesale and Food Manufacturing and Distribution divisions. We have been able to further strengthen this market position by responding to our customers' changing needs through the introduction of lower cost "B" brands in the Ice Cream and Frozen Food and the Water and Beverages segments to capture more price-sensitive customers. We believe that we operate in markets where there is a strong brand culture. Each of our brands has a high level of consumer awareness, and certain of our brand names, such as Zvijezda and Jamnica sell products that rank among the top ten products with the highest brand awareness in Croatia. In 2010, we received the "Most Trusted" brand award from Reader's Digest for respective categories for our Zvijezda, Ledo and Jana products as well as for Konzum.

- ***Vertically integrated business model with local strategic partnerships.*** Our business model is based on the vertical integration of our operations, which include agriculture, animal feeding and breeding, as well as food manufacturing and distribution and food retail and wholesale. Through these businesses, we control the entire supply chain, from sourcing raw materials, production and distribution to direct contact with end customers through our retail and wholesale outlets and, as a result, we have full traceability, and enhanced quality control over our products. In addition, vertical integration enables us to quickly and efficiently adjust our Food Manufacturing and Distribution product portfolio to respond to shifts in consumer purchasing patterns and to support our product innovation and ability to lead and respond quickly to changes in market trends. We rely on strategic partnerships with local suppliers for whom we are often the largest buyer within our Primary Markets. The volume of our purchase orders often enables us to have more favorable terms and conditions with our suppliers. We believe that these strategic partnerships with local suppliers combined with our model of vertical integration present barriers to entry.

- ***Strong consumer access supported by broad distribution networks.*** Our extensive retail and wholesale coverage, supported by an efficient distribution network and the flexibility provided by our multi-format retail store model (tailored to local demographics in terms of size and format) provides us with broad access to consumers in our Primary Markets. For example, our Konzum supermarket chain has the largest number of stores and approximately 95% geographic coverage in Croatia and is supported by one of the largest distribution networks in the country. In addition, we have a wide range of products (up to 40,000 stock-keeping units) that we regularly adjust to satisfy changing consumer tastes and preferences. Furthermore, we are able to track these tastes and preferences on a store-by-store basis with the data we obtain through our Konzum Plus loyalty card program, which comprises more than 800,000 customers in Croatia, and our point-of-sale terminals. We then adjust our inventory, pricing and marketing activities accordingly. Our access to consumers is also supported by our extensive distribution network in each of our businesses, which we believe presents a strong barrier to entry. This is particularly important in Croatia due to its shape and geography, including more than 1,000 islands, which present significant challenges for efficient and timely distribution.

- ***Strong financial results in a resilient industry.*** We maintain a stable cash flow and produce strong financial results through our integrated business model, which includes a combination of food retail and wholesale operations and the production of food and beverages. The food industry tends to be less cyclical as a result of food consumption being less sensitive to economic fluctuations since it is less dependent on discretionary spending. For example, during 2009, the food retail market fell by only 3.6% in Croatia in real terms, while the total retail market according to the Croatian Bureau of Statistics, fell by 15.3% and the GDP of Croatia fell by 5.8%. Even during the challenging conditions during 2009 and 2010, we have continued to demonstrate the resilience and success of our business model, which is reflected in our stable revenues and increase in EBITDA margin during the recessionary environment in our Primary Markets. For the nine months ended September 30, 2010, our sales remained flat (a decrease of 0.1% compared to the same period last year), while the EBITDA margin increased from 8.0% to 8.8% compared to the nine months ended September 30, 2009. Our consolidated sales grew at a compound annual growth rate of 24.2% over the last nine years, while EBITDA grew at a rate of 22.5% over the same period. We believe that we will continue to generate stable cash flows due to the resilient nature of both the industries in which we operate, which are less affected than other industries by the still challenging economic environment that persists globally and in our Primary Markets.

- ***State-of-the-art facilities and cost efficiency.*** Our state-of-the-art facilities allow us to produce high-quality products that meet international standards in a cost efficient manner. During the period from 2006 to 2009, we invested more than HRK 7,239.3 million in modernizing and increasing the capacity of our production facilities. Since 2005, we have made a greenfield investment of more than HRK 1 billion in PIK Vrbovec, our red meat production facility, in order to automate the entire production process. Our investment in state-of-the-art facilities combined with our increasing purchasing power has enabled us to increase our cost and production efficiency, which has resulted in greater profitability. As we have completed the majority of our investment requirements in the Food Manufacturing and Distribution division, we do not expect these facilities to require significant capital expenditure in the medium term.

- ***Proven expertise of integrating and improving acquired companies.*** We have experienced significant growth by successfully acquiring and integrating new small to medium sized companies into our operations and turning around underperforming businesses. For example, within four years of our acquisition of PIK Vrbovec, we increased the volume sold from 8,000 tons of fresh processed red meat in 2004 to 52,000 tons in 2009 as a result of our investment in a new meat processing facility. In addition, in 2003 we acquired the ice cream producer Frikom, whose market share has grown from approximately 30% in 2003 to over 75% in 2009, gaining market share from both international and domestic competitors. We also acquired and integrated the Serbian edible oil producer Dijamant and carbonated water producers Sarajevski kiseljak in Bosnia and Herzegovina and Fonyódi in Hungary. Following these acquisitions, we implemented our management and operational practices in the acquired companies to maximize efficiency and to align their accounting policies, management information and reporting systems with ours. In addition, following these acquisitions to the extent necessary, we may invest in the production facilities, adjust and rebrand the product portfolio and integrate the supply of its products into our distribution network.

- ***Experienced and highly-focused management team.*** We have an experienced management team with deep knowledge of our industry, key markets and products. The members of our Supervisory Board and Management Board have been with us for an average of nine years and 11 years, respectively. Our senior management team is highly focused with a long history of growing our business and identifying, negotiating and integrating strategic acquisitions. Furthermore, each of our subsidiaries is run by its own management team with industry-specific and local know-how and experience.

**Strategy**

We plan to increase the value of our business through growth in our Primary Markets and through opportunistic and strategic expansion. We intend to achieve this through the following primary objectives:

- ***Maintain and strengthen our leading market positions in our Primary Markets.*** We plan to achieve this by further building on our strong brand names and brand recognition, further developing our distribution networks, and building on our relationships with local strategic suppliers. By expanding our product portfolio through innovations aimed at satisfying local tastes and by adapting our portfolio to changing consumer tastes and preferences, we intend to remain at the forefront of the customers' needs and increase our market share in each of our Primary Markets.

- ***Focus on our core businesses.*** We intend to focus on our core Retailing and Wholesale and Food Manufacturing and Distribution divisions, with an emphasis on Retailing and Wholesale, as this is where we see significant growth potential. We also expect to continue to upgrade our facilities, distribution networks, processes and technology and to identify strategic bolt-on acquisitions. As part of our focus on core businesses, we have disposed of a number of our non-core businesses, such as Mlinar, Štampa and Kozmo. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

- ***Focus on operating profitability through vertical integration and efficiency measures***. We adopt a focused approach to enhancing our operating profitability by maximizing synergies through the vertical integration of our value chain and implementation of efficiency measures on both a subsidiary and parent level. We intend to continue to establish groupwide procurement contracts with large domestic and international suppliers and further optimize our logistics and distribution networks.

- ***Maintain our disciplined earnings and cash-flow oriented approach.*** We will continue to carefully assess the potential for earnings and cash-flow stability and growth when we evaluate the performance of our operations and new investment opportunities. In managing our business, we seek to improve our profitability by optimizing our work processes, maintaining a strong focus on employee efficiency, exploiting our extensive coverage and distribution, realizing synergies available within the Group, and continuing to build upon strategic relationships with local suppliers.

- ***Selectively expand into new markets and products.*** As a result of our regional expansion in the CEE, our sales outside the Croatian market have increased significantly. Sales of our non-Croatian companies represented 26.1% of our total consolidated sales for the first nine months of 2010 and 25.5% of our total consolidated sales in the year ended December 31, 2009, compared to 20.0% in 2007. We aim to capitalize on our competitive advantages and the growth potential of neighboring markets and other countries where acquisition opportunities may arise, and intend to continue to broaden our penetration into the CEE, while seeking to maintain our strong focus on profitability. In addition, we believe that certain of our products, for example water, have considerable export potential and we will continue to expand our marketing efforts for these products. Furthermore, we see significant growth potential in our Primary Markets coming from increased GDP and food consumption per capita which is expected to continue to converge towards the EU levels over time. We also plan to continue to introduce new products in response to changing consumer tastes or demand. For example, in response to increased consumer health concerns, we developed Omegol, the omega-3-rich product assortment. See "Business Description—Research and Development."

**Retailing and Wholesale**

***Overview***

We are the leading food retailer and wholesaler in terms of combined sales in our Primary Markets. We are the largest food retailer and wholesaler in terms of sales in Croatia and Bosnia and Herzegovina, and the third largest in Serbia in 2009. Through our Primary Markets, we cover a population of over 16.5 million people, serving more than one million customers daily. We currently operate 902 food retail stores comprising a net sales area of 347,218 sqm and have a nationwide presence in each of our Primary Markets. Through Velpro's 27 wholesale centers with a net sales area of 105,368 sqm, we service the Hotels, Restaurants and Catering segment ("HoReCa"), as well as independent shops. We are also the leading retail kiosk operator and newspaper and tobacco wholesaler in Croatia with 1,351 kiosks with a net sales area of 15,788 sqm.

We have grown in the last ten years primarily due to our high market penetration and broad customer base in our Primary Markets. Our growth was further supported by implementation of leading practices in supply chain management, logistics, sales and marketing and IT solutions. We expect to continue to strengthen our leading market positions in our Primary Markets, with a strong focus on the growing markets of Serbia and Bosnia and Herzegovina. The expansion of our Retailing and Wholesale operations creates intra-group synergies through economies of scale based on sales of products from our Food Manufacturing and Distribution division and increased utilization of our distribution and logistics network. In addition, the expansion of our Retailing and Wholesale division provides us with strong and stable cash flow generation throughout the year.

The Retailing and Wholesale division had consolidated sales of HRK 19,596.9 million in 2009, representing growth of 4.0% compared to 2008 and EBITDA of HRK 1,142.7 million in 2009, representing growth of 17.0% compared to 2008. For the nine-months ended September 30, 2010, we had consolidated sales of HRK 14,879.4 million and EBITDA of HRK 820.9 million. The division represented 74.0% of our total sales in 2009 and 75.4% of our total sales for the first nine months of 2010. We operate our Retailing and Wholesale stores in each of our Primary Markets through the following brands:

- ***Konzum***, the leading food retailer and wholesaler in Croatia in terms of sales.
- ***IDEA***, the third largest food retailer and wholesaler in Serbia in terms of sales.
- ***Konzum Sarajevo***, the leading food retailer and wholesaler in Bosnia and Herzegovina in terms of sales.
- ***Tisak***, the largest national kiosk retail chain in Croatia and the leading distributor of print media, tobacco products and prepaid mobile vouchers, with an estimated market share of over 60% of the daily newspaper, print media and mobile prepaid vouchers markets and over 20% of the tobacco market in Croatia according to our estimates.
- ***Velpro***, a leading wholesaler in our Primary Markets, is fully integrated in the retail operations of: Konzum, IDEA and Konzum Sarajevo.

### *Operations*

We operate our stores through four different retail formats: Small (which has up to 800 sqm of retail space), Maxi (800–1,300 sqm), Super (1,300–4,000 sqm) and Hyper (over 4,000 sqm). Our stores offer more than 40,000 different SKUs. Through Tisak, we have the largest kiosk network in Croatia. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

Velpro is a leading wholesaler in our Primary Markets, with 18 centers in Croatia, seven in Serbia and two in Bosnia and Herzegovina. Velpro's format is tailored for professional customers and provides a range of over 10,000 food and non-food items. Velpro Croatia cooperates with more than 1,350 independent shops in Croatia operating under the Plus Market brand. The goal of the Plus Market project is to actively partner with small shop owners in order to transfer retail best practices to small independent stores. Shared know-how includes advising on product range, price structure, in-store layout, key performance indicators, marketing activities and employee education.

The following table sets out the number of stores (by store type) and the selling surface (in sqm) in each of our Primary Markets as of September 30, 2010:

| | Croatia | | Serbia | | Bosnia and Herzegovina | | Total Store Mix by | | |
|---|---|---|---|---|---|---|---|---|---|
| | No. of Stores | Selling surface | No. of stores | Selling surface | No. of stores | Selling surface | No. of stores | Selling surface | Surface |
| Small | 584 | 98,401 | 96 | 20,083 | 81 | 14,251 | 761 | 132,735 | 38.2% |
| Maxi | 32 | 27,386 | 12 | 9,448 | 36 | 28,778 | 80 | 65,612 | 18.9% |
| Super | 46 | 110,753 | 6 | 12,912 | 8 | 18,571 | 60 | 142,236 | 41.0% |
| Hyper | | | 1 | 6,635 | | | 1 | 6,635 | 1.9% |
| Kozmo | | | | | | | | | 0.0% |
| Total retail | 662 | 236,540 | 115 | 49,078 | 125 | 61,600 | 902 | 347,218 | 100.0% |
| Velpro | 18 | 46,294 | 7 | 52,094 | 2 | 6,980 | 27 | 105,368 | |
| Total retail and wholesale | 680 | 282,834 | 122 | 101,172 | 127 | 68,580 | 929 | 452,586 | |
| Tisak | 1,351 | 15,788 | | | | | 1,351 | 15,788 | |

Our store opening process starts with an evaluation of the local market. The main factors we consider when making our initial evaluation include the competition, average income in the area, store surface area and geographic location and accessibility. This evaluation is aimed at identifying possible store locations with the requisite potential for operating a profitable business. Once a site has been identified, we conduct a feasibility study which forecasts store revenues and operating performance. Our analysts consider factors such as local store sales per square meter and profitability, average salary in the region, competition data and qualitative variables, including growth potential and expected competition. Based on their conclusions, we decide whether or not to establish a store in the area and, if so, whether to rent, lease, or build. We tend to enter into standard 10 to 15 year lease and rental agreements, which are terminable at our option prior to their maturity without material penalty. We normally would be obliged to pay about three months' rent or lease payments or, in a small number of cases, three to 12 months. In addition, we monitor the performance of each of our stores on an ongoing basis, focusing on store profitability, the scale of revenues and the trends in the competitive environment. If a store does not meet our performance standards, it is either closed or reformatted.

### *Markets and competition*

Through our subsidiary Konzum, we are the largest food retailer and wholesaler in Croatia in terms of sales. We are the only food retailer and wholesaler with nationwide coverage and are nearly five times larger in terms of sales than the second largest company. Our competitors are established foreign and domestic food retailers and wholesalers such as Billa, Kaufland, Lidl, Mercator, Metro and Plodine. The Croatian food retail and wholesale market is relatively consolidated when compared with the markets in Serbia and Bosnia and Herzegovina, and we expect market consolidation to continue.

Looking at the Croatian food retail market only (excluding wholesale), during the first nine months of 2010, Konzum held a 27.3% market share in terms of sales, more than three times than Kaufland, which held a 7.7% market share according to GfK Consumer Tracking. Other main competitors include Plodine, Lidl and Billa, with market shares of 6.9%, 6.5% and 5.0%, respectively, according to GfK Consumer Tracking.

We entered the Serbian market in 2005 through the acquisition of IDEA. IDEA is one of the few nationwide food retailers and wholesalers in the country and the third largest food retailer and wholesaler in terms of sales in 2009. From 2006 through 2009, the Serbian food retail market has grown steadily. Our food retail and wholesale operations in Serbia grew by 16.4% in terms of sales in 2009. Our competition in Serbia includes both domestic and international companies, with local Delta Maxi (which is owned by Delta group) holding the leading position in the market. Other competitors include C market (which is also owned by Delta group), Mercator, Metro, Dis, Univerexport, Cort, Familija market, Interex and Tus i Vero. The Serbian retail market is very fragmented and characterized by a large number of small shops and a substantial grey market.

In 2004, we entered the food retail and wholesale market of Bosnia and Herzegovina through the establishment of Konzum Sarajevo. Konzum Sarajevo is one of the few nationwide food retailers and wholesalers in the country and the largest food retailer and wholesaler in terms of sales. From 2006 through 2009, the market in Bosnia and Herzegovina grew steadily. Our food retail operations in Bosnia and Herzegovina grew by 30.1% in terms of sales during 2009. Our main competitors are Bingo, Interex and Mercator. The food retail market in Bosnia and Herzegovina is still very fragmented and is characterized by a large number of small shops and a substantial grey market.

According to our estimates, in 2009 Tisak held more than 60% of the daily newspaper market in Croatia and 65% of the market for other print media (e.g., magazines, comics and foreign press). We also held over 70% of the mobile prepaid vouchers market and over 20% of the tobacco market, according to our estimates. Tisak's main competitors are Inovine, Fibis and Glas Istre. Tisak is also the largest wholesaler of print media and tobacco in Croatia, accounting for more than 50% of total Tisak sales. The primary competitor in the wholesale kiosk segment is the Croatian company Distripress.

***Products and Services***

We offer a wide range of various food and non food products in our retail stores, ranging from low-end private labels to premium brands. In each country in our Primary Markets, we offer between 25,000 and 40,000 of our own and third party SKUs. In high income areas, our stores offer more premium products, such as a better selection of wines, in order to benefit from the higher purchasing power of the consumers in that area. On the other hand, if the catchment area has more price-sensitive customers, we will customize inventory and pricing accordingly in order to increase the efficiency of our operations. We are also focused on providing our customers with a fresh offering of fruits and vegetables, meat and meat products sourced from our meat and agricultural business or third party suppliers with whom we have longstanding relationships. In addition, we sell bread and bakery products, as well as dairy products and fresh fish. The fresh food segment is typically provided on a daily basis by reliable local suppliers who offer high quality products and full traceability. Our ability to provide our customers with an attractive, daily supply of fresh assortments is one of our primary competitive advantages. Our top selling SKUs are fresh meat, fruits and vegetables, confectionary products, juices and milk products. We also offer non-food items such as textiles, household appliances and dinnerware, among others, which represent a small portion of our total sales.

In 2002, we introduced the K-plus private-label brand and in 2006, we introduced the Standard discount brand. In 2010, we expanded our private-label brand offering with a new premium range of products under the "Volim najbolje" brand name and also continued to broaden our basic K-Plus and discount Standard offering. We sell over 2,500 private-label products covering essential consumer goods. Our private-label assortment matches the product range of our competitors, including the discounters Lidl and Kaufland. Our tight control of the origin and processes of production, frequent packaging redesigns and favorable prices ensures that our customers recognized our private labels for their quality and value. Konzum offers over 2,500 private-label SKUs which accounted for 13.3% of its total sales in the first nine months of 2010. Konzum Sarajevo and IDEA offer approximately 1,400 and 1,800 private-label SKUs, representing 8.2% and 9.2% of their total sales in the first nine months of 2010, respectively. Although these products are sold at lower prices, we still manage to achieve strong margins due to less expensive packaging, bulk purchasing and lower advertising costs.

Tisak, which includes Slobodna Dalmacija Trgovina, offers 34,500 SKUs in its overall product portfolio, including magazines, newspapers, cigarettes and tobacco products, other impulse food and beverage products (including water, beverages, ice cream and chewing gum) and pre-paid mobile phone vouchers. Although the vast majority of Tisak kiosks are of a uniform size (traditional kiosks range from 10–15 sqm), in 2008 we developed a new format—Tisak Media—with stores varying in size from 100–300 sqm, through which we entered the multi media and book retailing business.

We regularly introduce new services in order to strengthen the relationship with our customers. In 2008, we introduced in Konzum a billing service which allows our customers to pay their utility bills at our store tills. We have also introduced a self-check out system in Konzum for our customers. In addition, in 2008 we have introduced POS tills in each of the Tisak kiosks, which enables us to set up the infrastructure for extension of our loyalty card scheme.

***Sales and marketing***

Our sales are organized into regional units headed by regional directors. There are seven geographic regions in Croatia, six in Serbia and five in Bosnia and Herzegovina. Each region is subdivided into sale areas headed by supervisors who are responsible for the operation of between 10 and 20 stores. Their responsibilities range from following store performance, monitoring and improving inventory turnover, managing store outlook, coordinating logistics, assessing of product quality and seeking ways to improve or adjust as necessary product assortment, to training and evaluating the workforce. The sales managers report to the regional directors on a daily basis with results monitored against weekly, monthly and yearly targets. Key performance data consists of sales per square meter, sales per employee, inventory turnover, store profitability and other store specific data. We continually seek to improve our sales force through training programs and seminars.

Marketing promotions may be held throughout the entire national sales network, a particular region, a store format, or for a specific occasion. Weekend offers, which last from Thursday to Sunday, take place across the entire national sales network. In addition, we typically have promotions for grand openings or reopenings of stores or in response to a promotion or store opening by one of our competitors. We also hold promotional offers during the holiday season.

Our retail operations use marketing campaigns tailored to meet the specific needs of customers through carefully chosen and intense marketing activities directed towards targeted segments of customers. Our marketing campaigns focus on price promotion throughout the whole week; through activities including catalogue price offers, weekend price offers, and happy hours on certain product assortments. We use image campaigns to communicate our competitive advantages and the innovative new services that we have to offer.

In September 2010, we launched Multipluscard, a coalition loyalty program in partnership with prominent Croatian companies from a range of industries, as an extension of the Konzum Pluscard program. With more than 800,000 active customers and with a database of 1.5 million customers, approximately 60% of Konzum's revenues are captured by loyalty card users. This program gives us detailed information about our customers' preferences and shopping habits on a store-by-store basis. This information allows us to adjust our inventory, pricing and marketing strategies accordingly.

***Pricing***

We implement a customer centric concept in several areas: store format management, category and price management. The store format is designed to reflect customer preferences and income levels in its catchment area. In addition to segmentation by store size, Konzum has also implemented store segmentation by shopper preferences—premium, standard and economy. This positioning is derived from customer segmentation based on our analysis of loyalty card data and other relevant store environment indicators. In a higher income area, our stores will offer more premium products, such as a better selection of wines, in order to benefit from the higher purchasing power of the consumers in that area. On the other hand, if the catchment area has more price-sensitive customers, we will customize inventory and pricing accordingly and thereby increase the efficiency of our operations.

We regularly monitor prices within the market and adjust our pricing points when necessary in order to target the most suitable pricing level for our various customers. Price monitoring is done on a daily, weekly and monthly basis to help us determine our pricing strategy in the near and long term. The prices vary in different formats depending on the competitiveness and costs of business operations in the specific location.

In September 2009, we introduced a marketing initiative involving the reduction of prices in all our markets for 1,000 selected products, which is continuing through 2010. This promotional offering is known as the "Permanently Low Price" and is aimed at more price-sensitive customers who have been most affected by the recent global economic downturn. Although we introduced significant discounts on 1,000 products, our margins for these items did not deteriorate significantly, as the costs were shared with our suppliers. In addition, the lower prices resulted in a greater number of customers visiting our stores, and increased sales of both discounted and non-discounted products.

***Buying and Merchandising***

In Croatia, Konzum sources products from over 1,100 different suppliers, with our top ten suppliers representing over 38.8% of our total turnover in 2009. In Serbia, we cooperate with more than 1,100 suppliers, with the top ten suppliers representing 38.9% of our total turnover in 2009. In Bosnia and Herzegovina, we cooperate with more than 850 suppliers, with the top ten suppliers representing 31.4% of our total turnover in 2009. Part of our overall strategy is to develop strong relationships with reliable and high quality local suppliers, which we consider to be one of the main pillars of our future development in the region as they play an integral part in improving our sourcing options and purchasing power in each of our Primary Markets. Currently, more than 60% of our total procurement is done on the local level and we expect this percentage to increase over time.

Due to our size and leadership position, we benefit from significant rebates from our suppliers (including listing fees, promotion fees and positioning fees), which reduce our costs and improve our operating margins. As we continue to grow and as suppliers start viewing our Primary Markets as a single market, we will be able to negotiate better terms and improve our bargaining power and cost savings. Our suppliers have historically offered us a mixture of over-riders (volume discounts usually paid at year end), advertising contributions and product specific promotions, while we provide them with customer information, including data relating to consumer preferences and purchasing habits.

***Logistics and Distribution***

The Retailing and Wholesale division has developed its own logistics and distribution network in each of our Primary Markets. Konzum has ten warehouses and six cross docks in Croatia. There are five warehouses for fruits and vegetables, two warehouses for fresh food and three warehouses for grocery food, personal and home care goods and non-food products. We operate warehouses equipped with radio frequency scanners and voice terminals, as well as just-in-time zero-stock capability and yard management systems. Route planning is supported by Paragon routing, while the 386-vehicle fleet operates through Sky track Fleet control. Each of our retail stores maintains an automatic ordering system for products delivered from the central warehouse. The stores are stocked within 24/48/72 hours with the shortest turnaround for fresh food. With the completion of our Logistics and Distribution Center in Zagreb in 2009, we believe that we currently operate the largest and most advanced logistics and distribution center in our Primary Markets.

Our retail operations in Serbia and in Bosnia and Herzegovina are implementing Konzum's technologies and operating standards. IDEA in Serbia and Konzum Sarajevo in Bosnia and Herzegovina operate seven and two wholesale centers, respectively, providing us with nationwide coverage in each of these countries.

Tisak's logistics are organized along product categories. Following the suppliers' delivery of goods to our wholesale center, the goods are sorted and delivered to the designated selling points. Commercial goods from our wholesale operations are sourced from Velpro stores following the order receipt from each POS and are delivered within 48 hours. The remaining goods are delivered by other suppliers directly to the POS. Newspapers and magazines are delivered to the central warehouse, which are then distributed throughout macro lines to the main branches in each region and then through micro lines to every point of sale. Tisak has a strong distribution network supplying over 5,000 points of sale in Croatia with a fleet of 218 vehicles. Tisak supplies not only our kiosks and retail stores but also stores and kiosks of other market participants.

We have improved our supply chain management by increasing our centralized distribution, which has resulted in reduced costs, increased service levels and fill rates. The primary drivers of cost reduction have been better utilization of truck capacity, more efficient routing, better inventory management and consolidation of our warehouses.

**Food Manufacturing and Distribution**

We are a leading company in terms of sales volume in our Primary Markets in a majority of our product segments in our Food Manufacturing and Distribution division. The Food Manufacturing and Distribution division is comprised of four segments: Ice Cream and Frozen Foods, Water and Beverages, Edible Oils and Margarines and Meat and Agriculture. Our Food Manufacturing and Distribution division generated consolidated sales of HRK 5,012.9 million in 2009, a decrease of 13.8% compared to the previous year. In addition to customer price sensitivity and a stronger orientation towards cheaper and lower quality products arising from the unfavourable economic conditions, decreases in sales also resulted mostly from the depreciation of the Serbian Dinar and lower sales in the agricultural segment due to our strategic decision to reduce contract farming. For the nine months ended September 30, 2010, this division generated sales of HRK 3,717.7 million which represents a decrease of 3.6% compared to the same period last year and EBITDA of HRK 1,129.2 million which represents an increase of 12.1% compared to the same period last year. The division accounted for 18.9% of our total sales in both 2009 and for the first nine months of 2010.

The evolution of our sales in recent years in our Food Manufacturing and Distribution division has been driven by our strategy of regional expansion and investments in our businesses in order to establish our brands as regional leaders. We attribute a significant portion of our growth in profitability to prior period investments in state-of-the-art facilities, equipment and technology, distribution networks, modernization of management and marketing processes, research and development, as well as the education and training of our management and employees. By expanding our product portfolio through innovations aimed at satisfying local tastes, we are continuously adapting to local market needs and changing customer demand. During the course of 2010, in response to challenging market conditions, with customers becoming more price sensitive, we decided to launch a dual brand strategy and introduced "B" brands in some of our segments as a complement to our premium brands. One part of our strategy focused on our "A" (premium) brands, where, through an aggressive marketing campaign, we communicated the additional premium value as well as innovative and functional features of our products. The other part of the strategy was the introduction of the "B" brands to our portfolio in order to capture our more price-sensitive customers. This dual strategy proved to be a good decision as our "B" brands managed to compete successfully with our competitors' private label products, without significantly impacting sales of our “A” brands. As a result of our prior investments in the Food and Manufacturing and Distribution division’s capacity, we believe we do not need material additional investments in the medium term period.

***Ice Cream and Frozen Food***

*Overview*

We are one of the leading ice cream and frozen food producers and distributors in terms of volume in the CEE. We are the market leader in our Primary Markets, as well as Montenegro. We are also present in Hungary, Macedonia, Slovenia, Romania, Slovakia, Kosovo and Albania. This business segment includes the production and processing of ice cream (under the King, Snjeguljica, Macho, Queens, Quatro and Twice brands), frozen fruits and vegetables, frozen fish, frozen pastry, and other frozen foods, including ready-to-eat meals and frozen meat, all of which are sold under the Ledo and Frikom brands. Our production facilities are located in Croatia, Serbia, Bosnia and Herzegovina and Hungary.

*Markets and Competition*

In Croatia, we operate through our subsidiary Ledo, in Bosnia and Herzegovina through Ledo Čitluk and in Serbia through Frikom. Our products hold significant market shares in terms of sales in each of our Primary Markets.

We hold the leading market position in ice cream in Croatia, Serbia and Bosnia and Herzegovina based on volume, with a market share greater than 80% in Croatia and greater than 75% in each of Serbia and Bosnia and Herzegovina.

We also hold the leading market position in Croatia and Serbia in frozen vegetables, frozen fish and frozen pastry based on volume, with market shares in Croatia above 40%, 35% and 75%, respectively, and in Serbia above 70%, 40% and 40%, respectively. In Bosnia and Herzegovina, we believe that we have the leading market position in frozen vegetables and frozen fish based on volume, with market shares in excess of 60% and 50%, respectively, and a market share of more than 10% in frozen pastries.

Our major competitors in ice cream are Podravka, Unilever and retail private labels in Croatia, Nestlé, Unilever and retail private labels in Serbia and Cermat, Pefrikos and Unilever in Bosnia and Herzegovina.

Our major competitors in frozen vegetables are Bonduelle, Podravka and retail private labels in Croatia, Higlo and retail private labels in Serbia, and Bonduelle, Higlo and Friko in Bosnia and Herzegovina.

Our major competitors in frozen fish are Stanić, ZMH Horvat and retail private labels in Croatia, LLB, Tropic and retail private labels in Serbia, and Fratelo, Friko and Pehar in Bosnia and Herzegovina.

Our major competitors in frozen pastries are Pečjak, Podravka and retail private labels in Croatia, BPI, Mara Sombor and retail private labels in Serbia, and Klas, Sprind and Žito in Bosnia and Herzegovina.

*Sales and Marketing*

Our sales department is comprised of 28 sales centers, each covering different geographic areas in our Primary Markets (10 in Croatia, 11 in Serbia and seven in Bosnia and Herzegovina). In each area, the sales force is further divided into two sales channels: retail and HoReCa.

The sales force within each geographical area is led by a regional manager. Besides the significant experience and know-how of our regional managers, our competitive strength lies with our key account managers and sales representatives who are responsible for regularly communicating with our customers, who are predominantly retail chains. Our sales and distribution system is supported by a pre-sale model with 24-hour delivery to the customer, enabling on-time delivery and optimization of the supply chain. Our top ten customers in Croatia, Serbia and Bosnia and Herzegovina amount to 45.0%, 19.8% and 24.8% of total sales, respectively.

We regularly innovate and introduce new products which serve as seasonal drivers and successful brand extensions. We support such initiatives with various marketing activities, either through point of sale locations or through the media. For example, in 2009 Ledo introduced two new ice cream products (“Auto” and “Moto”), which were marketed and sold exclusively during the 2009 summer season. In addition, each season Ledo launches brand extensions—new products under existing brands such as the “King Kokos” ice cream under the King brand in 2009 and “King Ekstra Amadeus” in 2010. Unlike the seasonal or occasional products, brand extensions are part of a longer term strategy to built and support brand names and branch identity.

Point of sale activities include different types of below the line (or non-media) marketing activities such as in store posters, shelf wobblers to highlight products and special offers, and product trials. Each year, we organize prize games to stimulate ice cream consumption not only during the high season but also in winter. We launch educational campaigns to inform consumers of the benefits of frozen food consumption, such as the “Frozen is healthy” campaign. Other marketing activities aimed at changing consumer habits include the winter “take home” ice cream campaign to reduce the seasonality of ice cream consumption. Furthermore, in the past, Ledo has participated in projects, including co-branding projects with Disney’s Winnie the Pooh and Podravka’s Čokolino brands. Ledo and Kraft International Foods have collaborated since 2007 on the Milka ice cream project which can be found in impulse, cone, family and the HoReCa ice cream assortment. Co-branding is mostly used to attract foreign tourists who are not familiar with the Ledo brand. In the frozen food segment we rely heavily on above the line (including television, press, outdoor advertising and Internet) and below the line (including events organization, point of sale material and tastings) marketing activities. Furthermore, as a part of our marketing strategy we are involved in sponsorships of various children events, sport events and sport clubs.

*Procurement and Production*

We work with 1,446 suppliers in Croatia, 1,448 in Serbia and 747 in Bosnia and Herzegovina, with the top ten suppliers in turnover accounting for 20.8%, 23.6% and 59.8%, respectively. We have production facilities in Croatia, Serbia, Bosnia and Herzegovina and Hungary. Our total production capacity is 41,600 tons in ice cream, 8,500 tons in pastries and 32,300 tons in frozen food. Our production capacities are more than adequate for our current production levels and can support higher production levels in the future.

We operate state-of-the-art facilities in the production of ice cream and we believe we are one of the few producers that have the capability of producing multi-layer ice creams. We have recently invested in expanding our ice cream and frozen food production capacity in response to rising demand.

Our main raw materials include fresh milk, skimmed milk powder, butter, cocoa and foil and these are primarily sourced externally. We believe that we can pass on any increases in prices of our raw materials to the customer. For a discussion of historical price evolution of certain key raw materials, please see “Managements Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting Financial Condition and Results of Operations—Raw material prices.”

*Logistics and Distribution*

Our logistics and distribution network is another significant competitive advantage. This is especially true for Croatia where distribution tends to be very expensive before achieving economies of scale due to the unusual shape of the country and its more than 1,000 islands. The difficulties connected with establishing a distribution network serve as a barrier to entry.

The following table sets out in our Primary Markets logistics and distribution data in the Ice Cream and Frozen Food segment in 2009:

| Logistics and Distribution | Total |
|---|---|
| No. of employees | 769 |
| No. of distribution centers | 23 |
| No. of warehouses | 42 |
| No. of pallet spots (+/−°C) | 33,575 |
| No. of distribution vehicles | 342 |
| No. of cooling units | 103,423 |
| No. of delivery points | 62,914 |

***Water and Beverages***

*Overview*

We are a leading water and beverages producer and distributor in our Primary Markets. We are a market leader in Croatia and Bosnia and Herzegovina in terms of volume and also export to 20 countries around the world. This business segment includes the production and processing of carbonated water (under the Jamnica, Sarajevski kiseljak, Mivela and Fonyódi brands), non-carbonated water (under the Jana, Fonyódi and Akvia brands), fruit juices (under the Juicy and TO brands), still drinks (under the Jamnica and Juicy fruits brands) and ice tea (under the Jamnica brand). The production facilities are located in Croatia, Serbia, Bosnia and Herzegovina and Hungary.

*Markets and Competition*

In Croatia, we operate through our subsidiary Jamnica, in Serbia through Nova Sloga and Jamnica Belgrade, and in Bosnia and Herzegovina through Sarajevski kiseljak. Our water and beverages are sold in 20 countries worldwide mostly through our leading brand Jana premium non-carbonated water. We export Jana to Germany, Austria, Switzerland, Romania, Portugal, Canada, Japan, Australia, Korea and the United States, among others. We began exporting into the United States in 2005 with a focus on New York. Since 2007, Jana has been the official water sold at Madison Square Garden in New York. Jana is now available in more than 4,000 stores across the United States, including Kroger, one of the largest retail chains in the United States, Sweetbay, Wholefoods, Ingles, Food Lion and Duane Reade.

In Croatia, we hold the leading market position based on volume in carbonated water, non-carbonated water, fruit juices and still drinks, with market shares above 80%, 55%, 30% and 40%, respectively. We also hold the leading market position based on volume in ice tea, with a market share above 30%. Our principal competitors in Croatia are Badel and Podravka for carbonated water, Badel, Coca-Cola and Podravka for non-carbonated water, Coca-Cola and Vindija for still drinks and Coca-Cola and Podravka for ice tea.

We recently entered the Serbian water and beverage market with the acquisition of Nova Sloga and its carbonated water brand Mivela. Although we have yet to establish a major presence in the Serbian market, we believe there is a strong growth potential to replicate the successful model that we have developed in Croatia and Bosnia and Herzegovina.

In Bosnia and Herzegovina, we believe that we hold the leading market position based on volume in carbonated water, non-carbonated water, still drinks and ice tea, with market shares in excess of 45%, 40%, 35% and 50%, respectively. Our main competitors in carbonated water are Vitnika and Princess, in non-carbonated water, Coca-Cola and Vitinka, in still drinks, Fruvita and Sarajevska pivara and in ice tea, Sinalco and Fructal. We believe that we hold the second market position in the carbonated soft drinks segment with our brand Sky Cola, with a market share in excess of 15%. Our main competitor in this segment is Coca-Cola.

*Sales and Marketing*

Our sales department is comprised of 21 sales centers, each covering a different geographic area in our most significant markets (11 in Croatia, three in Serbia, four in Bosnia and Herzegovina, two in Hungary and one in Slovenia). In each area, the sales force is further divided into two sales channels: retail and HoReCa. Our sales force within each geographical area is led by a regional manager. Besides the significant experience and know-how of our regional managers, our competitive strength lies with our key account managers and sales representatives who are responsible for continuous communication with customers. Each customer is visited by our sales representative at least once a week enabling us to maintain a strong personal bond that is very important in these markets. Furthermore, our sales and distribution system is supported by a pre-sale model with a 24-hour delivery to the customer enabling on-time delivery, and optimization of the supply chain. Our top ten customers in Croatia, Serbia and Bosnia and Herzegovina amount to 45.7%, 49.7% and 39.6% of total sales, respectively.

We coordinate all of our promotional and marketing activities with respect to our water and beverages products. We market these products through various media, including TV, print, radio and Internet promotions, direct marketing and below the line activities, which include point-of-sale promotions through sampling and loyalty card programs. In addition, we regularly sponsor different sport clubs and events in order to emphasize our healthy, fitness oriented image. In addition, we also support different cultural events. We closely monitor shifts in consumer tastes and preferences in order to respond effectively to changing consumer demands. We often develop and introduce new products in response to changes in consumer demand. For example, in the last four years, Jamnica has re-branded its returnable glass, redesigned the crate for carbonated water to make it easier to carry, and introduced the five liter Jana bottle with a special innovative cap for easy pouring, all of which resulted in an increase in market share. In addition, Jamnica launched a group of functional drinks combining the Jana water with fruit juice and vitamins under the SMART brand in response to customer concerns and expectations relating to body weight and raising one's immunity. These drinks are now part of Jamnica's portfolio of extended product lines and include Jamnica Sensation (flavored water) and Jamnica pro Sport (an isotonic drink). In addition, Jamnica re-branded Mivela, our carbonated water brand from Serbia by repackaging and repositioning the product.

*Procurement and Production*

We work with 82 suppliers of raw materials in Croatia, ten in Serbia and 25 in Bosnia and Herzegovina, with the top ten suppliers accounting for 72%, 100.0% and 82.2% of our turnover, respectively.

Our production facilities are located in Croatia, Serbia, Bosnia and Herzegovina and Hungary. Our total annual bottling capacity is 807 million liters. Our production capacities are more than adequate for the current production level and can support higher production levels in the future.

Our production facilities are state-of-the-art enabling us to produce high quality water and beverages. The close-end production cycle, supported by aseptic and isolated ultra clean production lines, ensures that the first contact between water and the outside environment occurs upon the customer's opening of the bottle.

Our main raw materials include pre forms, caps and labels which are predominantly sourced externally. We believe that we can pass on any increases in prices in raw materials to our customers.

*Logistics and Distribution*

We have invested in building a regional distribution network for our water and beverages products with 24 distribution centers, of which 16 are located in Croatia, four in Serbia, four in Bosnia and Herzegovina. Our distribution network comprises more than 54,000 warehouse pallet spots, a fleet of 266 trucks covering 20,884 delivery points and 28,784 cooling units placed directly at the points of sale.

The following table sets out in our Primary Markets logistics and distribution data in the Water and Beverages segment in 2009:

| Logistics and Distribution | Total |
|---|---|
| No. of employees | 630 |
| No. of distribution centers | 24 |
| No. of warehouses | 30 |
| No. of pallets spots (+/−°C) | 54,195 |
| No. of distribution vehicles | 266 |
| No. of cooling units | 28,784 |
| No. of delivery points | 20,884 |

***Edible Oils and Margarines***

*Overview*

We are a leading producer of edible oils in our Primary Markets. This business segment includes the production and processing of edible oils (under the Zvijezda, Dijamant and Omegol brands), margarines (under the Zvijezda, Dijamant, Omegol, Dobro jutro and Margo brands) and mayonnaise (under the Zvijezda and Dijamant brands). We also produce vegetable ghee, vinegar, dressings and ketchup under various brand names. Our production facilities for edible oils and margarines are located in Croatia and Serbia. We have market shares that are significantly higher than our competitors in Croatia and Serbia. According to PGM's market research, Zvijezda had the highest brand awareness among Croatian consumers in 2010.

*Markets and Competition*

In Croatia, we operate through our subsidiary Zvijezda, in Serbia through Dijamant and in Bosnia and Herzegovina through Zvijezda Sarajevo. Certain of our products hold leading market shares positions in our Primary Markets.

In Croatia, we hold the leading market position based on volume in edible oil, margarines and mayonnaise, with market shares of more than 65%, 85% and 65%, respectively. Our principal competitors in Croatia are Čepin and retail private labels for edible oil, Unilever and retail private labels for margarines, and Nestlé, Unilever and retail private labels for mayonnaise.

In Serbia, we also hold the leading market position based on volume in edible oil, margarines and mayonnaise, with market shares of more than 40%, 55% and 40%, respectively. Our principal competitors in Serbia are Vital Vrbas for edible oil and margarines, and Polimark for mayonnaise.

In Bosnia and Herzegovina, we hold the second leading market position based on volume in edible oil, the leading market position in margarines with a market share of more than 60% and the third market position in mayonnaise. Our principal competitors in Bosnia and Herzegovina are Bimal and Bunge for edible oil, Unigra, Unilever and Vital for margarines and Nestlé, Polimark and Unilever for mayonnaise.

We also have leading positions in Montenegro and Macedonia where, according to our estimates, we hold market shares in margarines of more than 40% and 30%, respectively.

*Sales and Marketing*

Our sales department is comprised of 16 sales centers, each covering a different geographical area in our Primary Markets (six in Croatia, five in Bosnia and Herzegovina and five in Serbia). In each area, the sales force is further divided into two sales channels: retail and HoReCa. By focusing on the strong relationships with our customers in each major sales channel, we are able to execute transparent commercial policies based on size, value and future potential growth of each customer we serve. On-time delivery is crucial for our business, and the pre-sale model with 24-hour delivery is achieved largely as a result of customer demand. The top ten customers in Croatia and Serbia amount to 59.1% and 50.7% of total sales, respectively, while Bosnia and Herzegovina is covered through exports from Croatia and Serbia.

We have recently focused on expanding the range of our edible oils and margarine product assortment. With the growing awareness of product quality and consumer concerns relating to a balanced diet, we have developed new products and improved the nutritional value of existing products. For example, we introduced the Omegol line of products (oil and margarine—functional food with omega-3) and market them as a healthy alterative to other edible oils and margarines. To develop this line of healthy products, our two companies Zvijezda and Dijamant, cooperated by sharing recipes and selling the products in our Primary Markets under the same brand name.

Marketing efforts in this business segment are centered around the nutritional value and quality of the products and responding to health focused consumption trends. We focus on maintaining and enhancing our long-standing market leading position, expanding our product portfolio and strengthening our brand awareness and high customer loyalty. All of our products in this business segment are positioned as premium products in terms of price and quality. As far as promotional activities, we employ above-the-line (television, press, outdoor advertising and Internet) and below-the-line (events organization, point of sale material and tastings) activities.

*Procurement and Production*

Through our control of the entire supply chain, from the production of the raw materials and oilseed crushing to the production and sale of the final products, we are less sensitive to volatility in commodity prices than companies which do not control their supply chain. In addition, we rely on the stability of our procurement, production and sales. We have various international suppliers, according to the businesses we engage in and the raw materials needed. We work with 337 suppliers in Croatia and 340 in Serbia, with the top ten suppliers accounting for 74.2%, and 52.2% of our turnover, respectively.

To maximize synergies within the Group and benefit from economies of scale, we procure common production materials, such as foils, cups and lids for margarine on the Group level. In addition, as we procure certain raw materials such as glass materials in large volumes we are able to obtain better commercial conditions and pricing terms. We actively monitor commodity market prices (such as edible oils) to assist in determining our procurement strategy.

We have production facilities in Croatia and Serbia. Our total annual production capacity is 120,000 tons of edible oil, 47,500 tons of margarine and 12,500 tons of mayonnaise. In addition we have the only soybean crushing/processing plant in Croatia: Sojara d.d. Our production capacities are more than adequate for the current production level and can support higher production levels in the future.

Our main raw materials include sunflower oil, rapeseed oil, soybean oil, sunflower oil and pre forms. These are predominantly sourced externally. We believe that we can pass on any price increases in raw materials to our customers.

*Logistics and Distribution*

We have six distribution centers in Croatia, five in Serbia and five in Bosnia and Herzegovina. In addition, we have long-term partnerships with distributors in Macedonia, Kosovo and Montenegro.

The following table sets out in our Primary Markets logistics and distribution data in the Edible Oils and Margarines segment in 2009:

| Logistics and Distribution | Total |
|---|---|
| No. of employees | 357 |
| No. of distribution centers | 16 |
| No. of warehouses | 21 |
| No. of pallets spots (+/−°C) | 27,799 |
| No. of distribution vehicles | 223 |
| No. of cooling units | 2,447 |
| No. of delivery points | 13,174 |

In 2009, Zvijezda became the exclusive distributor for Zott, one of the leading dairy producers in Europe. In Croatia, Zott sells approximately 40 SKUs of various dairy products, such as fruit yogurts, chocolate desserts, soft drinks, puddings, hard and processed cheeses, mozzarella and cream products. Zott is a well-known brand in Croatia with a large portfolio of products which complement our product assortment. Distributing Zott's products will increase our turnover, profitability and efficiency of our distribution network and supply chain.

***Meat and Agriculture***

*Overview*

We are the leading producer of red meat and meat products and the largest agricultural company in Croatia. We primarily conduct our Meat and Agriculture business in Croatia. We engage in activities that form a closed chain "from the field to the table". This enables full traceability of the final products stocked in our retail chains. Specifically, we engage in crop farming, animal feed production, cattle breeding, meat and processed meat production. In 2009 we had over 250,000 hectares of arable land under our control and 26 modern farms in our ownership with annual capacity (including contract farming) of more than 185,000 livestock. We sell more than 52,000 tons of various meat products annually. We began investing in meat production and agriculture in order to ensure the competitiveness of our food production and secure the Retailing and Wholesale division's competitive advantage of providing fresh food and meat to consumers on a daily basis.

*Markets and competition*

We operate our meat business through our subsidiary PIK Vrbovec, one of the largest meat producers in Croatia. Since PIK Vrbovec's acquisition in 2005, our total sales have grown from 8,000 tons in 2004 to 52,000 tons in 2009. PIK Vrbovec's product range includes: fresh meat; meat products, including semi-durable dry and durable dry sausages and meats; canned products; frozen shaped meat; fats and tallow. We also export our products to the European Union, the United States and many other countries and have the required export licenses. The size of the Croatian meat market according to our estimates is 300,000 tons comprised of 190,000 tons of red meat and 110,000 tons of poultry. We believe we are the market leader in the red meat market in Croatia with the market share of more than 30% in the terms of volume. Our primary competitors are local producers Pivac and Gavrilović.

Our agricultural business is comprised of crop farming, cattle breeding, animal feed production and wine production. We operate our agricultural business through our subsidiaries Belje (agriculture, crop and animal husbandry, and wine production), PIK Vinkovci (agriculture and animal feed production), Vupik (agriculture, crop and animal husbandry and wine production), Agrolaguna (wine and olive oil production) and Solana Pag (sea salt processing).

- *Crop farming*—Through our own production and contract farming, we control a total of 715,000 tons of crops, including wheat, corn, sunflower, soybeans, oil seed and barley.

- *Cattle breeding (Dairy, Beef and Pork)*—Through our own production and contract farming, we engage in the following types of cattle breeding: (i) dairy cattle breeding, (ii) beef cattle breeding and (iii) pig breeding. In 2008, we opened an automated dairy cow farm with a total capacity of 500 livestock.

- *Animal feed production*—We have capacity to produce more than 100,000 tons of animal feed annually.

- *Wine production*—We are the leading producer of wine in Croatia with the Laguna, Belje and Festigia brands. We have more than 925 hectares of our own vineyards located mostly in the region of Istria and Baranja with an annual production of more than 6.3 million liters.

*Sales and Marketing*

Our sales department is comprised of seven sales centers in Croatia. In each area, the sales force is further divided into two sales groups: retail and HoReCa. The sales force within each geographical area is led by a regional manager. Beyond the significant experience and know-how of our regional managers, our competitive strength lies with our key account managers and sales representatives who are responsible for continuous communication with customers. Each customer is visited by our sales representative at least once a week enabling us to maintain a strong personal bond that is very important in these markets. Furthermore, our sales and distribution system is supported by a pre-sale model with a 24-hour delivery to the customer enabling on-time delivery, and optimization of the supply chain. The top ten customers of PIK Vrbovec comprise 65.7% of total sales.

In our meat business, we are focused on the production of kulen and smoked bacon which we sell under the Belje brand. We expect that the quality of our meat products will soon be recognized by the PGI (protected geographic indication) label. We closely monitor product trends, including customer demand for small convenience packaging and healthy product choices with high nutritional value. In response, we introduced Omegol and seeds enhanced sausages, and products with less salt content. PIK Vrbovec launched an educational campaign on the health benefits of red meat and its importance as part of a balanced diet.

*Procurement and Production*

We have various suppliers from around the world, depending on the businesses we engage in and the raw materials we require. We work with 1,483 suppliers worldwide, with the top 10 suppliers accounting for 30.5% of our turnover.

We have production facilities in Croatia, and our annual capacity for fresh meat production is 62,440 tons for pork macro cut, 38,000 for beef macro cut, 31,000 tons for macro packing, 16,900 tons for sausages, 3,000 tons for mortadela, 6,000 tons for ham and 2,100 tons for durable sausages and meats.

In 2009, we completed a one billion kuna greenfield investment in building a new state-of-the-art production facility at PIK Vrbovec. The factory produces meat products in accordance with health and safety standards acceptable to the US and EU markets.

Our main raw material is livestock, principally pork, beef and veal. These would be sourced primarily internally. We believe that we can pass on any increase in raw material prices to our customers.

**Other Businesses**

Our Other Businesses include our commodity brokerage business Agrokor trgovina, and other non-core businesses. Agrokor trgovina primarily serves as a brokerage of the following agri-food products:

- proteins, including soy bean, soya-meal, sunflower meal, rape seed, rape meal, and crude oil;
- production materials for agricultural production of cereal crops and seeds, including oilseeds, protective agents and mineral fertilizers;
- cereal crops, including wheat, corn, barley, oats and rye;
- strategic goods, including sugar, flour and meat; and
- other goods and services.

Our other non core businesses include a media buying company and a billboard advertising business, among others.

**Property, Plant and Equipment**

We conduct our Retailing and Wholesale and Food Manufacturing and Distribution operations through the ownership and leasing of property, plants and equipment. In the Retailing and Wholesale division, our principal properties comprise our retail and wholesale stores under the Konzum, IDEA and Velpro brand names. In addition, we own and lease 19 warehouses (ten in Croatia, seven in Serbia and two in Bosnia and Herzegovina) and distribution centers in each of our Primary Markets and own and operate a chain of kiosk stores throughout Croatia under the Tisak brand on land which we lease. As at September 30, 2010, we had 929 retail and wholesale stores with a total selling surface area of 452,586 sqm and 1,351 kiosks with a total selling surface area of 15,788 sqm. Our stores are typically leased for a period of 10 to 15 years. In general, our lease agreements are terminable at our option prior to their maturity either with no penalty or with a penalty in the amount of between three to 12 months lease or rent payments. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting Financial Condition and Results of Operations—New store openings."

Our Food Manufacturing and Distribution operations comprise a network of owned and leased production facilities, warehouses and distribution centers. We generally own our production facilities, including four in the Ice Cream and Frozen Food segment, four in Water and Beverages, two in Edible Oils and Margarines and one in Meat and Agriculture, and both own and lease the operating equipment within the facilities. We also own and lease 93 warehouses (42 in Ice Cream and Frozen Foods, 30 in Water and Beverages and 21 in Edible Oils and Margarines) and 63 distribution centers (23 in Ice Cream and Frozen Foods, 24 in Water and Beverages and 16 in Edible Oils and Margarines) in our Primary Markets. We source our water pursuant to renewable government concessions that expire between 2029 and 2039. In the Meat and Agriculture segment, we own, rent and enter into concessions with Croatia and Serbia to use more than 250,000 hectares of arable land and 26 farms.

We also own and lease a number of other properties, including our corporate headquarters in Zagreb, Croatia which we predominantly own.

**Research and Development**

We conduct research and development in order to develop new products and to improve our existing products and processes. We do not have a centralized research and development team and research and development center. Instead, in each of our operating companies, our local research and development teams operate in small product technology centers to provide expertise for specific product categories, and to actively monitor and respond to consumer trends in nutrition and to the latest technological changes.

We have identified a number of new product categories developed in Western European markets that are in the early stages of penetrating our core markets, such as premium products, value-for-money products, health and well-being products and convenience products, and, in response, we have established a process to share internally key insights, best practices, and research results regarding these products. Whenever relevant, we assign multi-company teams to work on common business opportunities. For example, we formed an intercompany team within Zvijezda and Dijamant on a project to reformulate the recipes and existing technology for the production of low-trans margarines. We also collaborate with universities, research centers and suppliers that are important sources of innovation. Research and development initiatives have included the identification and isolation of a representative microbial species from kulen, a traditional Croatian dry fermented sausage, for the purpose of developing our own starter culture, which we conducted in cooperation with the Max Rubner Institute in Germany. Another example of a successful collaboration was the creation of a new product recipe and corresponding technology for the production of mortadellas.

Our approach to recipe innovation involves the reduction or elimination of certain unhealthy ingredients and substituting in their place beneficial/healthy micronutrients or other food components. For example, we added phytosterols in spreadable margarine under the Omegol brand which are known to decrease the risk of cardiovascular disease. Furthermore, we are examining the content and healthy properties in mineral water with the aim of producing healthier water and beverages. As an example, we recently launched carbonated water Mivela, a natural source of daily magnesium intake in bioavailable, bicarbonate form.

Innovation and development further includes a number of premium origin products following the global trend toward more regional products with geographical indication. The most representative projects of protected geographical indication are traditional fermented sausage "kulen" from the region of Baranja, mandarin from Neretva valley and sea salt from the island of Pag. The first two projects are coordinated and co-financed by Food and Agriculture Organization of the United Nations, with respect to the great potential for the overall stimulus of the regions development.

We also focus on developing and improving the food and beverages packaging in each of our business segments. A recent project included the development of modern packaging for fresh meat designed to prolong shelf life using state-of-the-art Modified Atmosphere Packaging ("MAP") technology. Such technology allowed us to enter the fresh ready-to-eat market. In addition, we are adapting our packaging to self-service sliced, snack sized and portable products.

**Information Technology**

We consider our information systems and data management tools integral to our success. Therefore, we designed and implemented ISO 27001 compliant IT norms and procedures, with which our IT professionals and other employees must comply. In addition, we use leading business solutions and IT products from SAP, Oracle, Aurora, Cisco and IBM. Currently, our key IT project involves the implementation of Oracle Retail, a merchandising management solution that allows retailers to better manage and control merchandising activities. Oracle Retail will be integrated with our existing software solutions. We have completed the feasibility study stage with respect to the Oracle Retail project and are currently in the process of designing the system. We expect to have Oracle Retail implemented by the end of 2011.

### Intellectual Property

We own a substantial number of registered and unregistered trademarks in the countries in which we operate for use in the sale and marketing of our various products. These trademarks are important because brand name recognition is a key factor in the success of many of our product lines. The current registrations of these trademarks are effective for varying periods of time and may be renewed periodically, provided that we comply with the applicable requirements. We are not aware of any material challenge to the ownership of any of our major trademarks nor are we aware of any violation of our intellectual property rights in any of our Primary Markets or elsewhere.

Our key brands are: Konzum (K Plus), IDEA, Tisak (Tisak Media), Ledo (Ledo, King, Snjeguljica, Macho, Queens, Quattro), Frikom, Jamnica (Jamnica, Jana, Juicy), Sarajevski kiseljak, Zvijezda (Omegol, Dobro Jutro), Dijamant, PIK Vrbovec (Piko, Sljeme) and Belje (ABC).

### Employees

On September 30, 2010, we had a total of 35,702 employees (of which 27,182 employees had contracts with undefined durations and 8,502 employees had fixed duration contracts).

The following table sets out the total number of employees by business division for the periods indicated:

| Business Division | 2007 | 2008 | 2009 | September 30, 2010 |
|---|---|---|---|---|
| Agrokor Head Office | 289 | 363 | 395 | 305 |
| Food Manufacturing and Distribution | 10,633 | 12,076 | 11,409 | 11,905 |
| Retailing and Wholesale | 19,181 | 23,417 | 22,018 | 22,747 |
| Other | 127 | 236 | 536 | 745 |
| **Total** | **30,230** | **36,092** | **34,358** | **35,702** |

In 1996, we were the first privately owned company in Croatia to conclude a collective agreement with the trade unions, which contains terms that are more favorable than those outlined in the Croatian Labor Law, particularly in relation to overtime, vacation, allowance, severance payments, transport expenses, health insurance and health care and bonuses. The unions are regularly informed about all major decisions and business results and we endeavor to consult with the unions on all major issues affecting employees. We actively support the unions' humanitarian, educational and sports activities, as well as other initiatives. We have not experienced any strikes, stoppages or other similar work-related disruptions.

### Legal Proceedings

We are party to various legal proceedings in the ordinary course of business. In particular, as of September 30, 2010, we were involved in proceedings relating to the collection of outstanding amounts from debtors in the amount of HRK 296.3 million and disputes with creditors in the amount of HRK 75.0 million. In addition, we were engaged in ongoing proceedings in relation to other short term receivables in the amount of HRK 45.8 million and other short term liabilities in the amount of HRK 110.9 million as at September 30, 2010. We do not believe that these legal proceedings will have a material adverse effect on our business, financial condition or results of operations. In addition, we have procedures designed to analyze and minimize counterparty risk before agreeing to deliver products to the customer.

### Regulatory and Environmental Matters

Like other participants in our industry, we are subject to various laws and regulations administered by local, national and other government entities and agencies in Croatia, Serbia, Bosnia and Herzegovina and Hungary regarding environmental protection, worker and public health and safety, including, among others, laws relating to emissions, noise, waste treatment and disposal. Failure to comply with these requirements may result in fines and penalties and liability for compliance costs and damages. For more information, see "Risk Factors—Risks Relating to the Food Manufacturing and Distribution Industry—The food and beverages industry is highly regulated and could be materially adversely impacted by compliance with or changes in government regulation and legislation".

From time to time, we receive notices and inquiries from regulatory authorities and others asserting that we are not in compliance with such laws and regulations. In some instances, litigation ensues. We believe that we are currently in substantial compliance with all material governmental laws and regulations affecting our business, including environmental and health and safety laws and regulations, and maintain all material permits and licenses relating to our operations.

We are constantly seeking ways to improve the design, development and implementation of our environmental management systems. For example, we are shifting our business operations towards the implementation and maintenance of integrated management systems, in accordance with international system standards and requirements. More specifically, we are in the process of implementing the ISO 14001:2004 environmental management standard across the Group. Through our management systems, the quality and food safety of raw and production materials, as well as the final products are ensured throughout the production cycle. Workplace safety and environmental protection are also in place in each of our business divisions. Our environmental management policy was formulated by the Agrokor Environmental Consultancy Service. It is largely based on sustainable development aimed at reducing pollution in the immediate and broader surroundings of our operations, and receives continuous support through improvement programs. All environmental aspects relating to our business operations are properly documented and supported by programs designed to minimize negative impacts on the environment. The principal tasks of the Agrokor Environmental Protection Consultancy Service include: (i) compliance with the law when addressing environmental protection and nature conservation; (ii) systematic hazardous and non-hazardous waste management; (iii) control of emissions in water, soil and air; (iv) monitoring the use of energy and other sources; (v) prevention of pollution; (vi) adequate response to emergencies; (vii) promoting and advancing education and raising awareness on environmental protection; (viii) exchange of communications and know-how within the Group and beyond; (ix) internal audits and external system controls and encouraging cooperation with the most distinguished companies and suppliers in the field of the environmental protection with which it cooperates. We are an active member of environmental protection organizations and associations, such as HR PSOR (the Croatian Business Council for Sustainable Development), a non-profit organization within the private sector promoting sustainable development in the economy and the Environmental Protection Association in the economy within the Croatian Chamber of Economy. We also closely cooperate with state administration bodies, relevant ministries, and units of local government and self-government, the Environmental Protection Agency, the Croatian Cleaner Production Center, REC—Regional Environmental Protection Center for Central and Eastern Europe and others.

Food Safety is one of our highest priorities as our basic principle is—"Quality is the key to success." Our companies have an integrated Management System which includes Quality Management System (QMS), Environmental Management System (EMS), Occupational Healthcare and Safety Management System (OHSMS). Our companies are certificated with the ISO 9001:2008, ISO 22000, OHSAS 18001:2007 and ISO 14001:2004. They also implemented HACCP (Hazard Analysis Critical Control Point) as a prevention method ensuring that any potential food safety hazards are eliminated. Our companies meet all the requirements needed to export in EU markets and are the suppliers of Nato bases. We have Halal and Kosher certificates for specific foods. We follow the strategy "from the field to the table" and our company Belje has obtained the Global Gap Certificate internationally recognized standard based on principles of good agricultural practice.

**Insurance**

We maintain comprehensive insurance coverage, where appropriate, with respect to damage to assets, machine breakage, damage to vehicles, vehicle liability, general liability from business activities, damage to orchards and other crops resulting from inclement weather conditions, damage to livestock, domestic and international transport of commodities, employers' liability and life insurance for our directors and managers and, where appropriate, business interruption insurance, product liability and third party liability. We believe that the level of insurance which we maintain is appropriate for the risks of our various businesses and is comparable, in each case, to that maintained by other companies in our Primary Markets operating in the same business areas.

## MANAGEMENT

In accordance with our Articles of Association and pursuant to the Croatian Companies Act, we have a Supervisory Board and a Management Board. The Management Board is responsible for managing our business in accordance with applicable laws and our Articles of Association.

The principal function of the Supervisory Board is to supervise the Management Board. It is also responsible for appointing and removing members of the Management Board. Certain major or unusual transactions such as purchases and sales of real estate, significant investments and the incurrence of significant indebtedness may require the consent of the Supervisory Board. The Supervisory Board does not, however, supervise our day to day business. In carrying out their duties, individual members of the Supervisory Board and the Management Board must exercise the standard of care of a diligent and prudent business person. They must take into account a broad range of considerations, including the interests of the Group, as well as the interests of our shareholders, employees and creditors.

### Supervisory Board

The Supervisory Board consists of five members, three of whom are elected by a General Meeting of shareholders by a simple majority of the votes present at the meeting, one appointed by the EBRD for so long as the EBRD is a preference shareholder of the Issuer, and one appointed by the Issuer's employees for as long as the conditions regulated by the Croatian Labor Act in force are in existence. The quorum for a meeting of the Supervisory Board is three, though votes may be submitted in writing by members who are not present. The members of the Supervisory Board are elected or appointed, as applicable, for a period of four years. A member of the Supervisory Board may be removed by 75% of the votes cast at a General Meeting of shareholders. The Supervisory Board elects a Chairman and Vice-Chairman from among its members. Unless otherwise provided for by the relevant provisions of Croatian law or the Articles of Association, resolutions of the Supervisory Board are passed by a simple majority of the votes cast.

The current members of our Supervisory Board are Ivan Todorić, Branko Tarnik and Branko Mikša (the three elected Supervisory Board members), Vitorija Svić (appointed by the Issuer's employees) and Gilles Mettetal (appointed by the EBRD). The Chairman of the Supervisory Board is Ivan Todorić and the Deputy Chairman is Branko Mikša. The business address of each member of the Supervisory Board is Trg Dražena Petrovića 3, 10000 Zagreb, Croatia.

**Ivan Todorić** was born in 1984. He has been a member of our Supervisory Board since 2008. He graduated from the Faculty of Economics in Zagreb. He started his career with us in 2002 as a flower store manager. In 2003, he was the Assistant to the Director for Wholesales for Konzum in 2003. In 2004, he worked as the Assistant to the Director for Purchase of Packaged Foods for Konzum. From 2004 to 2007, he was the Assistant to the Executive Director for Purchase in Konzum. In 2008, he became an Executive Director and was appointed to the position of the Chairman of the Supervisory Board. He is also a member of the supervisory boards of Plodovi zemlje Matijević d.o.o., Donji Miholjac and Ledo Kft., Hungary, Budapest.

**Branko Tarnik** was born in 1949. He has been a member of our Supervisory Board since 2003. He graduated from the Faculty of Economics in Zagreb. Mr. Tarnik started his career in 1973 at the Croatian National Bank as Foreign Transactions Controller. From 1978 to 1987, he worked at INA COMMERCE, Zagreb, first as Director of Foreign Exchange Operations, then as Director of Finance. From 1987 to 1995, he was employed by INTERINA, Switzerland and, from 1995 to 1998, by MARTAG, Switzerland as Managing Director. He has been with us since 1998, having served as a Board Member of Kreditna banka Zagreb. From 1998 to 2000 and from 2000 to 2003, Mr. Tarnik served as our Executive Vice President for Finance.

**Branko Mikša** was born in 1947. He has been a member of our Supervisory Board since 2000. He holds a Bachelor's and a Master's Degree from the Faculty of Economics in Zagreb. He started his career at Pliva Zagreb in 1970 and left in 1991 as Director of Marketing to become Director of Pliva Handels GmbH in Hamburg. From 1992 to 1993, he was Minister of Trade and Tourism in the Croatian government and the Mayor of the City of Zagreb from 1993 to 1996. He returned to Pliva Handels GmbH in Hamburg in 1996. He joined us in 1999 as Advisor to the President. Mr. Mikša was President of the Supervisory Board of the Brijuni National Park from 1992 to 1994 and, from 1995 to 1999, a member of the Supervisory Board of Pliva d.d. Zagreb. From 1998 to 1999, he served as President of the Croatian Football Union, a member of the Supervisory Board of Croatia Airlines d.d. from 1998 to 2001, and, in addition he worked at FIFA as a member of the Board of National Football Unions from 1999 to 2000. Since 2004, he has been Honorary Consul of the Republic of South Africa.

**Vitorija Svić** was born in 1969. She has been a member of our Supervisory Board since 2010. She holds a Bachelor Degree from the Faculty of Law in Zagreb. She started her career in 1992 with the County Court in Zagreb. She passed the Bar exam in 1994. She has been with us since 1995 where she started as an Assistant to the Director of Legal

Affairs. From 1996 until 2007 she was the Director of Legal Affairs. She is currently the Secretary to the Management Board.

**Gilles Mettetal** is Director of Agribusiness at the EBRD. His previous work experience was with the Investment Centre of the United Nations Food and Agriculture Organisation (FAO) where he supervised the identification and preparation of projects to be financed by major international financing institutions such as the World Bank or the International Fund of Agriculture (IFAD) in Asia (mainly China), Africa and South America. He also worked for the OECD/Club du Sahel on the Analysis of the Competitiveness of Agriculture in the Sahel and Grain policies in Senegal, Cote d'Ivoire and Mali. Gilles Mettetal holds a diploma of agronomy engineering from L'Ecole Nationale Supérieure Agronomique de Montpellier. He also holds a university degree (Maitrise) in Biology.

**Management Board**

Under the Articles of Association, our Management Board consists of between one and nine members. The members are appointed and dismissed by the Supervisory Board in accordance with applicable Croatian law and the Articles of Association. The Supervisory Board also appoints the President and Vice President of the Management Board. The members of the Management Board are appointed by the Supervisory Board for a term of five years and may be reappointed without limitation.

The Management Board must report regularly to the Supervisory Board, particularly in relation to proposed business policy and strategy, profitability and the current business of Agrokor and on any exceptional matters which may arise from time to time.

The current members of the Management Board of Agrokor are Ivica Todorić, Ljerka Puljić, Damir Kuštrak, Mislav Galić, Ante Todorić, Piruška Canjuga, Tomislav Lučić, Ivan Crnjac and Gordan Radin. The business address of each member of the Management Board is Trg Dražena Petrovića 3, 10000 Zagreb, Croatia.

**Ivica Todorić** was born in 1951. He has been a member of our Management Board since 1989. He graduated from the Faculty of Economics in Zagreb. In 1976, Mr. Todorić founded a private flower production and trade company. The company business expanded into the import and export of commodities, fruits and vegetables. Agrokor was registered as a joint-stock company in 1989, with Mr. Todorić as sole owner. Since then, we have grown to become leaders in the CEE, through the acquisition of food production and processing companies, as well as retail and wholesale companies, with Mr. Todorić as the main driving force behind our mission and vision. In 1993, he was one of the founders of the Croatian Employers' Association and its President from 1993 to 1998. Mr. Todorić has been President of our Management Board since its establishment.

**Ljerka Puljić** was born in 1954. She has been a member of our Management Board since 2000. From 1995 to 1998, she was the President of the Board of Ledo. Ms. Puljić has been employed at Ledo since 1981. She started her career in the Ministry of Science and Technology. Ms. Puljić is also the President of the Trade Association at the Chamber of Commerce and Member of the Executive Committee of the Employer's Association of the Republic of Croatia. She was the Senior Executive Vice President for Strategic Business Groups and Marketing for us since 2000. Since 2008, she has been the Senior Executive Vice President for Strategic Business Groups, Marketing and Business Group Agriculture.

**Damir Kuštrak** was born in 1956. He has been a member of our Management Board since 2008. He graduated from the University of Zagreb with a degree in civil engineering and received a Master's Degree from the Faculty of Agronomy, University of Zagreb. Mr. Kuštrak started his professional career as a project associate in Convest Inženjering in Zagreb where he worked from 1983 to 1985. For the next five years he was employed as an associate at the Institute of Mechanization, Technology and Construction. From 1990 to 1994, he was an assistant lecturer at the Faculty of Agronomy in Zagreb. Mr. Kuštrak was a Senior Executive Vice President for Operations and Marketing in Agrokor from 1994 to 2000. From 2000 to 2003, he was a Deputy Finance Minister. In 2004, he was elected President of the Management Board of Medika where he stayed for the next four years. Mr. Kuštrak has been the President of the Croatian Employers' Association since 2004. He is our Executive Vice President for Export Markets since 2008.

**Mislav Galić** was born in 1972. He has been a member of our Management Board since 2008. He holds a degree in management from Universite Paris IX Dauphine and a masters in Informatic management from Universite Paris IX Dauphine and an MBA from Universite Paris V Descartes in banking and finance. He started his career at the Banque Nationale de Paris. He has been with us since 1997 where he started as an Assistant in Corporate Finance. From 1997 to 1998, he was an Assistant of Vice President for Finance. From 1998 to 2008, he was the CEO of Ledo. In 2008, he was appointed to the position of the Executive Vice President for the Food Business Group.

**Ante Todorić** was born in 1978. He has been a member of our Management Board since 2008. He graduated in 2000 from the Faculty of Economics in Zagreb, where he obtained a Masters Degree in Finance. He has worked with us since 1996, when he was Assistant to the CEO of the Group and Assistant to the Director of the Flower Division. In 1997, he became Assistant in the Wheat Export Department of Agrokor trgovina and in 1998 he became Assistant to the CEO, then a Regional Retail Manager and Store Manager at Konzum. In 1999, he was named Director and Deputy Head of the Supply Department—Fruits and Vegetable Division at Konzum and in 2000 he became Assistant to the Director of Logistics and Purchasing. In 2000, he became Director and Deputy Head of our Wholesale Department of Konzum and Executive Wholesale Director of Agrokor. He is a member of the supervisory boards of RTL, Ledo, Solana Pag and Jamnica. In 2008, he became the Executive Vice President for the Business Group Retail.

**Piruška Canjuga** was born in 1965. She has been a member of our Management Board since 1998. She graduated from the Faculty of Agriculture in Zagreb, where she obtained her Masters Degree. She was Assistant in the Department of Entomology between 1989 and 1996. She has been employed by us since 1996. She was an assistant in brand development of our marketing department from 1996 to 1997 and Director of Sales in Konzum from 1997 to 1998. In 1998 she became the Executive Vice President for Retailing. Since 2006, she has been the Executive Vice President for Business Development.

**Tomislav Lučić** was born in 1970. He has been a member of our Management Board since 2003. He graduated from the Faculty of Economics in Zagreb. He has been employed in our corporate finance department since 1996 and has been the Executive Vice President for Finance and Control since 2003.

**Ivan Crnjac** was born in 1977. He has been a member of our Management Board since 2008. He graduated from the Faculty of Economics in Zagreb and has acquired his MBA at the IEDC Bled. His professional career started in 2000, in CAIB Investment Banking. In 2005, he joined us as the Executive Director for Strategy and M&A. In 2008, he became the Executive Vice President for Strategy and Capital Markets.

**Gordan Radin** was born in 1958. He has been a member of our Management Board since April 2010. Mr. Radin graduated from the University of Zagreb, Faculty of Law. Between 1983 and 2000 he worked on different positions in public administration, including the positions of Secretary General of the Government and Chief of the Cabinet of the President of the Republic. In 2000 he moved to the private sector where he was appointed to the position of the director of Legal Affairs of the company Dukat. In 2004, he became the President of the Board, and in 2006 he became a member of the Supervisory Board of the same company. Between 2007 and 2010, Mr. Radin was a member of the Board of LURA Investment. In 2010 he became the Executive Vice President for Human Resources, Legal Affairs and Central Services.

**Committees**

We currently do not have any Supervisory or Management Board committees.

## PRINCIPAL SHAREHOLDERS AND SHARE CAPITAL

The Issuer has a registered share capital of HRK 161,591,000 divided into 296,250 ordinary shares, each having a nominal value of HRK 500 per share, and 26,932 preference shares, each having a nominal value of HRK 500 per share. The entire share capital of the Issuer is paid-up. Our ordinary shares and preference shares are each entitled to one vote per share in our shareholders' meetings and are equally entitled to dividends declared at our shareholders' meetings.

Mr. Ivica Todorić, the founder of Agrokor and current Chief Executive Officer and President of the Issuer's management board, owns all outstanding ordinary shares of the Issuer, constituting 91.67% of voting rights at our shareholder meetings. The European Bank for Reconstruction and Development owns all outstanding preference shares of the Issuer, constituting 8.33% of voting rights at our shareholder meetings.

In the event of a liquidation, bankruptcy or other insolvency event of the Issuer, holders of the preference shares shall be entitled, upon payment of all indebtedness owing to creditors of the Issuer, to receive the entire subscription price for the preference shares plus all dividends declared but unpaid at such time prior to any payment being made to holders of the ordinary shares. The preference shares are not entitled to mandatory dividend or similar rights. Some or all of the preference shares may be, at any time, converted into ordinary shares at a ratio of one preference share per ordinary share unless the nominal value of the ordinary shares was reduced (in which case the conversion ratio shall be the ratio of the nominal amount of the newly issued ordinary shares to the nominal amount of the existing ordinary shares). In the event of an initial public offering of the Issuer's ordinary shares, the preferred shares shall be automatically converted into ordinary shares in accordance with the ratio described in the preceding sentence.

For so long as the EBRD is a preference shareholder of the Issuer, it shall be entitled to appoint one member of the supervisory board of directors. See "Management" for further information.

Pursuant to the Issuer's articles of association, subject to certain exceptions, the following decisions at the shareholders' meetings require 100% of the votes of both the ordinary shares and the preference shares: (i) decisions amending the Issuer's articles of association, (ii) increasing the share capital of the Issuer (other than in respect of an initial public offering of the Issuer or an increase of not more than 10% of the share capital in total), (iii) decisions changing the rights relating to existing share capital or creating a new class of share capital, (iv) decisions approving the withdrawal of shares or stock-splits and (v) decisions approving dividends or any distributions from the share capital exceeding €8 million per annum.

The EBRD acquired the preference shares of the Issuer on June 20, 2006 pursuant to a subscription agreement with the Issuer for cash consideration of €110,000,000. In the subscription agreement, as amended, the Issuer undertakes not to incur any financial debt that would result in the group breaching a ratio of net financial debt to EBITDA of 4.00:1 for the trailing four quarter period. The Issuer is obligated to actively take into consideration the obligation to maintain the aforementioned financial ratio when considering any future capital expenditures or acquisitions. In the event that the financial ratio is breached for reasons outside of the Issuer's control, the Issuer shall agree with EBRD on corrective actions to take.

The subscription agreement shall continue in effect until such time as EBRD ceases to own either ordinary shares or preference shares of the Issuer or an initial public offering of ordinary shares of the Issuer occurs.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Our principal shareholder, Mr. Ivica Todorić, the founder of Agrokor and current Chief Executive Officer and President of the Issuer's management board, has received dividends in respect of his ordinary shares totalling HRK 53,325,050, HRK 53,325,050 and HRK 53,621,300 for the years ended December 31, 2007, 2008 and 2009, respectively.

Certain members of Todorić family are also members of the supervisory and management board and employees of the Issuer. Mr. Ivan Todorić, the son of Mr. Ivica Todorić, is president of the supervisory board of the Issuer. Mr. Ante Todorić, also a son of Mr. Ivica Todorić, is a member of the management board of the Issuer, serving as Executive Vice President for the Business Group Retail. See "Management" for further information. Mrs. Iva Balent, a daughter of Mr. Ivica Todorić, is Executive Marketing Director of the Issuer.

EBRD, the holder of all of our preference shares which has a representative on our supervisory board, has made certain loans to certain non-Guarantor subsidiaries of the Issuer totalling €120 million as of September 30, 2010. This indebtedness is guaranteed by the Issuer and is secured by certain assets of the relevant borrowers. EBRD benefits from certain arrangements with the borrowers under the loans and other Group companies pursuant to which the Group companies agree to subordinate their intercompany claims in respect of the borrowers to the repayment of the EBRD loans. See "Description of Other Financing Arrangements" for further information.

## DESCRIPTION OF OTHER FINANCING ARRANGEMENTS

*The following summary of the material terms of certain financing arrangements to which the Issuer and certain of its subsidiaries are a party does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. For further information regarding our existing indebtedness, see "Use of Proceeds," "Capitalization," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." For further information about our refinancing plans which may affect certain of our financing arrangements, see "Use of Proceeds."*

### Senior Facilities Agreement

In June 2010 the Issuer entered into a senior facilities agreement (the "Senior Facilities Agreement") with a group of lenders which provides, among other things, for up to €352,000,000 of borrowing availability, consisting of a €212,000,000 term loan facility and a €140,000,000 revolving credit facility. The commitments under the Senior Facilities Agreement mature on June 17, 2015. The Senior Facilities Agreement is governed by English law. At September 30, 2010, €347.9 million was outstanding under the Senior Facilities Agreement (and the revolving credit facility was fully drawn).

#### *Borrowers*

The original borrower under the Senior Facilities Agreement is Agrokor.

#### *Guarantees*

The Senior Facilities Agreement is guaranteed on a senior basis by Jamnica, Ledo, Zvijezda, Konzum, Agrokor trgovina, PIK Vinkovci, Sarajevski kiseljak and Ledo Čitluk. The Issuer may be required to add additional guarantors under the Senior Facilities Agreement and may be entitled to release guarantors depending on the ratio of guarantor net debt to adjusted guarantor EBITDA from time to time, as tested under the Senior Facilities Agreement.

#### *Security*

The obligations under the Senior Facilities Agreement are secured by share pledges over all shares owned directly or indirectly by the Issuer of the guarantors of the facility. If any future guarantees of the Senior Facilities Agreement are required to be granted by subsidiaries of the Issuer, the Issuer will grant a share pledge in respect of such additional guarantor's shares in favor of the lenders under the Senior Facilities Agreement.

#### *Amount and Repayment of Borrowings*

The €212,000,000 outstanding under the term loan facility is repayable as follows through to maturity on June 17, 2015:

| | |
|---|---|
| June 17, 2011: | €5,300,000 |
| December 17, 2011: | €5,300,000 |
| June 17, 2012: | €18,020,000 |
| December 17, 2012: | €18,020,000 |
| June 17, 2013: | €18,020,000 |
| December 17, 2013: | €37,100,000 |
| June 17, 2014: | €37,100,000 |
| December 17, 2014: | €37,100,000 |
| June 17, 2015: | €36,040,000 |

Once amounts under the term loan facility have been repaid, they may not be reborrowed.

The minimum amount of borrowing under the revolving credit facility is €10,000,000 and multiples of €5,000,000 above that amount. Borrowing under the revolving credit facility is repayable on the last day of its interest period, which can be a period of one, three or six months as selected by the borrower in the utilization request for that loan or any other period agreed by the Issuer and the agent.

All loans outstanding under the revolving credit facility must be repaid in full on June 17, 2015.

*Interest Rates and Fees*

The annual interest rate on borrowings is calculated based on EURIBOR, plus a margin and certain mandatory costs, if any. The margin varies between 3.80% and 5.05% depending on the leverage ratio of the borrower. Interest on borrowings is payable on the last day of the borrowings' respective interest periods (and, if the interest period is longer than six months, on the dates falling at six monthly intervals after the first day of that interest period or, if sooner, the last day of that interest period).

The borrower is also obliged to pay a commitment fee on available commitments during availability period of the revolving credit facility. Other fees are also payable, including an arrangement fee, an agency fee and security trustee fee.

*Covenants*

Availability of amounts under the Senior Facilities Agreement is subject to compliance with financial covenants. Such covenants generally require that in respect of any relevant period:

- consolidated leverage may not exceed 4.00:1;
- consolidated interest cover may not be less than 2.75:1; and
- consolidated fixed cost cover may not be less than 1.50:1.

Additionally, the Issuer will ensure that guarantor leverage does not exceed the lower of 3.75:1 (reducing to 3.5:1 in respect of any such date which is more than three years after the signing date) and group's leverage in respect of that relevant period.

*Change of Control*

Upon the occurrence of a change of control (if the Todorić family or any funds controlled by the Todorić family cease to control directly or indirectly at least 50.1% of the maximum number of votes that might be cast at a general meeting of the parent) or the sale of all or substantially all of the assets of the parent, each lender has the right to elect to have its share in each facility cancelled and all outstanding utilizations of such lender, together with accrued interest, and all other amounts accrued to it under the finance documents, become immediately due and payable.

*Undertakings*

Subject in each case to certain exceptions, the Senior Facilities Agreement contains negative covenants and restrictions, including among others: restrictions on mergers, change of business, acquisitions and joint ventures, restrictions on dealing with assets and security (including in respect of preservation of assets, pari passu ranking, liens and disposals, restrictions on loans, guarantees, indemnities, dividends and share redemption, restrictions on financial indebtedness, issues of share capital, and other miscellaneous restrictions.

The Senior Facilities Agreement also contains affirmative covenants such as for the periodic reporting of financial and other information and for notification upon the occurrence of any default.

*Events of Default*

The Senior Facilities Agreement contains events of default, such as failure to pay principal or interest, breach of financial covenants and other obligations, misrepresentation, cross default, insolvency, unlawfulness and invalidity, cessation of business, audit qualification, expropriation, repudiation and rescission of agreements and material adverse change. The occurrence of an event of default could result in the acceleration of payment obligations under the Senior Facilities Agreement.

**2009 IFC Loan Agreement**

In June 2009, Frikom and Nova Sloga entered into a Loan Agreement (the "2009 IFC Loan Agreement") with the International Finance Corporation (the "IFC") pursuant to which the IFC agreed to lend, and Frikom and Nova Sloga, on a joint and several basis, agreed to borrow up to €40,000,000. Frikom and Nova Sloga may use the borrowings under the 2009 IFC Loan Agreement for certain projects to increase production, refinance existing debt and repay the €4,000,000 advance provided by the Issuer to Frikom for the acquisition of Nova Sloga. Payments to the Issuer by Frikom and Nova Sloga under certain related-party agreements are subordinated to payments to the IFC under the 2009

IFC Loan Agreement. The 2009 IFC Loan Agreement is governed by English law. At September 30, 2010, €40 million was outstanding under the 2009 IFC Loan Agreement.

***Borrowers***

The original borrowers under the 2009 IFC Loan Agreement are Frikom and Nova Sloga.

***Guarantee***

In July 2009, the Issuer and the IFC entered into a guarantee agreement pursuant to which the Issuer irrevocably, absolutely and unconditionally guarantees all debts and monetary liabilities of Frikom and Nova Sloga to the IFC under the 2009 IFC Loan Agreement and any related transaction agreement and indemnifies the IFC from and against any loss incurred by the IFC as a result of any of such debts and monetary liabilities becoming void, voidable, unenforceable or ineffective for any reason whatsoever.

Under the terms of the guarantee agreement, as amended on December 30, 2010, upon completion of the refinancing of the 2009 IFC Loan Agreement the Issuer is required to maintain at all times (i) a consolidated net financial indebtedness to EBITDA ratio of less than 4.00:1 and (ii) tangible net worth less the aggregate of any consolidated off-balance sheet liabilities of at least the equivalent of €300,000,000.

In August 2009, Dijamant and the IFC entered into a guarantee agreement with respect to the debts and monetary liabilities of Frikom and Nova Sloga to the IFC under the 2009 IFC Loan Agreement on substantially the same terms as that entered into by the Issuer, except that that Dijamant is not subject to financial covenants similar to those outlined in the paragraph immediately above.

***Security***

The obligations under the 2009 IFC Loan Agreement are secured by liens on certain assets of Frikom and the shares of the Issuer in Frikom, Belje and PIK Vrbovec.

***Amount and Repayment of Borrowings***

Each disbursement (other than the most recent disbursement) under the 2009 IFC Loan Agreement is to be made in an amount not less than €5,000,000. All amounts borrowed are to be repaid by February 2011, unless the term of the 2009 IFC Loan Agreement is extended by the parties. Any principal amount repaid may not be re-borrowed.

***Interest Rates and Fees***

The annual interest rate on borrowings under the 2009 IFC Loan Agreement is calculated based on EURIBOR plus a margin. Frikom and Nova Sloga are also required to pay to the IFC certain fees, including, but not limited to, a commitment fee, payable quarterly, on the undisbursed or uncancelled part of the loan, as well as certain costs, expenses and losses.

***Covenants***

Availability of amounts under the 2009 IFC Loan Agreement is subject to compliance by Frikom and Nova Sloga with covenants, including, but not limited to:

- ensuring that starting from December 31, 2009, the value of Nova Sloga's net equity is positive and that Nova Sloga is not exposed to a risk that a third party is able to commence an insolvency or bankruptcy procedure; and

- except in certain circumstances, declaring dividend, making payment on subordinated financial debt, paying management fees to us, not incurring, assuming or permitting to exist additional indebtedness, not creating or permitting to exist any liens on their respective properties or provide guarantee.

***Events of Default***

The 2009 IFC Loan Agreement contains events of default, such as failure to pay principal or interest, failure to pay other IFC loans, failure to perfect the security interest granted to IFC, failure to comply with obligations, misrepresentations, expropriation or nationalization, certain bankruptcy or analogous events, cross default and certain other events. Expropriation or nationalization, certain bankruptcy or analogous events and cross default occurring in relation to the Issuer are also deemed events of default under the 2009 IFC Loan Agreement. The occurrence of an event of default could result in the acceleration of payment obligations under the 2009 IFC Loan Agreement.

***Refinancing Agreements***

The loans under the 2009 IFC Loan Agreement mature on February 15, 2011. On December 30, 2010 we amended and restated this agreement and on January 10, 2011 Frikom entered into a parallel loan agreement with Credit Agricole Srbija Ad Novi Sad ("Credit Agricole") to refinance this loan (together, the "Refinancing Agreements"). Under the Refinancing Agreements, the IFC would provide Frikom with a loan in an initial principal amount of €25 million and Credit Agricole would provide Frikom with a loan in an initial principal amount of €15 million. Frikom is the only borrower under the Refinancing Agreements. The Refinancing Agreements have substantially the same terms (including cross-defaults to the other agreement) and amortize in eight semi-annual installments over four years, with a final maturity date of January 15, 2015. The Refinancing Agreements also require Frikom to maintain a ratio of current assets (less prepaid expenses) to current liabilities of at least 1.2:1 and a ratio of financial debt to EBITDA initially of not more than 8.0:1, declining to 4.0:1 by September 30, 2013. Except as set forth above and other than extending the maturity of the loans and reducing the margin over EURIBOR applicable to the interest rate, the principal terms of the Refinancing Agreements (including the security and the guarantee by the Issuer) are substantially the same as under the 2009 IFC Loan Agreement. Effectiveness of the Refinancing Agreements is subject to satisfaction of customary conditions precedent, which are expected to be satisfied by the end of January 2011.

**2009 IFC Subordination Agreement**

In July 2009, the Issuer, Frikom, Nova Sloga and the IFC entered into a subordination agreement (the "2009 IFC Subordination Agreement") pursuant to which interest payments for loans from the Issuer or any of its affiliates to Frikom or Nova Sloga and fees under any management contract paid to the Issuer by Frikom or Nova Sloga are subordinated to the payments to the IFC under the 2009 IFC Loan Agreement. Provided that no event of default has occurred under the 2009 IFC Loan Agreement, Frikom and Nova Sloga may make interest payments for the loans either received from the Issuer or its affiliate only if the interest rate does not exceed 7% per year and pay fees for management contracts only if payments do not exceed an aggregate amount equivalent to €4,000,000 for both borrowers in any financial year. Principal payments to the Issuer or its affiliate may only be made after repayment of all amounts due, or shall become due, to the IFC under the 2009 IFC Loan Agreement (as amended pursuant to the Refinancing Agreements). Pursuant to an amendment to the 2009 IFC Subordination Agreement dated December 30, 2010, upon the effectiveness of the Refinancing Agreements, the 2009 IFC Subordination Agreement will be amended such that references to Nova Sloga as borrower will be deleted.

***Additional Shareholder Loans or Equity***

Pursuant to the 2009 IFC Subordination Agreement, the Issuer will provide additional shareholder loans or equity to Frikom or Nova Sloga if advised by the IFC so that each maintains satisfactory financing arrangements. Each loan will be unsecured, bear interest at a rate that will not exceed 7% per year and comply with the subordination provisions of the 2009 IFC Subordination Agreement. If the Issuer provides funding through equity, the Issuer or its relevant affiliate will subscribe and pay for all of the shares, which will rank *pari passu* with the existing shares of the borrower.

**2009 EBRD Loan Agreement**

In May 2009, Konzum Sarajevo entered into a loan agreement (the "2009 EBRD Loan Agreement") with the EBRD, pursuant to which the EBRD agreed to lend to Konzum Sarajevo an amount not to exceed €50,000,000, half on a firm commitment basis and the other half on a best-efforts syndicated basis. The 2009 EBRD Loan Agreement was amended in June 2009. Konzum Sarajevo may use the disbursements under the 2009 EBRD Loan Agreement to expand its retail network in Bosnia and Herzegovina and refinance its existing debt. Payments to the Issuer and Konzum by Konzum Sarajevo under related-party transaction agreements are to be postponed and subordinated to payments to the EBRD under the 2009 EBRD Loan Agreement. In addition, the EBRD may require the Issuer to advance funds to Konzum Sarajevo if in the EBRD's reasonable opinion Konzum Sarajevo has insufficient funds to finance the growth of its retail network in Bosnia and Herzegovina or to refinance its debt. The 2009 EBRD Loan Agreement is governed by English law. At September 30, 2010, €50 million was outstanding under the 2009 EBRD Loan Agreement. Pursuant to the terms of the 2009 EBRD Loan Agreement, the Issuer was required to invest €7,000,000 in Konzum Sarajevo's share capital.

***Borrowers***

The original borrower under the 2009 EBRD Loan Agreement is Konzum Sarajevo.

***Guarantee***

In June, 2009, the Issuer and the EBRD entered into a guarantee agreement pursuant to which the Issuer irrevocably and unconditionally guarantees (i) to pay to EBRD on demand all monies and liabilities which have been advanced to, become due, owing or incurred by Konzum Sarajevo to or in favor of the EBRD under or in connection with the 2009 EBRD Loan Agreement or any related agreement when and as the same becomes due, and (ii) the due and punctual performance and discharge by Konzum Sarajevo of all of its obligations and liabilities under the 2009 EBRD Loan Agreement and any related agreement.

Under the terms of the guarantee agreement, as amended on January 5, 2011, the Issuer is required to maintain (i) a net financial debt to EBITDA ratio of not more than 4.00:1 and (ii) an interest cover ratio of not less than 2.75:1.

***Security***

The obligations under the 2009 EBRD Loan Agreement are secured by liens on certain assets of Konzum Sarajevo.

***Amount and Repayment of Borrowings***

Each disbursement (other than a disbursement of the entire undisbursed amount of the loan) under the 2009 EBRD Loan Agreement are to be made in an amount not less than €5,000,000 during the commitment period that ends no later than May 2010. All funds borrowed under the 2009 EBRD Loan Agreement are to be repaid no later than May 2016. The principal amount of the funds borrowed is to be repaid during the course of the 2009 EBRD Loan Agreement. Any principal amount repaid may not be re-borrowed.

***Interest Rates and Fees***

The annual interest rate on the funds borrowed under the 2009 EBRD Loan Agreement is calculated based on EURIBOR plus a margin of 4.5%. In case of Konzum Sarajevo's default in payments, the annual interest rate resets to the interest rate per annum offered in the Euro-zone interbank market for a deposit amount comparable to the overdue amount under the 2009 EBRD Loan Agreement plus a margin and a default interest rate of 2%. Konzum Sarajevo is also required to pay to the EBRD certain expenses and fees, including, but not limited to, a commitment fee, an administration fee and a syndication fee.

***Covenants***

Under the 2009 EBRD Loan Agreement, Konzum Sarajevo is subject to certain covenants including, but not limited to (a) maintaining a ratio of EBITDA to interest expenses of not less than (i) 3.0:1 from June 1, 2011 to May 31, 2012, (ii) 3.5:1 from June 1, 2012 to May 31, 2013, (iii) 1.0:1 from June 1, 2013 onwards, (b) maintaining a ratio of net financial debt to EBITDA of not more than (i) 4.5:1 from June 1, 2011 to May 31, 2012 and (ii) 4.0:1 from June 1, 2012 onwards and (c) except in certain circumstances, not incurring, assuming or permitting to exists any financial debt, and not creating or permitting to exist any lien on its property.

***Events of Default***

The 2009 EBRD Loan Agreement contains events of default, such as failure to pay principal or interest, failure to perform covenants, breach of any of the representations and warranties, nationalization, certain bankruptcy events in respect of Konzum Sarajevo, the Issuer or a subsidiary, Konzum Sarajevo's and the Issuer's failure to pay financial debt when due, change of control and certain other events. The occurrence of an event of default could result in the acceleration of payment obligations under the 2009 EBRD Loan Agreement.

**2009 Subordination and Share Retention Deed**

In June 2009, Konzum Sarajevo, the Issuer and Konzum d.d. Zagreb and its junior creditor entered into a subordination and share retention agreement with the EBRD pursuant to which the payments to the Issuer and Konzum d.d. Zagreb are subordinated and postponed to the payments in full to the EBRD under the 2009 EBRD Loan Agreement. In the event of any liquidation proceeding, the Issuer and Konzum d.d. Zagreb will implement certain procedures so that payments to the EBRD will be paid in full before either receives distributions.

**2008 EBRD Loan Agreement**

In October 2008, IDEA entered into a loan agreement (the "2008 EBRD Loan Agreement") with the EBRD, pursuant to which the EBRD agreed to lend to IDEA an amount not to exceed €70,000,000 half of it on a firm commitment and the other half on a best-efforts syndicated basis. IDEA may use the disbursements under the 2008 EBRD Loan Agreement to expand its retail network in Serbia and restructure its existing debt. Payments to the Issuer, Dijamant, Frikom, Kikindski mlin a.d. and Konzum by IDEA under related-party transaction agreements are to be postponed and subordinated to payments to the EBRD under the 2008 EBRD Loan Agreement. In addition, the EBRD may require the Issuer to advance funds to IDEA if in the EBRD's reasonable opinion IDEA has insufficient funds to finance the growth of its retail network in Serbia or to restructure its debt. The 2008 EBRD Loan Agreement is governed by English law. At September 30, 2010, €70 million was outstanding under the 2008 EBRD Loan Agreement. Pursuant to the terms of the 2008 EBRD Loan Agreement, the Issuer subscribed €50,000,000 of equity interests in IDEA pursuant to a capital increase.

***Borrowers***

The original borrower under the 2008 EBRD Loan Agreement is IDEA.

***Guarantee***

In October 2008, the Issuer and the EBRD entered into a guarantee agreement pursuant to which the Issuer irrevocably and unconditionally guarantees (i) to pay to EBRD on demand all monies and liabilities which have been advanced to, become due, owing or incurred by IDEA to or in favor of the EBRD under or in connection with the 2008 EBRD Loan Agreement or any related agreement when and as the same becomes due, and (ii) the due and punctual performance and discharge by IDEA of all of its obligations and liabilities under the 2008 EBRD Loan Agreement and any related agreement.

Under the terms of the guarantee agreement, as amended on January 5, 2011, the Issuer is required to maintain at all times a ratio of consolidated net financial indebtedness to EBITDA of not more than 4.00:1.

***Security***

The obligations under the 2008 EBRD Loan Agreement are secured by liens on the assets of SL Gross, a subsidiary 100% owned by IDEA.

***Amount and Repayment of Borrowings***

Each disbursement (other than a disbursement of the entire undisbursed amount of the loan) under the 2008 EBRD Loan Agreement is to be made in an amount not less than €5,000,000 during the commitment period that ends no later than October 2009. All funds borrowed under the 2008 EBRD Loan Agreement are to be repaid no later than October 2015. The principal amount of the funds borrowed is to be repaid during the course of the 2008 EBRD Loan Agreement. Any principal amount repaid may not be re-borrowed.

***Interest Rates and Fees***

The annual interest rate on the funds borrowed under the 2008 EBRD Loan Agreement is calculated based on EURIBOR plus a margin of 2.2%. In case of IDEA's default in payments, the annual interest rate resets to the interest rate per annum offered in the Euro-zone interbank market for a deposit amount comparable to the overdue amount under the 2008 EBRD Loan Agreement plus a margin and a default interest rate of 2%. IDEA is also required to pay to the EBRD certain expenses and fees, including, but not limited to, a commitment fee on the undisbursed or uncancelled part of the loan, a loan administration fee and a syndication fee.

***Covenants***

Under the 2008 EBRD Loan Agreement, IDEA is subject to certain covenants including, but not limited to (a) maintaining a ratio of EBITDA to interest expense of not less than (i) 2.5:1 from January 1, 2011 to December 31, 2011, (ii) 3.0:1 from January 1, 2012 to December 31, 2012, (iii) 4.0:1 from December 31 onwards (b) maintaining a ratio of net financial debt to EBITDA, of not more than (i) 4.5:1 from January 1, 2011 to December 31, 2011 and (ii) 4.0:1 from January 1, 2012 onwards, and (c) except in certain circumstances, not incurring, assuming or permitting to exists any financial debt, and not creating or permitting to exist any lien on its property.

*Events of Default*

The 2008 EBRD Loan Agreement contains events of default, such as failure to pay principal or interest, failure to perform covenants, breach of any of the representations and warranties, nationalization, certain bankruptcy events in respect of IDEA, the Issuer or SL Gross, IDEA's and the Issuer's failure to pay financial debt when due, change of control and certain other events. The occurrence of an event of default could result in the acceleration of payment obligations under the 2008 EBRD Loan Agreement.

**2008 Project Funds, Subordination and Share Retention Deed**

In October 2008, IDEA, the Issuer, Dijamant, Frikom, Kikindski mlin and Konzum entered into a subordination and share retention agreement with the EBRD pursuant to which indebtedness of IDEA owing to the Issuer and the aforementioned group companies will be subordinated and postponed to the payments in full to the EBRD under the 2008 EBRD Loan Agreement. In the event of any liquidation proceeding, the Issuer, Dijamant, Frikom, Kikindski mlin and Konzum agreed to implement certain procedures so that payments to the EBRD will be paid in full before any subordinated party receives distributions.

**2008 IFC Loan Agreement**

In June 2008, PIK Vrbovec and Belje entered into a Second Loan Agreement (the "2008 IFC Loan Agreement") with the IFC pursuant to which the IFC agreed to lend, and PIK Vrbovec and Belje, on a joint and several basis, agreed to borrow up to €40,000,000. PIK Vrbovec and Belje may use the borrowings under the 2008 IFC Loan Agreement for modernization and expansion in Croatia. Payments to the Issuer by PIK Vrbovec and Belje under certain related-party agreements are subordinated to payments to the IFC under the 2008 IFC Loan Agreement. The 2008 IFC Loan Agreement is secured by liens on certain fixed assets of PIK Vrbovec and Belje. In addition, the IFC may require the Issuer to advance funds to PIK Vrbovec and Belje if in the IFC's opinion PIK Vrbovec or Belje has insufficient funds to finance their modernization and expansion in Croatia. The 2008 IFC Loan Agreement is governed by English law. At September 30, 2010, €40 million was outstanding under the 2008 IFC Loan Agreement.

*Borrowers*

The original borrowers under the 2008 IFC Loan Agreement are PIK Vrbovec and Belje.

*Guarantee*

In June 2008, the Issuer and the IFC entered into a guarantee agreement pursuant to which the Issuer irrevocably, absolutely and unconditionally guarantees all debts and monetary liabilities of PIK Vrbovec and Belje to the IFC under the 2008 IFC Loan Agreement and any related transaction agreement and indemnifies the IFC from and against any loss incurred by the IFC as a result of any of such debts and monetary liabilities becoming void, voidable, unenforceable or ineffective for any reason whatsoever.

Under the terms of the guarantee agreement, as amended on December 15, 2010, the Issuer is required to maintain (i) a consolidated net financial indebtedness to EBITDA ratio of less than 4.00:1 and (ii) tangible net worth less the aggregate of any consolidated off-balance sheet liabilities of at least the equivalent of €300,000,000.

*Security*

The obligations under the 2008 IFC Loan Agreement are secured by liens on certain assets of PIK Vrbovec and Belje.

*Amount and Repayment of Borrowings*

Each disbursement (other than the last one) under the 2008 IFC Loan Agreement are to be made in an amount not less than €5,000,000. All amounts borrowed are to be repaid by March 2015. The principal amount of the funds borrowed is to be repaid during the course of the 2008 IFC Loan Agreement. Any principal amount repaid may not be re-borrowed.

*Interest Rates and Fees*

The annual interest rate on borrowings under the 2008 IFC Loan Agreement is calculated based on EURIBOR plus a margin of 2.4%, or, in case the PIK Vrbovec and Belje agrees to guarantee or assumes any obligation of the Issuer, a different margin of 2.5%. In case of PIK Vrbovec's and Belje's default in payments, the annual interest rate resets to the applicable interest rate plus 2% (or a higher rate being charged by other lenders but not exceeding 5%). PIK Vrbovec and Belje are also required to pay to the IFC certain fees, including, but not limited to, a commitment fee, payable quarterly, on the undisbursed or uncancelled part of the loan, as well as certain costs, expenses and losses.

***Covenants***

Availability of amounts under the 2008 IFC Loan Agreement is subject to compliance by PIK Vrbovec and Belje with covenants, including, but not limited to:

- maintaining a financial debt to EBITDA ratio of 3.6:1 with respect to each of PIK Vrbovec and Belje and a ratio of 40:60 when dividing the financial debt by tangible net worth, where EBITDA is defined as the aggregate, for the four financial quarters most recently ended prior to the relevant date of calculation for which financial statements are available, of (A) net income for those financial quarters, (B) non-cash items for those financial quarters, (C) the amount of all payments that were due during those financial quarters on account of interest and other charges on financial debt (to the extent deducted from net income) and (D) taxes paid during those financial quarters, less (E) any financial income (other than financial income generated by idle cash in the normal course of business if it is not a non-cash item) for those financial quarters, and less (F) any exceptional or extraordinary items (including any net income resulting from the sale of any fixed assets or investments or financial assets) and tangible net worth is defined as under "—Guarantee" above; and

- except in certain circumstances, declaring dividend, making payment on subordinated financial debt, paying management fees to us, not incurring, assuming or permitting to exist additional indebtedness, not creating or permitting to exist any liens on their respective properties or provide guarantee.

***Events of Default***

The 2008 IFC Loan Agreement contains events of default, such as failure to pay principal or interest, failure to pay other IFC loans, failure to perfect the security interest granted to IFC, failure to comply with obligations, misrepresentations, expropriation or nationalization, certain bankruptcy or analogous events, cross default and certain other events. Expropriation or nationalization, certain bankruptcy or analogous events and cross default occurring in relation to the Issuer are also deemed events of default under the 2008 IFC Loan Agreement. The occurrence of an event of default could result in the acceleration of payment obligations under the 2008 IFC Loan Agreement.

**2008 IFC Subordination Agreement**

In June 2008, the Issuer, PIK Vrbovec, Belje and the IFC entered into a subordination agreement pursuant to which payments for loans from the Issuer or any of its affiliates to PIK Vrbovec or Belje and fees under any management contract paid to the Issuer by PIK Vrbovec or Belje are subordinated to the payments to the IFC under the 2008 IFC Loan Agreement. Interest, principal and any other payments due under the shareholder loans to the Issuer or its affiliate will only be made if specified coverage ratios are maintained. In any event, PIK Vrbovec and Belje will pay fees due under a management agreement to the Issuer only if those payments do not exceed an aggregate amount of €3,000,000 for either borrower in any financial year or €4,000,000 after December 31, 2011, provided that specified coverage ratios have been maintained and the IFC has received a certificate certifying compliance.

**2006 IFC Loan Agreement**

In June 2006, PIK Vrbovec and Belje entered into a Loan Agreement, which was amended in 2008 to coordinate certain of its provisions with the 2008 IFC Loan Agreement, (the "2006 IFC Loan Agreement") with the IFC pursuant to which the IFC agreed to lend, and PIK Vrbovec and Belje, on a joint and several basis, agreed to borrow up to €40,000,000. PIK Vrbovec and Belje may use the borrowings under the 2006 IFC Loan Agreement for the reconstruction, modernization and expansion of their respective operations and refinancing their existing financial debt. Payments to the Issuer by PIK Vrbovec and Belje under certain related-party agreements are subordinated to payments to the IFC under the 2006 IFC Loan Agreement. In addition, the IFC may require the Issuer to advance funds to PIK Vrbovec and Belje if in the IFC's opinion PIK Vrbovec or Belje has insufficient funds to finance their reconstruction, modernization and expansion or to refinance their respective financial debt. At September 30, 2010, €24 million was outstanding under the 2006 IFC Loan Agreement.

***Borrowers***

The original borrowers under the 2006 IFC Loan Agreement are PIK Vrbovec and Belje.

*Guarantee*

In June 2006, the Issuer and the IFC entered into a guarantee agreement pursuant to which the Issuer irrevocably, absolutely and unconditionally guarantees all debts and monetary liabilities of PIK Vrbovec and Belje to the IFC under the 2006 IFC Loan Agreement and any related transaction agreement and indemnifies the IFC from and against any loss incurred by the IFC as a result of any of such debts and monetary liabilities becoming void, voidable, unenforceable or ineffective for any reason whatsoever.

Under the terms of the guarantee agreement, as amended on December 15, 2010, the Issuer is required to maintain (i) a consolidated net financial indebtedness to EBITDA ratio of less than 4.00:1 and (ii) an aggregate of the tangible net worth plus minority interest less the aggregate of any consolidated off-balance sheet liabilities of at least the equivalent of €200,000,000.

*Security*

The obligations under the 2006 IFC Loan Agreement are secured by liens on certain fixed assets of PIK Vrbovec and Belje.

*Amount and Repayment of Borrowings*

Each disbursement (other than the last one) under the 2006 IFC Loan Agreement is to be made in an amount not less than €5,000,000. All amounts borrowed are to be repaid by June 2013. The principal amount of the funds borrowed is to be repaid during the course of the 2006 IFC Loan Agreement. Any principal amount repaid may not be re-borrowed.

*Interest Rate and Fees*

The annual interest rate on borrowings under the 2006 IFC Loan Agreement is calculated based on EURIBOR plus a margin of (i) 2.25% on € 17,000,000 of the principal amount available under the 2006 IFC Facility and (ii) 2.25% on the remaining €23,000,000. In case of PIK Vrbovec's and Belje's default in payments, the annual interest rate resets to the applicable interest rate plus 2% (or a higher rate being charged by other lenders but not exceeding 5%). PIK Vrbovec and Belje are also required to pay to the IFC certain fees, including, but not limited to, a commitment fee, payable quarterly, on the undisbursed or uncancelled part of the loan, as well as certain costs, expenses and losses.

*Covenants*

Availability of amounts under the 2006 IFC Loan Agreement is subject to compliance by PIK Vrbovec and Belje with covenants, including, but not limited to:

- maintaining a ratio of 40:60 when dividing the financial debt by tangible net worth, where tangible net worth is defined as under "2008 IFC Loan Agreement—Guarantee" above; and

- except in certain circumstances, declaring dividend, making payment on subordinated financial debt, not incurring, assuming or permitting to exist additional indebtedness, not creating or permitting to exist any liens on their respective properties or provide guarantee.

*Events of Default*

The 2006 IFC Loan Agreement contains events of default, such as failure to pay principal or interest, failure to pay other IFC loans, failure to perfect the security interest granted to IFC, failure to comply with obligations, misrepresentations, expropriation or nationalization, certain bankruptcy or analogous events, cross default and certain other events. Expropriation or nationalization, certain bankruptcy or analogous events and cross default occurring in relation to the Issuer are also deemed events of default under the 2006 IFC Loan Agreement. The occurrence of an event of default could result in the acceleration of payment obligations under the 2006 IFC Loan Agreement.

**Bilateral Facilities**

The Issuer and certain of its subsidiaries are currently borrowers under various bilateral credit facility arrangements with local lenders (both bank and non-bank financial institutions, such as insurance companies) in Croatia, Serbia and Bosnia and Herzegovina. In the past we have relied to a significant degree on short term indebtedness to finance our operations and liquidity needs. Although the bilateral credit facilities have short maturities—usually less than a year—as is customary in Croatia, Serbia and Bosnia and Herzegovina, in the past we have routinely been able to extend our bilateral credit facilities. See "Risk Factors—Risks relating to the Notes—We may have difficulty refinancing our short-term indebtedness." We believe that we continue to have strong banking relationships with our bilateral banks and expect to continue to utilize bilateral credit facilities to finance a portion of our operations and liquidity needs.

Following the Additional Notes issue and the use of gross proceeds therefrom, we expect to have outstanding 73 bilateral credit facilities. If the Additional Notes issue had occurred on September 30, 2010 and the gross proceeds therefrom had been applied at such date, approximately HRK 1,542.0 million (€211.4 million) of indebtedness (including approximately HRK 16.9 million (€2.3 million) of finance leases) would have been outstanding under such bilateral credit facilities (each of which would have been fully drawn), of which approximately HRK 1,169.7 million (€160.4 million) matures within twelve months from such date and:

- the Issuer would have been a borrower in respect of 11 bilateral facilities, representing approximately HRK 715.8 million (€98.1 million) (denominated in both HRK and euro) of unguaranteed short-term indebtedness, of which approximately HRK 108.5 million (€14.9 million) would have been secured by liens on certain assets;

- certain of the Subsidiary Guarantors would have been borrowers under 8 bilateral facilities, representing approximately HRK 109.1 million (€15.0 million) (denominated in both HRK and euro) of unguaranteed and unsecured indebtedness; and

- certain subsidiaries that do not guarantee the Notes would have been borrowers under 54 bilateral facilities, representing approximately HRK 717.1 million (€98.3 million) (including approximately HRK 16.9 million (€2.3 million) of finance leases) denominated in both HRK and euro of unguaranteed indebtedness, of which approximately HRK 318.2 million (€43.6 million) would have been secured by liens on certain assets.

At September 30, 2010, the interest rates on loans outstanding under the 73 bilateral credit facilities that we expect to remain outstanding ranged from 2.94% to 11.00% on both a fixed rate and floating rate basis determined based on a margin over EURIBOR, as applicable. Loans under such bilateral credit facilities are extended principally in HRK and euro. Certain of our non-bank loans are denominated in US dollars, HRK and RSD. In general, these agreements are governed by local law and do not contain representations, warranties or cross-default provisions, although certain of them contain covenants that track the covenants in our Senior Facilities Agreement.

# DESCRIPTION OF NOTES

Agrokor d.d. (the "*Issuer*") will issue €150 million aggregate principal amount of additional Notes (the "*Additional Notes*") under an indenture, dated December 7, 2009 (the "*Indenture*"), among itself, as issuer, the Issuer's subsidiaries that guarantee the Notes (the "*Guarantors*") and BNY Corporate Trustee Services Limited, as trustee (the "*Trustee*"), and the other parties thereto pursuant to which the Issuer issued, on December 7, 2009, €400,000,000 aggregate principal amount of 10.00% Senior Notes due 2016 (the "*Original Notes*" and together with the Additional Notes, the "*Notes*") in a private transaction that is not subject to the registration requirements of the Securities Act of 1933, as amended (the "*Securities Act*"). See "Transfer Restrictions." The Original Notes and the Additional Notes will form a single series of Notes, and the holders of Additional Notes will vote on matters with the holders of the Original Notes. The terms of the Notes include those set forth in the Indenture. The Indenture will not incorporate or include any of the provisions of the U.S. Trust Indenture Act of 1939, as amended.

The following description sets out certain material provisions of the Indenture and the Notes. It does not restate those agreements in their entirety. We urge you to read the Indenture because it, and not this description, define your rights as holders of the Notes. Copies of the Indenture and the form of Note are available as set forth below under "—Additional Information."

Certain defined terms used in this description but not defined below under "—Certain Definitions" have the meanings assigned to them in the Indenture. You can find the definitions of certain terms used in this description under the subheading "—Certain Definitions." In this description, the term "Issuer" refers only to the Issuer and not to any of its Subsidiaries.

The registered holder of a Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

**Brief Description of the Notes and the Note Guarantees**

***The Notes***

The Notes:

- will be general unsecured obligations of the Issuer;
- will be *pari passu* in right of payment with all existing and future unsecured senior Indebtedness of the Issuer;
- will be effectively subordinated to all obligations of the Issuer's Subsidiaries that are not Guarantors;
- will be effectively subordinated to any existing and future secured Indebtedness of the Issuer to the extent of the value of the assets securing such Indebtedness;
- will be senior in right of payment to any future subordinated Indebtedness of the Issuer; and
- will be unconditionally guaranteed by the Guarantors, subject to limitations under applicable law.

***The Note Guarantees***

The Notes will be guaranteed by the Guarantors. The term "*Guarantors*" refers initially to Jamnica d.d., Konzum d.d., Ledo d.d., Zvijezda d.d., Agrokor trgovina d.d., PIK Vinkovci d.d., Sarajevski kiseljak d.d. and Ledo d.o.o. Čitluk.

Each Note Guarantee:

- will be a general unsecured obligation of the Guarantor;
- will be *pari passu* in right of payment with all existing and future unsecured senior Indebtedness of that Guarantor;
- will be senior in right of payment to any future subordinated Indebtedness of that Guarantor; and

- will be effectively subordinated to any existing and future secured Indebtedness of the Guarantor to the extent of the value of the assets securing such Indebtedness.

Not all of the Issuer's Subsidiaries will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Issuer. During the nine months ended September 30, 2010, the Issuer and the Guarantors represented approximately 0.17% and 59.5%, respectively, of our consolidated revenues, approximately −11.9% and 73.3%, respectively, of our EBITDA and approximately 40.6% and 51.6%, respectively, of our consolidated assets.

A significant portion of the operations of the Issuer are conducted through its Subsidiaries and, therefore, the Issuer depends on the cash flow of Subsidiaries to meet its obligations, including its obligations under the Notes. The Notes will be effectively subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of the Issuer's non-guarantor Subsidiaries. Any right of the Issuer or any Guarantor to receive assets of any of its non-guarantor Subsidiaries upon that non-guarantor Subsidiary's liquidation or reorganization (and the consequent right of the holders of the Notes to participate in those assets) will be effectively subordinated to the claims of that non-guarantor Subsidiary's creditors, except to the extent that the Issuer or such Guarantor is itself recognized as a creditor of the non-guarantor Subsidiary, in which case the claims of the Issuer or such Guarantor, as the case may be, would still be subordinate in right of payment to any security in the assets of the non-guarantor Subsidiary and any Indebtedness of the non-guarantor Subsidiary senior to that held by the Issuer or such Guarantor. As of September 30, 2010, on a pro forma basis after giving effect to the offering, the Issuer's non-guarantor Subsidiaries would have had approximately HRK 2,321.5 million (approximately €318.3 million) of Indebtedness outstanding and approximately HRK 2,557.7 million (approximately €350.7 million) of trade payables and approximately HRK 429.6 million (approximately €58.9 million) of other liabilities outstanding. See "Risk Factors—Risks Relating to the Notes—The Notes will be effectively subordinated to certain secured indebtedness of the Issuer and the Subsidiary Guarantors and structurally subordinated to the indebtedness of our non-guarantor subsidiaries."

As of the issue date, all of the Issuer's Subsidiaries will be "Restricted Subsidiaries" for purposes of the Indenture. However, under the circumstances described below under the caption "—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries," the Issuer will be permitted to designate certain Subsidiaries as "Unrestricted Subsidiaries." The Issuer's Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the Indenture. The Issuer's Unrestricted Subsidiaries will not guarantee the Notes.

**Principal, Maturity and Interest**

The Issuer will issue €150 million in aggregate principal amount of Additional Notes in this offering. The Issuer may issue additional Notes (the "Further Notes") under the Indenture from time to time after this offering. Any issuance of Further Notes is subject to all of the covenants in the Indenture, including the covenant described below under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock." The Notes and any Further Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. The Issuer will issue Notes in denominations of €50,000 and integral multiples of €1,000 in excess thereof. The Notes will mature on December 7, 2016.

Interest on the Additional Notes will accrue at the rate of 10% per annum and will be payable semi-annually in arrears on June 7 and December 7, commencing on June 7, 2011. Interest on overdue principal and interest, including Additional Amounts (as defined herein), if any, will accrue at a rate that is 1% higher than the then applicable interest rate on the Notes. The Issuer will make each interest payment to the holders of record on the immediately preceding May 23 and November 22.

Interest on the Additional Notes will accrue from December 7, 2010, or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Unless earlier redeemed, on the maturity date, the Notes shall be redeemed at a price equal to 100% of the principal amount of the Notes.

**Paying Agent and Registrar for the Notes**

The Issuer will maintain one or more paying agents (each, a "Paying Agent") for the Notes in each of (i) London (the "Principal Paying Agent") and (ii) Luxembourg, for so long as the Notes are listed on the Euro MTF of the Luxembourg Stock Exchange (the "*Euro MTF*"). The Issuer will undertake to maintain a Paying Agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to the European Union Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income, or any law implementing, or complying with or introduced in order to conform to, such directive. The initial Paying Agents will be The Bank of New York Mellon in London (as Principal Paying Agent) and The Bank of New York Mellon (Luxembourg) S.A. in Luxembourg.

The Issuer will also maintain one registrar (the "*Registrar*") with offices in Luxembourg, for so long as the Notes are listed on the Euro MTF. The initial Registrar will be The Bank of New York Mellon (Luxembourg) S.A. in Luxembourg. The initial transfer agent will be The Bank of New York Mellon (Luxembourg) S.A. in Luxembourg. The Registrar and the transfer agent in Luxembourg will maintain a register reflecting ownership of Definitive Registered Notes outstanding from time to time and will make payments on and facilitate transfer of Definitive Registered Notes on the behalf of the Issuer.

The Issuer may change the Paying Agents, the Registrar or the transfer agent without prior notice to the Holders. For so long as the Notes are listed on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or transfer agent in a newspaper having a general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange.

**Transfer and Exchange**

Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act ("*Rule 144A*") will initially be represented by one global Note in registered form without interest coupons attached (the "*144A Global Note*"), and Notes sold outside the United States pursuant to Regulation S under the Securities Act ("*Regulation S*") will initially be represented by one global Note in registered form without interest coupons attached (the "*Reg S Global Note,*" and together with the 144A Global Note, the "*Global Notes*").

During the 40-day distribution compliance period, book-entry interests in the Regulation S Global Note may be transferred only to non-U.S. Persons under Regulation S or to Persons whom the transferor reasonably believes are "qualified institutional buyers" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with applicable transfer restrictions and any applicable securities laws of any state of the United States or any other jurisdiction. After the 40-day distribution compliance period ends, book-entry interests in the temporary Regulation S Global Note may be exchanged for book-entry interests in the permanent Regulation S Global Note upon certification that those interests are owned either by non-U.S. persons or by U.S. persons who purchased those interests pursuant to Rule 144A under the U.S. Securities Act. See "Transfer Restrictions" for restrictions on transfer of the Additional Notes.

Ownership of interests in the Global Notes *("Book-Entry Interests")* will be limited to persons that have accounts with Euroclear and Clearstream or persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "Transfer Restrictions." In addition, transfers of Book-Entry Interests between participants in Euroclear or participants in Clearstream will be effected by Euroclear or Clearstream, as applicable, pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream, as applicable, and their respective participants.

Book-Entry Interests in the 144A Global Note, or the "*Restricted Book-Entry Interests*," may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Reg S Global Note, or the "*Reg S Book-Entry Interests*," only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S. Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of the Restricted Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Transfer Restrictions" and in accordance with any applicable securities law of any other jurisdiction.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of €50,000 principal amount and integral multiples €1,000 in excess thereof, upon receipt by the applicable Registrar of instructions relating thereto and any certificates and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant who owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to the restrictions on transfer summarized below and described more fully under "Transfer Restrictions."

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €50,000 in principal amount and integral multiples of €1,000 in excess thereof, to Persons who take delivery thereof in the form of Definitive Registered Notes. In connection with any such transfer or exchange, the Indenture requires the transferring or exchanging holder to, among other things, furnish appropriate endorsements and transfer documents, furnish information regarding the account of the transferee at Euroclear or Clearstream, where appropriate, furnish certain certificates and opinions, and pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the holder, other than any Taxes payable in connection with such transfer or exchange.

Notwithstanding the foregoing, the Issuer is not required to register the transfer of any Definitive Registered Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of the Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date; or

(4) which the holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Sale Offer.

**Additional Amounts**

All payments made under or with respect to the Notes (whether or not in the form of Definitive Registered Notes) or with respect to any Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of any jurisdiction in which the Issuer or any Guarantor (including any successor entity), is then incorporated, engaged in business or resident for tax purposes or any political subdivision thereof or therein or any jurisdiction from or through which payment is made by or on behalf of the Issuer or any Guarantor (including, without limitation, the jurisdiction of any paying agent) (each, a "*Tax Jurisdiction*"), will at any time be required to be made from any payments made under or with respect to the Notes or with respect to any Note Guarantee, including, without limitation, payments of principal, redemption price, purchase price, interest or premium, the Issuer, the relevant Guarantor or other payor, as applicable, will pay such additional amounts (the "*Additional Amounts*") as may be necessary in order that the net amounts received in respect of such payments by each holder (including Additional Amounts) after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction; *provided*, *however*, that no Additional Amounts will be payable with respect to:

(1) any Taxes that would not have been imposed but for the holder or the beneficial owner of the Notes being a citizen or resident or national of, incorporated in or carrying on a business, in the relevant Tax Jurisdiction in which such Taxes are imposed or having any other present or former connection with the relevant Tax Jurisdiction other than the mere acquisition, holding, enforcement or receipt of payment in respect of the Notes or with respect to any Note Guarantee;

(2) any Taxes that are imposed or withheld as a result of the failure of the holder of the Note or beneficial owner of the Notes to comply with any reasonable written request, made to that holder or beneficial owner in writing at least 60 days before any such withholding or deduction would be payable, by the Issuer or any of the Guarantors to provide timely and accurate information concerning the nationality, residence or identity of such Holder or beneficial owner or to make any valid and timely declaration or similar claim or satisfy any certification information or other reporting requirement, which is required or imposed by a statute, treaty, regulation or administrative practice of the relevant Tax Jurisdiction as a precondition to any exemption from or reduction in all or part of such Taxes to which such Holder or beneficial owner is entitled;

(3) any Note presented for payment (where Notes are in the form of Definitive Registered Notes and presentation is required) more than 30 days after the relevant payment is first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);

(4) any estate, inheritance, gift, sale, transfer, personal property or similar Taxes;

(5) any Taxes withheld, deducted or imposed on a payment to an individual and that are required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to, such Directive;

(6) any Note presented for payment by or on behalf of a holder of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union;

(7) any Tax imposed on or with respect to any payment by the Issuer or any Note Guarantor to the holder if such holder is a fiduciary or partnership or person other than the sole beneficial owner of such payment to the extent that Taxes would not have been imposed on such payment had such holder been the sole beneficial owner of such Note;

(8) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to any Note Guarantee; or

(9) any combination of items (1) through (8) above.

In addition to the foregoing, the Issuer and the Guarantors will also pay and indemnify the holder for any present or future stamp, issue, registration, court or documentary taxes, or any other excise or property taxes, charges or similar levies or Taxes which are levied by any Tax Jurisdiction on the execution, delivery, registration or enforcement of any of the Notes, the Indenture, any Note Guarantee, or any other document or instrument referred to therein.

If the Issuer or any Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or any Note Guarantee, the Issuer or the relevant Guarantor, as the case may be, will deliver to the Trustee on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises after the 30th day prior to that payment date, in which case the Issuer or the relevant Guarantor shall notify the Trustee promptly thereafter) an Officers' Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officers' Certificate must also set forth any other information reasonably necessary to enable the Paying Agents to pay Additional Amounts to holders on the relevant payment date. The Trustee shall be entitled to rely solely or such Officers' Certificate as conclusive proof that such payments are necessary. The Issuer or the relevant Guarantor will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts.

The Issuer or the relevant Guarantor will make all withholdings and deductions required by law and will remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. Upon request, the Issuer or the relevant Guarantor will provide to the Trustee an official receipt or, if official receipts are not obtainable, other documentation reasonably satisfactory to the Trustee evidencing the payment of any Taxes so withheld or deducted. The Issuer or the relevant Guarantor will attach to each certified copy or other document a certificate stating the amount of such Taxes paid per €1,000 principal amount of the Notes then outstanding. Upon request, copies of those receipts or other documentation, as the case may be, will be made available by the Trustee to the holders of the Notes during normal business hours.

Whenever in the Indenture or in this "Description of Notes" there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or of any other amount payable under, or with respect to, any of the Notes or Note Guarantee, such mention shall be deemed to include the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

**Note Guarantees**

The Notes will be guaranteed by the Guarantors. These Note Guarantees will be joint and several obligations of the Guarantors. The obligations of each Guarantor under its Note Guarantee will be limited as necessary to prevent that Note Guarantee from constituting a fraudulent conveyance under applicable law. See "Risk Factors—Risks Relating to the Notes—The Guarantees may be limited by applicable laws or subject to certain limitations or defenses."

A Guarantor may not sell, lease or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into (whether or not such Guarantor is the surviving Person) another Person, other than the Issuer or another Guarantor, unless:

(1) immediately after giving effect to that transaction, no Default or Event of Default exists; and

(2) either:

(a) the Person acquiring the property in any such sale, lease or disposition or the Person formed by or surviving any such consolidation or merger assumes all the obligations of that Guarantor under its Note Guarantee and the Indenture pursuant to agreements reasonably satisfactory to the Trustee; or

(b) the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the Indenture.

The Note Guarantee of a Guarantor will be released:

(1) in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) the Issuer, a Restricted Subsidiary or an Affiliate of either the Issuer or a Restricted Subsidiary, if the sale or other disposition does not violate the "Asset Sale" provisions of the Indenture;

(2) in connection with any sale or other disposition of Capital Stock of that Guarantor to a Person that is not (either before or after giving effect to such transaction) the Issuer, a Restricted Subsidiary or an Affiliate of either the Issuer or a Restricted Subsidiary, if the sale or other disposition does not violate the "Asset Sale" provisions of the Indenture and the Guarantor ceases to be a Restricted Subsidiary as a result of the sale or other disposition;

(3) upon the release or discharge of the Guarantee by such Guarantor of the Indebtedness that resulted in the creation of such Note Guarantee pursuant to the covenant described under "Certain Covenants—Limitation on Issuance of Guarantees of Indebtedness," so long as no Event of Default would arise as a result thereof;

(4) if the Issuer designates any Restricted Subsidiary that is a Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture; or

(5) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "—Legal Defeasance and Covenant Defeasance" and "—Satisfaction and Discharge."

See "—Repurchase at the Option of Holders—Asset Sales."

**Optional Redemption**

At any time prior to December 7, 2013, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of outstanding Notes issued under the Indenture, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 110% of the principal amount of the outstanding Notes redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to the date of redemption (subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date), with the net cash proceeds of an Equity Offering; *provided* that:

(1) at least 65% of the aggregate principal amount of Notes issued under the Indenture (excluding Notes held by the Issuer and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 45 days of the date of the closing of such Equity Offering.

At any time prior to December 7, 2013, the Issuer may on any one or more occasions redeem all or a part of the Notes, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus the Applicable Premium as of, and accrued and unpaid interest and Additional Amounts, if any, to the date of redemption, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding two paragraphs, the Notes will not be redeemable at the Issuer's option prior to December 7, 2013.

On or after December 7, 2013, the Issuer may on any one or more occasions redeem all or a part of the Notes, upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Additional Amounts, if any, on the Notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on December 7 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date:

| Year | Percentage |
|---|---|
| 2013 | 105.000% |
| 2014 | 102.500% |
| 2015 and thereafter | 100.000% |

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portions thereof called for redemption on the applicable redemption date.

**Redemption for Changes in Taxes**

The Issuer may redeem the Notes, in whole but not in part, at its discretion at any time upon giving not less than 30 nor more than 60 days' prior notice to the holders of the Notes (which notice will be irrevocable and given in accordance with the procedures described in "—Selection and Notice"), at a redemption price equal to the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Issuer for redemption (a "*Tax Redemption Date*") and all Additional Amounts (if any) then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes, the Issuer is or would be required to pay Additional Amounts, and the Issuer cannot avoid any such payment obligation taking reasonable measures available, and the requirement arises as a result of:

(1) any change in, or amendment to, the laws or treaties (or any regulations, or rulings promulgated thereunder) of the relevant Tax Jurisdiction (as defined above) affecting taxation which change or amendment has not been publicly announced as formally proposed before and which becomes effective on or after the Issue Date (or, if the relevant Tax Jurisdiction has changed since the Issue Date, the date on which the then current Tax Jurisdiction became the applicable Tax Jurisdiction under the Indenture); or

(2) any change in, or amendment to, the existing official position or the introduction of an official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice), which change, amendment, application or interpretation has not been publicly announced as formally proposed before and becomes effective on or after the Issue Date (or, if the relevant Tax Jurisdiction has changed since the Issue Date, the date on which the then current Tax Jurisdiction became the applicable Tax Jurisdiction under the Indenture).

The Issuer will not give any such notice of redemption earlier than 90 days prior to the earliest date on which the Issuer would be obligated to make such payment or withholding if a payment in respect of the Notes were then due, and at the time such notice is given, the obligation to pay Additional Amounts must remain in effect. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver the Trustee an opinion of independent tax counsel, the choice of such counsel to be subject to the prior written approval of the Trustee (such approval not to be unreasonably withheld) to the effect that there has been such change or amendment which would entitle the Issuer to redeem the Notes hereunder. In addition, before the Issuer publishes or mails notice of redemption of the Notes as described above, it will deliver to the Trustee an Officers' Certificate to the effect that it cannot avoid its obligation to pay Additional Amounts by the Issuer taking reasonable measures available to it.

The Trustee will accept such Officers' Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the holders.

For the avoidance of doubt, the implementation of European Council Directive 2003/48/EC on any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to, such directive will not be a change or amendment for such purposes.

## Mandatory Redemption

The Issuer is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

## Repurchase at the Option of Holders

### *Change of Control*

If a Change of Control occurs, each holder of Notes will have the right to require the Issuer to repurchase all or any part (equal to €50,000 or an integral multiple of €1,000 in excess thereof) of that holder's Notes pursuant to a Change of Control Offer on the terms set forth in the Indenture. In the Change of Control Offer, the Issuer will offer a payment in cash equal to 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest and Additional Amounts, if any, on the Notes repurchased to the date of purchase (the "*Change of Control Payment*"), subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Issuer will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes on the date (the "*Change of Control Payment Date*") specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice. The Issuer will comply with the requirements of Rule 14e-1 under the U.S. Exchange Act and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of such compliance.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and

(3) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Issuer.

The paying agent will promptly mail (or cause to be delivered) to each holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders of the Notes to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the Indenture as described above under the caption "—Optional Redemption," unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The Issuer's ability to repurchase the Notes pursuant to the Change of Control Offer may be limited by a number of factors. The ability of the Issuer to pay cash to the holders of the Notes following the occurrence of a Change of Control may be limited by its then existing financial resources, and sufficient funds may not be available when necessary to make any required repurchases. We expect that we would require third party financing to make an offer to repurchase the Notes upon a Change of Control. We cannot assure you that we would be able to obtain such financing. Any failure by the Issuer to offer to purchase Notes would constitute a Default under the Indenture, which could, in turn, constitute a default under the Senior Credit Facilities Agreement. See "Risk Factors—Risks Relating to the Notes—

Change of Control Offer—We may not have access to sufficient funds to satisfy the change of control offer required by the Notes."

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Issuer and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require the Issuer to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Issuer and its Subsidiaries taken as a whole to another Person or group may be uncertain.

If and for so long as the Notes are listed on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish notices relating to the Change of Control Offer in a leading newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange.

***Asset Sales***

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, consummate an Asset Sale unless:

(1) the Issuer (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value (measured as of the date of the definitive agreement with respect to such Asset Sale) of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration received in the Asset Sale by the Issuer or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For the purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities, as shown on the Issuer's most recent consolidated balance sheet, of the Issuer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Note Guarantee) that are assumed by the transferee of any such assets pursuant to a customary novation or indemnity agreement that releases the Issuer or such Restricted Subsidiary from or indemnifies against further liability;

(b) any securities, notes or other obligations received by the Issuer or any such Restricted Subsidiary from such transferee that are converted by the Issuer or such Restricted Subsidiary into cash or Cash Equivalents within 90 days following the closing of the Asset Sale, to the extent of the cash or Cash Equivalents received in that conversion;

(c) any Capital Stock or assets of the kind referred to in clauses (2) or (4) of the next paragraph of this covenant; and

(d) any Designated Noncash Consideration received by the Issuer or any Restricted Subsidiary in such Asset Sale having an aggregate Fair Market Value, taken together with all other Designated Noncash Consideration received pursuant to this clause (d) that is at the time outstanding, that does not exceed €10.0 million at the time of the receipt of such Designated Noncash Consideration.

Within 360 days after the receipt of any Net Proceeds from an Asset Sale, the Issuer (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Proceeds:

(1) to repurchase, repay, redeem or repay Indebtedness (a) of a Restricted Subsidiary which is not a Guarantor, or Indebtedness of the Issuer or a Guarantor that is secured by a Lien on such assets; (b) which is *pari passu* in right of payment with the Notes or any Note Guarantee to the extent required by the terms of such Indebtedness; or (c) which is *pari passu* in right of payment with the Notes or any Note Guarantee in an aggregate amount, together with all other Indebtedness so repurchased, prepaid, redeemed or repaid pursuant to this clause (c), not to exceed €10.0 million; *provided* that, the Issuer (or the applicable Restricted Subsidiary) shall repurchase, prepay, redeem or repay such *pari passu* Indebtedness in a manner which is not in compliance with this clause (1) only if the Issuer (or the applicable Restricted Subsidiary) makes (at such time or subsequently in compliance with this covenant) an offer to all holders of the Notes to purchase their Notes in accordance with the provisions set forth below for an Asset Sale Offer for an aggregate principal amount of Notes at least equal to the proportion that (x) the total aggregate principal amount of Notes outstanding bears to (y) the sum of the

total aggregate principal amount of Notes outstanding plus the total aggregate principal amount outstanding of such *pari passu* Indebtedness;

(2) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary;

(3) to make a capital expenditure; or

(4) to acquire other assets (other than Capital Stock) that are not classified as current assets under IFRS and that are used or useful in a Permitted Business;

*provided* that, in the case of Net Proceeds relating to an Asset Sale of assets of a Guarantor or Capital Stock of a Guarantor (i) no Net Proceeds may be utilized in accordance with clause (2) of this paragraph, unless such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture providing for a Note Guarantee of the payment of the Notes by such Restricted Subsidiary and (ii) to the extent any Net Proceeds are utilized in accordance with clauses (3) or (4) of this paragraph, any capital expenditures made or assets acquired shall be for (a) the Issuer or any Guarantor or (b) any other Restricted Subsidiary, *provided* that such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture providing for a Note Guarantee of the payment of the Notes by such Restricted Subsidiary.

Each additional Note Guarantee provided pursuant to this covenant will constitute a senior Obligation of such Restricted Subsidiary and will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Notwithstanding the foregoing, the Issuer shall not be obligated to cause any such Restricted Subsidiary to guarantee the Notes to the extent that such guarantee by such Restricted Subsidiary would reasonably be expected to give rise to or result in a violation of applicable law which, in any case, cannot be prevented or otherwise avoided through measures reasonably available to the Issuer or the Restricted Subsidiary.

Pending the final application of any Net Proceeds, the Issuer (or the applicable Restricted Subsidiary) may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute "*Excess Proceeds*." When the aggregate amount of Excess Proceeds exceeds €10.0 million, within fifteen calendar days thereof, the Issuer will make an offer (an "*Asset Sale Offer*") to all holders of Notes and may make an offer to all holders of other Indebtedness that is *pari passu* with the Notes containing provisions similar to those set forth in the Indenture with respect to offers to purchase, prepay or redeem with the proceeds of sales of assets to purchase, prepay or redeem the maximum principal amount of Notes and such other *pari passu* Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith) that may be purchased, prepaid or redeemed out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase, prepayment or redemption, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Issuer may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and other *pari passu* Indebtedness tendered into (or required to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds, the Trustee will select the Notes and such other *pari passu* Indebtedness to be purchased on a *pro rata* basis, based on the amounts tendered or required to be prepaid or redeemed. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

The Issuer will comply with the requirements of Rule 14e-1 under the U.S. Exchange Act and any other applicable securities laws and regulations to the extent those laws and regulations are applicable in connection with each repurchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the Indenture by virtue of such compliance.

## Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption on a *pro rata* basis (or, in the case of Notes issued in global form as discussed under "—Book-Entry, Delivery and Form," based on a method that most nearly approximates a *pro rata* selection as the Trustee deems fair and appropriate) unless otherwise required by law or applicable stock exchange or depositary requirements.

No Notes of €50,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. Notices of redemption may not be conditional.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the holder of Notes upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

For Notes which are represented by global certificates held on behalf of Euroclear or Clearstream, notices may be given by delivery of the relevant notices to Euroclear or Clearstream for communication to entitled account holders in substitution for the aforesaid mailing. So long as any Notes are listed on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, any such notice to the holders of the relevant Notes shall also be published in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and, in connection with any redemption, the Issuer will notify the Luxembourg Stock Exchange of any change in the principal amount of Notes outstanding. Notices may also be published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

## Certain Covenants

### *Suspension of Covenants when Notes Rated Investment Grade*

If on any date following the Issue Date:

(1) the Notes have achieved Investment Grade Status; and

(2) no Default or Event of Default shall have occurred and be continuing on such date,

then, beginning on that day and continuing until such time, if any, at which the Notes cease to have Investment Grade Status (such period, the "*Suspension Period*"), the covenants specifically listed under the following captions in this Listing Prospectus will no longer be applicable to the Notes and any related default provisions of the Indenture will cease to be effective and will not be applicable to the Issuer and its Restricted Subsidiaries:

(1) "—Repurchase at the Option of Holders—Asset Sales";

(2) "—Restricted Payments";

(3) "—Incurrence of Indebtedness and Issuance of Preferred Stock";

(4) "—Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries";

(5) "—Designation of Restricted and Unrestricted Subsidiaries";

(6) "—Transactions with Affiliates"; and

(7) clause (4) of the first paragraph of the covenant described under "—Merger, Consolidation or Sale of Assets".

Such covenants will not, however, be of any effect with regard to the actions of the Issuer and the Restricted Subsidiaries properly taken during the continuance of the Suspension Period; *provided* that (1) with respect to the Restricted Payments made after any such reinstatement, the amount of Restricted Payments will be calculated as though the covenant described under the caption "—Restricted Payments" had been in effect prior to, but not during, the Suspension Period and (2) all Indebtedness incurred, or Disqualified Stock or preferred stock issued, during the Suspension Period will be classified to have been incurred or issued pursuant to clause (2) of the second paragraph of the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock". Upon the occurrence of a Suspension Period, the amount of Excess Proceeds shall be reset at zero.

There can be no assurance that the Notes will ever achieve or maintain an Investment Grade Status.

***Restricted Payments***

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of the Issuer's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Issuer or any of its Restricted Subsidiaries) or to the direct or indirect holders of the Issuer's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Issuer and other than dividends or distributions payable to the Issuer or a Restricted Subsidiary);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving the Issuer) any Equity Interests of the Issuer or any direct or indirect parent entity of the Issuer;

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of the Issuer or any Guarantor that is contractually subordinated to the Notes or to any Note Guarantee (excluding any intercompany Indebtedness between or among the Issuer and any of its Restricted Subsidiaries), except (i) a payment of interest or principal at the Stated Maturity thereof or (ii) the purchase, repurchase or other acquisition of Indebtedness purchased in anticipation of satisfying a sinking fund obligation, principal instalment or scheduled maturity, in each case due within one year of the date of such purchase, repurchase or other acquisition; or

(4) make any Restricted Investment,

(all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as "*Restricted Payments*"), unless, at the time of and after giving effect to such Restricted Payment:

(a) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(b) the Issuer would, at the time of such Restricted Payment and after giving *pro forma* effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least €1.00 of additional Indebtedness pursuant to the first paragraph of the covenant described below under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock;" and

(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer and its Restricted Subsidiaries since the Issue Date (excluding Restricted Payments permitted by clauses (2), (3), (6), (7) and (8) of the next succeeding paragraph), is less than the sum, without duplication, of:

    (i) 50% of the Consolidated Net Income of the Issuer for the period (taken as one accounting period) commencing with the beginning of the fiscal quarter in which the Issue Date occurs to the end of the Issuer's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*

    (ii) 100% of the aggregate net cash proceeds received by the Issuer since the Issue Date as a contribution to its common equity capital or from the issue or sale of Equity Interests of the Issuer (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock of the Issuer or convertible or exchangeable debt securities of the Issuer, in each case that have been converted into or exchanged for Equity Interests of the Issuer (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of the Issuer); *plus*

    (iii) to the extent that any Restricted Investment that was made after the date of the Indenture is (a) sold, disposed of or otherwise cancelled, liquidated or repaid, 100% of the aggregate amount received in cash and the Fair Market Value of the property and marketable securities received by the Issuer or any Restricted Subsidiary, or (b) made in an entity that subsequently becomes a Restricted Subsidiary, 100% of the Fair Market Value of the Restricted Investment of the Issuer and its Restricted Subsidiaries as of the date such entity becomes a Restricted Subsidiary; *plus*

(iv) to the extent that any Unrestricted Subsidiary of the Issuer designated as such after the date of the Indenture is redesignated as a Restricted Subsidiary or is merged or consolidated into the Issuer or a Restricted Subsidiary, or all of the assets of such Unrestricted Subsidiary are transferred to the Issuer or a Restricted Subsidiary after the date of the Indenture, the Fair Market Value of the property received by the Issuer or Restricted Subsidiary or the Issuer's Restricted Investment or the Issuer's Restricted Investment in such Subsidiary as of the date of such redesignation, merger, consolidation or transfer of assets, to the extent such investments reduced the restricted payments capacity under this clause (c) and were not previously repaid or otherwise reduced; *plus*

(v) 100% of any dividends received in cash by the Issuer or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary, to the extent that such dividends were not otherwise included in the Consolidated Net Income of the Issuer for such period.

The preceding provisions will not prohibit:

(1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the Indenture;

(2) the making of any Restricted Payment in exchange for, or out of or with the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of the Issuer) of, Equity Interests of the Issuer (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to the Issuer; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph and will not be considered to be net cash proceeds from an Equity Offering for purposes of the "Optional Redemption" provisions of the Indenture;

(3) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Issuer or any Guarantor that is contractually subordinated to the Notes or to any Note Guarantee with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness;

(4) so long as no Default or Event of Default has occurred and is continuing, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Issuer or any Restricted Subsidiary held by any current or former officer, director or employee of the Issuer or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed €2.0 million in any twelve-month period; *provided*, *further*, that such amount in any twelve-month period may be increased by an amount not to exceed the cash proceeds from the sale of Equity Interests of the Issuer to members of management, directors or consultants of the Issuer, any of its Subsidiaries or any of its direct or indirect parent companies to the extent the cash proceeds from the sale of Equity Interests have not otherwise been applied to the making of Restricted Payments pursuant to clause (c) of the preceding paragraph or clause (2) of this paragraph or to an optional redemption of Notes pursuant to the "Optional Redemption" provisions of the Indenture;

(5) the repurchase of Equity Interests deemed to occur upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options;

(6) so long as no Default or Event of Default has occurred and is continuing, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Issuer or any preferred stock of any Restricted Subsidiary issued on or after the Issue Date pursuant to the first paragraph of the covenant described below under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock;"

(7) payments of cash, dividends, distributions, advances or other Restricted Payments by the Issuer or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

(8) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary to the holders of its Equity Interests on a *pro rata* basis;

(9) payment of any Securitization Fees and purchases of Securitization Assets pursuant to a Securitization Repurchase Obligation in connection with a Qualified Securitization Financing;

(10) the payment of dividends and other distributions on the Equity Interests of the Issuer in an aggregate amount not to exceed €8.0 million in any twelve-month period; and

(11) so long as no Default or Event of Default has occurred and is continuing, other Restricted Payments in an aggregate amount not to exceed €25.0 million since the Issue Date.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Issuer or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment.

***Incurrence of Indebtedness and Issuance of Preferred Stock***

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "*incur*") any Indebtedness (including Acquired Debt), and the Issuer will not and will not permit any Restricted Subsidiary to, issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided*, *however*, that the Issuer may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock and the Guarantors may incur Indebtedness (including Acquired Debt) or issue preferred stock, if (i) the Consolidated Leverage Ratio at the time such additional Indebtedness is incurred or such Disqualified Stock or such preferred stock is issued, as the case may be, would not have exceeded 4.0 to 1.0 and (ii) the Fixed Charge Coverage Ratio for the Issuer's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or such preferred stock is issued, as the case may be, would have been at least 2.0 to 1.0, in each case of (i) and (ii), determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "*Permitted Debt*"):

(1) the incurrence by the Issuer and any Guarantor of additional Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of the Issuer and its Restricted Subsidiaries thereunder) not to exceed €246.1 million, *plus* in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses incurred in connection with such refinancing;

(2) the incurrence by the Issuer and its Restricted Subsidiaries of the Existing Indebtedness;

(3) the incurrence by the Issuer and the Guarantors of Indebtedness represented by the Notes and the related Note Guarantees to be issued on the Issue Date;

(4) the incurrence by the Issuer or any Restricted Subsidiary of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing or refinancing all or any part of the purchase price or cost of design, construction, lease, installation or improvement of property (real or personal), plant or equipment used or useful in the business of the Issuer or any of its Restricted Subsidiaries, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred in exchange for, or the net proceeds of which were used to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (4), not to exceed €20.0 million at any time outstanding;

(5) the incurrence by the Issuer or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted by the Indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (5), (12) or (13) of this paragraph;

(6) the incurrence by the Issuer or any of its Restricted Subsidiaries of intercompany Indebtedness between or among the Issuer and any of such Restricted Subsidiaries; *provided, however*, that:

(a) if the Issuer or any Guarantor is the obligor on such Indebtedness and the payee is not the Issuer or a Guarantor, such Indebtedness must be unsecured and expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the Notes, in the case of the Issuer, or the relevant Note Guarantee, in the case of a Guarantor; and

(b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Issuer or a Restricted Subsidiary and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either the Issuer or a Restricted Subsidiary will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Issuer or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the issuance by any Restricted Subsidiary to the Issuer or to any of its Restricted Subsidiaries of shares of preferred stock; *provided*, *however*, that:

(a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than the Issuer or a Restricted Subsidiary; and

(b) any sale or other transfer of any such preferred stock to a Person that is not either the Issuer or a Restricted Subsidiary,

will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);

(8) the incurrence by the Issuer or any Restricted Subsidiary of Hedging Obligations in the ordinary course of business and not for speculative purposes;

(9) the Guarantee by the Issuer or any Guarantor of Indebtedness of the Issuer or any Guarantor to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; *provided* that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes or a Note Guarantee, then the Guarantee must be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed;

(10) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness in respect of workers' compensation claims, self-insurance obligations, bankers' acceptances, performance and surety bonds in the ordinary course of business;

(11) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within five business days;

(12) following the application of the proceeds from the issuance of the Notes on the Issue Date as described in "Use of Proceeds" set forth in the offering memorandum dated December 1, 2009, the incurrence by the Issuer or any of its Restricted Subsidiaries, as the case may be, of Indebtedness represented by the Bilateral Credit Facilities outstanding on the Issue Date as described under "Capitalization" in the Offering Memorandum dated December 1, 2009;

(13) the incurrence by the Issuer or any of its Restricted Subsidiaries, as the case may be, of Indebtedness represented by the IFC Facilities and the EBRD Facilities, in each case outstanding on the Issue Date as described under "Capitalization" in the Offering Memorandum dated December 1, 2009;

(14) any Indebtedness incurred by the Issuer or any of its Restricted Subsidiaries for the purpose of providing prefinancing loans made to farmers and other co-operatives in the ordinary course of business not to exceed €30.0 million at any time outstanding;

(15) Indebtedness of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Issuer or any Restricted Subsidiary (other than Indebtedness incurred to provide all or any portion of the funds used to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Issuer or a Restricted Subsidiary); *provided, however*, with respect to this clause (15), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred the Issuer would have been able to incur €1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving *pro forma* effect to the incurrence of such Indebtedness pursuant to this clause (15);

(16) Indebtedness arising from agreements of the Issuer or a Restricted Subsidiary providing for customary indemnification, obligations in respect of earnouts or other adjustments of purchase price or, in each case, similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Equity Interests of a Subsidiary, *provided* that the maximum liability of the Issuer and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the Fair Market Value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Issuer and its Restricted Subsidiaries in connection with such disposition;

(17) Indebtedness incurred by a Securitization Subsidiary in a Qualified Securitization Financing that is not recourse to the Issuer or any Restricted Subsidiary other than a Securitization Subsidiary;

(18) Indebtedness of the Issuer or a Restricted Subsidiary in respect of (A) letters of credit, surety, performance or appeal bonds, completion guarantees, judgment, advance payment, customs, VAT or other tax guarantees or similar instruments issued in the ordinary course of business of such Person and not in connection with the borrowing of money, including letters of credit or similar instruments in respect of self-insurance and workers compensation obligations, and (B) any customary cash management, cash pooling or netting or setting off arrangements; *provided, however*, that upon the drawing of such letters of credit or other instrument, such obligations are reimbursed within 30 days following such drawing; and

(19) the incurrence by the Issuer or any Restricted Subsidiary of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (19), not to exceed €65.0 million; *provided that* not more than € 20.0 million may be incurred by Restricted Subsidiaries that are not Guarantors.

Neither the Issuer nor any Guarantor will incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Issuer or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the applicable Note Guarantee on substantially identical terms; *provided*, *however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer or any Guarantor solely by virtue of being unsecured or by virtue of being secured on a junior priority basis.

For purposes of determining compliance with this "Incurrence of Indebtedness and Issuance of Preferred Stock" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (19) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Issuer will be permitted to classify such item of Indebtedness on the date of its incurrence and to reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. Indebtedness under the Senior Credit Facilities Agreement outstanding on the date on which Notes are first issued and authenticated under the Indenture will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt and may not be reclassified. Indebtedness under the Bilateral Credit Facilities outstanding on the date on which Notes are first issued and authenticated under the Indenture will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (12) of the definition of Permitted Debt and may not be reclassified. Indebtedness under the IFC Facilities and the EBRD Facilities outstanding on the date on which Notes are first issued and authenticated under the Indenture will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (13) of the definition of Permitted Debt and may not be reclassified. The accrual of interest or preferred stock dividends, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on preferred stock or Disqualified Stock in the form of additional shares of the same class of preferred stock or Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock or Disqualified Stock for purposes of this covenant; *provided*, in each such case, that the amount of any such accrual, accretion or payment is included in Fixed Charges of the Issuer as accrued. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Issuer or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

(1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

(2) the principal amount of the Indebtedness, in the case of any other Indebtedness; and

(3) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

(i) the Fair Market Value of such assets at the date of determination; and

(ii) the amount of the Indebtedness of the other Person.

For purposes of determining compliance with any euro-denominated restriction on the incurrence of Indebtedness, the euro equivalent of the principal amount of Indebtedness denominated in another currency will be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of Indebtedness incurred under a revolving credit facility; *provided that* (1) if such Indebtedness is incurred to refinance other Indebtedness denominated in a currency other than euros, and such refinancing would cause the applicable euro-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such euro-denominated restriction will be deemed not to have been exceeded so long as the principal amount of such Permitted Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced; (2) the euro equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date will be calculated based on the relevant currency exchange rate in effect on the Issue Date; and (3) if and for so long as any such Indebtedness is subject to an agreement intended to protect against fluctuations in currency exchange rates with respect to the currency in which such Indebtedness is denominated covering principal and interest on such Indebtedness, the amount of such Indebtedness, if denominated in euros, will be the amount of the principal payment required to be made under such currency agreement and, otherwise, the euro equivalent of such amount plus the euro equivalent of any premium which is at such time due and payable but is not covered by such currency agreement.

***Liens***

The Issuer will not and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind securing Indebtedness, Attributable Debt or trade payables upon any of their property or assets, now owned or hereafter acquired, except Permitted Liens, unless contemporaneously with (or prior to) all payments due under the Indenture and the Notes are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien; *provided* that, if the Indebtedness secured by such Lien is subordinate or junior in right of payment to the Notes or a Note Guarantee, as the case may be, then the Lien securing such Indebtedness shall be subordinate or junior in priority to the Lien securing the Notes at least to the same extent as such Indebtedness is subordinate or junior to the Notes or a Note Guarantee, as the case may be.

***Limitation on Sale and Leaseback Transactions***

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction (other than (i) between the Issuer and a Guarantor, (ii) between Guarantors, (iii) from a Restricted Subsidiary that is not a Guarantor to the Issuer or a Guarantor or (iv) between or among Restricted Subsidiaries that are not Guarantors); *provided that* the Issuer or any Guarantor may enter into a sale and leaseback transaction if:

(1) the Issuer or that Guarantor, as applicable, could have incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the first paragraph of the covenant described above under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock";

(2) the gross cash proceeds of that sale and leaseback transaction are at least equal to the Fair Market Value, as determined in good faith by the Board of Directors of the Issuer of the property that is the subject of that sale and leaseback transaction; and

(3) the transfer of assets in that sale and leaseback transaction is permitted by, and the Issuer applies the proceeds of such transaction in compliance with, the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales."

***Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries***

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock to the Issuer or any Restricted Subsidiary, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to the Issuer or any Restricted Subsidiary;

(2) make loans or advances to the Issuer or any Restricted Subsidiary; or

(3) sell, lease or transfer any of its properties or assets to the Issuer or any Restricted Subsidiary.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) agreements governing Existing Indebtedness, Credit Facilities, the EBRD Facilities, the IFC Facilities and the Bilateral Credit Facilities as in effect on the Issue Date and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date;

(2) the Indenture, the Notes and the Note Guarantees;

(3) agreements governing other Indebtedness permitted to be incurred under the provisions of the covenant described above under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock" and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the restrictions therein are not materially more restrictive, taken as a whole, than those contained in the Indenture, the Notes and the Note Guarantees;

(4) applicable law, rule, regulation or order or the terms of any license, authorization, concession or permit;

(5) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Issuer or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be incurred;

(6) customary non-assignment provisions in contracts, leases and licenses entered into in the ordinary course of business;

(7) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;

(8) any agreement for the sale or other disposition of the Capital Stock or all or substantially all of the property and assets of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;

(9) Permitted Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(10) Liens permitted to be incurred under the provisions of the covenant described above under the caption "—Liens" that limit the right of the debtor to dispose of the assets subject to such Liens;

(11) provisions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements (including agreements entered into in connection with a Restricted Investment) entered into with the approval of the Issuer's Board of Directors, which limitation is applicable only to the assets that are the subject of such agreements;

(12) restrictions on cash or other deposits or net worth imposed by customers or suppliers or required by insurance, surety or bonding companies, in each case, under contracts entered into in the ordinary course of business; and

(13) any encumbrance or restriction of a Securitization Subsidiary effected in connection with a Qualified Securitization Financing; *provided, however*, that such restrictions apply only to such Securitization Subsidiary.

***Merger, Consolidation or Sale of Assets***

The Issuer will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation), or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer and its Subsidiaries which are Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) the Issuer is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made is an entity organized or existing under the laws of any member state of the European Union, Switzerland, Croatia, the United States, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made assumes all the obligations of the Issuer under the Notes and the Indenture pursuant to agreements reasonably satisfactory to the Trustee;

(3) immediately after such transaction, no Default or Event of Default exists;

(4) the Issuer or the Person formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made would, on the date of such transaction after giving *pro forma* effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least €1.00 of additional Indebtedness pursuant to the first paragraph of the covenant described above under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock"; and

(5) the Issuer delivers to the Trustee an Officers' Certificate and opinion of counsel, in each case, stating that such consolidation, merger or transfer and such supplemental indenture comply with this covenant.

Clauses (3) and (4) of the first paragraph of this covenant will not apply to any merger or consolidation of any Guarantor with or into the Issuer and clause (4) of the first paragraph of this covenant will not apply to any merger or consolidated of the Issuer with or into an Affiliate solely for the purpose of reincorporating the Issuer in another jurisdiction for tax reasons.

***Transactions with Affiliates***

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, make any payment to or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of the Issuer (each, an "*Affiliate Transaction*"), unless:

(1) the Affiliate Transaction is on terms that are no less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable arm's length transaction by the Issuer or such Restricted Subsidiary with a Person who is not an Affiliate of the Issuer or any of its Restricted Subsidiaries; and

(2) the Issuer delivers to the Trustee:

    (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of € 5.0 million, a resolution of the Board of Directors of the Issuer set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of the Issuer; and

    (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of € 10.0 million, an opinion as to the fairness to the Issuer or such Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment agreement, collective bargaining agreement, consultant, employee benefit arrangements with any employee, consultant, officer or director of the Issuer or any Restricted Subsidiary, including under any stock option, stock appreciation rights, stock incentive or similar plans, entered into in the ordinary course of business;

(2) transactions between or among the Issuer and/or its Restricted Subsidiaries;

(3) transactions with a Person (other than an Unrestricted Subsidiary of the Issuer) that is an Affiliate of the Issuer solely because the Issuer owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(4) payment of reasonable and customary fees and reimbursements of expenses (pursuant to indemnity arrangements or otherwise) of Officers, directors, employees or consultants of the Issuer or any of its Restricted Subsidiaries;

(5) any issuance of Equity Interests (other than Disqualified Stock) of the Issuer to Affiliates of the Issuer;

(6) Restricted Payments that do not violate the provisions of the Indenture described above under the caption "—Restricted Payments;"

(7) Permitted Investments (other than Permitted Investments described as defined in clauses (3), (12) and (14) of the definition thereof);

(8) transactions pursuant to, or contemplated by any agreement in effect on the Issue Date and transactions pursuant to any amendment, modification or extension to such agreement, so long as such amendment, modification or extension, taken as a whole, is not materially more disadvantageous to the holders of the Notes than the original agreement as in effect on the Issue Date;

(9) transactions with customers, clients, suppliers, or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of this Indenture that are fair to the Issuer or the Restricted Subsidiaries, in the reasonable determination of the members of the Board of Directors of the Issuer or the senior management thereof, or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated Person; and

(10) any transaction effected as part of a Qualified Securitization Financing.

***Business Activities***

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, engage in any business other than a Permitted Business, except to such extent as would not be material to the Issuer and its Restricted Subsidiaries taken as a whole.

***Limitation on Issuances of Guarantees of Indebtedness***

The Issuer will not cause or permit any of its Restricted Subsidiaries, directly or indirectly, to guarantee, assume or in any manner become liable with respect to any other Indebtedness of the Issuer or a Guarantor unless such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture providing for the Note Guarantee of the payment of the Notes by such Restricted Subsidiary, which Note Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's guarantee of such other Indebtedness.

Each additional Note Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Notwithstanding the foregoing, the Issuer shall not be obligated to cause such Restricted Subsidiary to guarantee the Notes to the extent that such guarantee by such Restricted Subsidiary would reasonably be expected to give rise to or result in a violation of applicable law which, in any case, cannot be prevented or otherwise avoided through measures reasonably available to the Issue, or the Restricted Subsidiary.

***Designation of Restricted and Unrestricted Subsidiaries***

The Board of Directors of the Issuer may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Issuer and its Restricted Subsidiaries in the Subsidiary designated as Unrestricted will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption "—Restricted Payments" or under one or more clauses of the definition of Permitted Investments, as determined by the Issuer. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of the Issuer may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

Any designation of a Subsidiary of the Issuer as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a certified copy of a resolution of the Board of Directors giving effect to such designation and an Officers' Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "—Restricted Payments." If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock," the Issuer will be in default of such covenant. The Board of Directors of the Issuer may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided that* such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock," calculated on a *pro forma* basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence following such designation.

***Payments for Consent***

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

***Maintenance of Listing***

The Issuer will use its commercially reasonable efforts to maintain the listing of the Notes on the Euro MTF for so long as such Notes are outstanding; *provided that* if at any time the Issuer determines that it can no longer reasonably comply with the requirements for listing the Notes on the Euro MTF or if maintenance of such listing becomes unduly onerous, it will obtain prior to the delisting of the Notes from the Euro MTF, and thereafter use its commercially reasonable efforts to maintain, a listing of such Notes on such other "recognised stock exchange" as defined in Section 1005 of the Income Tax Act 2007 of the United Kingdom.

***Reports***

So long as any Notes are outstanding, the Issuer will furnish to the Trustee:

(1) within 120 days after the end of the Issuer's fiscal year beginning with the fiscal year ending December 31, 2009, annual reports containing the following information: (a) audited consolidated balance sheet, income statements and statements of cash flow of the Issuer for the two most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) *pro forma* income statement and balance sheet information of the Issuer, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates (unless such *pro forma* information has been provided in a previous report pursuant to clause (2) or (3) below, and *provided* that such *pro forma* financial information shall only be provided only to the extent available without unreasonable difficulty or expense, in which case the Issuer will provide, in the case of a material acquisition, acquired company financial statements)); (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations (including a discussion by business segment), financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies and

critical accounting policies; and (d) a summary description of the business and material contractual arrangements, including material debt instruments, and material recent developments;

(2) within 60 days following the end of each of the first three fiscal quarters in each fiscal year of the Issuer, quarterly reports containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such quarter and unaudited condensed statements of income and cash flow for the quarterly and year to date periods ending on the unaudited condensed balance sheet date, and the comparable prior year periods for the Issuer, together with condensed footnote disclosure; (b) *pro forma* income statement and balance sheet information of the Issuer, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal quarter as to which such quarterly report relates (*provided* that such *pro forma* financial information shall only be provided only to the extent available without unreasonable difficulty or expense, in which case the Issuer will provide, in the case of a material acquisition, acquired company financial statements); (c) an operating and financial review of the unaudited financial statements (including a discussion by business reporting segment), including a discussion of the consolidated financial condition and results of operations of the Issuer and any material change between the current quarterly period and the corresponding period of the prior year; and (d) a summary of material recent developments; and

(3) promptly after the occurrence of any material acquisition, disposition or restructuring of the Issuer and the Restricted Subsidiaries, taken as a whole, or any senior executive officer changes at the Issuer or change in auditors of the Issuer or any other material event that the Issuer announces publicly, a report containing a description of such event.

If the Issuer has designated any of its Subsidiaries as Unrestricted Subsidiaries and such Subsidiaries are Significant Subsidiaries, then the quarterly and annual financial information required by the preceding paragraph will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Issuer and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer.

All financial statements shall be prepared in accordance with IFRS. Except as provided for above, no report need include separate financial statements for the Issuer or Subsidiaries of the Issuer or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Listing Prospectus.

In addition, for so long as any Notes remain outstanding, the Issuer has agreed that it will furnish to the holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Contemporaneously with the furnishing of each such report discussed above, the Issuer will also make such report available to holders of the Notes either on the Issuer's website or through other electronic media and, in the case of furnishing the information pursuant to clauses (1) and (2) of this paragraph, will promptly thereafter hold a conference call with holders of the Notes hosted by an Officer of the Issuer to discuss the operations of the Issuer and its Subsidiaries in respect of the relevant period. The Issuer will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of this covenant, if and so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, at the offices of the Paying Agent in Luxembourg.

**Events of Default and Remedies**

Each of the following is an "*Event of Default*":

(1) default for 30 days in the payment when due of interest or Additional Amounts, if any, with respect to the Notes;

(2) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the Notes;

(3) failure by the Issuer to make a Change of Control Offer or Asset Sale Offer or to purchase the Notes in accordance with the provisions described under the captions "—Repurchase at the Option of Holders—Change of Control," "—Repurchase at the Option of Holders—Asset Sales" or failure by the Issuer or relevant Guarantor for 30 days after written notice to the Issuer by the Trustee or the holders of at least 25% in aggregate principal amount of the Notes outstanding to comply with any other provision described under the captions "—

Repurchase at the Option of Holders—Change of Control," "—Repurchase at the Option of Holders—Asset Sales";

(4) failure by the Issuer or relevant Guarantor to comply with the provisions described under the caption "Certain covenants—Consolidation, Merger and Sale of Assets;

(5) failure by the Issuer or relevant Guarantor for 60 days after written notice to the Issuer by the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding voting as a single class to comply with any of the agreements in the Indenture (other than a default in performance, or breach, or a covenant or agreement which is specifically dealt with in clauses (1), (2), (3) or (4)), the Notes or the Note Guarantee;

(6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Issuer or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, if that default:

 (a) is caused by a failure to pay principal of, or interest or premium, if any, on, such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "*Payment Default*"); or

 (b) results in the acceleration of such Indebtedness prior to its Stated Maturity,

 and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates €20.0 million or more;

(7) failure by the Issuer or any of its Restricted Subsidiaries to pay final judgments entered by a court or courts of competent jurisdiction aggregating in excess of €20.0 million, which judgments are not paid, discharged or stayed for a period of 60 consecutive days or more during which a stay of enforcement of such judgment was not (by reason of pending appeal or otherwise) in effect;

(8) except as permitted by the Indenture, any Note Guarantee is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Guarantor, or any Person acting on behalf of any Guarantor, denies or disaffirms its obligations under its Note Guarantee; and

(9) certain events of bankruptcy or insolvency described in the Indenture with respect to the Issuer or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of its Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to the Issuer, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from holders of the Notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or Additional Amounts or premium, if any.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any holders of Notes unless such holders have offered to the Trustee indemnity or security reasonably satisfactory to it against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest or Additional Amounts when due, no holder of a Note may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such holder has previously given the Trustee notice that an Event of Default is continuing;

(2) holders of at least 25% in aggregate principal amount of the then outstanding Notes have requested the Trustee to pursue the remedy;

(3) such holders have offered the Trustee security or indemnity reasonably satisfactory to it against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) holders of a majority in aggregate principal amount of the then outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

The holders of a majority in aggregate principal amount of the then outstanding Notes by notice to the Trustee may, on behalf of the holders of all of the Notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest, Additional Amounts or premium, if any, on, or the principal of, the Notes.

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture. Upon becoming aware of any Default or Event of Default, the Issuer is required to deliver to the Trustee a statement specifying such Default or Event of Default.

**No Personal Liability of Directors, Officers, Employees and Stockholders**

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor, as such, will have any liability for any obligations of the Issuer or the Guarantors under the Notes, the Indenture, the Note Guarantees, or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws.

**Legal Defeasance and Covenant Defeasance**

The Issuer may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an Officers' Certificate, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Guarantors discharged with respect to their Note Guarantees ("*Legal Defeasance*") except for:

(1) the rights of holders of outstanding Notes to receive payments in respect of the principal of, or interest (including Additional Amounts or premium, if any) on, such Notes when such payments are due from the trust referred to below;

(2) the Issuer's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's and the Guarantors' obligations in connection therewith; and

(4) the Legal Defeasance and Covenant Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Guarantors released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the Indenture ("*Covenant Defeasance*") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, all Events of Default described under "—Events of Default and Remedies" (except those relating to payments on the Notes or bankruptcy, receivership, rehabilitation or insolvency events) will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the holders of the Notes, cash in euros, non-callable euro-denominated government securities, or a combination of cash in euros and non-callable euro-denominated government securities, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, or

interest (including Additional Amounts and premium, if any) on the outstanding Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to such stated date for payment or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuer must deliver to the Trustee:

   (a) an opinion of United States counsel reasonably acceptable to the Trustee confirming that (a) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred; and

   (b) an opinion of counsel in the jurisdiction of incorporation of the Issuer and reasonably acceptable to the Trustee to the effect that the holders of the Notes will not recognize income, gain or loss for tax purposes of such jurisdiction as a result of such deposit and defeasance and will be subject to tax in such jurisdiction on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee:

   (a) an opinion of United States counsel reasonably acceptable to the Trustee confirming that the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred; and

   (b) an opinion of counsel in the jurisdiction of incorporation of the Issuer and reasonably acceptable to the Trustee to the effect that the holders of the Notes will not recognize income, gain or loss for tax purposes of such jurisdiction as a result of such deposit and defeasance and will be subject to tax in such jurisdiction on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit (and any similar concurrent deposit relating to other Indebtedness), and the granting of Liens to secure such borrowings);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the Indenture and the agreements governing any other Indebtedness being defeased, discharged or replaced) to which the Issuer or any of the Guarantors is a party or by which the Issuer or any of the Guarantors is bound;

(6) the Issuer must deliver to the Trustee an Officers' Certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding any creditors of the Issuer or others; and

(7) the Issuer must deliver to the Trustee an Officers' Certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

**Amendment, Supplement and Waiver**

Except as provided in the next two succeeding paragraphs, the Indenture, the Notes, the Note Guarantees may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default or compliance with any provision of the Indenture or the Notes or the Note Guarantees may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Unless consented to by the holders of at least 90% of the aggregate principal amount of then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), an amendment, supplement or waiver may not (with respect to any Notes held by a non-consenting holder):

(1) reduce the principal amount of Notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption of the Notes (other than provisions relating to the covenants described above under the caption "—Repurchase at the Option of Holders");

(3) reduce the rate of or change the time for payment of interest, including default interest, on any Note;

(4) waive a Default or Event of Default in the payment of principal of, or interest, Additional Amounts or premium, if any, on, the Notes (except a rescission of acceleration of the Notes by the holders of at least a majority in aggregate principal amount of the then outstanding Notes and a waiver of the Payment Default that resulted from such acceleration);

(5) make any Note payable in money other than that stated in the Notes;

(6) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of holders of Notes to receive payments of principal of, or interest, Additional Amounts or premium, if any, on, the Notes;

(7) waive a redemption payment with respect to any Note (other than a payment required by one of the covenants described above under the caption "—Repurchase at the Option of Holders");

(8) release any Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the terms of the Indenture; or

(9) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of Notes, the Issuer, the Guarantors and the Trustee may amend or supplement the Indenture, the Notes or the Note Guarantees:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated Notes in addition to or in place of certificated Notes;

(3) to provide for the assumption of the Issuer's or a Guarantor's obligations to holders of Notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such Guarantor's assets, as applicable, undertaken in accordance with the Indenture;

(4) to make any change that would provide any additional rights or benefits to the holders of Notes or that does not adversely affect the legal rights under the Indenture of any such holder;

(5) to conform the text of the Indenture, the Note Guarantees, or the Notes to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the Indenture, the Note Guarantees or the Notes;

(6) to provide for the issuance of Further Notes in accordance with the limitations set forth in the Indenture as of the Issue Date;

(7) to allow any Guarantor to execute a supplemental indenture and/or a Note Guarantee with respect to the Notes;

(8) provide for uncertificated Notes in addition to or in place of certificated Notes (*provided* that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code); or

(9) to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture.

The consent of the holders of Notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

**Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

(1) either:

(a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or

(b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer or any Guarantor has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the holders, cash in euros, non-callable euro-denominated government securities, or a combination of cash in euros and non-callable euro-denominated government securities, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;

(2) in respect of clause 1(b), no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit and any similar deposit relating to other Indebtedness and, in each case, the granting of Liens to secure such borrowings) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer or any Guarantor is a party or by which the Issuer or any Guarantor is bound (other than with respect to the borrowing of funds to be applied concurrently to make the deposit required to effect such satisfaction and discharge and any similar concurrent deposit relating to other Indebtedness, and in each case the granting of Liens to secure such borrowings);

(3) the Issuer or any Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and

(4) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer must deliver an Officers' Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied; *provided* that any such counsel may rely upon an Officer's Certificate as to matters of fact (including compliance with the foregoing clauses (1), (2), (3) and (4)).

**Judgment Currency**

Any payment on account of an amount that is payable in euros (the "*Required Currency*"), which is made to or for the account of any holder of the Notes or the Trustee in lawful currency of any other jurisdiction (the "*Judgment Currency*"), whether as a result of any judgment or order or the enforcement thereof or the liquidation of the Issuer or a Guarantor, shall constitute a discharge of the Issuer or the Guarantor's obligation under the Indenture and the Notes or Note Guarantee, as the case may be, only to the extent of the amount of the Required Currency with such holder or the Trustee, as the case may be, could purchase in the London foreign exchange markets with the amount of the Judgment Currency in accordance with normal banking procedures at the rate of exchange prevailing on the first Business Day following receipt of the payment in the Judgment Currency. If the amount of the Required Currency that could be so purchased is less than the amount of the Required Currency originally due to such holder or the Trustee, as the case may be, the Issuer shall indemnify and hold harmless the holder or the Trustee, as the case may be, from and against all loss or damage arising out of, or as a result of, such deficiency. This indemnity shall constitute an obligation separate and independent from the other obligations contained in the Indenture or the Notes, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holder or the Trustee from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum in respect of an amount due hereunder or under any judgment or order.

**Concerning the Trustee**

If the Trustee becomes a creditor of the Issuer or any Guarantor, the Indenture limits the right of the Trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign as Trustee.

The holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default occurs and is continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of Notes, unless such holder has offered to the Trustee security or indemnity reasonably acceptable to it against any loss, liability or expense.

**Listing**

Application has been made to list the Additional Notes on the official list of the Luxembourg Stock Exchange and to admit the Additional Notes to trading on the Euro MTF. The Additional Notes are expected to be listed by the issue date or shortly thereafter. There can be no guarantee that the application to list the Additional Notes on the official list of the Luxembourg Stock Exchange and to admit the Additional Notes on the Euro MTF will be approved as of the date the Additional Notes are issued or at any time thereafter, and settlement of the Additional Notes is not conditioned on obtaining this listing. The Articles of Association of the Issuer will be registered prior to the listing with the Registrar of the District Court in Luxembourg, where such documents are available for inspection and where copies thereof can be obtained upon request. As long as the Notes are listed on the Euro MTF, an agent for making payments on, and transfers of, Notes will be maintained in Luxembourg. The Issuer has initially designated The Bank of New York Mellon (Luxembourg) S.A. as its agent for those purposes. The address of The Bank of New York Mellon (Luxembourg) S.A. is Vertigo Building, Polaris, 2-4 rue Eugene Ruppert, L-2453, Luxembourg.

**Additional Information**

Anyone who receives this Listing Prospectus may obtain a copy of the Indenture without charge by writing to Trg Dražena Petrovića 3, 10000 Zagreb, Croatia, Attention: Strategy and Capital Markets.

So long as the Notes are listed on the Euro MTF and the rules of the Luxembourg Stock Exchange shall so require, copies, current and future, of all of the Issuer's annual audited consolidated and unconsolidated financial statements, the Issuer's unaudited consolidated interim quarterly financial statements and the Listing Prospectus may be obtained, free of charge, during normal business hours at the offices of the Paying Agent in Luxembourg.

**Consent to Jurisdiction and Service of Process**

The Indenture provides that the Issuer and each Guarantor will appoint CT Corporation as its agent for service of process in any suit, action or proceeding with respect to the Indenture, the Notes and the Note Guarantees and for actions brought under US federal or state securities laws brought in any Federal or state court located in the City of New York and will submit to such jurisdiction.

**Enforceability of Judgments**

Since substantially all of the assets of the Issuer and the Guarantors are outside the United States, any judgment obtained in the United States against the Issuer or any Guarantor, including judgments with respect to the payment of principal, premium, interest, Additional Amounts and any redemption price and any purchase price with respect to the Notes, may not be collectable within the United States.

**Prescription**

Claims against the Issuer or any Guarantor for the payment of principal or Additional Amounts, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer or any Guarantor for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

**Certain Definitions**

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

"*Acquired Debt*" means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"*Applicable Premium*" means, with respect to any Note on any redemption date, the greater of:

(1) 1.0% of the principal amount of the Note; or

(2) the excess of:

(a) the present value at such redemption date of (i) the redemption price of the Note at December 7, 2013 (such redemption price being set forth in the table appearing under the caption "Optional Redemption" and being calculated exclusive of accrued and unpaid interest and Additional Amounts) *plus* (ii) all required interest payments due on the Note through December 7, 2013 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Bund Rate as of such redemption date plus 50 basis points; over

(b) the principal amount of the Note, if greater.

"*Asset Sale*" means:

(1) the sale, lease, conveyance or other disposition of any assets by the Issuer or any of its Restricted Subsidiaries; *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption "—Repurchase at the Option of Holders—Change of Control" and/or the provisions described above under the caption "—Certain Covenants—Merger, Consolidation or Sale of Assets" and not by the provisions of the Asset Sale covenant; and

(2) the issuance of Equity Interests by any Restricted Subsidiary or the sale by the Issuer or any of its Restricted Subsidiaries of Equity Interests in any of the Issuer's Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than €5.0 million;

(2) a transfer of assets between or among the Issuer and its Restricted Subsidiaries;

(3) an issuance of Equity Interests by a Restricted Subsidiary to the Issuer or to a Restricted Subsidiary;

(4) the sale, lease or other transfer of inventory, products, services or accounts receivable in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of the Issuer, no longer economically practicable to maintain or useful in the conduct of the business of Issuer and its Restricted Subsidiaries taken as whole);

(5) licenses and sublicenses by the Issuer or any of its Restricted Subsidiaries of software or intellectual property in the ordinary course of business;

(6) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;

(7) the granting of Liens not prohibited by the covenant described above under the caption "—Liens;"

(8) the sale or other disposition of cash or Cash Equivalents;

(9) a Restricted Payment that does not violate the covenant described above under the caption "—Certain Covenants—Restricted Payments" or a Permitted Investment;

(10) the disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(11) the foreclosure, condemnation or any similar action with respect to any property or other assets or a surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(12) the disposition of assets to a Person who is providing services (the provision of which have been or are to be outsourced by the Issuer or any Restricted Subsidiary to such Person) related to such assets of comparable or greater value or usefulness to the business of the Issuer and its Restricted Subsidiaries taken as a whole, as determined in good faith by the Issuer; and

(13) the sale of Securitization Assets and related assets of the type specified in the definition of "Securitization Financing" to a Securitization Subsidiary in connection with any Qualified Securitization Financing.

"*Asset Sale Offer*" has the meaning assigned to that term in the Indenture governing the Notes.

"*Attributable Debt*" in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended or until the earliest date on which the lessee may terminate such lease without penalty or upon payment of penalty (in which case the rental payments shall include such penalty). Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with IFRS or at the interest rate of the Notes compounded semi-annually; *provided, however*, that if such sale and leaseback transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of "Capital Lease Obligation."

"*Beneficial Owner*" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"*Bilateral Credit Facilities*" means, with respect to the Issuer or any Restricted Subsidiary, one or more debt facilities or arrangements (excluding the Senior Credit Facilities Agreement, the EBRD Facilities and the IFC Facilities), or commercial paper facilities and overdraft facilities with banks or other institutional lenders, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables) or letters of credit, in each case, as amended, restated or modified, in whole or in part from time to time (whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks or institutions and whether provided under the original agreement or one or more other credit or other agreements, indentures, financing agreements or otherwise) and, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing.

"*Board of Directors*" means:

(1) with respect to the Issuer or any other corporation, the members of the supervisory board or advisory board of the corporation or such corporation's management board of directors;

(2) with respect to a partnership, the board of directors of the general partner of the partnership;

(3) with respect to a limited liability company, the managing member or members (or analogous governing body) or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

"*Bund Rate*" means, with respect to any relevant date, the rate per annum equal to the equivalent yield to maturity as of such date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such relevant date, where:

(1) "*Comparable German Bund Issue*" means the German Bundesanleihe security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such redemption date to December 7, 2013, and that would be utilized at the time of selection and in accordance with customary financial practice, in pricing new issues of euro-denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the Notes and of a maturity most nearly equal to December 7, 2013; *provided*, *however*, that, if the period from such redemption date to December 7, 2013, is less than one year, a fixed maturity of one year shall be used;

(2) "*Comparable German Bund Price*" means, with respect to any relevant date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Issuer obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(3) "*Reference German Bund Dealer*" means any dealer of German Bundesanleihe securities appointed by the Issuer in good faith; and

(4) "*Reference German Bund Dealer Quotations*" means, with respect to each Reference German Bund Dealer and any relevant date, the average as determined by the Issuer of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference German Bund Dealer at 3:30 p.m. Frankfurt, Germany, time on the third business day in Frankfurt preceding the relevant date.

"*Business Day*" means a day other than a Saturday, Sunday or other day on which banking institutions in London, Luxembourg or Zagreb or a place of payment under the Indenture are authorized or required by law to close; *provided*, *however*, that for any payments to be made under the Indenture such day shall also be a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer 2 payment system is open for the settlement of payments.

"*Capital Lease Obligation*" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet prepared in accordance with IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

"*Capital Stock*" means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

"*Cash Equivalents*" means:

(1) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the European Union (including any agency or instrumentality thereof), Republic of Croatia (including any agency or instrumentality thereof) or of the United States of America (including any agency or instrumentality thereof), as the case may be, the payment of which

is backed by the full faith and credit of the relevant member state of the European Union, Switzerland or the United States of America, as the case may be, and which are not callable or redeemable at the Issuer's option;

(2) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition issued by a bank or trust company which is organized under, or authorized to operate as a bank or trust company under, (i) the laws of a member state of the European Union (as of the Issue Date), Switzerland or the United States of America or any state thereof (*provided* that such bank or trust company has capital, surplus and undivided profits aggregating in excess of €500 million (or the foreign currency equivalent thereof as of the date of such investment) and whose long-term debt is rated "A-3" or higher by Moody's or "A" or higher by S&P or the equivalent rating category of another internationally recognized rating agency) or (ii) the laws of the Republic of Croatia, Bosnia and Herzegovina, Hungary or Serbia, *provided* that in the case of (ii) such bank or trust company is either (a) a controlled Affiliate of a bank or trust company meeting the conditions of subclause (i) or (b) a bank or trust company (including successors thereto) which, at any time during 2009 through the Issue Date, has issued to the Issuer or any Restricted Subsidiary overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) above entered into with any financial institution meeting the qualifications specified in clause (2) above;

(4) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within one year after the date of acquisition; and

(5) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (4) of this definition.

"*Change of Control*" means (i) in the event the Notes are then rated lower than "BB" by S&P or "Ba2 by Moody's or, if S&P or Moody's or both shall not make a rating on the Notes publicly available, the equivalent or lower rating by a "nationally recognized statistical rating organization or organizations" (as defined in Rule 436 under the U.S. Securities Act), as the case may be, or if the Notes are not then rated, the occurrence of any of the events described in clauses (1), (2), (3), or (4) below or (ii) in the event the Notes are rated "BB" or higher by S&P and "Ba2" or higher by Moody's or, if S&P or Moody's or both shall not make a rating on the Notes publicly available, the equivalent or higher rating by a "nationally recognized statistical rating organization or organizations" (as defined in Rule 436 under the U.S. Securities Act), as the case may be, the occurrence of (x) any of the events described in clauses (1), (2), (3), or (4) below and (y) a Rating Decline:

(1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and its Restricted Subsidiaries taken as a whole to any Person (including any "person" (as that term is used in Section 13(d)(3) of the U.S. Exchange Act)) other than a Principal or a Related Party of a Principal;

(2) the adoption of a plan relating to the liquidation or dissolution of the Issuer;

(3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any "person" as defined above), other than the Principal and/or any of its Related Parties, becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of the Issuer, measured by voting power rather than number of shares; or

(4) the first day on which a majority of the members of the Board of Directors of the Issuer are not Continuing Directors; provided, however, that this clause (4) shall not apply to members of the Board of Directors nominated or re-elected by employees pursuant to co-determination and similar statutes providing for employee representatives on supervisory or similar boards.

"*Change of Control Offer*" has the meaning assigned to that term in the Indenture governing the Notes.

"*Consolidated EBITDA*" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus*, without duplication, the following to the extent deducted in calculating such Consolidated Net Income:

(1) provision for taxes based on income or profits of such Person and its Subsidiaries which are Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*

(2) the Fixed Charges of such Person and its Subsidiaries which are Restricted Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; *plus*

(3) depreciation, amortization (including amortization of intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash charges and expenses (excluding any such non-cash charge or expense to the extent that it represents an accrual of or reserve for cash charges or expenses in any future period or amortization of a prepaid cash charge or expense that was paid in a prior period) of such Person and its Subsidiaries which are Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash charges or expenses were deducted in computing such Consolidated Net Income; *plus*

(4) any expenses, charges or other costs related to the issuance of any Capital Stock, or any Permitted Investment, acquisition, disposition, recapitalization or listing or the incurrence of Indebtedness permitted to be incurred under the covenant described above under the caption "—Certain Covenants—Limitation on Indebtedness" (including refinancing thereof) whether or not successful, including (i) such fees, expenses or charges related to any incurrence of Indebtedness or issuance and (ii) any amendment or other modification of any incurrence; *plus*

(5) all deferred financing costs written off and premiums paid in connection with any early extinguishment of Indebtedness to the extent such costs and premiums were deducted in computing such Consolidated Net Income; *plus*

(6) any foreign currency translation losses (including losses related to currency remeasurements of Indebtedness) of such Person and its Subsidiaries which are Restricted Subsidiaries for such period, to the extent that such losses were taken into account in computing such Consolidated Net Income; *minus*

(7) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue or the reversal of a reserve for cash charges in a future period in the ordinary course of business,

in each case, on a consolidated basis and determined in accordance with IFRS.

"*Consolidated Indebtedness*" means, at any date of determination, the aggregate amount of all outstanding Indebtedness of the Issuer and its Restricted Subsidiaries on a consolidated basis and determined in accordance with IFRS net of cash and Cash Equivalents of the Issuer and its Restricted Subsidiaries on a consolidated basis.

"*Consolidated Leverage Ratio*" means with respect to any specified Person as of any date of determination, the ratio of the Consolidated Indebtedness of such Person as of such date to the Consolidated EBITDA of such Person for the four most recent full fiscal quarters ending immediately prior to such date for which internal financial statements are available. In the event that the specified Person or any of its Subsidiaries which are Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Consolidated Leverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Consolidated Leverage Ratio is made (the "*Calculation Date*"), then the Consolidated Leverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by the Issuer's Chief Financial Officer or Chief Accounting Officer) to such incurrence, assumption, guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Consolidated Leverage Ratio:

(1) acquisitions that have been made by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Subsidiaries which are Restricted Subsidiaries acquired by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Subsidiaries which are Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given *pro forma* effect (as determined in good faith by the Issuer's Chief Financial Officer or Chief Accounting

Officer and may include anticipated expense and cost reduction synergies) as if they had occurred on the first day of the four-quarter reference period;

(2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;

(3) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period; and

(4) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period.

"*Consolidated Net Income*" means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Subsidiaries which are Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiary), determined in accordance with IFRS; *provided* that:

(1) all extraordinary gains (losses) and all gains (losses) realized in connection with any Asset Sale or the disposition of securities or the early extinguishment of Indebtedness, together with any related provision for taxes on any such gain, will be excluded;

(2) the net income (loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary which is a Subsidiary of the Person;

(3) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(1) of the first paragraph under the caption "Certain Covenants—Restricted Payments", any net income (loss) of any Restricted Subsidiary will be excluded if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Issuer by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes or the Indenture, (c) contractual restrictions in existence on the Issue Date with respect to the Restricted Subsidiaries and other restrictions with respect to the Restricted Subsidiaries that, taken as a whole, are not materially less favorable to the Holders of the Notes than such restrictions in effect on the Issue Date, and (d) any restriction listed under clauses (1), (2), (3) or (4) of the second paragraph of the covenant described above under the caption "—Certain Covenants—Dividend and Other Payments Restrictions Affecting Restricted Subsidiaries"); except that the Issuer's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Issuer or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

(4) any net gain (loss) realized upon the sale or other disposition of any asset or disposed operations of the Issuer or any Restricted Subsidiaries (including pursuant to any sale leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by the Issuer) or in connection with the sale or disposition of securities will be excluded;

(5) any extraordinary or exceptional gain, loss or charge or any profit or loss on the disposal of property, investments and businesses and asset impairments, or any charges or reserves in respect of any restructuring, redundancy, integration or severance or any expenses, charges, reserves or other costs related to acquisitions or the Refinancing Transactions will be excluded;

(6) the cumulative effect of a change in accounting principles will be excluded;

(7) any goodwill or other intangible asset impairment charge will be excluded; and

(8) non-cash gains and losses attributable to movement in the mark-to-market valuation of Hedging Obligations pursuant to IFRS 7.

"*continuing*" means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

"*Continuing Directors*" means, as of any date of determination, any member of the Board of Directors of the Issuer who:

(1) was a member of such Board of Directors on the Issue Date; or

(2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

"*Credit Facilities*" means, with respect to the Issuer or any Guarantor, one or more debt facilities or arrangements (including the Senior Credit Facilities Agreement but excluding the Bilateral Credit Facilities, the EBRD Facilities and the IFC Facilities), or commercial paper facilities and overdraft facilities with banks or other institutional lenders, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced (including by means of sales of debt securities to institutional investors), in whole or in part from time to time (whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks or institutions and whether provided under the original Senior Credit Facilities Agreement or one or more other credit or other agreements, indentures, financing agreements or otherwise) and, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing. Without limiting the generality of the foregoing, the term "Credit Facilities" shall include any agreement or instrument (1) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Issuer as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

"*Default*" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"*Designated Noncash Consideration*" means the Fair Market Value of all consideration (other than cash and Cash Equivalents) received by the Issuer or a Restricted Subsidiary in connection with an Asset Sale that is so designated as Designated Noncash Consideration pursuant to an Officers' Certificate of the Issuer setting for the basis of such valuation, less the amount of cash or Cash Equivalents received by the Issuer or a Restricted Subsidiary in connection with a subsequent sale of such Designated Noncash Consideration.

"*Disqualified Stock*" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the Issuer to repurchase such Capital Stock upon the occurrence of a Change of Control or an Asset Sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that the Issuer may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "—Certain Covenants—Restricted Payments." The amount of Disqualified Stock deemed to be outstanding at any time for purposes of the Indenture will be the maximum amount that the Issuer and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

"*EBRD Facilities*" means, with respect to the Issuer or any Restricted Subsidiary, one or more debt facilities or arrangements with the European Bank for Reconstruction and Development, providing for revolving credit loans, term loans or letters of credit, in each case, as amended, restated or modified, in whole or in part from time to time and, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing.

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"*Equity Offering*" means a public sale either (1) of Equity Interests of the Issuer by the Issuer (other than Disqualified Stock and other than to a Subsidiary of the Issuer) or (2) of Equity Interests of a direct or indirect parent entity of the Issuer (other than to the Issuer or a Subsidiary of the Issuer) to the extent that the net proceeds therefrom are contributed to the common equity capital of the Issuer.

"*European Union*" means, unless otherwise provided herein, the European Union as of January 1, 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which becomes a member of the European Union after January 1, 2004.

"*euro*" or "*€*" means the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union.

"*Existing Indebtedness*" means all Indebtedness of the Issuer and its Restricted Subsidiaries (other than Indebtedness under the Senior Credit Facilities Agreement, the EBRD Facilities, the IFC Facilities, the Bilateral Credit Facilities and the Securitization Financings) outstanding on the Issue Date after giving effect to the use of proceeds of the Notes, until such amounts are repaid.

"*Fair Market Value*" means the value that would be paid by a willing buyer to an unaffiliated willing seller in an arm's length transaction not involving distress or necessity of either party, determined in good faith by the chief financial officer or the Board of Directors of the Issuer; *provided* that for transactions valued in excess of € 10.0 million, such determination must be made in good faith by the Board of Directors of the Issuer (in any case unless otherwise provided in the Indenture).

"*Fixed Charge Coverage Ratio*" means with respect to any specified Person for any period, the ratio of the Consolidated EBITDA of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Subsidiaries which are Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "*Calculation Date*"), then the Fixed Charge Coverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by the Issuer's Chief Financial Officer or Chief Accounting Officer) to such incurrence, assumption, guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) acquisitions that have been made by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Subsidiaries which are Restricted Subsidiaries acquired by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Subsidiaries which are Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given *pro forma* effect (as determined in good faith by the Issuer's Chief Financial Officer or Chief Accounting Officer and may include anticipated expense and cost reduction synergies) as if they had occurred on the first day of the four-quarter reference period;

(2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;

(3) the Fixed Charges attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Subsidiaries which are Restricted Subsidiaries following the Calculation Date;

(4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;

(5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period; and

(6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months, or, if shorter, at least equal to the remaining term of such Indebtedness).

"*Fixed Charges*" means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense (net of interest income) of such Person and its Subsidiaries which are Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt issuance costs (other than costs relating to the Refinancing Transactions) and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations in respect of interest rates; *plus*

(2) the consolidated interest expense of such Person and its Subsidiaries which are Restricted Subsidiaries that was capitalized during such period (including, without limitation, Securitization Fees); *plus*

(3) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Subsidiaries which are Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Subsidiaries which are Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; *plus*

(4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Subsidiaries which are Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of the Issuer (other than Disqualified Stock) or to the Issuer or a Restricted Subsidiary, *times* (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, determined on a consolidated basis as estimated in good faith by the chief financial officer of the Issuer.

"*Guarantee*" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

"*Guarantors*" means each of Jamnica d.d., Konzum d.d., Ledo d.d., Zvijezda d.d., Agrokor trgovina d.d., PIK Vinkovci d.d., Sarajevski kiseljak d.d., Ledo d.o.o. Čitluk and any Restricted Subsidiary that executes a Note Guarantee in accordance with the provisions of the Indenture, and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

"*Hedging Obligations*" means, with respect to any specified Person, the obligations of such Person under:

(1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;

(2) other agreements or arrangements designed to manage interest rates or interest rate risk; and

(3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

"*IFC Facilities*" means, with respect to the Issuer or any Restricted Subsidiary, one or more debt facilities or arrangements with the International Finance Corporation, providing for revolving credit loans, term loans or letters of credit, in each case, as amended, restated or modified, in whole or in part from time to time and, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing.

"*IFRS*" means International Financial Reporting Standards promulgated by the International Accounting Standards Board or any successor board or agency and as adopted by the European Union, as in effect on the date of any calculation or determination required hereunder.

"*Indebtedness*" means, with respect to any specified Person, without duplication, any indebtedness of such Person (excluding accrued expenses and trade payables), whether or not contingent:

(1) in respect of borrowed money;

(2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(3) in respect of banker's acceptances;

(4) representing Capital Lease Obligations;

(5) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed;

(6) representing any Hedging Obligations; and

(7) representing Attributable Debt.

if and to the extent any of the preceding items (other than letters of credit, Attributable Debt and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with IFRS. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

The term "Indebtedness" shall not include:

(1) in connection with the purchase by the Issuer or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter

(2) any lease of property which would be considered an operating lease under IFRS;

(3) in connection with the purchase by the Company or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; or

(4) the avoidance of doubt, any contingent obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes.

"*Investment Grade Status*" shall occur when the Notes are rated Baa3 or better by Moody's and BBB− or better by S&P (or, if either such entity ceases to rate the Notes, the equivalent investment grade credit rating from any other a "nationally recognized statistical rating organization or organizations" (as defined in Rule 436 under the U.S. Securities Act) selected by the Issuer as a replacement agency).

"*Investments*" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations, but excluding advances or extensions of credit to customers or suppliers made in the ordinary course of business), advances or capital contributions (excluding commission, travel and similar advances to Officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as Investments on a balance sheet prepared in accordance with IFRS. If the Issuer or any Restricted Subsidiary sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, the Issuer will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Issuer's Investments in such Restricted Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "—Certain Covenants—Restricted Payments." The acquisition by the Issuer or any Restricted Subsidiary of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Issuer or such Restricted Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption "—Certain Covenants—Restricted Payments." Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

"*Issue Date*" means December 7, 2009.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing or similar statement under the laws of any jurisdiction.

"*Moody's*" means Moody's Investors Service, Inc.

"*Net Proceeds*" means the aggregate cash proceeds and Cash Equivalents received by the Issuer or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash or Cash Equivalents received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, and any reserve for adjustment or indemnification obligations in respect of the sale price of such asset or assets established in accordance with IFRS.

"*Non-Recourse Debt*" means Indebtedness:

(1) as to which neither the Issuer nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable as a guarantor or otherwise; and

(2) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of the Issuer or any of its Restricted Subsidiaries (other than the Equity Interests of an Unrestricted Subsidiary).

"*Notch*" means any change in graduation (+ and − for S&P; 1, 2 and 3 for Moody's; or the equivalent graduation for another Rating Agency) with respect to Rating Categories.

"*Note Guarantee*" means the Guarantee by each Guarantor of the Issuer's obligations under the Indenture and the Notes, executed pursuant to the provisions of the Indenture.

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Officer*" means, with respect to any Person, the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary, any Managing Director or any Vice-President of such Person.

"*Officers' Certificate*" means a certificate signed on behalf of the Issuer by two Officers, one of whom must be the Chief Executive Officer or the Chief Financial Officer of the Issuer.

"*Permitted Business*" means (i) any activity or business related to the production and distribution of food and drink, food retailing and the trading, production, processing and storage of agricultural goods and (ii) any other business or activity which is ancillary, reasonably related or complementary thereto.

"*Permitted Investments*" means:

(1) any Investment in the Issuer or in a Restricted Subsidiary;

(2) any Investment in cash and Cash Equivalents;

(3) any Investment by the Issuer or any Restricted Subsidiary in a Person, if as a result of such Investment:

    (a) such Person becomes a Restricted Subsidiary; or

(b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary;

(4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales;"

(5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Issuer;

(6) any Investments received in compromise or resolution of (A) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Issuer or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (B) litigation, arbitration or other disputes with Persons who are not Affiliates;

(7) Investments in receivables owing to the Issuer or any Restricted Subsidiary created or acquired in the ordinary course of business;

(8) Investments represented by Hedging Obligations, which obligations are permitted by clause (8) of the second paragraph of the covenant entitled "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock";

(9) repurchases of the Notes;

(10) any Guarantee of Indebtedness permitted to be incurred by the covenant entitled "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock;"

(11) any Investment existing on, or made pursuant to binding commitments existing on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; *provided* that the amount of any such Investment may be increased (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under the Indenture;

(12) Investments acquired after the Issue Date as a result of the acquisition by the Issuer or any Restricted Subsidiary of another Person, including by way of a merger, amalgamation or consolidation with or into the Issuer or any of its Restricted Subsidiaries in a transaction that is not prohibited by the covenant described above under the caption "—Merger, Consolidation or Sale of Assets" after the Issue Date to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

(13) any Investment in a Securitization Subsidiary or any Investment by a Securitization Subsidiary in any other Person in connection with a Qualified Securitization Financing, including Investments of funds held in accounts permitted or required by the arrangements governing such Qualified Securitization Financing or any related Indebtedness; *provided, however*, that any Investment in a Securitization Subsidiary is in the form of a Purchase Money Note, contribution of additional Securitization Assets or an equity interest; and

(14) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (14) that are at the time outstanding not to exceed the greater of €75.0 million and 4.0% of Tangible Assets, *provided*, that if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to "Certain Covenants—Restricted Payments," such Investment, if applicable, shall thereafter be deemed to have been made pursuant to clause (3) of the definition of "Permitted Investments" and not this clause.

"*Permitted Liens*" means:

(1) Liens in favor of the Issuer or the Guarantors;

(2) Liens on property of a Person existing at the time such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Issuer or any Restricted Subsidiary; *provided* that such Liens were in existence prior to the contemplation of such Person becoming a Restricted Subsidiary or such merger or

consolidation and do not extend to any assets other than those of the Person that becomes a Restricted Subsidiary or is merged with or into or consolidated with the Issuer or any Restricted Subsidiary;

(3) Liens on property (including Capital Stock) existing at the time of acquisition of the property by the Issuer or any Subsidiary of the Issuer; *provided* that such Liens were in existence prior to such acquisition and not incurred in contemplation of, such acquisition;

(4) Liens to secure the performance of statutory obligations, insurance, surety or appeal bonds, workers compensation obligations, performance bonds or other obligations of a like nature incurred in the ordinary course of business (including Liens to secure letters of credit issued to assure payment of such obligations);

(5) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (4) of the second paragraph of the covenant entitled "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock" covering only the assets acquired with or financed by such Indebtedness;

(6) Liens existing on the Issue Date;

(7) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with IFRS has been made therefor;

(8) Liens imposed by law, such as carriers', warehousemen's, landlord's and mechanics' Liens, in each case, incurred in the ordinary course of business;

(9) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(10) Liens created for the benefit of (or to secure) the Notes (or the Note Guarantees);

(11) Liens in respect of the Capital Stock of the Guarantors securing Credit Facilities permitted by clause (1) of the second paragraph of the covenant entitled "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock";

(12) Liens securing Indebtedness under Hedging Obligations, which obligations are permitted by clause (8) of the second paragraph of the covenant entitled "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock";

(13) Liens to secure any Permitted Refinancing Indebtedness (excluding Liens to secure Permitted Refinancing Indebtedness initially secured pursuant to clause (20) of this definition) permitted to be incurred under the Indenture; *provided*, *however*, that:

(a) the new Lien is limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

(b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged with such Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;

(14) bankers' Liens, rights of setoff, Liens arising out of judgments or awards not constituting an Event of Default and notices of *lis pendens* and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;

(15) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(16) Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(17) Liens on Securitization Assets and related assets of the type specified in the definition of "Securitization Financing" incurred in connection with any Qualified Securitization Financing;

(18) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;

(19) Liens on property or assets under construction (and related rights) in favour of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(20) Liens in respect of the Capital Stock of the Guarantors to secure Indebtedness permitted to be incurred pursuant to the first paragraph of the covenant described above under "—Incurrence of Indebtedness and Issuance of Preferred Stock" or clause (19) of the second paragraph of the covenant described above under "—Incurrence of Indebtedness and Issuance of Preferred Stock" in an aggregate amount not to exceed €100.0 million at any one time outstanding;

(21) Liens incurred in the ordinary course of business of the Issuer or any Restricted Subsidiary with respect to obligations (other than Indebtedness) that do not exceed €10.0 million at any one time outstanding; and

(22) any extension, renewal, refinancing or replacement, in whole or in part, of any Lien described in the foregoing clauses (1) through (21) (but excluding clauses (5), (11), (19), (20) and (21)); *provided* that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the Lien arose, could secure) the Indebtedness being refinanced.

"*Permitted Refinancing Indebtedness*" means any Indebtedness of the Issuer or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge other Indebtedness of the Issuer or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);

(2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged, and has a Weighted Average Life to Maturity that is (a) equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged or (b) more than 90 days after the final maturity date of the Notes;

(3) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, on terms at least as favorable to the holders of Notes or the Note Guarantees, as the case may be, as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged; and

(4) such Indebtedness is incurred either by the Issuer (if the Issuer was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged) or by the Restricted Subsidiary that was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged and is guaranteed only by Persons who were obligors on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"*Principal*" means Mr. Ivica Todorić.

"*Purchase Money Note*" means a promissory Note of a Securitization Subsidiary evidencing a line of credit, which may be irrevocable, from the Issuer or any Subsidiary of the Issuer to a Securitization Subsidiary in connection with a Qualified Securitization Financing, which Note is intended to finance that portion of the purchase price that is not paid in cash or a contribution of equity and which (a) shall be repaid from cash available to the Securitization Subsidiary, other than (i) amounts required to be established as reserves, (ii) amounts paid to investors in respect of interest, (iii) principal and other amounts owing to such investors and (iv) amounts paid in connection with the purchase of newly generated receivables and (b) may be subordinated to the payments described in clause (a).

"*Qualified Securitization Financing*" means any Securitization Financing of a Securitization Subsidiary that meets the following conditions: (i) the Board of Directors of the Issuer shall have determined in good faith that such Qualified Securitization Financing (including financing terms, covenants, termination events and other provisions) is in the aggregate economically fair and reasonable to the Issuer and the Securitization Subsidiary, (ii) all sales of Securitization Assets and related assets to the Securitization Subsidiary are made at Fair Market Value and (iii) the financing terms, covenants, termination events and other provisions thereof shall be market terms (as determined in good faith by the Issuer) and may include Standard Securitization Undertakings. The grant of a security interest in any Securitization Assets of the Issuer or any of its Subsidiaries which are Restricted Subsidiaries (other than a Securitization Subsidiary) to secure Indebtedness under Credit Facilities and any refinancing Indebtedness with respect thereto shall not be deemed a Qualified Securitization Financing.

"*Rating Agency*" means S&P and Moody's or, if S&P or Moody's or both shall not make a rating on the Notes publicly available, a "nationally recognized statistical rating organization or organizations" (as defined in Rule 436 under the U.S. Securities Act), as the case may be, then making a rating on the notes publicly available selected by the Issuer which shall be substituted for S&P or Moody's or both, as the case may be.

"*Rating Categories*" means (i) with respect to S&P, any of the following categories: AAA, AA, A, BBB, BB, B, CCC, CC or C; (ii) with respect to Moody's, any of the following categories: Aaa, Aa, A, Baa, Ba, B, Caa, Ca or C; and (iii) with respect to any other Rating Agency, the equivalent of any such category of S&P or Moody's used by such other Rating Agency.

"*Rating Date*" means the date which is the earlier of (x) 120 days prior to the occurrence of an event specified in clauses (1), (2), (3) or (4) of the definition of a Change of Control and (y) the date of the first public announcement of the possibility of such event.

"*Rating Decline*" means the occurrence on any date within the 90-day period following the occurrence of an event specified in clauses (1), (2), (3) or (4) of the definition of a Change of Control (which period shall be extended so long as during such period the rating of the Notes is under publicly announced consideration for a possible downgrade by a Rating Agency) of: (i) the rating of the Notes by such Rating Agency within such period being at least one Notch below the rating of the Notes by such Rating Agency on the Rating Date or (ii) any Rating Agency withdrawing its rating of the Notes. In determining how many Notches the rating of the Notes has decreased, gradation with respect to Rating Categories will be taken in account (e.g., with respect to S&P, a decline in rating from BB+ to BB, or BB− to B+, will constitute a decrease of one Notch).

"*Refinancing Transactions*" means the transactions relating to the early redemption of the Issuer's €150,000,000 7.00 per cent. Senior Guaranteed Secured Notes due 2011 pursuant to financing under a €150,000,000 Term Facility Agreement dated November 16, 2009 and the refinancing thereof and the repayment of certain bilateral facilities of the Issuer and its Restricted Subsidiaries from the net proceeds from the issuance of the Notes.

"*Related Party*" means:

(1) any controlling stockholder, majority owned Subsidiary, or immediate family member (in the case of an individual) of the Principal; or

(2) any trust, corporation, partnership, limited liability company or other entity, the beneficiaries, stockholders, partners, members, owners or Persons beneficially holding a majority (and controlling) interest of which consist of the Principal and/or such other Persons referred to in the immediately preceding clause (1).

"*Restricted Investment*" means an Investment other than a Permitted Investment.

"*Restricted Subsidiary*" means any Subsidiary of the Issuer that is not an Unrestricted Subsidiary.

"*S&P*" means Standard & Poor's Ratings Group.

"*Securitization Assets*" means any accounts receivable, inventory, royalty or revenue streams from sales of inventory subject to a Qualified Securitization Financing.

"*Securitization Fees*" means reasonable distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not a Restricted Subsidiary in connection with, any Qualified Securitization Financing.

"*Securitization Financing*" means any transaction or series of transactions that may be entered into by the Issuer or any of its Subsidiaries pursuant to which the Issuer or any of its Subsidiaries may sell, convey or otherwise transfer to (a) a Securitization Subsidiary (in the case of a transfer by the Issuer or any of its Subsidiaries) and (b) any other Person (in the case of a transfer by a Securitization Subsidiary), or may grant a security interest in, any Securitization Assets (whether now existing or arising in the future) of the Issuer or any of its Subsidiaries, and any assets related thereto including, without limitation, all collateral securing such Securitization Assets, all contracts and all guarantees or other obligations in respect of such Securitization Assets, proceeds of such Securitization Assets and other assets which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization transactions involving Securitization Assets and any Hedging Obligations entered into by the Issuer or any such Subsidiary in connection with such Securitization Assets.

"*Securitization Repurchase Obligation*" means any obligation of a seller of Securitization Assets in a Qualified Securitization Financing to repurchase Securitization Assets arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"*Securitization Subsidiary*" means a Wholly Owned Subsidiary of the Issuer (or another Person formed for the purposes of engaging in a Qualified Securitization Financing in which the Issuer or any Subsidiary of the Issuer makes an Investment and to which the Issuer or any Subsidiary of the Issuer transfers Securitization Assets and related assets) which engages in no activities other than in connection with the financing of Securitization Assets of the Issuer or its Subsidiaries, all proceeds thereof and all rights (contractual and other), collateral and other assets relating thereto, and any business or activities incidental or related to such business, and which is designated by the Board of Directors of the Issuer (as provided below) as a Securitization Subsidiary and (a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is guaranteed by the Issuer or any other Subsidiary of the Issuer (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (ii) is recourse to or obligates the Issuer or any other Subsidiary of the Issuer in any way other than pursuant to Standard Securitization Undertakings or (iii) subjects any property or asset of the Issuer or any other Subsidiary of the Issuer, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings, (b) with which neither the Issuer nor any other Subsidiary of the Issuer has any material contract, agreement, arrangement or understanding other than on terms which the Issuer reasonably believes to be no less favorable to the Issuer or such Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Issuer and (c) to which neither the Issuer nor any other Subsidiary of the Issuer has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results. Any such designation by the Board of Directors of the Issuer or such other Person shall be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the Board of Directors of the Issuer giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing conditions.

"*Senior Credit Facilities Agreement*" means the senior credit facilities agreement providing to the Issuer an aggregate of up to €325 million of revolving credit and term loan borrowings, by and among, *inter alia*, Agrokor d.d., as borrower, ABN Amro Bank N.V., Bank Austria Creditanstalt AG, Raiffeisen Zentralbank Österreich AG, Privredna Banks Zagreb-Dioničko Društvo and Société Générale-Splitska Banka d.d., as mandated lead arrangers, and Bank Austria Creditanstalt AG, as agent and security trustee, dated as of July 21, 2006 and as amended on October 19, 2009, and as amended, restated, modified, renewed, refunded, replaced in any manner (whether upon or after termination or otherwise) or refinanced (including by means of sales of debt securities to institutional investors) in whole or in part from time to time.

"*Significant Subsidiary*" means, at the date of determination, any Restricted Subsidiary that together with its Subsidiaries which are Restricted Subsidiaries (i) for the most recent fiscal year, accounted for more than 10% of the consolidated revenues of the Issuer or (ii) as of the end of the most recent fiscal quarter, was the owner of more than 10% of the consolidated assets of the Issuer.

"*Stated Maturity*" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"*Standard Securitization Undertakings*" means representations, warranties, covenants, indemnities and guarantees of performance entered into by the Issuer or any Subsidiary of the Issuer which the Issuer has determined in good faith to be customary in a Securitization Financing, including, without limitation, those relating to the servicing of the assets of a Securitization Subsidiary, it being understood that any Securitization Repurchase Obligation shall be deemed to be a Standard Securitization Undertaking.

"*Subsidiary*" means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership or limited liability company of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"*Tangible Assets*" means the consolidated property, plant and equipment of the Issuer and its Restricted Subsidiaries as shown on the most recent balance sheet of the Issuer.

"*Tax*" means any tax, duty, levy, impost, assessment or other governmental charge (including penalties and interest related thereto, and, for the avoidance of doubt, including any withholding or deduction for or on account of Tax).

"*Taxes*" and "*Taxation*" shall be construed to have corresponding meanings.

"*Unrestricted Subsidiary*" means any Subsidiary of the Issuer (other than the Guarantors or any successor to any of them) that is designated by the Board of Directors of the Issuer as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) except as permitted by the covenant described above under the caption "—Certain Covenants—Transactions with Affiliates," is not party to any agreement, contract, arrangement or understanding with the Issuer or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Issuer or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Issuer;

(3) is a Person with respect to which neither the Issuer nor any Restricted Subsidiary has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Issuer or any Restricted Subsidiary.

"*Voting Stock*" of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

## BOOK ENTRY, DELIVERY AND FORM

Each Additional Note sold to qualified institutional buyers in reliance on Rule 144A under the US Securities Act will be represented by a global note in registered form without interest coupons (the "Rule 144A Global Note"). Each Additional Note sold in reliance on Regulation S under the US Securities Act will be represented by a global note in registered form without interest coupons (the "Regulation S Global Note"). When issued, the Rule 144A Global Note and the Regulation S Global Note (together, the "Global Notes") will be deposited with, or on behalf of, a common depositary, and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream. The Notes will be issued only in minimum denominations of €50,000 and in integral multiples of €1,000 in excess thereof. The Notes will be issued on their issue date only against payment in immediately available funds.

Ownership of interests in the Rule 144A Global Note (the "Restricted Book-Entry Interests") and ownership of interests in the Regulation S Global Note (the "Unrestricted Book-Entry Interests" and, together with the Restricted Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that hold interests through such participants.

After the expiration of the period ending 40 days after the later of the commencement of the offering of the Additional Notes and the date the Additional Notes were originally issued (the "Distribution Compliance Period"), investors may hold interests in a permanent Regulation S Global Note through holders other than Euroclear and Clearstream. Euroclear and Clearstream will hold interests in a Regulation S Global Note on behalf of their participants through their respective depositaries.

Regulation S prohibits Initial Purchasers of the Notes under Regulation S from offering, selling or delivering the Notes within the United States or to or for the account or benefit of U.S. persons until the expiration of the Distribution Compliance Period. Until the expiration of the Distribution Compliance Period, beneficial interests in the Regulation S Global Note may be held only through Euroclear and Clearstream, unless transferred to a person that takes delivery through the Rule 144A Global Note in accordance with the certification requirements described below. Restricted Book-Entry Interests may not be exchanged for Unrestricted Book-Entry Interests at any time except in the circumstances described below. See "—Transfer and Exchanges between Global Notes." In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of Euroclear and Clearstream, which may change from time to time.

Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, the Notes will not be issued in definitive form. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their participants.

The laws of some jurisdictions, including some states of the United States, may require that certain purchasers of securities take physical delivery of those securities in definitive form. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered "holders" of the Notes for any purpose.

So long as the Notes are held in global form, Euroclear and/or Clearstream, as applicable, or their respective nominees, will be considered the sole holder(s) of the Global Notes for all purposes under the Indenture. In addition, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own Book-Entry Interests to transfer their interests or to exercise any rights of holders of the Notes under the Indenture. None of the Issuer, the Subsidiary Guarantors, the Trustees or their respective agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

The Notes will be subject to certain transfer restrictions and restrictive legends as described under "Transfer Restrictions."

### Redemption of the Global Notes

In the event any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream, as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that, under the existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants, accounts on a proportionate basis (with adjustments to prevent fractions) or on such other basis as they deem fair and appropriate; provided, however, that no Book-Entry Interest of €50,000 principal amount may be redeemed in part.

**Payments on the Global Notes**

Payments of the amounts owing in respect of the Global Notes (including principal, premium, if any, interest and Additional Amounts, if any) will be made by us to the common depository or its nominee for Euroclear and Clearstream. The common depositary or its nominee will distribute such payments to participants in accordance with their procedures. Payments of all such amounts will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made by any applicable law or regulation of Croatia or otherwise as described under "Description of Notes—Additional Amounts," then, to the extent described under the aforementioned section, such Additional Amounts will be paid as may be necessary in order that the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding will equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. We expect that payments by participants to owners of Book-Entry Interests held through those participants will be governed by standing customer instructions and customary practices. Under the terms of the Indenture for the Notes, we, the Subsidiary Guarantors and the Trustee will treat the registered holder of the Global Notes (e.g., Euroclear or Clearstream (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of us, the Subsidiary Guarantors, the Trustee or any of our or the Trustee's agents have or will have any responsibility or liability for:

- any aspect of the records of Euroclear or Clearstream or of any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, or for maintaining, supervising or reviewing the records of Euroclear or Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest;

- Euroclear or Clearstream or any participant or indirect participant; or

- the records of the common depositary.

**Currency of payment of the Global Notes**

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid in euro.

**Action by Owners of Book-Entry Interests**

Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a holder of the Notes (including the presentation of the Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the Notes, Euroclear and Clearstream reserve the right to exchange the Global Notes for definitive registered Notes (the "Definitive Registered Notes") in certificated form, and to distribute such Definitive Registered Notes to their participants.

**Transfers and Exchanges between Global Notes**

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear's and Clearstream's rules and will be settled in immediately available funds. If a holder of the Notes requires physical delivery of the Definitive Registered Notes for any reason, including to sell the Notes to persons in countries which require physical delivery of such securities or to pledge such securities, such holders of the Notes must transfer its interest in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set forth in the Indenture.

The Global Notes will bear a legend to the effect set forth in "Transfer Restrictions." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "Transfer Restrictions."

Transfer of Restricted Book-Entry Interests to persons wishing to take delivery of the Restricted Book-Entry Interests will at all times be subject to such transfer restrictions. The Restricted Book-Entry Interests may be transferred to a person who takes delivery in the form of any Unrestricted Book-Entry Interest, whether before or after the expiration of the Distribution Compliance Period, only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the US Securities Act.

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and becomes a Book-Entry Interest in such other Global Note, and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

**Exchange of Global Notes for Definitive Registered Notes**

Under the terms of the Indenture, owners of the Book-Entry Interests will receive the Definitive Registered Notes ("Definitive Notes") only:

(1) if Euroclear or Clearstream notifies us that it is unwilling or unable to continue to act and a successor is not appointed by us within 90 days;

(2) if Euroclear or Clearstream so requests following an Event of Default under the Indenture; or

(3) at any time if we, in our sole discretion, so determine.

In all cases, Definitive Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of Euroclear and Clearstream (in accordance with its customary procedures) and will bear the restrictive legend referred to in "Transfer Restrictions," unless the Issuer determines otherwise in compliance with the requirements of the Indenture.

Definitive Notes delivered in exchange for Global Notes will be delivered to or upon the order of Euroclear and Clearstream or an authorized representative, and may be delivered to Noteholders at the office of the Transfer Agent in Luxembourg.

**Exchange of Definitive Notes for Global Notes**

If issued, Definitive Notes may not be exchanged or transferred for beneficial interests in a Global Note except upon consummation of an exchange offer. See "Transfer Restrictions."

**Exchange of Definitive Notes for Definitive Notes**

If issued, Definitive Notes may be exchanged or transferred by presenting or surrendering such Definitive Notes at the office of the Registrar located in Luxembourg with a written instrument of transfer in form satisfactory to such Registrar, duly executed by the holder of the Definitive Notes or by its attorney, duly authorized in writing. If the Definitive Notes being exchanged or transferred have restrictive legends, such holder must also provide a written certificate (in the form provided in the Indenture) to the effect that such exchange or transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "Transfer Restrictions."

In the case of a transfer in part of a Definitive Note, a new Definitive Note in respect of the balance of the principal amount of the Definitive Note not transferred will be delivered at the office of the relevant Registrar.

**Information concerning Euroclear and Clearstream**

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with Euroclear or Clearstream participants, either directly of indirectly.

**Paying Agent and Registrar for the Notes**

We have undertaken to maintain one or more paying agents for the Notes (i) in London, England or any other money center city in the European Union and (ii) in Luxembourg, for so long as the Notes are listed on the Luxembourg Stock Exchange. The paying agents currently are The Bank of New York Mellon, London Branch, in London and The Bank of New York Mellon (Luxembourg) S.A., in Luxembourg. We have also undertaken to maintain a registrar with offices in Luxembourg. The registrar currently is The Bank of New York Mellon (Luxembourg) S.A., in Luxembourg. The registrar will maintain a register reflecting ownership of Notes outstanding from time to time and facilitate transfer of Notes on our behalf. We may change the paying agents or registrars without prior notice to the holders.

## TAX CONSIDERATIONS

*The following summary of certain Croatian and US federal income tax consequences of the acquisition, ownership and disposition of the Notes is based on present law. It does not describe all tax considerations that may be relevant to a particular purchaser's decision to purchase Notes. The discussion is a summary only; it is not a substitute for tax advice.*

### Croatian Taxation

The following summary is of a general nature and is included herein solely for information purposes. The discussion describes certain material tax matters under Croatian tax law with respect to the Notes. The discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase Notes. The discussion is based on the tax laws in Croatia in effect on the date of this Listing Prospectus, and may be subject to change during the life of the Notes. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Croatian tax law, to which they may be subject.

#### *Taxation of Interest*

Any payment of interest on the Notes is not subject to payment of value added tax.

Revenues realized by Croatian legal entities from interest, including interest on the Notes, are included in the tax base of corporate income tax (profit tax) as all other regular revenues. Profit is taxed at a rate of 20 per cent.

Income of natural persons—tax payers in the Republic of Croatia realized from interest on the Notes is not considered as income and is not included in the tax base of income tax and is therefore not subject to taxation.

In accordance with Croatian laws and regulations, interest on the Notes held by foreign legal entities are exempted from payment of a withholding tax, and the payment of interest on the Notes to foreign natural persons is not subject to payment of withholding tax.

#### *Taxation of Principal*

In accordance with Croatian laws and regulations, payment of principal is not subject to payment of any special taxes.

#### *Taxation of Capital Gains*

Capital gain is, within the meaning of this Listing Prospectus, revenue realized by sale of the Notes, in the amount of difference between the price at which they were sold and the price at which they were paid-up or purchased.

Capital gain realized by Croatian legal entities, tax payers of corporate income tax (profit tax), is included in the tax base of corporate income tax (profit tax) as all other regular revenues. Profit is taxed at a rate of 20 per cent.

Capital gain realized through sale of the Notes by natural persons, tax payers of the income tax, is not included in the tax base of income tax and is not subject to taxation, unless it is a tax payer's business activity.

#### *Taxation in case of inheriting the Notes or receiving the Notes as a gift*

Subject to any applicable double taxation treaty, any natural person or legal entity who inherits or receives gifts (including the Notes) in the Republic of Croatia is under an obligation to pay Croatian tax in respect of such inheritance or gift.

### EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Directive"), each member state of the European Union (a "Member State"), including Belgium from January 1, 2010, is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) made by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or certain limited types of entity established in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria may instead apply (unless during such period they elect otherwise) a withholding system in relation to such payments deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or certain limited types of entities established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entities established in one of those territories.

On September 15, 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On November 13, 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on April 24, 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

**United States Federal Income Taxation**

**CIRCULAR 230 NOTICE: ANY DISCUSSIONS OF US FEDERAL TAX MATTERS SET FORTH HEREIN WERE WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING (WITHIN THE MEANING OF TREASURY DEPARTMENT CIRCULAR 230) BY THE ISSUER AND THE INITIAL PURCHASERS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN. SUCH DISCUSSIONS WERE NOT INTENDED OR WRITTEN TO BE LEGAL OR TAX ADVICE TO ANY PERSON AND WERE NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY US FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH HOLDER AND BENEFICIAL OWNER OF THE NOTES SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

**NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, EACH HOLDER AND BENEFICIAL OWNER OF THE NOTES (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF EACH HOLDER AND BENEFICIAL OWNER OF THE NOTES) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTIONS DESCRIBED HEREIN AND ALL MATERIALS OF ANY KIND THAT ARE PROVIDED TO THE HOLDER OR BENEFICIAL OWNER OF THE NOTES RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE (AS SUCH TERMS ARE DEFINED IN TREASURY REGULATION SECTION 1.6011-4). THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF DISCUSSIONS WITH HOLDERS OR BENEFICIAL OWNERS OF NOTES REGARDING THE TRANSACTIONS CONTEMPLATED HEREIN.**

***General***

The following discussion is a general summary of certain US federal income tax consequences of the purchase, ownership and disposition of the Additional Notes by US holders (as defined below). The summary is based on the Internal Revenue Code 1986, as amended (the "Code"), Treasury regulations promulgated thereunder, rulings, judicial decisions, and administrative pronouncements, all as in effect as of the date hereof, and all which are subject to change or changes in interpretation, possibly on a retroactive basis. This summary only addresses Additional Notes purchased by US holders for an amount of cash equal to the Offering Price set forth on the cover of this Listing Prospectus who hold Additional Notes as capital assets, within the meaning of Section 1221 of the Code.

This summary does not discuss all of the tax consequences that may be relevant to US holders in light of their particular circumstances or to US holders subject to special tax rules, including US expatriates, insurance companies, tax-exempt institutions or investors, financial institutions, regulated investment companies, entities classified as partnerships, persons subject to the alternative minimum tax, dealers in securities or currencies, traders who have elected "mark-to-market" treatment, persons holding their Additional Notes as part of a short sale, straddle, hedging transaction, conversion transaction or other integrated transaction, or US holders whose functional currency is not the US dollar. Such holders may be subject to US federal income tax consequences different from those set forth below.

We have not sought any ruling from the US Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions. Thus, all persons considering the purchase of the Additional Notes should consult their tax advisors concerning the application of US federal, state and local tax laws to their particular situations, as well as any consequences of the purchase, ownership and disposition of the Additional Notes arising under the laws of any foreign taxing jurisdiction or under any applicable tax treaty.

As used herein, the term "US holder" means a beneficial owner of Additional Notes that is (a) an individual citizen or resident of the United States for US federal income tax purposes, (b) a corporation, including an entity treated as a corporation for US federal income tax purposes, created or organized in or under the laws of the United States or any State thereof (including the District of Columbia), (c) an estate whose income is subject to US federal income taxation regardless of its source, or (d) a trust if a court within the United States can exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust. Notwithstanding clause (d) of the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to that date that elect to continue to be treated as United States persons also will be US holders. In addition, if a partnership (or other entity treated as a partnership for US federal income tax purposes) holds Additional Notes, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If a US holder is a partner in a partnership (or other entity treated as a partnership for US federal income tax purposes) that holds Additional Notes, the US holder is urged to consult its own tax advisor regarding the specific tax consequences of the purchase, ownership and dispositions of the Additional Notes.

It is intended that the Issuer will not operate so as to be engaged in a trade or business in the United States for US federal income tax purposes and, accordingly, will not be subject to US federal income taxes on its net income. This summary assumes that the Issuer will not be so engaged. The Issuer will treat the Notes as debt for US federal income tax purposes, and this summary assumes such treatment.

***Original Notes and Additional Notes Treated as Same Issue***

It is expected, and this discussion assumes, that the Additional Notes should be issued as part of a "qualified reopening" (within the meaning of applicable Treasury regulations) of the Original Notes issued by us on December 7, 2009 and as a result should be treated as part of the same "issue" as the Original Notes for US federal income tax purposes. Accordingly, for US federal income tax purposes, the issue price and issue date of the Additional Notes should be the same as, and the Additional Notes should be fungible with, the Original Notes. As discussed below, the Original Notes were issued with OID for US federal income tax purposes and, accordingly, the Additional Notes will be treated as issued with OID for US federal income tax purposes.

***Interest and OID***

Payments of interest (including any amounts withheld and any Additional Amounts paid in respect of withholding taxes imposed on payments on the Notes as described in "Description of Notes—Additional Amounts") on a Note will be includible in the gross income of a US holder as ordinary interest income at the time the interest is received or accrued, in accordance with the US holder's regular method of accounting for US federal income tax purposes. As a result of the inclusion of any amounts attributable to withheld taxes and Additional Amounts, the amount included in a US holder's gross income for US federal income tax purposes with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by such US holder.

Because the issue price of the Notes is less than their stated redemption price at maturity by more than a statutorily defined de minimis amount, the Notes are treated as being issued with OID for US federal income tax purposes. Generally, the "issue price" of the Notes is the first price at which a substantial amount of the Original Notes issued on December 7, 2009 was sold to purchasers other than bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The "stated redemption price at maturity" of the Notes is the total of all payments to be made under the Note other than qualified stated interest. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually at a single fixed rate. In this case, stated interest in the Notes is qualified stated interest and accordingly, the stated redemption price at maturity of the Notes will equal the principal amount of the Notes.

In general, a US holder must include OID in income as ordinary interest for US federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such US holder's regular method of tax accounting. In general, the amount of OID included in income by an initial US holder of a Note will equal the sum of the daily portions of OID with respect to such Note for each day during the taxable year (or portion of the taxable year) on which such US holder held such Note. The "daily portion" of OID on any Note is determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. An "accrual period" may be of any length and the accrual periods may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of OID allocable to each accrual period is generally equal to the difference between (i) the product of the Note's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Note at the beginning of any accrual period is the sum of the issue price of the Note plus the amount of OID allocable to all prior accrual periods minus the amount of any prior payments on the Note that were not qualified stated interest payments. Under these rules, US holders generally will have to include in income increasingly greater amounts of OID in successive accrual periods.

A US holder who purchases a Note for an amount that is greater than its adjusted issue price (as defined above) as of the purchase date and less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of stated interest, will be considered to have purchased the Note at an "acquisition premium." Under the acquisition premium rules, the amount of OID which such US holder must include in its gross income with respect to such Note for any taxable year (or portion thereof in which the US holder holds the Note) will be reduced (but not below zero) by an amount equal to (i) the amount of OID otherwise includible in income with respect to such period multiplied by (ii) a fraction, the numerator of which is the excess of the adjusted tax basis of the Note immediately after its acquisition by the US holder over the adjusted issue price of the Note and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of stated interest, over the Note's adjusted issue price.

***Pre-Issuance Interest***

If a portion of the purchase price paid for an Additional Note is allocable to interest that accrued prior to the date the Additional Note was purchased (i.e., pre-issuance accrued interest), a Note may be treated for US federal income tax purposes as having been purchased for an amount that excludes the pre-issuance accrued interest. In that event, a portion of the first stated interest payment equal to the excluded pre-issuance accrued interest will be treated as a return of such pre-issuance accrued interest and will not be taxable to a US holder or otherwise treated as an amount payable on the Note (except that a US holder generally should be required to recognize exchange gain or loss, as discussed below, in an amount equal to the difference, if any, between the US dollar values of the pre-issuance accrued interest at the time of purchase and at the time the payment of such pre-issuance accrued interest is received (as determined at the spot exchange rate in effect on each such date).

***Payments of Interest in Euros—Cash-Method US Holders***

Except with respect to accruals of OID, the treatment of which is described below under "—Accrual of OID in Euros," a US holder of Notes that uses the cash method of accounting for tax purposes will recognize interest income in an amount equal to the US dollar value of the euro interest payment, based on a spot exchange rate on the date of receipt, regardless of whether the payment is in fact converted into US dollars at that time. Such US dollar value will be the US holder's tax basis in the euros. Such US holder will not recognize foreign currency exchange gain or loss with respect to the receipt of such payment.

***Payments of Interest in Euros—Accrual-Method US Holders***

A US holder of Notes that uses the accrual method of accounting for US federal income tax purposes, or who otherwise is required to accrue interest prior to receipt, may determine the amount recognized with respect to such interest in accordance with either of two methods. Under the first method, such US holder will be required to include in income the US dollar value of the interest income that has accrued and is otherwise required to be taken into account with respect to a Note during an accrual period, determined by translating such amount into US dollars at the average spot exchange rate in effect during the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the US holder's taxable year). Alternatively, a US holder may make an election (which must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS) to translate accrued interest income at the spot exchange rate on the last day of the accrual period (or the last day of the taxable year in the case of a partial accrual period), or at the spot exchange rate on the date of receipt, if that date is within five business days of the last day of the accrual period. A US holder should consult a tax advisor before making this election. A US holder of Notes that uses the accrual method of accounting for US federal income tax purposes will recognize foreign currency exchange gain or loss in an amount equal to the difference between the US dollar value of the euro payment received, determined at the spot exchange rate on the date the payment is received, and the US dollar value of the interest income previously accrued in respect of such payment (determined as described above). This foreign currency exchange gain or loss will be treated as ordinary income or loss, and generally will not be treated as an adjustment to interest income or expense.

***Accrual of OID in Euros***

With respect to accruals of OID, (i) OID will be computed in euros, (ii) accrued OID will be translated into US dollars as described above under "—Payments of Interest in Euros—Accrual—Method US Holders" and (iii) the amount of foreign currency exchange gain or loss on the accrued OID will be determined by comparing the amount of income received attributable to the OID (either upon payment, maturity or an earlier disposition), as translated into US dollars at the spot exchange rate on the date of such receipt, with the amount of OID accrued, as translated above. For these purposes, all receipts on a Note will be viewed first, as the receipt of any qualified stated interest payments called for under the terms of the Note; second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as the receipt of principal.

***Premium***

If a US holder purchases a Note for an amount (excluding any pre-issuance accrued interest) that is greater than the sum of all amounts payable on the Notes after the purchase date other than payments of stated interest, such US holder will be considered to have purchased the Note with "amortizable bond premium" equal in amount to such excess. A US holder may elect to amortize such premium using a constant yield method over the remaining term of the Note and may offset interest otherwise required to be included in respect of the Note during any taxable year by the amortized amount of such excess for the taxable year. Such premium will be computed in euros. A US holder should recognize exchange gain or loss equal to the difference between the U.S. dollar value of the bond premium amortized with respect to a period, determined on the date the interest attributable to such period is received, and the U.S. dollar value of that portion of the bond premium determined on the date of the acquisition of the Note. A US holder that does not elect to amortize bond premium will translate the bond premium, computed in euros, into US dollars at the spot rate on the maturity date and such bond premium will decrease the amount of gain or increase the amount of loss otherwise recognized on the disposition of the Notes. However, if the Note may be optionally redeemed after the US holder acquires it, special rules may apply which could result in a deferral of the amortization of some bond premium until later in the term of the Note. Any election to amortize bond premium applies to all taxable debt instruments held by the US holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Notwithstanding the rules described above under "—Interest and OID", a US holder that purchases Notes at a premium (i.e., has an adjusted tax basis in the Notes immediately after purchase that exceeds the principal amount of the Notes) will not be required to include any OID with respect to the Notes in gross income.

***Election to Use Constant Yield Method***

US holders may generally, upon election, include in income all interest (including stated interest and OID, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a Note by using the constant yield method applicable to OID, subject to certain limitations and exceptions. Because this election will affect how the US holder treats debt instruments other than the Notes, it should be made only in consultation with a tax advisor.

***Foreign Tax Credit***

The interest income and OID received or accrued by a US holder will generally be income from sources outside the United States and will generally be treated as "passive category income" or, in certain cases, "general category income," for purposes of computing allowable foreign tax credits under US federal income tax laws.

***Purchase, Sale and Disposition of the Notes***

A US holder's initial tax basis in a Note generally will equal the cost of the Note to the US holder (excluding any portion of the purchase price that is attributable to pre-issuance accrued interest). The cost of a Note purchased with euros will be the US dollar value of the purchase price of the Note in euros on the date of purchase, calculated at the spot exchange rate in effect on that date. If the Note is traded on an established securities market, a US holder that is a cash basis taxpayer (and if it elects, a US holder that is an accrual basis taxpayer) will determine the US dollar value of the cost of the Note at the spot exchange rate on the settlement date of purchase.

Upon the sale, exchange, redemption or other disposition of a Note, a US holder generally will recognize gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued and unpaid interest, which will be taxable as ordinary interest income in accordance with the US holder's regular method of US federal income tax accounting as described above) and the US holder's adjusted tax basis in the Note. A US holder's adjusted tax basis in a Note generally will equal the US holder's initial tax basis (calculated as described above) increased by any OID included in income and decreased by the amount of any amortizable bond premium taken with respect to such Note. The amount realized on the sale, exchange, redemption or other disposition of a Note for an amount of euros will generally be the US dollar value of the euros received based on the spot exchange rate on the date payment is received or the Note is disposed of. If the Note is traded on an established securities market, a US holder that is a cash basis taxpayer and, upon election, a US holder that is an accrual method taxpayer, will determine the US dollar value of the amount realized by translating the payment in euros received at the spot exchange rate on the settlement date of the disposition. Such an election described in this or the preceding paragraph by a US holder that is an accrual method taxpayer must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Gain or loss recognized by a US holder upon the sale, exchange, redemption or other disposition of a Note that is attributable to changes in currency exchange rates relating to the principal thereof will be ordinary income or loss and generally will be equal to the difference between the US dollar value of the purchase price of the Note (minus any amortized bond premium that has been taken into account with respect to the Note prior to the date of such sale, exchange, redemption or other disposition) in euros determined on the date of the sale, exchange, redemption or other disposition, and the US dollar value of the purchase price of the Note (minus any amortized bond premium that has been taken into account with respect to the Note prior to the date of such sale, exchange, redemption or other disposition) in euros determined on the date the US holder acquired the Note. The foreign currency exchange gain or loss will be recognized only to the extent of the total gain or loss realized by the US holder in the sale, exchange, redemption or other disposition of the Note, and will be treated as ordinary income or loss generally from sources within the United States for US foreign tax credit limitation purposes.

Any gain or loss recognized by a US holder in excess of foreign currency exchange gain or loss recognized on the sale, exchange, redemption or other disposition of a Note will generally be US source capital gain or loss and will generally be long-term capital gain or loss if the Note has been held for more than one year at the time of the sale, exchange, redemption or other disposition. In the case of certain non-corporate US holders, under current law any such gain will generally be eligible for preferential US federal income tax rates if that US holder satisfies certain prescribed minimum holding periods. The deductibility of capital losses is subject to limitations.

***Receipt of Euros***

A US holder of Notes will receive euros in payment for interest (including any Additional Amounts paid) or principal. The tax basis of any euros received by a US holder generally will equal the US dollar equivalent of such euros at the spot exchange rate on the date the euros are received. Upon any subsequent exchange of euros for US dollars, a US holder generally will recognize foreign currency exchange gain or loss in an amount equal to the difference between the amount of US dollars received and the US holder's tax basis in the euros. Any such foreign currency exchange gain or loss generally will be treated as US source ordinary income or loss.

***US Information Reporting and Backup Withholding***

Payments of interest (including any Additional Amounts paid) and accrual of OID on and proceeds from the sale, exchange, redemption or other disposition of the Notes will generally be subject to US information reporting requirements unless the US holder qualifies as an exempt recipient, such as a corporation. Backup withholding (at a current rate of 28%, which is scheduled to increase to 31% for payments made after December 31, 2010) may apply to payments made or proceeds paid to a US holder who fails to furnish a correct taxpayer identification number or any other required certification, or who fails to report in full interest income from the Notes. US holders who are required to establish their exempt status generally must provide a duly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification). US holders should consult their own tax advisors regarding the application of the information reporting and backup withholding rules.

Backup withholding is not additional tax. Amounts withheld as backup may be credited against a US holder's US federal income tax liability. A US holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

***Tax Return Disclosure Regulations***

Pursuant to certain Treasury regulations (the "Disclosure Regulations"), any taxpayer that has participated in a "reportable transaction" and who is required to file a United States federal income tax return must generally attach a disclosure statement disclosing such taxpayer's participation in the reportable transaction to the taxpayer's tax return for each taxable year for which the taxpayer participates in the reportable transaction. The Disclosure Regulations provide that, in addition to certain other transactions, a "loss transaction" constitutes a "reportable transaction." A "loss transaction" is any transaction resulting in the taxpayer claiming a loss under section 165 of the Code in an amount equal to or in excess of certain threshold amounts. The Disclosure Regulations specifically provide that a loss resulting from a "section 988 transaction" (as defined in section 988(c)(1) of the Code relating to foreign currency transactions), such as a foreign currency exchange loss realized with respect to the Notes, will constitute a section 165 loss. In the case of individuals or trusts, whether or not the loss flows through from an S corporation or partnership, if the loss arises with respect to a section 988 transaction, the applicable loss threshold amount is $50,000 in any single taxable year. Higher loss threshold amounts apply depending upon the taxpayer's status as a corporation, partnership or S corporation, as well as certain other factors.

Since the amount payable with respect to the Notes is denominated in euros, the acquisition of a Note should constitute a section 988 transaction. Based upon the foregoing, in the absence of future administrative pronouncements to the contrary, a US holder of the Notes that recognizes a foreign currency exchange loss with respect to the Notes that equals or exceeds the loss threshold amount applicable to such US holder may be required to file a disclosure statement (i.e., IRS Form 8886 or substitute form) as an attachment to the US holder's tax return for the first taxable year in which the loss threshold amount is reached and to any subsequent tax return that reflects any amount of such section 165 loss from the Notes. Persons considering the purchase of the Notes should consult their own tax advisors concerning the application of the rules contained in the Disclosure Regulations with respect to an investment in the Notes and to determine their own tax return disclosure obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886.

***Information with Respect to Foreign Financial Assets***

Under recently enacted legislation, individuals that own "specified foreign financial assets" with an aggregate value in excess of $50,000 in taxable years beginning after March 18, 2010 will generally be required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" include any financial accounts maintained by certain foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-US persons, (ii) financial instruments and contracts held for investment that have non-US issuers or counterparties and (iii) interests in foreign entities. US holders that are individuals are urged to consult their tax advisors regarding the application of this legislation to their ownership of the Notes.

## BENEFIT PLAN INVESTOR CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and Section 4975 of the Internal Revenue Code of 1986 (the "Code"), impose certain requirements on (a) employee benefit plans subject to Title I of ERISA, (b) individual retirement accounts, Keogh plans or other arrangements subject to Section 4975 of the Code, (c) entities whose underlying assets include "plan assets" by reason of any such plan's or arrangement's investment therein (we refer to the foregoing collectively as "Plans") and (d) persons who are fiduciaries with respect to Plans. In addition, certain governmental, church and non-US plans ("Non-ERISA Arrangements") are not subject to Section 406 of ERISA or Section 4975 of the Code, but may be subject to other laws that are substantially similar to those provisions (each, a "Similar Law").

In addition to ERISA's general fiduciary standards, Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Plan and persons who have specified relationships to the Plan, i.e., "parties in interest" as defined in ERISA or "disqualified persons" as defined in Section 4975 of the Code (we refer to the foregoing collectively as "parties in interest") unless exemptive relief is available under an exemption issued by the US Department of Labor. Parties in interest that engage in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code. A Plan fiduciary considering an investment in the Notes should consider whether the purchase or holding of a Note might constitute or give rise to a prohibited transaction under ERISA or Section 4975 of the Code.

In this regard, each prospective purchaser that is, or is acting on behalf of, a Plan, and proposes to purchase the Notes, should consider the exemptive relief available under the following prohibited transaction class exemptions, or PTCEs: (A) the in-house asset manager exemption (PTCE 96-23), (B) the insurance company general account exemption (PTCE 95-60), (C) the bank collective investment fund exemption (PTCE 91-38), (D) the insurance company pooled separate account exemption (PTCE 90-1) and (E) the qualified professional asset manager exemption (PTCE 84-14). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide a limited exemption for the purchase and sale of Notes and related lending transactions, provided that neither the issuer nor a seller of the Notes nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction and provided further that the Plan pays no more than adequate consideration in connection with the transaction (the so-called "service provider exemption"). There can be no assurance that any of these statutory or class exemptions will be available with respect to transactions involving the Notes.

Each purchaser or holder of a Note, and each fiduciary who causes any entity to purchase or hold a Note, shall be deemed to have represented and warranted, on each day such purchaser or holder holds such Notes, that either (i) it is neither a Plan nor a Non-ERISA Arrangement and it is not purchasing or holding Notes on behalf of or with the assets of any Plan or Non-ERISA arrangement; or (ii) its purchase, holding and subsequent disposition of such Notes shall not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or any provision of Similar Law.

Fiduciaries of any Plans and Non-ERISA Arrangements should consult their own legal counsel before purchasing the Notes. We also refer you to the portions of the offering circular addressing restrictions applicable under ERISA, the Code and Similar Law.

Each purchaser of a Note will have exclusive responsibility for ensuring that its purchase, holding and subsequent disposition of the Note does not violate the fiduciary or prohibited transaction rules of ERISA, the Code or any Similar Law. Nothing herein shall be construed as a representation that an investment in the Notes would meet any or all of the relevant legal requirements with respect to investments by, or is appropriate for, Plans or Non-ERISA Arrangements generally or any particular Plan or Non-ERISA Arrangement.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions of a purchase agreement dated January 17, 2011 (the "Purchase Agreement") entered into by and among the Issuer, the Subsidiary Guarantors and the Initial Purchasers indicated below, the Initial Purchasers have severally agreed to purchase from the Issuer and the Issuer has agreed to sell the respective principal amount of the Additional Notes set forth opposite their names below.

| Initial Purchasers | Principal amount of Notes |
|---|---|
| BNP Paribas, London Branch | 72,000,000 |
| Zagrebačka banka d.d. | 72,000,000 |
| Erste Group Bank AG | 1,500,000 |
| Privredna banka Zagreb d.d. | 1,500,000 |
| Raiffeisen Bank International Aktiengesellschaft | 1,500,000 |
| Société Générale | 1,500,000 |
| Total | 150,000,000 |

The Purchase Agreement provides that the obligations of the Initial Purchasers to purchase and accept delivery of the Additional Notes offered hereby are subject to the approval by our and their counsel of certain legal matters and to certain other conditions. The Initial Purchasers are obligated to purchase and accept delivery of all the Additional Notes if any are purchased. The Initial Purchasers have advised us that any offer of the Additional Notes by any of them in the United States will be made through their respective US broker-dealer affiliates.

The purchase price for the Additional Notes will be the offering price set forth on the cover page of this Listing Prospectus, plus accrued interest from December 7, 2010. After the initial Offering of the Additional Notes, the Initial Purchasers may from time to time vary the offering price and other selling terms without notice. We will pay the Initial Purchasers a customary fee and will reimburse the Initial Purchasers for certain expenses related to the Offering.

Persons who purchase Additional Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

The Issuer and the Subsidiary Guarantors have agreed, jointly and severally, to indemnify the Initial Purchasers against certain liabilities, including liabilities under the US Securities Act, or to contribute to payments which the Initial Purchasers may be required to make in respect of any such liabilities. We have agreed that, subject to certain exceptions, we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities issued or guaranteed by the Issuer, or any Subsidiary Guarantor and having maturity of more than one year from the date of issue, without the prior written consent of the Initial Purchasers for a period of 180 days after the date of this Listing Prospectus. The Issuer and the Subsidiary Guarantors have also agreed that they will not at any time offer, sell, pledge, contract to sell, pledge or otherwise dispose of directly or indirectly, any securities under circumstances in which such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(2) of the US Securities Act or the safe harbor of Rule 144A and Regulation S under the US Securities Act to cease to be applicable to the offer and sale of the Notes.

No action has been or will be taken in any jurisdiction by the Issuer, the Subsidiary Guarantors or the Initial Purchasers that would permit a public offering of the Additional Notes or the possession, circulation or distribution of this Listing Prospectus or any other material relating to the Issuer, the Subsidiary Guarantors or the Additional Notes in any jurisdiction where action for that purpose is required. Accordingly, the Additional Notes may not be offered or sold, directly or indirectly, and neither this Listing Prospectus nor any other offering material or advertisements in connection with the Additional Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Listing Prospectus does not constitute an offer to purchase or a solicitation of an offer to sell in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Listing Prospectus comes are advised to inform themselves about, and to observe any restrictions relating to, the Offering of the Notes, the distribution of this Listing Prospectus and resales of the Notes. See "Transfer Restrictions" and "Notice to Certain European Investors."

### United States

The Additional Notes and the Guarantees have not been and will not be registered under the US Securities Act and may not be offered, sold or resold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from or not subject to the registration requirements of the US Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S. See "Transfer Restrictions" and "Notice to Certain European Investors."

The Issuer and the Subsidiary Guarantors have been advised by the Initial Purchasers that the Initial Purchasers and their broker dealer affiliates propose to offer the Notes for resale initially to (i) persons they reasonably believe to be "qualified institutional buyers" (as defined in Rule 144A under the US Securities Act) in reliance on Rule 144A under the US Securities Act, or (ii) certain eligible persons outside the United States in reliance on Regulation S under the US Securities Act. Each purchaser of Additional Notes offered hereby in making the purchase will, by such purchase, be deemed to have made certain acknowledgements, representations, warranties and agreements as set forth under "Transfer Restrictions" and "Notice to Certain European Investors." Terms used above have the meanings assigned to them in Rule 144A or Regulation S.

Until the expiration of 40 days after the later of (i) the commencement of the Offering, and (ii) the issue date of the Additional Notes, an offer or sale of Additional Notes initially sold pursuant to Regulation S to, or for the account of, a US Person (as defined in Regulation S) by a person receiving a concession, fee or remuneration in respect of the Additional Notes (whether or not participating in the Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the US Securities Act. Resales of the Additional Notes are restricted as described under "Notice to Investors" and "Notice to Non-US Investors."

**European Economic Area**

Each Initial Purchaser has represented, warranted and agreed that:

In relation to each Relevant Member State, with effect from and including the Relevant Implementation Date, the offer is not being made and will not be made to the public of any Additional Notes which are the subject of the Offering contemplated by this Listing Prospectus in that Relevant Member State, other than: (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of the Additional Notes shall require us or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression an "offer of Notes to the public" in relation to the Additional Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Additional Notes to be offered so as to enable an investor to decide to purchase or subscribe the Additional Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

**United Kingdom**

Each Initial Purchaser has represented, warranted and agreed that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Subsidiary Guarantors; and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Additional Notes in, from or otherwise involving the United Kingdom.

**Other**

In connection with the Offering, BNP Paribas, London Branch, and Zagrebačka banka d.d. and their affiliates may over-allot or effect transactions with a view to supporting the market price of the Additional Notes at a level higher than that which might otherwise prevail in the open market for a limited period after the issue date or anyone acting on its behalf. However, there may be no obligation on BNP Paribas, London Branch, and Zagrebačka banka d.d. and their affiliates to do this. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period. BNP Paribas, London Branch, and UniCredit Group do not intend to disclose the extent of any stabilizing transactions or the amount of any long or short position.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial purchases.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions.

- Penalty bids permit the Initial Purchasers to reclaim a selling concession from a broker/dealer when the Additional Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

Delivery of the Additional Notes was made against payment therefor on January 20, 2011, which was the third business day following the date of pricing of the Additional Notes (such settlement being referred to as "T+3").

Although we have applied, through our listing agent, to have the Additional Notes admitted to the Official List of the Luxembourg Stock Exchange for trading on the Luxembourg Stock Exchange's Euro MTF Market, we cannot assure you that the Additional Notes will be approved for listing, and will remain listed, on the Luxembourg Stock Exchange. Although the Initial Purchasers have informed the Issuer that they intend to make a market in the Additional Notes, they are not obligated to do so and they may discontinue market making at any time without notice. Accordingly, the Issuer cannot assure you that an active trading market for the Additional Notes will develop or be maintained or as to the liquidity of any trading market for the Additional Notes, the ability of holders of the Additional Notes to sell their Additional Notes or the price at which holders would be able to sell their Additional Notes. In addition, any such market making activity will be subject to the limits imposed by the US Securities Act and the US Exchange Act. Accordingly, the liquidity of the trading market in the Additional Notes and the future trading price of the Additional Notes will depend on many factors, including those disclosed under the captions entitled "Risk Factors—Risks Relating to the Notes. The Notes are subject to transfer restrictions."

**Certain Relationships**

The Initial Purchasers and certain of their affiliates from time to time have performed, and in the future will perform, banking, investment banking, advisory, consulting and other financial services for Agrokor d.d. and its subsidiaries, for which they may receive customary advisory and transaction fees and expense reimbursement. The Initial Purchasers acted as initial purchasers for the offering of the Original Notes and received fees and commissions in connection with that transaction. In addition, affiliates of certain of the Initial Purchasers are lenders under our Senior Facilities Agreement. Certain of the Initial Purchasers or their affiliates are also lenders under certain of our bilateral facilities which will be repaid with the proceeds of the issuance of the Additional Notes. See "Use of Proceeds" and "Description of Other Financing Arrangements."

## TRANSFER RESTRICTIONS

*Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Additional Notes offered hereby.*

### Rule 144A Notes

Each purchaser of Additional Notes sold in reliance on Rule 144A under the US Securities Act (the "Rule 144A Notes") within the United States, by accepting delivery of this Listing Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is not an "affiliate" (as defined in Rule 144 under the US Securities Act) nor is it acting on behalf of the Issuer or any Subsidiary Guarantor, and it is (a) a qualified institutional buyer within the meaning of Rule 144A, (b) aware, and each beneficial owner of such Notes has been advised, that the sale of the Notes is being made in reliance on Rule 144A, and (c) acquiring those Notes solely for its own account or the account of one or more qualified institutional buyers.

(2) It understands that the Rule 144A Notes have not been and will not be registered under the US Securities Act or any other applicable securities laws and that (i) any offer, sale, pledge thereof by it must be made either (a) to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer in transaction meeting the requirements of Rule 144A, (b) in transaction meeting the requirements of Rule 904 of Regulation S, (c) pursuant to an exemption from registration under the US Securities Act provided by Rule 144, thereunder (if available) or (d) to the Issuer, or any Subsidiary thereof, and (ii) in each case in accordance with all applicable laws of any other jurisdiction.

(3) It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the trustee in accordance with applicable law, will bear a legend substantially to the following effect:

THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF AND ANY INTEREST HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT") OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE US SECURITIES ACT), (2) AGREES THAT IT WILL NOT PRIOR TO (X) THE DATE WHICH IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE US SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF (OR OF ANY PREDECESSOR OF THIS NOTE) OR THE LAST DAY ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WERE THE OWNERS OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE "RESALE RESTRICTION TERMINATION DATE"), OFFER, SELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO AGROKOR D.D. OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE US SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE US SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE US SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE US SECURITIES ACT, (D) PURSUANT TO OFFERS AND SALES TO NON US PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE US SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE LAWS OF ANY OTHER JURISDICTION, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE ISSUER, THE TRUSTEE AND THE REGISTRAR SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) PRIOR TO THE END OF THE 40 DAY DISTRIBUTION COMPLIANCE PERIOD WITHIN THE MEANING OF

REGULATION S UNDER THE US SECURITIES ACT OR PURSUANT TO CLAUSE (E) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE TO REQUIRE THAT AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER, THE TRUSTEE AND THE REGISTRAR IS COMPLETED AND DELIVERED BY THE TRANSFEROR. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "US PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE US SECURITIES ACT.

ORIGINAL ISSUE DISCOUNT. THE NOTES HAVE BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT FOR UNITED STATES FEDERAL INCOME TAX PURPOSES ("OID"). THE ISSUE PRICE, THE AMOUNT OF OID, THE ISSUE DATE AND THE YIELD TO MATURITY MAY BE OBTAINED BY CONTACTING INVESTOR RELATIONS AT +385 1 4894 240.

(4) It acknowledges that the Issuer, the Subsidiary Guarantors, the Registrar, the Initial Purchasers and their respective affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Subsidiary Guarantors and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(5) It understands that the Rule 144A Notes will be evidenced by a Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a transfer agent with a written certification (in the form provided in the Indenture) as to compliance with applicable securities laws.

**Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A.**

**Regulation S Notes**

Each purchaser of Additional Notes sold in reliance on Regulation S under the US Securities Act ("Regulation S Notes") outside the United States and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the 40-day distribution compliance period (as defined in Regulation S), by accepting delivery of this Listing Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and it is not a US person and it is located outside the United States (within the meaning of Regulation S).

(2) The purchase of the Regulation S Notes is not part of a plan or scheme to evade the registration requirements of the US Securities Act.

(3) It understands that the Regulation S Notes have not been and will not be registered under the US Securities Act or any applicable securities laws and that (i) the Notes may be offered, sold, pledged or transferred only (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or the account of a qualified institutional buyer or (b) in an offshore transaction in accordance with Rule 904 of Regulation S or (c) to the Issuer or any Subsidiary Guarantor, and that (ii) the Regulation S Notes may be offered, sold, pledged or otherwise transferred only in compliance with the US Securities Act, and, in each case in accordance with any applicable securities laws of any state of the United States.

(4) It understands that, except as set forth in the Indenture or as otherwise determined by the Issuer in accordance with applicable law, the Regulation S Notes will have a legend substantially to the following effect.

THIS NOTE AND THE GUARANTEES IN RESPECT HEREOF AND ANY INTEREST HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT") OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION, UNTIL 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OR THE ISSUER WAS

THE OWNER OF THE NOTE, MAY NOT BE OFFERED, SOLD PLEDGED, OR OTHERWISE TRANSFERRED TO A US PERSON (AS DEFINED IN REGULATION S UNDER THE US SECURITIES ACT ("REGULATION S")) ("THE RESALE RESTRICTION TERMINATION DATE") EXCEPT (i) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S, OR TO AGROKOR D.D. OR ANY SUBSIDIARY THEREOF; AND (ii) IN COMPLIANCE WITH ALL APPLICABLE LAWS OF ANY OTHER JURISDICTION. AFTER THE RESALE RESTRICTION TERMINATION DATE, THIS NOTE AND ANY INTEREST HEREIN MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE US SECURITIES ACT AND ALL APPLICABLE LAWS OF ANY OTHER JURISDICTION. EACH PURCHASER OF THIS NOTE OR ANY INTEREST HEREIN AGREES THAT IT WILL DELIVER TO EACH PURCHASER OF THIS NOTE OR BOOK-ENTRY INTERESTS HEREIN A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

ORIGINAL ISSUE DISCOUNT. THE NOTES HAVE BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT FOR UNITED STATES FEDERAL INCOME TAX PURPOSES ("OID"). THE ISSUE PRICE, THE AMOUNT OF OID, THE ISSUE DATE AND THE YIELD TO MATURITY MAY BE OBTAINED BY CONTACTING INVESTOR RELATIONS AT +385 1 4894 240.

(5) If you are a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, you acknowledge that until the expiration of the "distribution compliance period", you shall not make any offer or sale of Additional Notes to a U.S. Person or for the account or benefit of a U.S. Person within the meaning of rule 902 under the U.S. Securities Act. The "distribution compliance period" means the 40-day period following the issue date for the Additional Notes.

(6) It agrees that it will deliver to each purchaser of Regulation S Notes from it a notice to substantially the foregoing effect.

(7) It acknowledges that the Issuer, the Subsidiary Guarantors, the Registrar, the Initial Purchasers and their respective affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, the Subsidiary Guarantors and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

## LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by the London office of Sidley Austin LLP as to matters of United States federal and New York law and by Travaš I Partneri Law Firm Ltd. as to matters of Croatian law. Certain legal matters in connection with this offering will be passed upon for us and for the Initial Purchasers by the offices of the Attorney Femil Curt as to matters of Bosnian law. Certain legal matters in connection with this offering will be passed upon for the Initial Purchasers by Latham & Watkins (London) LLP as to matters of United States federal and New York law and by Law Firm Glinska & Mišković Ltd. as to matters of Croatian law.

## INDEPENDENT AUDITORS

The Issuer's audited consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 included in this Listing Prospectus have been audited by Baker Tilly Discordia d.o.o., our independent auditors, as stated in their report appearing herein.

## WHERE YOU CAN FIND ADDITIONAL INFORMATION

Each purchaser of the Additional Notes from the Initial Purchasers will be furnished a copy of this Listing Prospectus and any related amendments or supplements to this Listing Prospectus. Each person receiving this Listing Prospectus and any related amendments or supplements to the Listing Prospectus acknowledges that:

(1) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(2) such person has not relied on the Initial Purchasers or any person affiliated with any of the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(3) except as provided pursuant to paragraph (1) above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the Initial Purchasers.

We have agreed that, so long as any of the Additional Notes are "restricted securities" within the meaning of Rule 144A(a)(3) under the Securities Act, we will, during any period in which we are neither subject to section 13 or 15(d) of the Securities Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish, upon request, to any holder or beneficial owner of the Additional Notes offered hereby, or any prospective purchaser of such restricted securities designated by such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

The additional documents and information specified in "Listing and General Information" herein and not included in this Listing Prospectus will be available to be inspected and obtained by holders at the specified office of the listing agent in Luxembourg during normal business hours on any weekday.

## LISTING AND GENERAL INFORMATION

### Listing

Application has been made to the Luxembourg Stock Exchange for the Additional Notes to be admitted to listing on the Official List and to be admitted to trading on the Euro MTF market in accordance with the rules of that exchange. Notice of any change of control, change in the rate of interest payable on the Additional Notes or early redemption of the Additional Notes will be published in a Luxembourg newspaper of general circulation (which is expected to be *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange, at *www.bourse.lu*.

For so long as the Additional Notes are listed on the Euro MTF and the rules of that exchange require, copies of the following documents (together with English translations thereof) may be inspected and obtained by holders at the specified office of the listing agent in Luxembourg during normal business hours on any weekday:

- the organizational documents of the Issuer;
- the organizational documents of each of the Subsidiary Guarantors;
- the Purchase Agreement;
- the Indenture (which includes the form of the Notes);
- the Issuer's audited consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009;
- the Issuer's unaudited consolidated financial statements as of and for the nine month periods ended September 30, 2009 and 2010; and
- the Issuer's most recent annual consolidated financial statements and any interim consolidated financial statements published by the Issuer.

We will maintain a Paying and Transfer agent in Luxembourg for as long as any of the Additional Notes are listed on the Euro MTF. We reserve the right to vary such appointment and we will publish notice of such change of appointment in a newspaper having a general circulation in the Grand Duchy of Luxembourg (which is expected to be *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange, at *www.bourse.lu*.

### Clearing Information

The Additional Notes sold pursuant to Regulation S have been accepted for clearance through the facilities of Euroclear and Clearstream. The Additional Notes sold pursuant to Rule 144A of the US Securities Act have been accepted for clearance through the facilities of Euroclear and Clearstream under a common code of 047161215 and an ISIN of XS0471612159.

The Additional Notes sold pursuant to Rule 144A will have the same international securities identification numbers and common codes as the Original Notes sold pursuant to Rule 144A and will be fungible and listed together with the Original Notes on or about the Issue Date.

During the 40-day distribution compliance period (as defined in Regulation S), Additional Notes sold pursuant to Regulation S will be represented by a temporary global note with a temporary ISIN of XS0582275441 and a common code of 058227544. Following this 40-day distribution compliance period, the Regulation S Global Notes will have a common code of 047161207 and an ISIN of XS0471612076, which are the same common code and ISIN of the Original Notes held pursuant to Regulation S.

### Legal Information Regarding the Issuer

The Issuer, Agrokor, was incorporated as a joint stock company on September 11, 1989. Its registration number is 080020970; its address is Trg Dražena Petrovića 3, 10000 Zagreb, Croatia; and its telephone number is +385 1 4894 111.

*Authorization*

The creation and issue of the Additional Notes has been authorized by resolutions passed by the Supervisory and Management Boards of the Issuer dated November 20, 2009 and January 7, 2011. The granting of the Guarantees has been authorized by resolutions passed by the Supervisory and Management Boards of each of the Subsidiary Guarantors dated November 20, 2009 and January 7, 2011.

*Business Year*

The Issuer's fiscal year ends on December 31 of each year.

*Financial Statements*

Financial statements will be published by the Issuer on an annual basis. These statements will be approved by an external auditor. In addition, unaudited financial statements will be published on a quarterly basis.

*Auditors*

The consolidated financial statements of the Issuer and the unconsolidated financial statements of the Subsidiary Guarantors have been audited without qualification for the year ended December 31, 2007 by the Issuer's and the Subsidiary Guarantors' independent auditors Baker Tilly Discordia d.o.o. and Ernst & Young d.o.o. The consolidated financial statements of the Issuer and the unconsolidated financial statements of the Subsidiary Guarantors have been audited without qualification for the years ended December 31, 2008 and December 31, 2009 by the Issuer's and the Subsidiary Guarantors' independent auditors Baker Tilly Discordia d.o.o. Baker Tilly Discordia d.o.o.'s address is Ulica grada Vukovara 11, 10000 Zagreb, Croatia. Ernst & Young d.o.o.'s address is Milana Sachsa 1, 10000 Zagreb, Croatia. Baker Tilly Discordia d.o.o. and Ernst & Young d.o.o. are members of the Croatian Chamber of Auditors.

*Litigation*

Except as disclosed herein, the Issuer, the Subsidiary Guarantors or any of their subsidiaries have note been involved in any legal or arbitration proceedings against or affecting the Issuer, nor is the Issuer aware of any pending or threatened proceedings of such kind, which is or may be material in the context of the issue and offering of the Notes.

*No Conflict of Interests*

There are no potential conflicts of interests between any duties to the Issuer, of the directors, of the statutory auditors and their private interests and or other duties.

**Subsidiary Guarantor Information**

(1) Agrokor trgovina: Agrokor trgovina was incorporated as a joint stock company in accordance with the Croatian Companies Act on February 2, 1996. Its registration number is 080041079; its address is Ulica grada Vukovara 284/a, Zagreb, Croatia; and its telephone number is +385 1 6052 200.

(2) Jamnica: Jamnica was incorporated as a joint stock company in accordance with the Croatian Companies Act on 2 June 1995. Its registration number is 080001412; its address is Getaldićeva 3, 10000 Zagreb, Croatia; and its telephone number is +385 1 2393 111.

(3) Ledo: Ledo was incorporated as a joint stock company in accordance with the Croatian Companies Act on 15 May 1995. Its registration number is 080002964; its address is M. Čavića 9, 10000 Zagreb, Croatia; and its telephone number is +385 1 2385 555.

(4) Konzum: Konzum was incorporated as a joint stock company in accordance with the Croatian Companies Act on 27 June 1995. Its registration number is 080000926; its address is M. Čavića la, 10000 Zagreb, Croatia; and its telephone number is +385 1 2482 222.

(5) Ledo Čitluk: Ledo Čitluk was incorporated as a limited liability company under the laws of Bosnia and Herzegovina on February 3, 2000. Its registration number is 1-10174; its address is Industrijska zona—Tromeda b.b., Čitluk, Bosnia and Herzegovina; and its telephone number is +387 36 650 220.

(6) PIK Vinkovci: PIK Vinkovci, was incorporated as a joint stock company in accordance with the Croatian Companies Act on August 22, 1995. Its registration number is 030001628; its address is Matije Gupca 130, Vinkovci, Croatia; and its telephone number is +385 32 339 730.

(7) Sarajevski kiseljak:, Sarajevski kiseljak was incorporated as a joint stock company under the laws of Bosnia and Herzegovina on August 30, 2000. Its registration number is 51-02-0001-09; its address is Ulica Kraljice mira br.7., Kiseljak, Bosnia and Herzegovina; and its telephone number is +387 30 871 800.

(8) Zvijezda: Zvijezda was incorporated as a joint stock company in accordance with the Croatian Companies Act on 9 June 1995. Its registration number is 080001822; its address is M. Čavića 1, 10000 Zagreb, Croatia; and its telephone number is +385 1 2832 666.

**General**

Except as disclosed herein, there has been no material change in the consolidated financial position of the Issuer and its subsidiaries that is material in the context of the issue and offering of the notes since the date of its last audited consolidated financial statements for the year ended December 31, 2009.

According to Part 1, Chapter 5, item 502 of the Rules and Regulations of the Luxembourg Stock Exchange, the Notes shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

The initial Trustee under the Indenture is BNY Corporate Trustee Services Limited, whose head office is at One Canada Square, London E14 5AL, United Kingdom.

# INDEX TO FINANCIAL STATEMENTS

**INTERIM FINANCIAL STATEMENTS**
**FOR THE PERIOD ENDED 30 SEPTEMBER 2010**

BAKER TILLY
DISCORDIA
Ulica grada Vukovara 11
10000 Zagreb
Croatia

*Report on Review of Interim Financial Information*

**To the Management Board and the Shareholders of Agrokor d.d.**

***Introduction***

We have reviewed the accompanying consolidated statement of financial position of Agrokor group as at September 30th 2010 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standards. We have read the other information contained in the interim financial information and considered whether it contains any apparent misstatements or material inconsistencies with the interim financial information.

Our review work has been undertaken so that we might stat to the Board and the Shareholders of Agrokor d.d. those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board and the Shareholders of Agrokor d.d. for our review work, for this report, or for the conclusion we have formed.

***Directors responsibilities***

The interim financial information, is the responsibility of, and has been approved by the directors. The directors are responsible for the preparation and presentation of interim financial information that gives a true and fair view of the financial position of the Group as at September 30th 2010 and of the financial performance of the Group and the cash flows of the Group for nine months period then ended in accordance with the applicable law and International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union.

***Our responsibility***

Our responsibility is to express a conclusion on this interim financial information based on our review.

***Scope of Review***

We conducted our review in accordance with International Standards on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit option.

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards.

Zagreb, December 8th, 2010

*Nevenka Dujić*
*Certified auditor*

BAKER TILLY
DISCORDIA
Revizorska wrtka d.o.o.
Ulica grada Vukovara 11
10000 Zagreb

*Olivio Discordia*
*Director*

an independent member of
BAKER TILLY
INTERNATIONAL
OIB 71665824084 MB 0341487 Tel: +385 (1) 3 012 600 Fax: +385 (1) 3094 143 E-mail: office@discordia.hr www.discordia.hr

**AGROKOR GROUP**

**CONSOLIDATED STATEMENT OF INCOME**

***For the period ended 30 September 2010 and 2009***

**(in thousands of HRK)**

| | Notes | 30.09.2010 | 30.09.2009 |
|---|---|---|---|
| Sales | 1 | 19,712,457 | 19,727,982 |
| Cost of materials | | (13,672,024) | (13,836,408) |
| Cost of services | | (1,661,158) | (1,586,088) |
| **GROSS MARGIN** | | **4,379,275** | **4,305,486** |
| Other revenues | | 174,056 | 149,179 |
| Other expenses | | (3,447,571) | (3,419,426) |
| **OPERATING PROFIT** | | **1,105,760** | **1,035,239** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | | 14,173 | — |
| Impairment of financial assets | | (6,167) | (7,402) |
| Dividend income | | 278 | 360 |
| Sale of subsidiary | | — | (167,351) |
| Sale of properties, net | | (3,696) | (1,954) |
| Interest expense, net | | (529,474) | (428,259) |
| Net foreign exchange loss | | (237,794) | (103,553) |
| **PROFIT BEFORE TAXATION** | | **343,080** | **327,080** |
| Taxation | | (156,709) | (131,702) |
| **NET PROFIT** | | **186,371** | **195,378** |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the parent | | 98,445 | 81,183 |
| Non-controlling interest | | 87,926 | 114,195 |

## AGROKOR GROUP

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

***For the period ended 30 September 2010 and 2009***

**(in thousands of HRK)**

| | 30.09.2010 | 30.09.2009 |
|---|---|---|
| **Profit for the year** | **186,371** | **195,378** |
| **Other comprehensive income** | | |
| Exchange differences on translation of foreign operations | **(63,644)** | **(92,924)** |
| Revaluation of land | — | — |
| Income tax effect | — | — |
| | — | — |
| **Other comprehensive income for the year, net of tax** | **(63,644)** | **(92,924)** |
| **Total comprehensive income for the year, net of tax** | **122,727** | **102,454** |
| **Attributable to:** | | |
| Equity holders of the parent | 52,841 | 2,220 |
| Non-controlling interests | 69,886 | 100,234 |

**AGROKOR GROUP**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

***As at 30 September 2010 and 31 December 2009***

***(in thousands of HRK)***

| | Notes | 30.09.2010 | 31.12.2009 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 12,880,763 | 12,167,281 |
| Intangible assets | | 1,305,202 | 1,329,408 |
| Biological assets | | 281,562 | 229,757 |
| Investments in associates | | 117,454 | 59,510 |
| Other non-current investments | | 984,801 | 919,780 |
| **TOTAL NON-CURRENT ASSETS** | | **15,569,782** | **14,705,736** |
| CURRENT ASSETS | | | |
| Inventories | 2 | 3,637,957 | 3,707,158 |
| Live stock and crops | 2 | 756,799 | 369,770 |
| Other assets held for sale | | 148,227 | 418,500 |
| Loans granted | 4 | 344,744 | 252,481 |
| Accounts receivable | | 3,642,028 | 3,779,776 |
| Other current assets | | 433,649 | 250,132 |
| Cash and cash equivalents | | 849,781 | 895,797 |
| **TOTAL CURRENT ASSETS** | | **9,813,185** | **9,673,614** |
| **TOTAL ASSETS** | | **25,382,967** | **24,379,350** |

**AGROKOR GROUP**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**

***As at 30 September 2010 and 31 December 2009***

***(in thousands of HRK)***

| | Notes | 30.09.2010 | 31.12.2009 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| Share capital | | 161,591 | 161,591 |
| Reserves | | 3,332,945 | 3,365,675 |
| | | **3,494,536** | **3,527,266** |
| **NON-CONTROLLING INTERESTS** | | 2,376,573 | 2,303,734 |
| **TOTAL EQUITY** | | **5,871,109** | **5,831,000** |
| **LIABILITIES** | | | |
| LONG-TERM LIABILITIES | | | |
| Borrowings | 5 | 6,862,958 | 5,780,404 |
| Provision for employee benefits | | 60,597 | 58,721 |
| Deferred tax liability related to land revaluation | | 498,760 | 499,719 |
| Other deferred taxation | | 47,258 | 45,984 |
| Other long term liabilities | | 115,656 | 78,784 |
| **TOTAL LONG-TERM LIABILITIES** | | **7,585,229** | **6,463,612** |
| CURRENT LIABILITIES | | | |
| Accounts payable | | 8,101,125 | 7,711,816 |
| Liabilities due to other assets held for sale | | 598 | 182,583 |
| Income tax payable | | 40,799 | 63,905 |
| Current portion of long-term borrowings | 5 | 735,727 | 914,240 |
| Bank borrowings | 5 | 1,990,041 | 2,292,675 |
| Non-bank borrowings | 5 | 25,950 | 30,795 |
| Other current liabilities | 6 | 1,032,389 | 888,724 |
| **TOTAL CURRENT LIABILITIES** | | **11,926,629** | **12,084,738** |
| **TOTAL LIABILITIES** | | **19,511,858** | **18,548,350** |
| **TOTAL EQUITY AND LIABILITIES** | | **25,382,967** | **24,379,350** |

**Approved by the Management Board of Agrokor d.d.**

Ivica Todorić, President

Zagreb, 08 December 2010

## AGROKOR GROUP

## CONSOLIDATED STATEMENT OF CASH FLOWS

***For the period ended 30 September 2010 and 2009***

***(in thousands of HRK)***

| | 30.09.2010 | 30.09.2009 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | 343,080 | 327,080 |
| **Adjustments to reconcile net earnings to net cash provided by operating activities** | | |
| Depreciation and amortization | 628,410 | 541,672 |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | (14,173) | — |
| Interest income | (72,968) | (62,121) |
| Impairment of financial assets | 6,167 | 7,402 |
| Loss on sale of properties | 3,696 | 1,954 |
| Gain on sale of financial assets | (62,272) | 116,363 |
| Value adjustment of receivables | 44,685 | 30,379 |
| Dividend income | (278) | (360) |
| Interest expense | 602,442 | 490,380 |
| **Result from operating activities before changes in working capital** | **1,478,789** | **1,452,749** |
| Decrease/(increase) in receivables | 131,290 | (110,871) |
| (Increase)/decrease in inventories | (317,828) | (208,760) |
| Increase/(decrease) of liabilities towards creditors | 389,309 | 703,928 |
| (Increase)/decrease of other short term assets | (229,455) | (3,063) |
| Decrease/(increase) in other short term liabilities | (104,013) | 138,780 |
| **Net cash inflow from operating activities before interest and taxes** | **1,348,092** | **1,972,763** |
| Income tax paid | (199,161) | (203,135) |
| Interest paid | (545,190) | (361,848) |
| **Net cash provided from operating activities** | **603,741** | **1,407,780** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of subsidiaries, net of cash acquired | (308,387) | (341,486) |
| Additions to properties | (967,303) | (1,302,357) |
| Decrease/(increase) in long term investments | (247,205) | (59,046) |
| Increase in short term investments | (92,263) | (93,478) |
| Proceeds from sale of properties | 267,451 | 181,408 |
| Proceeds from sale of financial assets | 125,877 | 201,166 |
| Interest received | 34,741 | 30,146 |
| Dividend received | 278 | 360 |
| **Net cash used in investing activities** | **(1,186,811)** | **(1,383,287)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from long-term debt | 1,384,834 | 658,164 |
| Repayments of long-term debt | (480,792) | (600,178) |
| (Repayments)/ proceeds from short-term debt | (302,634) | (427,409) |
| (Repayments)/ proceeds from short-term non-bank debt | (4,845) | 328,995 |
| Dividends paid | (59,509) | (83,212) |
| **Net cash from financing activities** | **537,054** | **(123,640)** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | **(46,016)** | **(99,147)** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD** | **895,797** | **706,157** |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | **849,781** | **607,010** |

## AGROKOR GROUP

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

***For the period ended 30 September 2010 and 2009***

***(in thousands of HRK)***

| | Attributable to equity of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** | **Revaluation surplus** | **Share premium** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| **Balance at 01 January 2009** | **161,591** | **904,534** | **782,881** | **1,736,528** | **3,585,534** | **2,232,265** | **5,817,799** |
| Net income for 2009 | — | — | — | 81,183 | 81,183 | 114,195 | 195,378 |
| Other comprehensive income | — | — | — | (78,962) | (78,962) | (13,962) | (92,924) |
| Total comprehensive income | — | — | — | 2,221 | 2,221 | 100,233 | 102,454 |
| Depreciation and sale of revalued assets | — | — | — | — | — | — | — |
| Acquisition of subsidiaries | — | — | — | (56,495) | (56,495) | 3,295 | (53,200) |
| Acquisition of non-controlling interest | — | — | — | — | — | — | — |
| Transfer to reserves | — | — | — | — | — | — | — |
| Dividends distributed for the year | — | — | — | (46,591) | (46,591) | (36,621) | (83,212) |
| **Balance at 30 September 2009** | **161,591** | **904,534** | **782,881** | **1,635,663** | **3,484,669** | **2,299,172** | **5,783,841** |
| **Balance at 01 January 2010** | **161,591** | **870,271** | **785,502** | **1,709,902** | **3,527,266** | **2,303,734** | **5,831,000** |
| Net income for 2010 | — | — | — | 98,445 | 98,445 | 87,925 | 186,370 |
| Other comprehensive income | — | — | — | (45,604) | (45,604) | (18,039) | (63,643) |
| Total comprehensive income | — | — | — | 52,841 | 52,841 | 69,886 | 122,727 |
| Depreciation and sale of revalued assets | — | — | — | — | — | — | — |
| Acquisition of subsidiaries | — | — | — | (27,939) | (27,939) | 4,830 | (23,109) |
| Acquisition of non-controlling interest | — | — | — | — | — | — | — |
| Transfer to reserves | — | — | — | — | — | — | — |
| Dividends distributed for the year | — | — | — | (57,632) | (57,632) | (1,877) | (59,509) |
| **Balance at 30 September 2010** | **161,591** | **870,271** | **785,502** | **1,677,172** | **3,494,536** | **2,376,573** | **5,871,109** |

## AGROKOR GROUP
## CHANGES IN ACCOUNTING POLICIES

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the 2009:

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations (effective 1 January 2009)
IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions (effective 1 January 2010—early adopted)
IFRS 7 Financial Instruments: Disclosures (effective 1 January 2009)
IFRS 8 Operating Segments (effective 1 January 2009)
IAS 1 Presentation of Financial Statements (effective 1 January 2009)
IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
IAS 39 Financial Instruments: Recognition and Measurement—Eligible Hedged Items (effective 1 July 2009—early adopted)
IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement (effective for periods ending on or after 30 June 2009)
IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)
IFRIC 15 Agreements for Construction of Real Estates (effective 2 January 2009)
IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)
IFRIC 18 Transfers of Assets from Customers (effective 1 July 2009—early adopted)
Improvements to IFRSs (May 2008)
Improvements to IFRSs (April 2009—partially early adopted)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

*IFRS 2 Share-based Payment (Revised)*

The IASB issued an amendment to IFRS 2 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

*IFRS 7 Financial Instruments: Disclosures*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a tree level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

*IFRS 8 Operating Segments*

IFRS 8 replaced *IAS 14 Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 3, including the related comparative information.

*IAS 1 Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

*IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation*

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

*IAS 39 Financial Instruments: Recognition and Measurement—Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

*IFRIC 9 Reassessment of Embedded Derivatives* and *IAS 39 Financial Instruments: Recognition and Measurement*

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed in the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now stated that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

*IFRIC 13 Customer Loyalty Programs*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. For customer to be able to use awarded credits it is necessary that the customer collects minimal number of credits per period (quarterly). In case that the customer did not collect minimal number of credits, collected credits are deleted at the end of the period.

*IFRIC 15 Agreements for construction of Real Estates*

This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. Agreements in the scope of this Interpretation are agreements for the construction of real estate. In addition to the construction of real estate, such agreements may include the delivery of other goods or services. Adoption of this interpretation did not have any influence on the Group's financial statements.

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation*

This Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The Group does not have hedges, and accordingly the adoption of this interpretation did not have any effect on the financial position or performance of the Group.

*IFRIC 18 Transfers of Assets from Customers*

IFRIC 18 clarifies the requirements of IFRSs for agreements in which the Group receives from a customer an item of property, plant, and equipment that the Group must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The Group's early adoption of IFRIC 18 did not have any impact on its financial position or performance as the Group does not receive any considerations of this kind from its customers.

*Improvements to IFRSs*

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

*IFRS 8 Operating Segment Information:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 3.

*IAS 7 Statement of Cash Flows:* explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will not have any impact on the presentation of cash flows of the Group.

*IAS 17 Leases:* explicitly states that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with requirements of IAS 17. Application of this amendment will not have any impact on the financial statements of the Group.

*IAS 18 Revenue:* The board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity: has primary responsibility for providing the goods or service, has inventory risk, has discretion in establishing prices and bears the credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

*IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group as the government assistance received is not in form of loans but direct grants.

*IAS 36 Impairment of Assets:* clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

*IAS 40 Investment property:* included additional item in the definitions: property that is being constructed or developed for future use as investment property, which was previously under the scope of IAS 16. The amendment clarifies that if an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when the construction is complete, it shall measure that investment property under construction at cost until either its fare value becomes reliably determinable or construction is completed (whichever is earlier). Adoption of this amendment did not have impact on financial position or performance of the Group as the Group does not have construction or development of investment property.

*IAS 41 Agriculture:* clarifies that present value of expected cash flows from the asset should be discounted at a current market-determined rate, for the purpose of determination of the fair value of a biological asset in its present location and condition. The Board also amended the standard to refer to biological transformation or harvest when applicable to make clear that harvest changes the condition of an asset. The Board also excluded point-of-sale costs and introduced costs to sell as measurement point. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. The Group amended its accounting policies accordingly.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 2 Share-based Payments
IFRS 7 Financial Instruments: Disclosures
IAS 8 Accounting Policies, Change in Accounting Estimates and Error
IAS 10 Events after the Reporting Period
IAS 19 Employee Benefits
IAS 27 Consolidated and Separate Financial Statements
IAS 34 Interim Financial Reporting
IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 16 Hedge of a Net Investment in a Foreign Operation

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards and amendments to existing standards and interpretations have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

*IFRIC 17 Distributions of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. Application of this interpretation requires application of amended IFRS 3, IFRS 5 and IAS 27. The Group will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the financial statements of the Group.

*IAS 27 Consolidated and Separate Financial Statements (Revised)*

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

*IFRS 3 Business Combinations (Revised)*

The revised standard continues to apply the acquisition method to business combinations, with some significant changes: e.g. all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

*IFRS 9 Financial Instruments*

On 12 November 2009, the IASB issued IFRS 9 Financial instruments as the first step in its project to replace IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied from 1 January 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. By the end of 2010 the IAS 39 will be completely replaced by IFRS 9. The Group plans to adopt this new standard on its effective date.

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

On 26 November 2009, the IASB issued IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments which clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity’s shares or other equity instruments to settle the financial liability fully or partially. The Interpretation is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted. The Group does not expect IFRIC 19 to have an impact on the financial statements. The Group plans to adopt this interpretation at its effective date.

*IAS 1 Presentation of Financial Statements (Amended)*

The amendment is part of IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amendment the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The group will apply IAS 1 (amended) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

*Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011)*

The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government- related-entities. The implementation of these amendments will have no impact on the financial position or performance of the Group; however it may impact the related parties' disclosures. The Group plans to adopt this amendment at its effective date.

*Amendment to IAS 32 Financial Instruments: Presentation—Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010)*

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group. The Group plans to adopt the amendment at its effective date.

*IAS 38 Intangible Assets (Amended)*

The amendment is part of the IASB's annual improvements project published in April 2009, and the Group will apply IAS 38 (amended) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's financial statements.

## NOTE 1. SEGMENTAL ANALYSIS

### Business segments

| 30.09.2010 | Agrokor Holding | Food, Manufacturing and Distribution | Retailing and Wholesale | Other Businesses | Intersegment sales | Consolidated |
|---|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | | |
| **SALES** | | | | | | |
| Sales to external customers. | 30,461 | 3,717,678 | 14,879,374 | 1,084,944 | | |
| Inter-segment sales ............ | 324,930 | 3,336,413 | 585,446 | 574,579 | (4,821,368) | |
| **Total sales** .......................... | **355,391** | **7,054,091** | **15,464,820** | **1,659,523** | (4,821,368) | **19,712,457** |
| **OPERATING PROFIT** .... | **(255,978)** | **816,945** | **535,933** | **8,859** | | **1,105,760** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill ................... | | | | | | 14,173 |
| Sale of properties, net ......... | | | | | | (3,696) |
| Financial expenses ............. | | | | | | (840,236) |
| Impairment of financial assets .............................. | | | | | | (5,889) |
| Sale of subsidiaries ............ | | | | | | — |
| Financial income................ | | | | | | 72,968 |
| Income before taxation ....... | | | | | | **343,080** |
| Taxation ............................. | | | | | | (156,709) |
| **Net profit for the year**....... | | | | | | **186,371** |
| Depreciation and amortisation ................... | 19,209 | 312,357 | 284,950 | 11,894 | | 628,410 |
| **30.09.2009** | | | | | | |
| **SALES** | | | | | | |
| Sales to external customers... | 28,818 | 3,857,327 | 14,597,706 | 1,244,131 | | |
| Inter-segment sales .............. | 267,589 | 2,912,260 | 597,823 | 586,613 | (4,364,285) | |
| **Total sales** ........................... | **296,407** | **6,769,586** | **15,195,528** | **1,830,745** | **(4,364,285)** | **19,727,982** |
| **OPERATING PROFIT** ...... | **(208,214)** | **727,261** | **486,784** | **29,409** | | **1,035,239** |
| Sale of properties, net ........... | | | | | | (1,954) |
| Financial expenses ................ | | | | | | (593,933) |
| Impairment of financial assets ................................ | | | | | | (7,042) |
| Sale of subsidiaries ............... | | | | | | (167,351) |
| Financial income................... | | | | | | 62,121 |
| Income before taxation ......... | | | | | | **327,080** |
| Taxation ............................... | | | | | | (131,702) |
| **Net profit for the year**......... | | | | | | **195,378** |
| Depreciation and amortisation ..................... | 20,236 | 280,210 | 234,982 | 6,243 | | 541,672 |

## NOTE 2. INVENTORIES

| | 30.09.2010 | 31.12.2009 |
|---|---|---|
| | (in thousands of HRK) | |
| Raw materials | 640,575 | 537,222 |
| Work in progress | 485,547 | 598,724 |
| Merchandise | 2,136,876 | 2,080,824 |
| Finished goods | 374,959 | 490,388 |
| | **3,637,957** | **3,707,158** |

## TOTAL BIOLOGICAL ASSETS

| | 30.09.2010 | 31.12.2009 |
|---|---|---|
| | (in thousands of HRK) | |
| Non current biological assets | 273,423 | 172,577 |
| Live stock and crops | 483,376 | 197,193 |
| | **756,799** | **369,770** |

Increase in live stock and crops is a result of increased investments in agricultural production, increase of land used in crop husbandry and acquisition of Vupik d.d. whose main activity is agricultural production.

## NOTE 3. CONTINGENCIES

The Group is involved in normal commercial litigation relating to the collection of outstanding amounts from debtors of HRK 296,266 thousand and disputes with creditors over amounts of HRK 75,027 thousand. In addition, proceedings are ongoing in relation to other short-term receivables of HRK 45,792 thousand and other short-term liabilities of HRK 110,923 thousand.

## NOTE 4. LOANS GRANTED

Loans granted represent the current portion of long term loans and other short term loans given as a part of regular business.

## NOTE 5. BORROWINGS

| Long-term borrowings | 30.09.2010 | 31.12.2009 |
|---|---|---|
| | (in thousands of HRK) | |
| —Bank loans | 4,723,180 | 3,820,558 |
| —Bonds | 2,837,918 | 2,833,818 |
| —Non-bank loans | 18,529 | 23,344 |
| —Finance leases | 19,058 | 16,924 |
| **Total long-term borrowings** | **7,598,685** | **6,694,644** |
| **Current portion of long-term borrowings** | | |
| —Bank loans | (719,812) | (899,861) |
| —Non-bank loans | (8,035) | (8,070) |
| —Finance leases | (7,880) | (6,309) |
| Total current portion of long-term borrowings | **(735,727)** | **(914,240)** |
| Long-term debt | **6,862,958** | **5,780,404** |
| Short-term borrowings | | |
| —Bank loans | 1,990,041 | 2,292,675 |
| —Non-bank loans | 25,950 | 30,795 |
| Total short-term borrowings | **2,015,991** | **2,323,470** |
| **TOTAL BORROWINGS** | **9,614,676** | **9,018,114** |

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

| Maturity | (in thousands of HRK) |
|---|---|
| 01.10–31.12.2011 | 182,938 |
| 2012 | 679,270 |
| 2013 | 715,518 |
| 2014 | 819,986 |
| 2015 | 1,545,758 |
| 2016 and thereafter | 2,897,816 |
| | **6,841,286** |

## NOTE 6. OTHER CURRENT LIABILITIES

| | 30.09.2010 | 31.12.2009 |
|---|---|---|
| | (in thousands of HRK) | |
| Sales and employment taxes | 226,861 | 197,930 |
| Amounts due to employees | 151,917 | 144,735 |
| Advance payments | 173,175 | 123,925 |
| Other current liabilities | 228,771 | 232,344 |
| Accrued expenses and deferred income | 251,665 | 189,790 |
| | **1,032,389** | **888,724** |

## AGROKOR GROUP

## FINANCIAL REPORT 2009

**REPORT OF THE MANAGEMENT BOARD**

***for the year ended 31 December 2009***

The members of the Management Board have the pleasure of presenting their Annual Report for the Agrokor Group (the Company and its subsidiaries collectively "the Group") for the year ended 31 December 2009.

**Results and Dividends**

The Statement of Income is set out on page 4 and shows the result of the Group for the year.

**Principal activities, trading review and future development**

The Group operates through its two business groups: Business Group Food and Business Group Retailing. A detailed review of these activities and future developments is set out in the President's Report and Review of Operations.

**Supervisory Board**

The Supervisory Board of Agrokor d.d. on 31 December 2009 consists of the following members:

**Ivan Todorić** Chairman
**Branko Mikša** Deputy Chairman
**Hans Christian Jacobsen** Board Member
**Branko Tarnik** Board Member
**Mirko Novosel** Board Member

**Management Board**

The Management Board of Agrokor d.d. on 31 December 2009 consists of the following members:

**Ivica Todorić** President
**Ljerka Puljić** Senior Executive Vice President for Strategic Business Groups, Marketing and Human Resources
**Piruška Canjuga** Executive Vice President for Business Development
**Tomislav Lučić** Executive Vice President for Finance
**Damir Kuštrak** Executive Vice President for Export Markets
**Ivan Crnjac** Executive Vice President for Strategy and M&A
**Ante Todorić (Junior)** Executive Vice President for Business Group Retailing
**Mislav Galić** Executive Vice President for Business Group Food

As at 30 July 2009 Mr, Ante Todorić resigned from Management Board, and consequently from position of Senior Executive Vice President for technology and R&D.

## STATEMENT OF RESPONSIBILITIES OF THE MANAGEMENT BOARD

Pursuant to the Croatian Accounting Law in force, the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the financial position and results of the Group for that period.

The Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the 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 the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

**Management Board**

Ivica Todorić, President

Zagreb, 27 April 2010

## AUDITOR’S OPINION

**To the Management Board and the Shareholders of Agrokor d.d.**

We have audited the accompanying consolidated financial statements (“the consolidated financial statements” of Agrokor d.d. (the Company) and its subsidiaries (together, the Group)) which comprise the consolidated balance sheet as at 31 December 2009 and consolidated income statement, consolidated statement in changes of equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 4 to 47).

**Management Responsibility**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant so the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the accounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly in all material aspects, the financial position of the Group as at 31 December 2009 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Baker Tilly Discordia d.o.o.

Olivio Discordia
Director
Certified auditor

Zagreb, 27 April 2010

**AGROKOR GROUP**

**CONSOLIDATED STATEMENT OF INCOME**

***For the years ended 31 December 2009 and 2008***

**(in thousands of HRK)**

| | Notes | 2009 | 2008 |
|---|---|---|---|
| Sales | 3 | **26,476,657** | 27,662,914 |
| Cost of materials | 4 | **(18,324,864)** | (19,953,470) |
| Cost of services | | **(2,210,414)** | (2,103,910) |
| | | **5,941,379** | 5,605,534 |
| Other income | 5 | **251,319** | 231,007 |
| Other expenses | 6 | **(4,731,171)** | (4,520,776) |
| **OPERATING PROFIT** | | **1,461,527** | 1,315,765 |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | 7 | **(22,438)** | (19,391) |
| Share of gain/loss of associates | | **281** | (933) |
| Impairment of financial assets | | **(12,631)** | (18,449) |
| Dividend income | | **360** | 3,519 |
| Sale of subsidiaries | 8 | **(127,712)** | — |
| Sale of properties, net | | **(22,829)** | 34,167 |
| Interest income | | **68,821** | 112,107 |
| Interest expense | | **(744,308)** | (684,995) |
| Net foreign exchange (loss) | | **(150,484)** | (235,667) |
| **PROFIT BEFORE TAXATION** | | **450,587** | 506,123 |
| Taxation | 26 | **(214,075)** | (264,405) |
| **NET PROFIT FOR THE YEAR** | | **236,512** | 241,718 |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the parent | | **75,571** | 83,334 |
| Minority interest | | **160,941** | 158,384 |

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

## AGROKOR GROUP

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

***For the years ended 31 December 2009 and 2008***

***(in thousands of HRK)***

| | 2009 | 2008 |
|---|---|---|
| **Profit for the year** | **236,512** | **241,718** |
| **Other comprehensive income** | | |
| Exchange differences on translation of foreign operations | **(99,943)** | **(139,550)** |
| Revaluation of land | — | 917,416 |
| Income tax effect | — | (165,876) |
| | — | 751,540 |
| **Other comprehensive income for the year, net of tax** | **(99,943)** | **611,990** |
| **Total comprehensive income for the year, net of tax** | **136,569** | **853,708** |
| Attributable to: | | |
| Equity holders of the parent | (7,807) | 504,592 |
| Non-controlling interests | 144,376 | 349,116 |

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

**AGROKOR GROUP**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

***As at 31 December 2009 and 2008***

***(in thousands of HRK)***

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | **12,167,281** | 12,292,038 |
| Intangible assets | 9 | **1,329,408** | 1,058,920 |
| Biological assets | 13 | **229,757** | 182,466 |
| Investments in associates | 10 | **59,510** | 168,229 |
| Other non-current investments | 10 | **919,780** | 612,737 |
| **TOTAL NON-CURRENT ASSETS** | | **14,705,736** | **14,314,390** |
| CURRENT ASSETS | | | |
| Inventories | 12 | **3,707,158** | 3,204,151 |
| Live stock and crops | 13 | **369,770** | 371,460 |
| Other assets held for sale | 14 | **418,500** | 342,938 |
| Loans granted | 15 | **252,481** | 194,953 |
| Accounts receivable | 16 | **3,779,776** | 3,718,896 |
| Other current assets | 17 | **250,132** | 371,215 |
| Cash and cash equivalents | 18 | **895,797** | 706,157 |
| **TOTAL CURRENT ASSETS** | | **9,673,614** | **8,909,770** |
| **TOTAL ASSETS** | | **24,379,350** | **23,224,160** |

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

**AGROKOR GROUP**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

***For the years ended 31 December 2009 and 2008***

***(in thousands of HRK)***

| | 2009 | 2008 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | 450,587 | 506,123 |
| **Adjustments to reconcile net earnings to net cash provided by operating activities** | | |
| Depreciation and amortisation | 723,781 | 613,713 |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | 22,438 | 19,391 |
| Interest income | (68,821) | (112,107) |
| Impairment of financial assets | 12,631 | 19,382 |
| Gain on sale of properties | 22,829 | (34,167) |
| Gain on sale of subsidiaries | 19,574 | (83) |
| Value adjustment of receivables | 88,753 | 61,860 |
| Dividend income | (360) | (3,519) |
| Interest expense | 744,308 | 684,995 |
| **Net cash flows from operating activities before changes in working capital** | **2,015,720** | **1,755,588** |
| (Increase) in receivables | (166,492) | (753,047) |
| (Increase) in inventories | (501,317) | (576,591) |
| Increase of liabilities towards creditors | 576,298 | 1,651,223 |
| Decrease/(Increase) of other short term assets | 131,704 | (249,988) |
| (Decrease)/Increase in other short term liabilities | (62,032) | 270,365 |
| **Net cash inflow from operating activities before interest and taxes** | **1,993,881** | **2,097,550** |
| Income tax paid | (253,994) | (200,937) |
| Interest paid | (624,382) | (583,119) |
| **Net cash provided from operating activities** | **1,115,505** | **1,313,494** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of subsidiaries, net of cash acquired | (450,967) | (1,410,871) |
| Additions to properties and intangible assets | (1,575,265) | (2,511,527) |
| Increase in long term investments | (338,687) | (314,685) |
| (Increase)/Decrease in short term investments | (57,528) | 31,100 |
| Proceeds from sale of properties | 311,438 | 353,368 |
| Proceeds from sale of financial assets | 528,148 | 4,238 |
| Interest received | 85,679 | 97,293 |
| Dividends received | 360 | 3,519 |
| **Net cash used in investing activities** | **(1,496,822)** | **(3,747,565)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from long-term debt | 2,554,330 | 1,161,760 |
| Repayments of long-term debt | (889,448) | (306,661) |
| (Repayments)/Proceeds from short-term debt | (831,113) | 1,302,811 |
| (Repayments)/Proceeds from short-term non-bank debt | (168,366) | 196,378 |
| Dividends paid | (94,446) | (87,267) |
| **Net cash from financing activities** | **570,957** | **2,267,021** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | **189,640** | **(167,050)** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR** | **706,157** | **873,207** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **895,797** | **706,157** |

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

## AGROKOR GROUP

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

***For the years ended 31 December 2009 and 2008***

**(in thousands of HRK)**

| | | Attributable to equity of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Note** | **Share capital** | **Revaluation surplus** | **Share premium** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| **Balance at 01 January 2008** | 19 | **161,591** | **426,933** | **782,881** | **1,746,868** | **3,118,273** | **1,780,135** | **4,898,408** |
| Net income for 2008 | | — | — | — | 83,334 | 83,334 | 158,384 | 241,718 |
| Other comprehensive income | | — | 539,919 | — | (118,661) | 421,258 | 190,732 | 611,990 |
| Total comprehensive income | | — | 539,919 | — | (35,327) | 504,592 | 349,116 | 853,708 |
| Depreciation and sale of revalued assets | | — | (1,597) | — | — | (1,597) | — | (1,597) |
| Acquisition of subsidiaries | | — | — | — | (23,523) | (23,523) | 175,928 | 152,405 |
| Acquisition of non-controlling interest | | — | 46 | — | 45,916 | 45,962 | (45,962) | — |
| Transfer to reserves | | — | (60,767) | — | 60,767 | — | — | — |
| Dividends distributed for the year | | — | — | — | (58,173) | (58,173) | (26,952) | (85,125) |
| **Balance at 31 December 2008** | 19 | **161,591** | **904,534** | **782,881** | **1,736,528** | **3,585,534** | **2,232,265** | **5,817,799** |
| **Balance at 01 January 2009** | | **161,591** | **904,534** | **782,881** | **1,736,528** | **3,585,534** | **2,232,265** | **5,817,799** |
| Net income for 2009 | | — | — | — | 75,571 | 75,571 | 160,941 | 236,512 |
| Other comprehensive income | | — | — | — | (83,378) | (83,378) | (16,565) | (99,943) |
| Total comprehensive income | | — | — | — | (7,807) | (7,807) | 144,376 | 136,569 |
| Depreciation and sale of revalued assets | | — | (1,604) | — | — | (1,604) | (1,491) | (3,095) |
| Acquisition of subsidiaries | | — | (2,379) | — | 8,798 | 6,419 | (2,940) | 3,479 |
| Acquisition of non-controlling interest | | — | 277 | 2,620 | — | 2,897 | (31,704) | (28,807) |
| Transfer to reserves | | — | (30,557) | — | 30,557 | — | — | — |
| Dividends distributed for the year | | — | — | — | (58,173) | (58,173) | (36,772) | (94,945) |
| **Balance at 31 December 2009** | | **161,591** | **870,271** | **785,501** | **1,709,903** | **3,527,266** | **2,303,734** | **5,831,000** |

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

**General**

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

Majority owner of the Group is Mr. Ivica Todorić with a share of 91.67%.

The Company's registered main office is located at Trg Dražena Petrovića 3, Zagreb.

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

At 31 December 2009 the Group employed 32,709 employees (31 December 2008 35,352 employees).

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.1. Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain property, plant and equipment and long-term investments which are included at valuation, as described in the following accounting policy notes.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year, except as described in the note 1.28.

The Group's consolidated financial statements are presented in Croatian Kuna (HRK) which is the Group's functional currency. The effective exchange rate of the Croatian currency (expressed in HRK) at 31 December 2009 was HRK 5.09 per United States Dollar (USD) (2008: HRK 5.16) and HRK 7.31 per Euro (2008: HRK 7.32). All amounts disclosed in the financial statements are stated in thousands of HRK if not otherwise stated.

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board (IASB).

### 1.2. Principles of Consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries after the elimination of all material inter-company transactions. A subsidiary is an entity that is controlled by the Company through direct or indirect ownership of more than 50 percent of that entity's voting rights or through management control.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal.

Acquisitions of subsidiaries are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to align any dissimilar material accounting policies that may exist.

A listing of the Group's subsidiaries and a summary of the financial effect of the acquisition of subsidiaries during the year is set out in note 2.

Non-controlling interests in the equity and the results of the entities that are controlled by the Company are shown separately in the consolidated financial statements.

### 1.3. Investments in Associates

Investments in associates over which the Company has significant influence (those that are 20-50% owned) are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairments. The statement of income reflects the share of the results of operations of the associate.

The financial statements of the associates are prepared for the same reporting period as for the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in statement of income.

### 1.4. Financial assets and liabilities

All financial assets and liabilities are initially recognised at cost, being the fair value of the consideration given or received and including acquisition charges associated with the instrument.

After initial recognition, investments which are classified as financial assets at the fair value through profit or loss are measured at fair value. Gains or losses on investments which are classified as financial assets at the fair value through profit or loss are recognised in the income statement. Gains or losses on available-for-sale investments are recognised in the statement of comprehensive income until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in comprehensive income is included in income.

Other financial assets that are intended to be held-to maturity as well as financial liabilities, such as loans and advances given and received as well as issued bonds, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investment is derecognised or impaired, as well as through the amortisation process.

Transactions in financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset is not recognised until the settlement date, changes in value on the underlying asset are recognised.

### 1.5. Goodwill

Goodwill and Excess of fair value of net assets over the cost of acquisition represent the difference between the cost of acquisition and the acquirer’s interest in the fair value of the identifiable net assets at the date of acquisition.

Goodwill is subject to impairment test at each reporting date, as described in the accounting policy 1.8 Impairment of assets. Excess of fair value of net assets over the cost of acquisition is reported as a gain through the Income Statement in the year of acquisition.

### 1.6. Intangible Assets

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

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired, as described in the accounting policy 1.8. Impairment of assets. Intangible assets with finite useful lives are amortized on a straight-line basis over their expected useful lives, which do not exceed ten years. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

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

*Research and development costs*

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

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

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

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

### 1.7. Property, Plant and Equipment

Assets, with the exception of land, are carried at cost less accumulated depreciation and impairment. In 1993 fixed assets were revalued at year end in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. The revaluation effect was allocated to income. Hyperinflation accounting was discontinued in 1993. Subsequent revaluations relate only to land and have been based upon valuations performed by independent appraisers, in a period not longer than three years. The latest revaluation took place in 2008. The basis used in appraisals is comparable market prices. When an asset is revalued, any increase in the carrying value is credited directly to a revaluation surplus within equity or appropriate obligations for deferred taxation, if applicable.

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

Expenditures incurred in the repair or maintenance of property, plant and equipment to restore or maintain future economic benefits is recognised as an expense when incurred.

Depreciation is recorded by a charge to income computed on a straight-line basis over the estimated useful life of the asset, as follows:

| | |
|---|---|
| **Buildings** | **5 to 55 years** |
| **Plant, Machinery and Equipment** | **4 to 15 years** |
| **Leasehold improvements** | **5 to 10 years** |
| **Other fixed assets** | **to 5 years** |

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

### 1.8. Impairment of Assets

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

The recoverable amount is estimated as the higher of an assets or cash-generating unit's (CGU) fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs. Cash- generating units are primarily identified at entity level. Where carrying values exceed this estimated recoverable amount the assets are written down to their recoverable value.

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

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### 1.9. Leased Assets

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; whether fulfilment of the arrangement is dependent on use of a specific asset or the arrangement conveys a right to use the asset.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 1.9.1. Group as a lessee

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

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

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

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

### 1.9.2. Group as a lessor

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

### 1.10. Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is higher probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the data of classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

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

### 1.11. Inventories

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

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

Raw materials—purchase cost on a weighted average basis.

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

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

### 1.12. Agriculture

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

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

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

| | |
|---|---|
| **Vineyards** | **10-20 years** |
| **Apple orchards** | **10 years** |
| **Olive groves** | **20 years** |

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

### 1.13. Trade and other receivables

Trade receivables, which generally have 30-90 days terms are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

### 1.14. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, balances with banks, demand deposits, deposits with contractual maturity of less than 3 months.

### 1.15. Taxation

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

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

Deferred income tax is calculated, using the liability method, on all temporary differences at the balance sheet date due to differences in treatment of certain items for taxation and for accounting purposes within the consolidated financial statements. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 1.16. Foreign Currencies

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

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

Monetary assets and liabilities denominated in a foreign currency are translated into the reporting currency using the reporting period closing exchange rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising on foreign currency transactions and the translation of monetary and non-monetary assets and liabilities are recognised in the consolidated income statement in the period in which they arise.

The assets and liabilities of foreign subsidiaries are translated into the reporting currency using the Croatian National Bank middle exchange rate at the balance sheet date. Revenues and expenses are translated at the average exchange rate for the year. The effects of translating these items are included in other comprehensive income.

Any goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of that foreign subsidiary and are translated at the closing rate.

### 1.17. Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sale taxes. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following recognition criteria must also be met before the revenue is recognised:

In relation to the sale of goods, revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer and no significant uncertainties remain regarding the derivation of consideration, associated costs or the possible return of goods.

In relation to the rendering of services, revenue is recognised by reference to the stage of completion of the transaction, when no significant uncertainties remain concerning the derivation of consideration or associated costs.

Interest income arising from the use by others of the Group's resources is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is recognised as it accrues (taking into account the effective yield on the asset) unless collection is in doubt.

Revenue is recognised when the Group's right to receive the payment is established.

### 1.18. Definition of operating profit

Operating profit consists of sales revenues, cost of sales, other revenues (income from sales of financial assets, collected written-off receivables, inventory surpluses and other revenues) and other expenses (depreciation and

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

amortisation, wages and salaries, taxes, social insurance and pension costs, write off of bad debts and other short-term assets, research and development costs and other expenses).

### 1.19. Borrowing Costs

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

### 1.20. Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- Agrokor Holding—parent company for management of the Group
- Food, Manufacturing and Distribution—production of food (ice-cream and frozen food, edible oils and margarines, waters and drinks, meet and meet products, agriculture products) and distribution of the products to customers
- Retail and Wholesale—retail store chain and related businesses
- Other Businesses—commodities trading

No operating segments have been aggregated to form the above reportable operations.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group financing (including finance cost and finance income) are managed on a group basis and are not allocated to operating segments.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of Group revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Group policy.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis, as well as finance liabilities which are allocated to segments based on the segment allocation of the subsidiary being the original debtor. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's statement of financial position. Segment assets and liabilities do not include income tax items.

Unallocated items mainly comprise corporate, general and administrative expenses that relate to the group as a whole, and assets not directly attributable to the operations of the segments such as short and long term investments. Segment results are determined before any adjustments for non-controlling interest.

Capital expenditure represents the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

### 1.21. Pensions and employee benefits

The Group, in the normal course of business, makes fixed contributions into the State mandatory pension funds (I and II pillar) on behalf of its employees. The Group does not operate any other pension scheme or

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

post retirement benefit plan, and consequently, has no legal or constructive obligation to make further contributions if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

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

Past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

**1.22. Provisions**

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**1.23. Contingencies**

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

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

**1.24. Subsequent Events**

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

**1.25. Estimates**

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

**Impairment of Goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details are given in note 7.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Purchase price allocations**

Significant estimates are used in purchase price allocation process and mainly relate to assessments of fair value of land, impairment of plant and equipment, valuation of allowances and doubtful debts, provisions for employee benefits, legal claims as well as value of any separable intangible assets existing at the acquisition date.

Furthermore, in the Group's normal course of business, estimates are used for, but not limited to: assessments of value of land, depreciable lives and residual values of property, plant and equipment and intangible assets, allowances for inventories and doubtful debts and provisions for employee benefits, legal claims and taxes. Future events and their effects cannot be perceived with certainty. Details of estimates and related amounts are disclosed in the respective accounting policies and notes to the financial statements.

### 1.26. Judgements

In the process of applying the Group's accounting policies, the management made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating Lease Commitments—Group as Lessee

The Group has entered into significant operating lease arrangements as a lessee. The Group has determined that the lessor retains all the significant risks and rewards of ownership of properties which are leased by the Group as operating leases.

**Sale and leaseback transactions**

The Group has entered into significant sale and lease back transactions. The Group has determined that the lessor retains all the significant risks and rewards of ownership of properties which are leased by the Group as operating leases and transactions are established at fair values.

### 1.27. Government grants

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

### 1.28. Changes in accounting policies

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations (effective 1 January 2009)

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions (effective 1 January 2010—early adopted)

IFRS 7 Financial Instruments: Disclosures (effective 1 January 2009)

IFRS 8 Operating Segments (effective 1 January 2009)

IAS 1 Presentation of Financial Statements (effective 1 January 2009)

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)

IAS 39 Financial Instruments: Recognition and Measurement—Eligible Hedged Items (effective 1 July 2009—early adopted)

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement (effective for periods ending on or after 30 June 2009)

IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)

IFRIC 15 Agreements for Construction of Real Estates (effective 2 January 2009)

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)

IFRIC 18 Transfers of Assets from Customers (effective 1 July 2009—early adopted) Improvements to IFRSs (May 2008)

Improvements to IFRSs (April 2009-partially early adopted)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

*IFRS 2 Share-based Payment (Revised)*

The IASB issued an amendment to IFRS 2 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

*IFRS 7 Financial Instruments: Disclosures*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a tree level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

*IFRS 8 Operating Segments*

IFRS 8 replaced *IAS 14 Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 3, including the related comparative information.

*IAS 1 Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation*

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

*IAS 39 Financial Instruments: Recognition and Measurement—Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

*IFRIC 9 Reassessment of Embedded Derivatives* and *IAS 39 Financial Instruments: Recognition and Measurement*

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed in the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now stated that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

*IFRIC 13 Customer Loyalty Programs*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. For customer to be able to use awarded credits it is necessary that the customer collects minimal number of credits per period (quarterly). In case that the customer did not collect minimal number of credits, collected credits are deleted at the end of the period.

*IFRIC 15 Agreements for construction of Real Estates*

This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. Agreements in the scope of this Interpretation are agreements for the construction of real estate. In addition to the construction of real estate, such agreements may include the delivery of other goods or services. Adoption of this interpretation did not have any influence on the Group's financial statements.

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation*

This Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The Group does not have hedges, and accordingly the adoption of this interpretation did not have any effect on the financial position or performance of the Group.

*IFRIC 18 Transfers of Assets from Customers*

IFRIC 18 clarifies the requirements of IFRSs for agreements in which the Group receives from a customer an item of property, plant, and equipment that the Group must then use either to connect the customer to a

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

network or to provide the customer with ongoing access to a supply of goods or services. In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The Group's early adoption of IFRIC 18 did not have any impact on its financial position or performance as the Group does not receive any considerations of this kind from its customers.

*Improvements to IFRSs*

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

*IFRS 8 Operating Segment Information:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 3.

*IAS 7 Statement of Cash Flows:* explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will not have any impact on the presentation of cash flows of the Group.

*IAS 17 Leases:* explicitly states that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with requirements of IAS 17. Application of this amendment will not have any impact on the financial statements of the Group.

*IAS 18 Revenue:* The board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity: has primary responsibility for providing the goods or service, has inventory risk, has discretion in establishing prices and bears the credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

*IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group as the government assistance received is not in form of loans but direct grants.

*IAS 36 Impairment of Assets:* clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

*IAS 40 Investment property:* included additional item in the definitions: property that is being constructed or developed for future use as investment property, which was previously under the scope of IAS 16. The amendment clarifies that if an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when the construction is complete, it shall measure that investment property under construction at cost until

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

either its fare value becomes reliably determinable or construction is completed (whichever is earlier). Adoption of this amendment did not have impact on financial position or performance of the Group as the Group does not have construction or development of investment property.

*IAS 41 Agriculture:* clarifies that present value of expected cash flows from the asset should be discounted at a current market-determined rate, for the purpose of determination of the fair value of a biological asset in its present location and condition. The Board also amended the standard to refer to biological transformation or harvest when applicable to make clear that harvest changes the condition of an asset. The Board also excluded point-of-sale costs and introduced costs to sell as measurement point. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. The Group amended its accounting policies accordingly.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 2 Share-based Payments

IFRS 7 Financial Instruments: Disclosures

IAS 8 Accounting Policies, Change in Accounting Estimates and Error

IAS 10 Events after the Reporting Period

IAS 19 Employee Benefits

IAS 27 Consolidated and Separate Financial Statements

IAS 34 Interim Financial Reporting

IAS 39 Financial Instruments: Recognition and Measurement

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 16 Hedge of a Net Investment in a Foreign Operation

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards and amendments to existing standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

*IFRIC 17 Distributions of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. Application of this interpretation requires application of amended IFRS 3, IFRS 5 and IAS 27. The Group will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the financial statements of the Group.

*IAS 27 Consolidated and Separate Financial Statements (Revised)*

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non- controlling interests from 1 January 2010.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

*IFRS 3 Business Combinations (Revised)*

The revised standard continues to apply the acquisition method to business combinations, with some significant changes: e.g. all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by- acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

*IFRS 9 Financial Instruments*

On 12 November 2009, the IASB issued IFRS 9 Financial instruments as the first step in its project to replace IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied from 1 January 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. By the end of 2010 the IAS 39 will be completely replaced by IFRS 9. The Group plans to adopt this new standard on its effective date.

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

On 26 November 2009, the IASB issued IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments which clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Interpretation is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted. The Group does not expect IFRIC 19 to have an impact on the financial statements. The Group plans to adopt this interpretation at its effective date.

*IAS 1 Presentation of Financial Statements (Amended)*

The amendment is part of IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amendment the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The group will apply IAS 1 (amended) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

*Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011)*

The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government- related-entities. The implementation of these amendments will have no impact on the financial position or performance of the Group; however it may impact the related parties' disclosures. The Group plans to adopt this amendment at its effective date.

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Amendment to IAS 32 Financial Instruments: Presentation—Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010)*

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group. The Group plans to adopt the amendment at its effective date.

*IAS 38 Intangible Assets (Amended)*

The amendment is part of the IASB's annual improvements project published in April 2009, and the Group will apply IAS 38 (amended) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's financial statements.

The Group has not early adopted any IFRS standards where adoption is not mandatory at the balance sheet date. Where transition provisions in IFRS adopted give an entity a choice whether to apply the new standards prospectively or retrospectively the Group has elected to apply the standard prospectively from the date of transition.

## NOTE 2. GROUP STRUCTURE

### 2.1. Acquisition of subsidiaries

**Nova Sloga a.d.**

During 2009, the Group acquired management control of Nova Sloga a.d., through the purchase of 85.81% ownership of Nova Sloga a.d. by Frikom a.d. for HRK 32,524 thousand, paid entirely in cash. The main business activity of Nova Sloga a.d. is production and bottling of mineral water.

Assets and liabilities of Nova Sloga a.d. as of 01 January 2009 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Acro) |
|---|---|---|
| Property, plant and equipment | 38,050 | 21,921 |
| Non-current financial assets | 8 | 8 |
| Inventories | 289 | 531 |
| Accounts receivable | 551 | 1,541 |
| Other current assets | 15 | 15 |
| Cash and cash equivalents | 166 | 166 |
| **Total assets** | **39,079** | **24,182** |
| Long-term liabilities | 2,652 | 678 |
| Long-term provisions for employee benefits | 160 | — |
| Taxes | 7,982 | 3,146 |
| Borrowings | 1,600 | 1,600 |
| Accounts payable | 9,607 | 6,245 |
| Other current liabilities | 11,280 | 4,358 |
| **Total liabilities** | **33,281** | **16,027** |
| **Fair value of net assets** | **5,798** | **8,155** |
| Acquired | 4,768 | |
| Goodwill | (27,756) | |
| Consideration paid | 32,524 | |
| Net cash acquired with the subsidiary | 166 | |
| Net cash outflow on acquisition of Nova Sloga a.d. | 32,358 | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 32,358 | |

From the date of acquisition, Nova Sloga a.d. in 2009 decreased the net profit of the group by HRK 7,142 thousand.

### 2.2. Acquisitions during 2008

During 2008, the Group acquired management control over:

- Acro d.o.o. through the purchase of 100% ownership of Acro d.o.o. by Agrokor d.d. for HRK 132,447 thousand, paid entirely in cash. The main business activity of Acro d.o.o. is development of real estate projects.

- Bootleggers d.o.o. through the purchase of 100% ownership of Bootleggers by Idea d.o.o for HRK 99,068 thousand, paid entirely in cash. The main business activity of Bootleggers d.o.o. is wholesale and retail trade.

**NOTE 2. GROUP STRUCTURE (continued)**

- Ciglane Zagreb d.d. through the purchase of 50.79% ownership of Ciglane Zagreb d.d. by Agrokor d.d. for HRK 116,552 thousand, paid entirely in cash. The main business activity of Ciglane Zagreb d.d. is production of brick.
- Krma d.d. and Ervenica d.o.o. through the purchase of 95.28% ownership of Krma d.d. and 100% ownership of Ervenica d.d. by PIK Vinkovci d.d., for HRK 19,044 thousand, paid entirely in cash. The main business activity of Krma d.d. and Ervenica d.o.o. is live stock food production and cultivation of crops.
- Grafoplast d.o.o. through the purchase of 100% ownership of Grafoplast d.o.o. by Lovno gospodarstvo Moslavina d.o.o. for HRK 43,890 thousand, paid entirely in cash. The main business activity of Grafoplast d.o.o. is printing.
- Lokica d.o.o. through the purchase of 100% ownership of Lokica d.o.o. by Konzum d.d. for HRK 170,747 thousand, paid entirely in cash. The main business activity of Lokica d.o.o. is retail.
- Media d.o.o. through the purchase of 100% ownership of Media d.o.o. by Agrokor d.d. for HRK 22,230 thousand, paid entirely in cash. The main business activity of Media d.o.o. is advertising.
- Mlinar d.d. through the purchase of 90.36% ownership of Mlinar d.d. by Agrokor d.d. for HRK 321,311 thousand, paid entirely in cash. The main business activity of Mlinar d.d. is production of bread and pastry.
- SL Gross d.o.o. through the purchase of 100% ownership of SL Gross d.o.o. by Idea d.o.o. for HRK 370,671 thousand, paid entirely in cash. The main business activity of SL Gross is wholesale and retail trade.
- Štampa a.d. through the purchase of 90.70% ownership of Štampa a.d. by Agrokor d.d. for HRK 9,050 thousand, paid entirely in cash. The main business activity of Štampa a.d. is retail.

**2.3. Sale of subsidiaries**

During 2009, the Group has lost its management control by sale of ownership interest over:

- Acro d.o.o., through the sale of 100% ownership of Acro d.o.o. by Agrokor d.d.
- Mlinar d.d., through the sale of 90.36% ownership of Mlinar d.d. by Agrokor d.d.
- Štampa a.d., through the sale of 90.70% ownership of Štampa a.d. by Agrokor d.d.

During the sales process of Mlinar d.d., the Group has retained control over Žitnjak d.d. which was included in initial acquisition of Mlinar Group. Ownership of Žitnjak d.d. by Konzum is 86.08%.

**2.4. Investments in Subsidiaries**

**2009**

| Name | Country | Ownership Interest of Agrokor d.d. | Ownership Interest of Subsidiary | Group Voting Rights | Group Ownership |
|---|---|---|---|---|---|
| Agrofructus d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Agrokor AG | Switzerland | 100.00% | | 100.00% | 100.00% |
| Agrokor—trgovina d.d. | Croatia | 100.00% | | 100.00% | 100.00% |
| Agrokor—Zagreb d.o.o. | Bosnia and Herzegovina | 100.00% | | 100.00% | 100.00% |
| Agrolaguna d.d. | Croatia | 85.22% | | 85.22% | 85.22% |
| Agroprerada d.d. | Croatia | 99.10% | | 99.10% | 99.10% |
| Belje d.d | Croatia | 67.92% | | 67.92% | 67.92% |
| Bootleggers d.o.o. | Serbia | | 100.00%(8) | 100.00% | 100.00% |

## NOTE 2. GROUP STRUCTURE (continued)

| Name | Country | Ownership Interest of Agrokor d.d. | Ownership Interest of Subsidiary | Group Voting Rights | Group Ownership |
|---|---|---|---|---|---|
| Centropromet d.d. | Croatia | | 96.97%(4) | 96.97% | 78.11% |
| Ciglane Zagreb d.d. | Croatia | 76.00% | | 76.00% | 76.00% |
| Dijamant a.d. | Serbia | 73.08% | | 73.08% | 73.08% |
| Duhan trgovina d.o.o. | Croatia | | 100.00%(9) | 100.00% | 54.15% |
| Euroviba d.d. | Croatia | | 93.45%(4) | 93.45% | 75.27% |
| Frikom a.d. | Serbia | 95.83% | | 95.83% | 95.83% |
| Fonyodi kft. | Hungary | | 100.00%(1) | 100.00% | 80.44% |
| Idea d.o.o. | Serbia | 100.00% | | 100.00% | 100.00% |
| Irida d.o.o. | Croatia | | 100.00%(2) | 100.00% | 78.85% |
| Jadran trgovina d.o.o. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Jamnica d.d. | Croatia | 80.44% | | 80.44% | 80.44% |
| Japetić d.d. | Croatia | | 99.60%(4) | 99.60% | 80.23% |
| Kikindski mlin a.d. | Serbia | | 54.72%(6) 24.90%(7) | 79.62% | 63.85% |
| Konzum d.d. | Croatia | 71.62% | 11.10%(1) | 82.72% | 80.55% |
| Konzum d.o.o. Sarajevo | Bosnia and Herzegovina | | 100.00%(4) | 100.00% | 80.55% |
| Krka d.o.o. | Croatia | | 82.08%(4) | 82.08% | 66.12% |
| Ledo d.d. | Croatia | 78.85% | | 78.85% | 78.85% |
| Ledo Čitluk d.o.o. | Bosnia and Herzegovina | | 100.00%(2) | 100.00% | 78.85% |
| Ledo kft. | Hungary | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. | Slovenia | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. Podgorica | Montenegro | 100.00% | | 100.00% | 100.00% |
| Lokica d.o.o. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Lovno gospodarstvo Moslavina d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Media d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Mladina d.d. | Croatia | | 60.89%(1) | 60.89% | 48.98% |
| Nova Sloga a.d. | Serbia | | 85.81%(7) | 85.81% | 82.24% |
| PIK Vinkovci d.d. | Croatia | 70.87% | | 70.87% | 70.87% |
| PIK Vrbovec d.d. | Croatia | 99.77% | | 99.77% | 99.77% |
| Plodovi fructus d.o.o.* | Croatia | | 50.00%(10) | 50.00% | 50.00% |
| Riječka tvornica konopa d.d. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Sarajevski kiseljak d.d. | Bosnia and Herzegovina | | 96.54%(1) 3.30%(5) | 99.84% | 80.97% |
| SL Gross d.o.o. | Serbia | | 100.00%(8) | 100.00% | 100.00% |
| Sojara d.d. | Croatia | | 100.00%(3) | 100.00% | 51.84% |
| Solana Pag d.d. | Croatia | 91.93% | | 91.93% | 91.93% |
| Tisak d.d. | Croatia | 54.15% | | 54.15% | 54.15% |
| TPDC Sarajevo d.d. | Bosnia and Herzegovina | 51.00% | | 51.00% | 51.00% |
| Unex MPG d.o.o.* | Croatia | 50,00% | | 50,00% | 50,00% |
| Zvijezda d.d. | Croatia | 51.84% | | 51.84% | 51.84% |
| Zvijezda d.o.o. Ljubljana | Slovenia | | 100.00%(3) | 100.00% | 51.84% |
| Zvijezda d.o.o. Sarajevo | Bosnia and Herzegovina | | 100.00%(3) | 100.00% | 51.84% |
| Žitnjak d.d. | Croatia | | 86.08(4) | 86.08% | 69.34% |

(1) Held by Jamnica;

(2) Held by Ledo;

(3) Held by Zvijezda;

(4) Held by Konzum;

(5) Held by Agrokor Zagreb d.o.o. Grude;

(6) Held by Dijamant;

## NOTE 2. GROUP STRUCTURE (continued)

(7) Held by Frikom;

(8) Held by Idea;

(9) Held by Tisak;

(10) Held by Agrofructus;

* Management control is exercised by the Group.

### 2008

| Name | Country | Ownership Interest of Agrokor d.d. | Ownership Interest of Subsidiary | Group Voting Rights | Group Ownership |
|---|---|---|---|---|---|
| Acro d.o.o. | Serbia | 100.00% | | 100.00% | 100.00% |
| Agrokor AG | Switzerland | 100.00% | | 100.00% | 100.00% |
| Agrokor—trgovina d.d. | Croatia | 100.00% | | 100.00% | 100.00% |
| Agrokor—Zagreb d.o.o. | Bosnia and Herzegovina | 100.00% | | 100.00% | 100.00% |
| Agrolaguna d.d. | Croatia | 85.20% | | 85.20% | 85.20% |
| Agroprerada d.d. | Croatia | 98.86% | | 98.86% | 98.86% |
| Belje d.d. | Croatia | 67.92% | | 67.92% | 67.92% |
| Bootleggers d.o.o. | Serbia | | 100.00%(8) | 100.00% | 100.00% |
| Centropromet d.d. | Croatia | | 96.89%(4) | 96.89% | 78.04% |
| Ciglane Zagreb d.d. | Croatia | 50.79% | | 50.79% | 50.79% |
| Dijamant a.d. | Serbia | 73.08% | | 73.08% | 73.08% |
| Duhan trgovina d.o.o. | Croatia | | 100.00%(9) | 100.00% | 54.15% |
| Euroviba d.d. | Croatia | | 93.23%(4) | 93.23% | 75.09% |
| Frikom a.d. | Serbia | 95.83% | | 95.83% | 95.83% |
| Fonyodi kft. | Hungary | | 100.00%(1) | 100.00% | 80.44% |
| Idea d.o.o. | Serbia | 100.00% | | 100.00% | 100.00% |
| Irida d.o.o. | Croatia | | 100.00%(2) | 100.00% | 78.85% |
| Jadran trgovina d.o.o. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Jamnica d.d. | Croatia | 80.44% | | 80.44% | 80.44% |
| Japetić d.d. | Croatia | | 99.60%(4) | 99.60% | 80.23% |
| | | | 54.72%(6) | | |
| Kikindski mlin a.d. | Serbia | | 24.90%(7) | 79.62% | 63.85% |
| Konzum d.d. | Croatia | 71.62% | 11.10%(1) | 82.72% | 80.55% |
| Konzum d.o.o. Sarajevo | Bosnia and Herzegovina | | 100.00%(4) | 100.00% | 80.55% |
| Krka d.o.o | Croatia | | 81.43%(4) | 81.43% | 65.59% |
| Ledo d.d. | Croatia | 78.85% | | 78.85% | 78.85% |
| Ledo Čitluk d.o.o. | Bosnia and Herzegovina | | 100.00%(2) | 100.00% | 78.85% |
| Ledo kft. | Hungary | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. | Slovenia | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. Podgorica | Montenegro | 100.00% | | 100.00% | 100.00% |
| Lokica d.o.o. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Lovno gospodarstvo Moslavina d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Media d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Mladina d.d. | Croatia | | 60.89%(1) | 60.89% | 48.98% |
| Mlinar d.d | Croatia | 90.36% | | 89.04% | 90.36% |
| PIK Vinkovci d.d. | Croatia | 70.87% | | 70.87% | 70.87% |
| PIK Vrbovec d.d. | Croatia | 99.76% | | 99.76% | 99.76% |
| Plodovi zemlje Matijević d.o.o.* | Croatia | | 50.00%(10) | 50.00% | 40.28% |
| Riječka tvornica konopa d.d. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Sarajevski kiseljak d.d. | Bosnia and Herzegovina | | 96.54%(1) | 99.84% | 80.97% |
| | | | 3.30%(5) | | |
| SL Gross d.o.o. | Serbia | | 100.00%(8) | 100.00% | 100.00% |
| Sojara d.d. | Croatia | | 100.00%(3) | 100.00% | 51.84% |
| Solana Pag d.d. | Croatia | 91.93% | | 91.93% | 91.93% |

## NOTE 2. GROUP STRUCTURE (continued)

| Name | Country | Ownership Interest of Agrokor d.d. | Ownership Interest of Subsidiary | Group Voting Rights | Group Ownership |
|---|---|---|---|---|---|
| Štampa d.d. | Montenegro | 90.70% | | 90.70% | 90.70% |
| Tisak d.d. | Croatia | 54.15% | | 54.15% | 54.15% |
| TPDC Sarajevo d.d. | Bosnia and Herzegovina | 51.00% | | 51.00% | 51.00% |
| Unex MPG d.o.o.* | Croatia | 50,00% | | 50,00% | 50,00% |
| Zvijezda d.d. | Croatia | 51.84% | | 51.84% | 51.84% |
| Zvijezda d.o.o. Ljubljana | Slovenia | | 100.00%(3) | 100.00% | 51.84% |
| Zvijezda d.o.o. Sarajevo | Bosnia and Herzegovina | | 100.00%(3) | 100.00% | 51.84% |

(1) Held by Jamnica;

(2) Held by Ledo;

(3) Held by Zvijezda;

(4) Held by Konzum;

(5) Held by Agrokor Zagreb d.o.o. Grude;

(6) Held by Dijamant;

(7) Held by Frikom;

(8) Held by Idea;

(9) Held by Tisak;

(10) Held by Agrofructus;

* Management control is exercised by the Group.

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

Under International Financial Reporting Standards, subsequent acquisitions of non-controlling interests in subsidiaries do not represent business combinations. Consequently, the assets and liabilities of the subsidiary are not remeasured to reflect their fair values at the date of the transaction. The Group accounts for subsequent acquisitions of non-controlling interest using entity concept method of accounting whereby any difference between acquisition cost of additional share and book value of non-controlling interest acquired is recognised directly in equity. During 2009, the Group has increased ownership in subsidiary Ciglane Zagreb d.d. from 50.79% to 76.00%, by purchase of additional shares. Minority shareholders did not participate in the transaction and consequently, amount of HRK 31,704 thousand was reclassified from non-controlling interest to retained earnings.

## NOTE 3. SEGMENTAL ANALYSIS

### Business segments

| 2009 | Agrokor Holding | Food, Manufacturing and Distribution | Retailing and Wholesale | Other Businesses | Intersegment sales | Consolidated |
|---|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | | |
| **SALES** | | | | | | |
| Sales to external customers | 59,636 | 5,012,940 | 19,596,856 | 1,807,225 | | |
| Inter-segment sales | 368,919 | 4,094,313 | 852,007 | 755,352 | (6,070,591) | |
| **Total sales** | **428,555** | **9,107,253** | **20,448,863** | **2,562,577** | **(6,070,591)** | **26,476,657** |
| **OPERATING PROFIT** | **(408,873)** | **901,515** | **836,302** | **132,583** | | **1,461,527** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | | | | | | (22,438) |
| Sale of properties, net | | | | | | (22,829) |
| Financial expenses | | | | | | (894,792) |
| Impairment of financial assets | | | | | | (11,990) |
| Sale of subsidiaries | | | | | | (127,712) |
| Financial income | | | | | | 68,821 |
| **Income before taxation** | | | | | | **450,587** |
| Taxation | | | | | | (214,075) |
| **Net profit for the year** | | | | | | **236,512** |
| **Other information** | | | | | | |
| Segment assets | 2,363,256 | 10,886,674 | 9,648,207 | 1,421,703 | | 24,319,840 |
| Investments in associates | — | — | 59,510 | — | | 59,510 |
| **Total segment assets** | **2,363,256** | **10,886,674** | **9,707,717** | **1,421,703** | | **24,379,350** |
| **Total segment liabilities** | **(6,560,593)** | **(3,726,249)** | **(7,377,822)** | **(883,686)** | | **(18,548,350)** |
| Capital expenditures | 42,959 | 956,559 | 564,103 | 11,644 | | 1,575,265 |
| Depreciation and amortisation | 28,602 | 380,451 | 306,420 | 8,308 | | 723,781 |

## NOTE 3. SEGMENTAL ANALYSIS

### Business segments

| 2008 | Agrokor Holding | Food, Manufacturing and Distribution | Retailing and Wholesale | Other Businesses | Intersegment sales | Consolidated |
|---|---|---|---|---|---|---|
| | | | | | | Restated |
| | | | (in thousands of HRK) | | | |
| **SALES** | | | | | | |
| Sales to external customers | 26,275 | 5,815,461 | 18,848,215 | 2,972,963 | | |
| Inter-segment sales | 337,725 | 4,206,414 | 556,406 | 1,409,541 | (6,510,086) | |
| **Total sales** | **364,000** | **10,021,875** | **19,404,621** | **4,382,504** | **(6,510,086)** | **27,662,914** |
| **OPERATING PROFIT** | **(484,798)** | **729,205** | **726,491** | **344,867** | | **1,315,765** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | | | | | | (19,391) |
| Sale of properties, net | | | | | | 34,167 |
| Financial expenses | | | | | | (920,662) |
| Impairment of financial assets | | | | | | (15,863) |
| Financial income | | | | | | 112,107 |
| **Income before taxation** | | | | | | **506,123** |
| Taxation | | | | | | (264,405) |
| **Net profit for the year** | | | | | | **241,718** |
| **Other information** | | | | | | |
| Segment assets | 1,428,306 | 10,867,778 | 8,877,303 | 1,882,544 | | 23,055,930 |
| Investments in associates | — | — | 59,056 | 109,173 | | 168,229 |
| **Total segment assets** | **1,428,306** | **10,867,778** | **8,936,360** | **1,991,717** | | **23,224,160** |
| **Total segment liabilities** | **(5,941,409)** | **(3,522,057)** | **(7,013,853)** | **(929,042)** | | **(17,406,361)** |
| Capital expenditures | 87,784 | 1,523,478 | 885,105 | 15,160 | | 2,511,527 |
| Depreciation and amortisation | 15,951 | 339,223 | 253,417 | 5,122 | | 613,713 |

### Geographic information

*Revenues from external customers*

| 2009 | Sales | Assets | Capital Expenditure |
|---|---|---|---|
| | | (in thousands of HRK) | |
| Croatia | 19,723,271 | 19,016,235 | 1,271,354 |
| Other European countries | 6,753,386 | 5,363,115 | 303,911 |
| **Total** | **26,476,657** | **24,379,350** | **1,575,265** |

| 2008 | Sales | Assets | Capital Expenditure |
|---|---|---|---|
| | | (in thousands of HRK) | |
| Croatia | 20,918,224 | 17,600,603 | 2,010,825 |
| Other European countries | 6,744,690 | 5,623,557 | 500,702 |
| **Total** | **27,662,914** | **23,224,160** | **2,511,527** |

Out of total sales income HRK 433,356 thousand relate to income from services (2008: HRK 382,078 thousand).

## NOTE 4. COST OF MATERIALS

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Cost of goods sold | 18,595,816 | 20,005,000 |
| Change in inventory | (270,952) | (51,530) |
| | **18,324,864** | **19,953,470** |

## NOTE 5. OTHER INCOME

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Gain on sale of securities | 57,818 | 83 |
| Government grants | 143,475 | 152,734 |
| Reversal of provision for litigation | 3,111 | 14,392 |
| Collected receivables written off | 25,509 | 57,497 |
| Other revenues | 46,915 | 68,161 |
| Value adjustment of receivables | (25,509) | (61,860) |
| **Total** | **251,319** | **231,007** |

## NOTE 6. OTHER EXPENSES

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Wages and salaries | 1,659,916 | 1,656,870 |
| Taxes, social insurance and pension costs | 1,161,888 | 1,142,820 |
| Depreciation and amortisation | 723,781 | 613,713 |
| Research and development costs | 9,221 | 8,467 |
| Write off of bad debts and other short-term assets, net | 57,814 | — |
| Other expenses | 1,118,551 | 1,098,906 |
| | **4,731,171** | **4,520,776** |

| **Management board compensation:** | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Salaries | 22,198 | 22,048 |
| Taxes, social insurance and pension costs | 26,552 | 25,725 |
| Severance pay | 54 | 1,302 |
| | **48,804** | **49,075** |

## NOTE 7. EXCESS OF FAIR VALUE OF NET ASSETS OVER THE COST OF ACQUISITION, NET OF WRITTEN OFF GOODWILL

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Excess of fair value of net assets over the cost of acquisition | — | 176,537 |
| Written off goodwill | (22,438) | (195,928) |
| | **(22,438)** | **(19,391)** |

Written off goodwill relates to Krka, Belje and Agrofructus. Goodwill was impaired due to future plans and expectations that remaining goodwill will not be recoverable in future periods.

## NOTE 8. SALE OF SUBSIDIARIES

During 2009 the Group has sold Mlinar d.d., Štampa a.d. and Acro d.o.o. for total amount of HRK 298,645 thousand and had a loss on sale in total amount of HRK 127,712 thousand.

## NOTE 9. INTANGIBLE ASSETS

| At 31 December 2007 | Development Costs | Concession rights | Other Intangibles | Goodwill | Total |
|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | |
| Cost | 1,362 | 20,438 | 294,128 | 460,325 | 776,253 |
| Accumulated amortization | (790) | (16,635) | (90,611) | — | (108,036) |
| **Net book amount** | **572** | **3,803** | **203,517** | **460,325** | **668,217** |
| **At 01 January 2008** | | | | | |
| Opening net book amount | 572 | 3,803 | 203,517 | 460,325 | 668,217 |
| Acquisition (new subsidiaries) | — | — | 1,874 | 493,533 | 495,407 |
| Additions | — | — | 106,653 | — | 106,653 |
| Transfer | — | — | — | — | — |
| Disposals | (572) | — | (377) | — | (949) |
| Write-off | — | — | — | (171,735) | (171,735) |
| Amortization | — | (201) | (36,249) | — | (36,450) |
| Advance payments for intangible assets | — | — | (805) | — | (805) |
| Foreign exchange differences | — | (3) | (2,098) | 683 | (1,418) |
| **Net book amount** | **—** | **3,599** | **272,515** | **782,806** | **1,058,920** |
| **At 31 December 2008** | | | | | |
| Cost | — | 20,438 | 397,513 | 782,806 | 1,200,757 |
| Accumulated amortization | — | (16,839) | (124,998) | — | (141,837) |
| **Net book amount** | **—** | **3,599** | **272,515** | **782,806** | **1,058,920** |
| **At 01 January 2009** | | | | | |
| Opening net book amount | — | 3,599 | 272,515 | 782,806 | 1,058,920 |
| Acquisition (new subsidiaries) | — | — | 62 | 237,169 | 237,231 |
| Additions | — | — | 68,430 | — | 68,430 |
| Transfer | — | — | — | — | — |
| Disposals | — | — | (2,793) | — | (2,793) |
| Write-off | — | — | — | (22,438) | (22,438) |
| Transfer from other category | — | — | 42,690 | — | 42,690 |
| Amortization | — | (204) | (49,095) | — | (49,299) |
| Advance payments for intangible assets | — | — | (65) | — | (65) |
| Foreign exchange differences | — | (8) | (2,578) | (683) | (3,269) |
| **Net book amount** | **—** | **3,387** | **329,167** | **996,854** | **1,329,408** |
| **At 31 December 2009** | | | | | |
| Cost | — | 20,428 | 525,382 | 996,854 | 1,542,664 |
| Accumulated amortization | — | (17,041) | (196,215) | — | (213,256) |
| **Net book amount** | **—** | **3,387** | **329,167** | **996,854** | **1,329,408** |

Concession rights relate to the concession for extraction of the mineral water granted to Jamnica d.d. and Sarajevski kiseljak d.d. The concession is amortised according to the accounting policy (note 1.6.).

## NOTE 9. INTANGIBLE ASSETS (Continued)

Other intangible assets relates to software and similar intangible assets, as well as investments in intangibles and advances for purchase of intangible assets. During 2009, the Group acquired software relating to SAP and Oracle for total consideration of HRK 35,455 thousand.

As at 31 December 2009 the goodwill relates to the following companies: Frikom a.d. in the amount of HRK 85,921 thousand, which was acquired in 2003, Sarajevski kiseljak d.d. in the amount of HRK 12,002 thousand acquired in 2001, Dijamant a.d. in the amount of HRK 140,366 thousand, Idea d.o.o. in the amount of HRK 5,673 thousand, acquired in 2005, Euroviba d.d. in the amount of HRK 31,219 thousand, Duhan trgovina d.o.o. in the amount of HRK 8,980 thousand, Jadran trgovina d.o.o. in the amount of HRK 20,264 thousand, Krka d.o.o. in the amount of HRK 27,551 thousand, Plodovi fructus d.o.o. in the amount of HRK 3,241 thousand, and Tisak d.d. in the amount of HRK 232,558 thousand, acquired in 2007, PIK Vinkovci d.d. in the amount of HRK 4,029 thousand, and Bootleggers d.o.o. in the amount of HRK 121,959 thousand, Ciglane Zagreb d.d. in the amount of HRK 53,339 thousand, Media d.o.o. in the amount of HRK 23,984 thousand, Lokica d.o.o. in the amount of HRK 165,846 thousand and SL Gross d.o.o. in the amount of HRK 2,054 thousand acquired in 2008, Konzum d.d. in the amount of HRK 30,112 thousand and Nova Sloga a.d in the amount of HRK 27,756 thousand, acquired in 2009.

As all the entities represent single cash generating units, goodwill impairment testing was performed on an entity basis.

The recoverable amounts of cash generating units have been determined based on a value in use calculation using cash flow projections based on financial plans covering a five-year period. The discount rate applied to cash flow projections ranges from 11 to 20 percent, while the cash flows beyond the 5-year period were extrapolated using a no growth assumption (zero percent growth rate). The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected any applicable efficiency improvements.

## NOTE 10. INVESTMENTS

| | 2009 | 2008 |
|---|---|---|
| | | Restated |
| | (in thousands of HRK) | |
| **Investments in associates** | | |
| **Balance at 1 January** | **168,229** | **57,806** |
| Sale of shares | (109,000) | — |
| Acquisitions | — | 111,356 |
| Share of gain/loss of associates | 281 | (933) |
| **Balance at 31 December** | **59,510** | **168,229** |
| **Other non-current investments** | | |
| Investment securities available for sale | 461,182 | 282,744 |
| Loans | 198,057 | 203,189 |
| Long-term deposits | 260,541 | 126,804 |
| **Balance at 31 December** | **919,780** | **612,737** |

Sale of shares in the amount of HRK 109,000 thousand relates to sale of investment in 49% of shares in Zagreb plakat d.o.o.

The group has 27.07% ownership of Slobodna Dalmacija—trgovina d.o.o.

## NOTE 10. INVESTMENTS (Continued)

### Summarized financial information of associates

### Slobodna Dalmacija-trgovina d.o.o.

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Current assets | 40,063 | 53,709 |
| Non-current assets | 73,132 | 54,530 |
| Current liabilities | (67,512) | (61,432) |
| Non-current liabilities | (11,271) | (13,430) |
| **Net assets** | **34,412** | **33,377** |
| Revenue | 271,763 | 254,439 |
| Profit/(Loss) | 1,035 | (4,084) |

Long term deposits mainly relate to deposits per leasing which bear no interest and are due at the day of repayment of contractual liabilities. Other long term deposits bear a interest of 2% to 6.5% and are due from 2 to 10 years.

| Investment securities available for sale | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Dijamant Agrar | 114,505 | 2,073 |
| MSTART telekomunikacije d.o.o. | 47,668 | 47,668 |
| Adriatica net | 44,527 | — |
| Znanje | 41,715 | 6,750 |
| RTL d.o.o. | 35,042 | 35,042 |
| Glavinčica projekt d.o.o. | 27,625 | — |
| Investco vrijednosnice d.o.o. | 13,500 | 13,500 |
| Nova Sloga a.d. | — | 40,178 |
| Perutnina Ptuj d.d. | — | 31,246 |
| Other | 136,600 | 106,287 |
| | **461,182** | **282,744** |

| Loans given | 2009 | Maturity | Interest |
|---|---|---|---|
| | (in thousands of HRK) | | |
| Housing employee loans | 144,004 | 3-20 years | 4.5-6% |
| Investco vrijednosnice d.o.o. | 36,805 | 2 years | 4% |
| Other | 17,248 | within 3 years | 4.5-6% |
| **Total** | **198,057** | | |

| Loans given | 2008 | Maturity | Interest |
|---|---|---|---|
| | (in thousands of HRK) | | |
| Housing employee loans | 141,401 | 3-20 years | 4.5-6% |
| Investco vrijednosnice d.o.o. | 51,847 | 2 years | 4% |
| Other | 9,941 | within 3 years | 4.5-6% |
| **Total** | **203,189** | | |

## NOTE 11. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings | Plant, Machinery and Equipment | Leasehold improvements | Other Fixed Assets | Items in construction | Total |
|---|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | | |
| **At 31 December 2007** | | | | | | |
| Cost | 7,379,996 | 4,321,575 | 452,422 | 62,375 | 1,013,946 | 13,230,314 |
| Accumulated depreciation | (1,731,475) | (2,567,313) | (163,910) | — | — | (4,462,698) |
| **Net book amount** | **5,648,521** | **1,754,262** | **288,512** | **62,375** | **1,013,946** | **8,767,616** |
| **At 01 January 2008** | | | | | | |
| Opening net book amount | 5,648,521 | 1,754,262 | 288,512 | 62,375 | 1,013,946 | 8,767,616 |
| Acquisition (new subsidiaries) | 1,294,417 | 89,558 | 4 | — | 6,216 | 1,390,195 |
| Additions | — | — | — | — | 2,379,839 | 2,379,839 |
| Transfer | 742,390 | 592,470 | 330,947 | — | (1,665,807) | — |
| Disposals | (183,017) | (23,440) | (645) | — | (124,066) | (331,168) |
| Revaluation during the year | 1,083,541 | — | — | — | — | 1,083,541 |
| Depreciation | (145,178) | (359,922) | (60,089) | — | — | (565,189) |
| Advance payments for tangible assets | — | — | — | (17,765) | — | (17,765) |
| Transfer to assets held for sale | (116,944) | — | (1,981) | — | (176,447) | (295,372) |
| Foreign exchange differences | (46,726) | (26,927) | (3,553) | — | (23,040) | (100,246) |
| Other | (28,267) | 8,679 | 4,820 | — | (4,645) | (19,413) |
| **Net book amount** | **8,248,737** | **2,034,680** | **558,015** | **44,610** | **1,405,996** | **12,292,038** |
| **At 31 December 2008** | | | | | | |
| Cost | 10,403,264 | 4,993,190 | 786,208 | 44,610 | 1,405,996 | 17,633,268 |
| Accumulated depreciation | (2,154,527) | (2,958,510) | (228,193) | — | — | (5,341,230) |
| **Net book amount** | **8,248,737** | **2,034,680** | **558,015** | **44,610** | **1,405,996** | **12,292,038** |
| **Net balance at 31 December** | | | | | | |
| **—at historical cost** | **4,844,582** | **2,034,680** | **558,015** | **44,610** | **1,405,996** | **8,887,883** |
| **—at revalued amounts** | **3,404,155** | **—** | **—** | **—** | **—** | **3,404,155** |
| | **8,248,737** | **2,034,680** | **558,015** | **44,610** | **1,405,996** | **12,292,038** |
| **At 01 January 2009** | | | | | | |
| Opening net book amount | 8,248,737 | 2,034,680 | 558,015 | 44,610 | 1,405,996 | 12,292,038 |
| Acquisition (new subsidiaries) | 45,632 | 5,614 | 392 | — | 30,506 | 82,144 |
| Additions | — | — | — | — | 1,466,034 | 1,466,034 |
| Transfer | 672,218 | 775,630 | 238,467 | — | (1,686,315) | — |
| Disposals | (234,526) | (32,381) | (3,462) | — | (83,130) | (353,499) |
| Revalorization during the year | — | — | — | — | — | — |
| Depreciation | (168,847) | (404,223) | (83,919) | — | — | (656,989) |
| Advance payments for tangible assets | — | — | — | (8,668) | — | (8,668) |
| Transfer to assets held for sale | (3,503) | — | — | — | (93,345) | (96,848) |
| Foreign exchange differences | (54,018) | (22,316) | (13,344) | (1,873) | (19,946) | (111,497) |
| Transfer to other category | — | (42,690) | — | — | — | (42,690) |
| Other | (298,982) | (49,459) | (21,871) | — | (32,432) | (402,744) |
| **Net book amount** | **8,206,711** | **2,264,855** | **674,278** | **(34,069)** | **987,368** | **12,167,281** |
| **At 31 December 2009** | | | | | | |
| Cost | 10,388,611 | 5,287,152 | 978,258 | 34,069 | 987,368 | 17,675,458 |
| Accumulated depreciation | (2,181,900) | (3,022,297) | (303,980) | — | — | (5,508,177) |
| **Net book amount** | **8,206,711** | **2,264,855** | **674,278** | **34,069** | **987,368** | **12,167,281** |
| **Net balance at 31 December** | | | | | | |
| **—at historical cost** | **4,955,690** | **2,264,855** | **674,278** | **34,069** | **987,368** | **8,916,260** |
| **—at revalued amounts** | **3,251,021** | **—** | **—** | **—** | **—** | **3,251,021** |
| | **8,206.711** | **2,264,855** | **674,278** | **34,069** | **987,368** | **12,167,281** |

As at 31 December 2009 the group share of revaluation surplus in respect of revalued assets amounts to HRK 870,271 thousand.

Property, plant and equipment with a book value of HRK 1,837,778 thousand (31 December 2008: HRK 1,421,145 thousand) has been pledged as collateral.

## NOTE 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Revaluation surplus included in the equity with respect to this revaluation is not distributable until realized.

Leased assets included in property, plant and equipment are as follows:

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| **Cost** | | |
| **At 1 January** | **34,579** | **18,576** |
| Acquisitions | 4,864 | 7,859 |
| Additions | 9,143 | 8,144 |
| Disposal | (14,126) | — |
| **Cost at 31 December** | **34,460** | **34,579** |
| **Accumulated depreciation at 1 January** | **12,237** | **5,738** |
| Acquisitions | 1,185 | 1,639 |
| Charge for the year | 962 | 4,860 |
| Disposal | (4,121) | — |
| **Accumulated depreciation at 31 December** | **10,263** | **12,237** |
| **Net balance at 31 December** | **24,197** | **22,342** |

Disposal relates to sale of subsidiaries in Mlinar d.d. and Štampa a.d.

## NOTE 12. INVENTORIES

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Raw materials | 537,222 | 621,318 |
| Work in progress | 598,724 | 489,182 |
| Merchandise | 2,080,824 | 1,681,416 |
| Finished goods | 490,388 | 412,235 |
| | **3,707,158** | **3,204,151** |

## NOTE 13. BIOLOGICAL ASSETS

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

**Biological assets at fair value**

**(a) Current biological assets**

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Live stock | 172,577 | 182,053 |
| | **172,577** | **182,053** |

## NOTE 13. BIOLOGICAL ASSETS (continued)

### (b) Non current biological assets

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| **Biological assets as at 1 January** | **130,827** | **93,595** |
| Increase due to purchases | 14,277 | 12,660 |
| Gains arising from changes in fair value less estimated point of sale costs | 24,456 | 55,524 |
| Decreases due to sales | (22,524) | (30,952) |
| **Biological assets as at 31 December** | **147,036** | **130,827** |

### Biological assets at cost

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

### (a) Current biological assets

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Crops | 197,193 | 189,407 |
| | **197,193** | **189,407** |

### (b) Non current biological assets

| Movement of biological assets during the year | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| **Gross book value as at 1 January** | **75,735** | **65,520** |
| Increase due to purchases | 38,260 | 12,376 |
| Decreases due to sales | (1,400) | (2,161) |
| **Gross book value as at 31 December** | **112,595** | **75,735** |
| **Depreciation as at 1 January** | **24,096** | **21,587** |
| Additions | 5,788 | 4,285 |
| Disposals | (9) | (1,776) |
| **Depreciation as at 31 December** | **29,874** | **24,096** |
| **Net book value of biological assets as at 1 January** | **51,639** | **43,933** |
| **Net book value of biological assets as at 31 December** | **82,721** | **51,639** |

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

### Total biological assets

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Non current biological assets | 229,757 | 182,466 |
| Live stock and crops | 369,770 | 371,460 |

## NOTE 13. BIOLOGICAL ASSETS (continued)

### (c) Government Grants

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Fattening of live stock | 68,851 | 77,983 |
| Agricultural production (sowing, orchards and vineyards) | 74,624 | 74,752 |
| **TOTAL** | **143,475** | **152,735** |

Government grants are unconditional and relate to biological assets measured at its fair value less estimated point-of-sale costs.

Income is recognised (note 5) when the government grant becomes receivable.

## NOTE 14. NON-CURRENT ASSETS HELD FOR SALE

At 31 December 2009 assets held for sale relate to buildings and land in the amount of HRK 311,063 thousand and securities in the amount of HRK 107,437 thousand. A disposal is due to be completed in the one year period and as at 31 December 2009 final negotiations for the sale were in progress.

## NOTE 15. LOANS GRANTED

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Commercial loans to farmers | 46,405 | 86,798 |
| Znanje | 36,084 | — |
| Cargom | 35,673 | — |
| Vupik | 20,633 | 2,334 |
| Niva inženjering | 12,498 | 9,441 |
| Aureum Terra | 11,230 | 10,332 |
| Hromos | 10,037 | — |
| Institut gradevinarstva Hrvatske | 6,210 | 6,226 |
| Other | 73,711 | 79,822 |
| | **252,481** | **194,953** |

Loans granted relate to current portion of long term loans granted (Note 10), and short term loans granted in the normal course of business which bear interest at annual rate of 4–10%.

## NOTE 16. ACCOUNTS RECEIVABLE

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Trade accounts receivable | 3,633,483 | 3,691,242 |
| Other receivables | 497,910 | 393,703 |
| Value adjustment of trade receivables | (351,617) | (366,049) |
| | **3,779,776** | **3,718,896** |

As at 31 December, the ageing analysis of trade receivables is as follows:

| | Total | Neither past due nor impaired | < 90 days | 90–180 days | 180–270 days | > 270 days |
|---|---|---|---|---|---|---|
| **2009** | 3,281,866 | 1,828,686 | 968,948 | 267,804 | 98,596 | 117,832 |
| **2008** | 3,325,193 | 2,085,129 | 865,018 | 189,801 | 62,380 | 122,865 |

## NOTE 16. ACCOUNTS RECEIVABLE (continued)

Value adjustment is made for all outstanding domestic receivables older than 360 days and based on individual assessments.

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

| | 2009 | 2008 |
|---|---|---|
| | | Restated |
| | (in thousands of HRK) | |
| At 1 January | 366,049 | 313,835 |
| Acquisitions during the year | 486 | 51,745 |
| Charge for the year | 86,392 | 61,860 |
| Amounts written off | (101,310) | (61,391) |
| **At 31 December** | **351,617** | **366,049** |

## NOTE 17. OTHER CURRENT ASSETS

| | 2009 | 2008 |
|---|---|---|
| | | Restated |
| | (in thousands of HRK) | |
| Prepaid expenses | 165,963 | 91,268 |
| Other advance payments | 84,169 | 279,947 |
| | **250,132** | **371,215** |

## NOTE 18. CASH AND CASH EQUIVALENTS

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Cash in bank and cash on hand | 392,654 | 402,174 |
| Short term deposits | 503,143 | 303,983 |
| | **895,797** | **706,157** |

Short term deposits bear interest up to 5%.

## NOTE 19. SHARE CAPITAL AND RESERVES

| | Number of shares | Nominal value | Value in 000 HRK |
|---|---|---|---|
| AGKR-R-A | 296,250 | 500 kn | 148,125 |
| AGKR-P-A | 26,932 | 500 kn | 13,466 |
| | **323,182** | | **161,591** |

By decision of the General Assembly of the Company, on 6 July 2006, the share capital was increased whereby the share structure of Agrokor is as follows:

Share capital amounts to HRK 161,591,000 and constitutes the following:

– 296,250 regular shares in the name of Mr. Ivica Todorić, designated as AGKR-R-A each with a nominal value of HRK 500

– 26,932 preferred shares in the name of the European Bank for Reconstruction and Development (EBRD), designated as AGKR-P-A each with a nominal value of HRK 500.

## NOTE 19. SHARE CPAITAL AND RESERVES (continued)

Each preferred share provides the owner with the following rights:

- 1 vote at the General Assembly of the Company
- Dividend distribution as per the decision of the General Assembly
- Payment from the remainder after liquidation or insolvency preferred to the holder of regular shares
- Transfer of preferred shares into regular in a manner that the preferred shares can at any time be converted in total or partially into regular shares
- In the case of an initial public offering, the preferred shares shall automatically be converted into regular shares

Retained earnings include legal reserves and foreign currency translation reserve. Legal reserves are not distributable in the amount of HRK 70,993 thousand.

The decision on paying dividends is brought at the General Assembly. After the balance sheet date until the date of signing of this report such a decision was not made.

## NOTE 20. NON-CONTROLLING INTERESTS

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| **Balance at 1 January** | **2,232,265** | **1,780,135** |
| Acquisitions | (34,818) | 129,966 |
| Dividends paid | (36,772) | (26,952) |
| Result for the year | 160,940 | 158,384 |
| Revalorization | (1,401) | 211,621 |
| Foreign exchange | (16,480) | (20,889) |
| **Balance at 31 December** | **2,303,734** | **2,232,265** |

## NOTE 21. LEASE LIABILITIES AND COMMITMENTS

### FINANCE LEASE LIABILITIES

Assets acquired under finance leases are real estate and transportation equipment.

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Payable over 5 years | — | 5,515 |
| Payable in 4 to 5 years | 726 | 2,136 |
| Payable in 3 to 4 years | 2,812 | 2,333 |
| Payable in 2 to 3 years | 3,578 | 3,652 |
| Payable in 1 to 2 years | 4,734 | 8,993 |
| Payable within 1 year | 6,309 | 10,809 |
| Less future finance charges | (1,235) | (5,647) |
| Included in borrowings (note 22) | **16,924** | **27,791** |
| Less current portion of obligation | (6,309) | (10,809) |
| **Total long-term obligation** | **10,615** | **16,982** |

## NOTE 21. LEASE LIABILITIES AND COMMITMENTS (Continued)

### OPERATING LEASE COMMITMENTS

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

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Payable over 5 years | 449,873 | 510,681 |
| Payable in 2 to 5 years | 469,443 | 553,401 |
| Payable in 1 to 2 years | 298,546 | 313,280 |
| Payable within 1 year | 364,453 | 352,801 |
| | **1,582,315** | **1,730,163** |

Average cancellation period in operating lease agreements is between 6–9 months.

Operating lease commitments are not provided for in the financial statements in accordance with accounting conventions.

### CAPITAL COMMITMENTS

Capital commitments at the balance sheet date amount to HRK 59,000 thousand (31 December 2008: HRK 195,000 thousand).

## NOTE 22. BORROWINGS

| Long-term borrowings | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| —Bank loans | 3,820,558 | 3,898,540 |
| —Bonds | 2,833,818 | 1,087,666 |
| —Non-bank loans | 23,344 | 15,765 |
| —Finance leases | 16,924 | 27,791 |
| **Total long-term borrowings** | **6,694,644** | **5,029,762** |
| **Current portion of long-term borrowings** | | |
| —Bank loans | (899,861) | (873,157) |
| —Non-bank loans | (8,070) | (5,482) |
| —Finance leases | (6,309) | (10,809) |
| **Total current portion of long-term borrowings** | **(914,240)** | **(889,448)** |
| **Long-term debt** | **5,780,404** | **4,140,314** |
| **Short-term borrowings** | | |
| —Bank loans | 2,292,675 | 3,123,788 |
| —Non-bank loans | 30,795 | 199,161 |
| **Total short-term borrowings** | **2,323,470** | **3,322,949** |
| **TOTAL BORROWINGS** | **9,018.114** | **8,352,711** |

## NOTE 22. BORROWINGS (Continued)

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

| | Bank loans and bonds (in thousands of HRK) |
|---|---|
| **Maturity** | |
| 2011 | 1,777,944 |
| 2012 | 298,181 |
| 2013 | 283,521 |
| 2014 | 270,270 |
| 2015 | 258,478 |
| 2016 | 2,866,122 |
| | **5,754,516** |

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

| | EUR | USD | CHF | OTHER (in thousands of HRK) |
|---|---|---|---|---|
| **Maturity** | | | | |
| 2011 | 1,772,770 | — | — | 5,174 |
| 2012 | 295,916 | — | — | 2,265 |
| 2013 | 283,356 | — | — | 165 |
| 2014 | 270,093 | — | — | 177 |
| 2015 | 258,289 | — | — | 189 |
| 2016 | 2,866,122 | — | — | — |
| | **5,746,546** | **—** | **—** | **7,970** |

Interest rates of the above loans are mainly variable, linked to EURIBOR, CHF Libor, Libor and are in the range from 3 to 11% p.a. for loans while bonds bear fixed interest of 10% p.a. The above mentioned indebtedness included bonds issued during 2009 in the amount of EUR 400,000 thousand, with maturity in December 2016, bearing a coupon of 10%. According to the terms of the issue, the Agrokor Group is required to satisfy an incurrence ratio of Consolidated Total Net Debt to EBITDA equal to or less than 4.00:1 and Interest Cover ratio of minimum 2.00.

According to all three Loan Agreements with the International Finance Corporation (IFC), one signed in June 2006, the second one signed in July 2008, and the last one signed in June 2009 the ratio of Consolidated Total Net Debt to EBITDA has to be less than 3.75. The Tangible Net Worth less the aggregate of any consolidated Off-Balance Sheet Liabilities of at least the equivalent of three hundred million Euros (€300,000,000).

In accordance to Senior facilities agreement with ABN Amro Bank N. V. and Bank Austria Creditanstalt AG and the Loan Agreement with Erste Bank der oesterreichischen Sparkassen AG the Group is obliged to maintain the ratio between Consolidated Total Net Debt and EBITDA of maximum 3.75 in 2008, 2009 and thereafter, Senior Net Leverage of less than 3.25 in 2008 and 3.00 in 2009 and thereafter and Interest Cover ratio of minimum 3.50 in 2008 and 3.00 in 2009 and thereafter.

According to the Loan Agreement with the EBRD, signed in October 2008, the Group shall, at all times, maintain a ratio of Consolidated Total Net Debt to EBITDA of not more than 3.75. Following a second Loan Agreement signed with the EBRD in May 2009, the Group shall, at all times maintain a ratio of Consolidated Total Net Debt to EBITDA of not more than 3.75 and Interest Cover of at least 3.00.

The Group complies with debt covenants.

## NOTE 22. BORROWINGS (Continued)

Property, plant and equipment with a book value of HRK 1,837,778 (31 December 2008: HRK 1,421,145 thousand) has been pledged as collateral for HRK 6,654,375 thousand of borrowings (31 December 2008: HRK 4,986,206 thousand). In addition, all of the shares of Jamnica, Ledo, Konzum and Zvijezda, Ledo Čitluk, Sarajevski kiseljak, Agrokor trgovina and Pik Vinkovci are pledged as collateral under the Syndicated facility Agreement. All the shares of Frikom, Pik Vrbovec and Belje are pledged as collateral under the IFC Agreements.

## NOTE 23. EMPLOYEE BENEFIT OBLIGATIONS

All employees are covered by the State pension fund. Provisions are established for other employee benefits payable in respect of retirement, jubilee (length of service) and surviving dependant payments. Retirement benefits are dependent on the employees fulfilling the required conditions to enter retirement from the Group and jubilee benefits are dependent on the number of years of service. The amount of all benefit entitlements is determined by the respective employee's monthly remuneration. The movement in the liability for employee benefits is recognised in the balance sheet as follows:

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Net liability, beginning of year | 79,747 | 71,913 |
| Net change recognised in the income statement | (6,154) | 19,200 |
| Payments made during the year | (14,872) | (11,366) |
| Net liability, end of year | **58,721** | **79,747** |

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

| | 2009 | 2008 |
|---|---|---|
| Discount rate (annually) | 4.33% | 4.33% |
| Wage and salary increases (annually) | 3.00% | 3.00% |

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

## NOTE 24. ACCOUNTS PAYABLE

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Accounts payable—domestic | 4,323,460 | 3,904,231 |
| Accounts payable—foreign | 712,526 | 870,239 |
| Accruals for goods received and not invoiced | 59,560 | 96,302 |
| Bills of exchange | 2,616,270 | 2,264,746 |
| | **7,71,816** | **7,135,518** |

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

## NOTE 25. OTHER CURRENT LIABILITIES

| | 2009 | 2008 Restated |
|---|---|---|
| | (in thousands of HRK) | |
| Sales and employment taxes | 197,930 | 168,913 |
| Amounts due to employees | 144,735 | 142,249 |
| Advance payments | 123,925 | 226,747 |
| Other current liabilities | 232,344 | 261,912 |
| Accrued expenses and deferred income | 189,790 | 99,152 |
| | **888,724** | **898,973** |

## NOTE 26. TAXATION

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| **Tax charge for the year** | | |
| Croatian corporate taxation | 194,749 | 224,017 |
| Foreign corporate taxation | 17,628 | 38,247 |
| Deferred taxation | 1,698 | 2,141 |
| | **214,075** | **264,405** |

Income taxes paid during 2009 amounted to HRK 253,994 thousand (2008: HRK 200,937 thousand).

A reconciliation of the statutory tax rate to the effective tax rate applicable to income (before non-controlling interest) for the years ended 31 December was as follows:

| | 2009 | 2008 |
|---|---|---|
| Local statutory rate | 20.00% | 20.00% |
| Tax disallowable items, net | 27.40% | 30.11% |
| Utilisation of tax losses brought forward | (7.46%) | (3.26%) |
| Tax reliefs | (0.43%) | (1.31%) |
| Other, net | 8.00% | 6.70% |
| **Effective tax rate** | **47.51%** | **52.24%** |

In accordance with Croatian tax law, every company within the Group in the Republic of Croatia is independently liable for corporate tax at a rate of 20% (31 December 2008—20%). Several subsidiaries have tax losses amounting to HRK 1,123,586 thousand (31 December 2008: HRK 1,086,448 thousand) which are available to be carried forward against their future taxable income. Due to the uncertainty as to whether these assets could be utilised in the short to medium term no deferred tax asset has been recognised. Unutilised tax losses of HRK 104,842 thousand will expire in 2010 and, if not utilised, will be forfeited by the subsidiaries.

The tax losses carried forward utilised in 2009, amounted to HRK 167,651 thousand (31 December 2008: HRK 91,138 thousand).

## NOTE 25. TAXATION (Continued)

The deferred tax liability consists of:

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| Deferred tax liability related to land revaluation | 499,719 | 547,756 |
| Deferred tax liability related to accelerated depreciation for the tax purposes | 45,984 | 44,285 |
| **Total** | **545,703** | **592,041** |

Movements of deferred tax liability are as follows:

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| **Deferred tax liability at 1 January** | 592,041 | 345,457 |
| Deferred tax arising on acquisition | (48,036) | 244,443 |
| Profit and loss deferred taxes charge | 1,698 | 2,141 |
| **Deferred tax liability at 31 December** | **545,703** | **592,041** |

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

## NOTE 27. CONTINGENCIES

The Group is involved in commercial litigation relating to the collection of outstanding amounts from debtors of HRK 306,331 thousand and disputes with creditors over amounts of HRK 25,101 thousand. In addition, proceedings are ongoing in relation to other short-term receivables of HRK 44,711 thousand and other short-term liabilities of HRK 131,616 thousand.

## NOTE 28. RELATED PARTY TRANSACTIONS

The volumes of related party transactions (Slobodna Dalmacija-trgovina d.o.o.), outstanding balances at the year-end, and relating income for the year are as follows:

| | 2009 | 2008 |
|---|---|---|
| | (in thousands of HRK) | |
| **ACCOUNTS RECEIVABLE** | | |
| Accounts receivable | 43,048 | 27,018 |
| Other receivables | — | — |
| | **43,048** | **27,018** |
| **LIABILITIES** | | |
| Accounts payable | 12,282 | 11,142 |
| Other | — | — |
| | **12,282** | **11,142** |
| **INCOME** | | |
| Sales revenue | 112,216 | 44,035 |
| Other revenue | — | 3,616 |
| | **112,216** | **47,651** |

## NOTE 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES

### (a) FINANCIAL INSTRUMENTS

The Group has no derivative financial instruments or any financial instruments that potentially subject the Group to concentrations of credit risk. It is the Group's policy to enter into financial instruments with a diversity of creditworthy counterparties. Therefore, the Group does not expect to incur material credit losses on its risk management or other financial instruments.

**Fair values of financial assets and liabilities**

Fair value represents the amount for which an asset could be exchanged or a liability settled on an arm's length basis. As market prices are not available for a portion of the Group's financial assets and liabilities, fair values have been based on management assumptions according to the profile of the respective assets and liabilities. The Management Board believes that the fair values of assets and liabilities (unless otherwise disclosed in this note) are not significantly different from book values.

The Group has used the following methods and assumptions when assessing the fair value of financial instruments:

**Amounts Due from Banks**

For assets maturing within three months, the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term deposits, the interest rates applicable approximate market rates and, consequently, the fair value approximates the carrying amounts.

**Loans**

As practically all loans are short term, the Management Board believes that their fair values are not significantly different from book values.

**Investment securities**

Securities available for sale are included in the balance sheet at their fair values. Securities whose fair value can not be reliably measured as they are not actively traded are included at acquisition cost. The Management believes that their fair values approximates their carrying amounts.

**Loan liabilities**

For balances maturing within one year the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. Nominal value of Eurobonds issued amounts to HRK 2,904 Million, while their fair value as at 31 December 2009, based on closing prices on the Stock Exchange, amounted to HRK 2,885 million as they are traded at 104,93% of nominal value. As a significant portion of other longer term funds received is contracted with variable interest rates, their fair value approximates the carrying amounts. For longer term funds with fixed interest rates, the average interest rates applicable approximate market rates and, consequently, the fair value approximates the carrying amounts.

**Biological assets**

The Group is exposed to financial risks arising from changes in live stock and crops prices. The Group does not anticipate that live stock or crops prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in live stock or crops prices. The Group reviews its outlook for live stock and crops prices regularly in considering the need for active financial risk management.

## NOTE 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk and interest rate risk. The Management reviews and agrees policies for managing each of these risks and they are summarised below.

The Group is exposed to international markets. As a result, it can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

#### Credit risk

The Group is exposed to credit risk representing risk that the debtor will not be able to repay its liabilities to the Group as they fall due. The Group manages this risk by setting limits of exposure towards one debtor or group of debtors. As there is no significant concentration of credit exposure, the Group does not consider to be excessively exposed to credit risk.

The Group does not guarantee for obligations of other parties.

Group considers that its maximum exposure is reflected by the amount of debtors net of provisions for impairment recognised at the balance sheet date.

#### Liquidity risk

Liquidity risk, also referred to as financing risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group has a strong focus on its cash flow with short-term inflows and outflows forecasts. Surplus of funds is placed in short term deposits and available for sale investments.

Maturity of long term bank loans is presented in note 22.

The table below summarizes the maturity profile of the Group's account payables, liabilities for bills of exchange and other liabilities at 31 December 2009 and 2008.

| | < 90 days | 90–180 days | 180–270 days | > 270 days | Total |
|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | |
| Trade payables: | | | | | |
| Year ended 31 December 2009 | 4,617,086 | 405,608 | 20,806 | 52,047 | 5,095,547 |
| Year ended 31 December 2008 | 4,694,511 | 123,575 | 18,623 | 34,063 | 4,870,772 |
| Bills of exchange: | | | | | |
| Year ended 31 December 2009 | 1,760,604 | 827,186 | 5,051 | 23,428 | 2,616,269 |
| Year ended 31 December 2008 | 1,417,458 | 815,871 | — | 31,417 | 2,264,746 |
| Other liabilities: | | | | | |
| Year ended 31 December 2009 | 762,952 | 8,572 | 8,951 | 108,249 | 888,724 |
| Year ended 31 December 2008 | 837,007 | 12,591 | 4,175 | 45,200 | 898,973 |

## NOTE 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES

The table below summarizes the maturity profile of the Group's contractual bank loan liabilities at 31 December 2009.

| Maturity | Total |
|---|---|
| | (in thousands of HRK) |
| 2010 | 3,774,012 |
| 2011 | 2,151,986 |
| 2012 | 556,658 |
| 2013 | 522,616 |
| 2014 | 490,937 |
| 2015 | 461,577 |
| 2016 | 3,037,205 |
| After 2016 | 16,204 |
| | **11,011,195** |

### Interest rate risk

The majority of interest bearing assets and liabilities represent loans received. As the majority of long term loans is fixed interest debt, the Group does not consider itself to be excessively exposed to risk of adverse change in interest rates.

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings):

| | Increase/decrease in base points | Effect on profit before tax |
|---|---|---|
| | (in thousands of HRK) | |
| **2009** | | |
| EUR | +/– 50 | 22,161 |
| USD | +/– 50 | 4 |
| 100 HUF | +/– 50 | 2,778 |
| CHF | +/– 50 | 174 |
| HRK | +/– 50 | 185 |
| **2008** | | |
| EUR | +/– 50 | 28,031 |
| USD | +/– 50 | 9 |
| 100 HUF | +/– 50 | 3,523 |
| CHF | +/– 50 | 822 |
| HRK | +/– 50 | 2,383 |

### Foreign currency risk

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

## NOTE 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

| | Increase/decrease in rate | Effect on profit before tax |
|---|---|---|
| | (in thousands of HRK) | |
| **2009** | | |
| EUR | +/– 5% | 395,618 |
| USD | +/– 5% | 567 |
| CHF | +/– 5% | 1,740 |
| CZK | +/– 5% | 8 |
| GBP | +/– 5% | 2 |
| DKK | +/– 5% | 16 |
| **2008** | | |
| EUR | +/– 5% | 372,427 |
| USD | +/– 5% | 1,962 |
| CHF | +/– 5% | 14,275 |
| CZK | +/– 5% | 195 |
| SEK | +/– 5% | 8 |

### Capital management

The primary objective of the Group's capital management is to ensure that it support its business and maximise shareholder value. The capital structure of the Group consists of equity attributable to shareholders, comprising issued capital, reserves and retained earnings.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. Capital includes share capital reserves and minority interests. The Group is trying to maintain the ratio in the range 68–75%.

## NOTE 30. SUBSEQUENT EVENTS

On 13 January 2010 Agrokor d.d. acquired 87.98% ownership in the Vupik d.d. for HRK 30,000 thousand, with an obligation for investment of further HRK 430 million in next 5 years.

**AGROKOR GROUP**
**FINANCIAL REPORT 2008**

**AGROKOR GROUP**

**REPORT OF THE MANAGEMENT BOARD**

***for the year ended 31 December 2008***

The members of the Management Board have the pleasure of presenting their Annual Report for the Agrokor Group (the Company and its subsidiaries collectively "the Group") for the year ended 31 December 2008.

**Results and Dividends**

The Statement of Income is set out on page 4 and shows the result of the Group for the year.

**Principal activities, trading review and future development**

The Group operates through its two business groups: Business Group Food and Business Group Retailing. A detailed review of these activities and future developments is set out in the President's Report and Review of Operations.

**Supervisory Board**

The Supervisory Board of Agrokor d.d. on 31 December 2008 consists of the following members:

| | |
|---|---|
| **Ivan Todorić** | Chairman |
| **Branko Mikša** | Deputy Chairman |
| **Hans Christian Jacobsen** | Board Member |
| **Branko Tarnik** | Board Member |
| **Mirko Novosel** | Board Member |

On 16 May 2008, the current president of the Supervisory Board, Ante Todorić (junior), resigned so he could be appointed to the Management Board and in his place Ivan Todorić was nominated.

**Management Board**

The Management Board of Agrokor d.d. on 31 December 2008 consists of the following members:

| | |
|---|---|
| **Ivica Todorić** | President |
| **Ante Todorić** | Senior Executive Vice President for Technology, Research and Development |
| **Ljerka Puljić** | Senior Executive Vice President for Strategic Business Groups |
| **Piruška Canjuga** | Executive Vice President for Business Development |
| **Tomislav Lučić** | Executive Vice President for Finance |
| **Damir Kuštrak** | Executive Vice President for Export Markets |
| **Ivan Crnjac** | Executive Vice President for Strategy and M&A |
| **Ante Todorić (Junior)** | Executive Vice President for Business Group Retailing |
| **Mislav Galić** | Executive Vice President for Business Group Food |

On 28 February 2008, Damir Kuštrak was appointed to the Board as the Executive Vice President for Export Markets and Ivan Crnjac was appointed to the Board as the Executive Vice President for Strategy and M&A. On 16 May 2008, Ante Todorić was appointed to the Board as the Executive Vice President for Business Group Retailing and Mislav Galić was appointed to the Executive Vice President for Business Group Food.

**AGROKOR GROUP**

**REPORT OF THE MANAGEMENT BOARD**

***for the year ended 31 December 2008***

## STATEMENT OF RESPONSIBILITIES OF THE MANAGEMENT BOARD

Pursuant to the Croatian Accounting Law in force, the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the financial position and results of the Group for that period.

The Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the 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 the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

**Management Board**

Ivica Todorić, President

Zagreb, 27 April 2010

BAKER TILLY
DISCORDIA

Ulica grada Vukovara 11
10000 Zagreb
Croatia

**AGROKOR GROUP**

**AUDITOR'S OPINION**

**To the Management Board and the Shareholders of Agrokor d.d.**

We have audited the accompanying consolidated financial statements ("the consolidated financial statements" of Agrokor d.d. (the Company) and its subsidiaries (together, the Group)) which comprise the consolidated balance sheet as at 31 December 2008 and consolidated income statement, consolidated statement in changes of equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 4 to 54).

**Management Responsibility**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly in all material aspects, the financial position of the Group as at 31 December 2008 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Baker Tilly Discordia d.o.o.
Olivio Discordia
Director

Nevenka Dujić
Certified auditor

Zagreb, 30 April 2009

## AGROKOR GROUP

## CONSOLIDATED STATEMENT OF INCOME

***For the years ended 31 December 2008 and 2007***

***(in thousands of HRK)***

| | Notes | 2008 | 2007 |
|---|---|---|---|
| Sales | 3 | **27,662,914** | **20,698,624** |
| Cost of materials | 4 | **(19,953,470)** | **(14,894,727)** |
| Cost of services | | **(2,103,910)** | **(1,585,079)** |
| | | **5,605,534** | **4,218,818** |
| Other income | 5 | **231,007** | **333,032** |
| Other expenses | 6 | **(4,520,776)** | **(3,472,828)** |
| **OPERATING PROFIT** | | **1,315,765** | **1,079,022** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | 7 | **(19,391)** | **(54,652)** |
| Share of gain/loss of associates | | **(933)** | **—** |
| Impairment of financial assets | | **(18,449)** | **(18,848)** |
| Dividend income | | **3,519** | **283** |
| Sale of properties, net | | **34,167** | **19,640** |
| Interest income | | **112,107** | **70,925** |
| Interest expense | | **(684,995)** | **(492,389)** |
| Net foreign exchange (loss)/profit | | **(235,667)** | **7,214** |
| **PROFIT BEFORE TAXATION** | | **506,123** | **611,195** |
| Taxation | 26 | **(264,405)** | **(156,928)** |
| **NET PROFIT FOR THE YEAR** | | **241,718** | **454,267** |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the parent | | 83,334 | 298,521 |
| Minority interest | | 158,384 | 155,746 |

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

**AGROKOR GROUP**

**CONSOLIDATED BALANCE SHEET**

***As at 31 December 2008 and 2007***

***(in thousands of HRK)***

| | Notes | 2008 | Restated 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | **12,292,038** | **8,767,616** |
| Intangible assets | 8 | **1,058,920** | **668,217** |
| Biological assets | 12 | **182,466** | **137,527** |
| Investments in associates | 9 | **168,229** | **57,806** |
| Other non-current investments | 9 | **612,737** | **589,106** |
| **TOTAL NON-CURRENT ASSETS** | | **14,314,390** | **10,220,272** |
| CURRENT ASSETS | | | |
| Inventories | 11 | **3,204,151** | **2,687,174** |
| Live stock and crops | 12 | **371,460** | **311,846** |
| Other assets held for sale | 13 | **342,938** | **—** |
| Loans granted | 14 | **194,953** | **226,053** |
| Accounts receivable | 15 | **3,718,896** | **3,012,895** |
| Other current assets | 16 | **371,215** | **237,791** |
| Cash and cash equivalents | 17 | **706,157** | **873,207** |
| **TOTAL CURRENT ASSETS** | | **8,909,770** | **7,348,966** |
| **TOTAL ASSETS** | | **23,224,160** | **17,569,238** |

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

**AGROKOR GROUP**

**CONSOLIDATED BALANCE SHEET (Continued)**

***As at 31 December 2008 and 2007***

***(in thousands of HRK)***

| | Notes | 2008 | Restated 2007 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| Share capital | 18 | **161,591** | **161,591** |
| Reserves | 18 | **3,423,943** | **2,956,682** |
| | | **3,585,534** | **3,118,273** |
| **MINORITY INTERESTS** | 19 | **2,232,265** | **1,780,135** |
| **TOTAL EQUITY** | | **5,817,799** | **4,898,408** |
| **LIABILITIES** | | | |
| LONG-TERM LIABILITIES | | | |
| Borrowings | 21 | **4,140,314** | **3,868,002** |
| Provision for employee benefits | 22 | **79,747** | **71,913** |
| Deferred tax liability related to land revaluation | 26 | **547,756** | **303,314** |
| Other deferred taxation | 26 | **44,285** | **42,143** |
| Other long term liabilities | | **81,422** | **80,672** |
| **TOTAL LONG-TERM LIABILITIES** | | **4,893,524** | **4,366,044** |
| CURRENT LIABILITIES | | | |
| Accounts payable | 24 | **7,135,518** | **5,484,295** |
| Liabilities due to other assets held for sale | | **114,538** | **—** |
| Income tax payable | | **151,411** | **86,413** |
| Current portion of long-term borrowings | 21 | **889,448** | **306,661** |
| Bank borrowings | 21 | **3,123,788** | **1,820,977** |
| Non-bank borrowings | 21 | **199,161** | **2,783** |
| Other current liabilities | 25 | **898,973** | **603,657** |
| **TOTAL CURRENT LIABILITIES** | | **12,512,837** | **8,304,786** |
| **TOTAL LIABILITIES** | | **17,406,361** | **12,670,830** |
| **TOTAL EQUITY AND LIABILITIES** | | **23,224,160** | **17,569,238** |

**Approved by the Management Board of Agrokor d.d.**

Ivica Todorić, President

Zagreb, 30 April 2009

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

## AGROKOR GROUP

## CONSOLIDATED CASH FLOW STATEMENT

*For the years ended 31 December 2008 and 2007*

**(in thousands of HRK)**

| | 2008 | Restated 2007 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | 506,123 | 611,195 |
| **Adjustments to reconcile net earnings to net cash provided by operating activities** | | |
| Depreciation and amortisation | 613,713 | 472,810 |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | 19,391 | 54,652 |
| Interest income | (112,107) | (70,925) |
| Impairment of financial assets | 19,382 | 18,848 |
| Gain on sale of properties | (34,167) | (19,640) |
| Gain on sale of subsidiaries | (83) | (141,647) |
| Value adjustment of receivables | 61,860 | 45,483 |
| Dividend income | (3,519) | (283) |
| Interest expense | 684,995 | 492,389 |
| **Net cash flows from operating activities before changes in working capital** | **1,755,588** | **1,462,882** |
| (Increase) in receivables | (753,047) | (991,545) |
| (Increase) in inventories | (576,591) | (690,642) |
| Increase of liabilities towards creditors | 1,651,223 | 1,670,240 |
| (Increase) of other short term assets | (249,988) | (33,544) |
| Increase in other short term liabilities | 270,365 | 28,306 |
| **Net cash inflow from operating activities before interest and taxes** | **2,097,550** | **1,445,697** |
| Income tax paid | (200,937) | (99,587) |
| Interest paid | (583,119) | (382,295) |
| **Net cash provided from operating activities** | **1,313,494** | **963,815** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of subsidiaries, net of cash acquired | (1,410,871) | (622,809) |
| Additions to properties and intangible assets | (2,511,527) | (2,142,672) |
| Increase in long term investments | (314,685) | (230,454) |
| Decrease/(Increase) in short term investments | 31,100 | (82,452) |
| Proceeds from sale of properties | 353,368 | 564,623 |
| Proceeds from sale of financial assets | 4,238 | 308,522 |
| Interest received | 97,293 | 57,161 |
| Dividends received | 3,519 | 283 |
| **Net cash used in investing activities** | **(3,747,565)** | **(2,147,798)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from long-term debt | 1,161,760 | 439,845 |
| Repayments of long-term debt | (306,661) | (201,400) |
| Proceeds/Repayments from short-term debt | 1,302,811 | 1,437,522 |
| Proceeds/Repayments from short-term non-bank debt | 196,378 | (8) |
| Dividends paid | (87,267) | (66,526) |
| **Net cash from financing activities** | **2,267,021** | **1,609,433** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | **(167,050)** | **425,450** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR** | **873,207** | **447,757** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **706,157** | **873,207** |

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

## AGROKOR GROUP

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

***For the years ended 31 December 2008 and 2007***

***(in thousands of HRK)***

| | | Attributable to equity of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Notes** | **Share capital** | **Revaluation surplus** | **Share premium** | **Retained earnings** | **Total** | **Minority interest** | **Total equity** |
| **Balance at 01 January 2007** .... | | **161,591** | **453,337** | **782,881** | **1,359,559** | **2,757,368** | **1,528,532** | **4,285,900** |
| Depreciation and sale of revalued assets .................................... | | — | (1,768) | — | (1,341) | (3,109) | (2,179) | (5,288) |
| Movement in foreign currency translation reserve ................. | | — | — | — | (6,305) | (6,305) | (1,143) | (7,448) |
| Total income and expense for the year recognised directly in equity.................................... | | — | (1,768) | — | (7,646) | (9,414) | (3,322) | (12,736) |
| Net income for 2007 ................. | | — | — | — | 298,521 | 298,521 | 155,746 | 454,267 |
| Total of income and expenses for the period.............................. | | — | (1,768) | — | 290,875 | 289,107 | 152,424 | 441,531 |
| Acquisition of subsidiaries......... | | — | — | — | 12,343 | 12,343 | 225,161 | 237,506 |
| Acquisition of minority interest. | | — | 858 | — | 112,095 | 112,951 | (112,951) | — |
| Transfer to reserves .................. | | — | (25,494) | — | 25,494 | — | — | — |
| Dividends distributed for the year ............................................ | | — | — | — | (53,498) | (53,498) | (13,031) | (66,529) |
| **Balance at 31 December 2007** . | 18 | **161,591** | **426,933** | **782,881** | **1,746,868** | **3,118,273** | **1,780,135** | **4,898,408** |
| Depreciation and sale of revalued assets .................................... | | — | (1,597) | — | — | (1,597) | — | (1,597) |
| Movement in foreign currency translation reserve..................... | | — | — | — | (118,661) | (118,661) | (20,889) | (139,550) |
| Total income and expense for the year recognised directly in equity.................................... | | — | (1,597) | — | (118,661) | (120,258) | (20,889) | (141,147) |
| Net income for 2008 ................. | | — | — | — | 83,334 | 83,334 | 158,384 | 241,718 |
| Total of income and expenses for the period.............................. | | — | (1,597) | — | (35,327) | (36,924) | 137,495 | 100,571 |
| Acquisition of subsidiaries......... | | — | — | — | (23,523) | (23,523) | 175,928 | 152,405 |
| Acquisition of minority interest. | | — | 46 | — | 45,916 | 45,962 | (45,962) | — |
| Revalorization of land............... | | — | 539,919 | — | — | 539,919 | 211,621 | 751,540 |
| Transfer to reserves .................. | | — | (60,767) | — | 60,767 | — | — | — |
| Dividends distributed for the year ............................................ | | — | — | — | (58,173) | (58,173) | (26,952) | (85,125) |
| **Balance at 31 December 2008** . | 18 | **161,591** | **904,534** | **782,881** | **1,736,528** | **3,585,534** | **2,232,265** | **5,817,799** |

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

**General**

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

Majority owner of the Group is Mr. Ivica Todorić with a share of 91,66%.

The Company's registered main office is located at Trg Dražena Petrovića 3, Zagreb.

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

At 31 December 2008 the Group employed 35,352 employees (31 December 2007 28,930 employees).

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for certain property, plant and equipment and long-term investments which are included at valuation, as described in the following accounting policy notes.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year, except as described in the note 1.29.

The Group's consolidated financial statements are presented in Croatian Kuna (HRK) which is the Group's functional currency. The effective exchange rate of the Croatian currency (expressed in HRK) at 31 December 2008 was HRK 5.16 per United States Dollar (USD) (2007: HRK 4.99) and HRK 7.32 per Euro (2007: HRK 7.33). All amounts disclosed in the financial statements are stated in thousands of HRK if not otherwise stated.

### 1.2 Principles of Consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries after the elimination of all material inter-company transactions. A subsidiary is an entity that is controlled by the Company through direct or indirect ownership of more than 50 percent of that entity's voting rights or through management control.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal.

Acquisitions of subsidiaries are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to align any dissimilar material accounting policies that may exist.

A listing of the Group's subsidiaries and a summary of the financial effect of the acquisition of subsidiaries during the year is set out in note 2.

Minority interests in the equity and the results of the entities that are controlled by the Company are shown separately in the consolidated financial statements.

### 1.3 Investments in Associates

Investments in associates over which the Company has significant influence (those that are 20-50% owned) are accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted amount and the recoverable amount, and the attributable share of income (loss) of associates is included in income.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 1.4 Financial assets and liabilities

All financial assets and liabilities are initially recognised at cost, being the fair value of the consideration given or received and including acquisition charges associated with the instrument.

After initial recognition, investments which are classified as financial assets at the fair value through profit or loss are measured at fair value. Gains or losses on investments which are classified as financial assets at the fair value through profit or loss are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Other financial assets that are intended to be held-to maturity as well as financial liabilities, such as loans and advances given and received as well as issued bonds, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investment is derecognised or impaired, as well as through the amortisation process.

Transactions in financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset is not recognised until the settlement date, changes in value on the underlying asset are recognised.

### 1.5 Goodwill

Goodwill and Excess of fair value of net assets over the cost of acquisition represent the difference between the cost of acquisition and the acquirer's interest in the fair value of the identifiable net assets at the date of acquisition.

Goodwill is subject to impairment test at each reporting date, as described in the accounting policy 1.8. Impairment of assets. Excess of fair value of net assets over the cost of acquisition is reported as a gain through the Profit and Loss Account in the year of acquisition.

### 1.6 Intangible Assets

Intangible assets are recorded at cost and amortised on a straight-line basis over their expected useful lives, which do not exceed ten years. All intangible assets of the Group have finite useful lives. Intangible assets are subject to annual impairment test, as described in the accounting policy 1.8. Impairment of assets.

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

### 1.7 Property, Plant and Equipment

Assets, with the exception of land, are carried at cost less accumulated depreciation and impairment. In 1993 fixed assets were revalued at year end in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. The revaluation effect was allocated to income. Hyperinflation accounting was discontinued in 1993. Subsequent revaluations relates only to land and have been based upon valuations performed by independent appraisers, in a period not longer than three years. The latest revaluation took place in 2008. The basis used in appraisals is comparable market prices. When an asset is revalued, any increase in the carrying value is credited directly to a revaluation surplus within equity or appropriate obligations for deferred taxation, if applicable.

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Expenditures incurred in the repair or maintenance of property, plant and equipment to restore or maintain future economic benefits is recognised as an expense when incurred.

Depreciation is recorded by a charge to income computed on a straight-line basis over the estimated useful life of the asset, as follows:

| | |
|---|---|
| Buildings | 5 to 55 years |
| Plant, Machinery and Equipment | 4 to 15 years |
| Leasehold improvements | 5 to 10 years |
| Other fixed assets | to 5 years |

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

### 1.8 Impairment of Assets

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. The recoverable amount is estimated as the higher of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs. Cash-generating units are primarily identified at entity level. Where carrying values exceed this estimated recoverable amount the assets are written down to their recoverable value.

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

### 1.9 Leased Assets

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

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

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

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

### 1.10 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is higher probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the data of classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Property, plant and equipment once classified held for sale are not depreciated.

### 1.11 Inventories

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

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

Raw materials—purchase cost on a weighted average basis.

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

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

### 1.12 Agriculture

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

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

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

| | |
|---|---|
| Vineyards | 10-20 years |
| Apple orchards | 10 years |
| Olive groves | 20 years |

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

### 1.13 Trade and other receivables

Trade receivables, which generally have 30-90 days terms are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

### 1.14 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, balances with banks, demand deposits, deposits with contractual maturity of less than 3 months.

### 1.15 Taxation

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

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

Deferred income tax is calculated, using the liability method, on all temporary differences at the balance sheet date due to differences in treatment of certain items for taxation and for accounting purposes within the consolidated financial statements. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

### 1.16 Foreign Currencies

Transactions denominated in foreign currencies are recorded on initial recognition in the reporting currency by applying the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in a foreign currency are translated into the reporting currency using the reporting period closing exchange rate. Non-monetary assets and liabilities are translated using the exchange rate that existed when the values were determined.

Exchange differences arising on foreign currency transactions and the translation of monetary and non-monetary assets and liabilities are recognised in the consolidated income statement in the period in which they arise.

The assets and liabilities of foreign subsidiaries are translated into the reporting currency using the Croatian National Bank middle exchange rate at the balance sheet date. Revenues and expenses are translated at the average exchange rate for the year. The effects of translating these items are included in reserves.

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Any goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of that foreign subsidiary and are translated at the closing rate.

### 1.17 Revenue Recognition

In relation to the sale of goods, revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer and no significant uncertainties remain regarding the derivation of consideration, associated costs or the possible return of goods.

In relation to the rendering of services, revenue is recognised by reference to the stage of completeness of the transaction, when no significant uncertainties remain concerning the derivation of consideration or associated costs.

Interest and dividends arising from the use by others of the Group's resources are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is recognised as it accrues (taking into account the effective yield on the asset) unless collection is in doubt. Dividend income is recognised when a dividend is declared.

### 1.18 Definition of operating profit

Operating profit consists of sales revenues, cost of sales, other revenues (income from sales of financial assets, collected written-off receivables, inventory surpluses and other revenues) and other expenses (depreciation and amortisation, wages and salaries, taxes, social insurance and pension costs, write off of bad debts and other short-term assets, research and development costs and other expenses).

### 1.19 Research and Development

Research and development costs are expensed as incurred, except for development costs which are recognised as an asset where it is expected that the product under development will generate future economic benefits and the technical feasibility of the product has been demonstrated.

Capitalised development costs are amortised on a straight-line basis over the period of expected future benefits, not exceeding a maximum period of five years.

The development costs of a project are written down to the extent that the unamortised balance, taken together with further development costs, related production costs, and selling and administrative costs directly incurred in marketing the product, are no longer probable of being recovered from the expected future economic benefits. The unamortised balance of development costs of a project are written off as soon as any of the criteria for recognition of the development costs as an asset cease to be met.

### 1.20 Borrowing Costs

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

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2008. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2008.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 1.21 Segment reporting

Segmental information is based on two segment formats. The primary format represents business segments reflecting the Group's management structure. The secondary format represents the Group's geographical markets.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of Group revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Group policy.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis, as well as finance liabilities which are allocated to segments based on the segment allocation of the subsidiary being the original debtor. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's balance sheet. Segment assets and liabilities do not include income tax items.

Unallocated items mainly comprise corporate, general and administrative expenses that relate to the group as a whole, and assets not directly attributable to the operations of the segments such as short and long term investments. Segment results are determined before any adjustments for minority interest.

Capital expenditure represents the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

### 1.22 Pensions and employee benefits

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

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

Past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

### 1.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

### 1.24 Contingencies

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

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

### 1.25 Subsequent Events

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

### 1.26 Estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details are given in note 7.

Purchase price allocations

Significant estimates are used in purchase price allocation process and mainly relate to assessments of fair value of land, impairment of plant and equipment, valuation of allowances and doubtful debts, provisions for employee benefits, legal claims as well as value of any separable intangible assets existing at the acquisition date.

Furthermore, in the Group's normal course of business, estimates are used for, but not limited to: assessments of value of land, depreciable lives and residual values of property, plant and equipment and intangible assets, allowances for inventories and doubtful debts and provisions for employee benefits, legal claims and taxes. Future events and their effects cannot be perceived with certainty. Details of estimates and related amounts are disclosed in the respective accounting policies and notes to the financial statements.

### 1.27 Judgements

In the process of applying the Group's accounting policies, the management made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating Lease Commitments—Group as Lessee

The Group has entered into significant operating lease arrangements as a lessee. The Group has determined that the lessor retains all the significant risks and rewards of ownership of properties which are leased by the Group as operating leases.

Sale and leaseback transactions

The Group has entered into significant sale and lease back transactions. The Group has determined that the lessor retains all the significant risks and rewards of ownership of properties which are leased by the Group as operating leases and transactions are established at fair values.

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### 1.28 Government grants

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

### 1.29 Changes in accounting policies

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group.

IFRIC 11 IFRS 2: Group and Treasury Share Transactions

The Group has adopted IFRIC Interpretation 11 insofar as it applies to the entity's financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. It did not have an impact on the financial position or performance of the Group as no events occurred that this interpretation relates to.

IFRIC 12—Service Concession Arrangements

This interpretation was issued in November 2006. It applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. As the Group does not engage in material arrangements which fall within the scope of IFRIC 12, this interpretation has no impact on the financial statements. The Group provides additional information on Service Concession Agreements in Note 8.

Amendments to IAS 39 Financial instruments: Recognition and Measurement, and IFRS 7 Financial instruments: Disclosures

An amendment to the Standards, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The Group amended its accounting policy accordingly although it has not used permitted option to reclassify.

IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group amended its accounting policy accordingly, although the adoption of this interpretation had no impact on the financial position or performance of the Group.

Certain new standards, amendments and interpretations to existing standards have been published and will be mandatory for the Group in periods beginning on or after 1 January 2009 or later periods. The Group early adopted only IAS 23 Borrowing costs (Revised).

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IAS 23 Borrowing Costs (Revised)

The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2008. During the 12 months to 31 December 2008, HRK 23,120 thousand of borrowing costs have been capitalised on long-term construction in progress.

The Group will adopt standards or interpretations at their effective date, as follows:

IAS 1 Presentation of Financial Statements (Revised)

The IASB issued revised IAS 1 Presentation of Financial Statements in September 2007 which will be effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. Therefore, the statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces a statement of comprehensive income: presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. Adoption of the IAS 1R will result in both the change of the presentation in the income statement and balance sheet.

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2009)

These amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements by removing the definition of the cost method from IAS 27 and replacing it with a requirement to present dividends as income in the separate financial statements of the investor. It is not expected that these amendment to IFRS 1 and IAS 27 will have any impact on the financial position of the Group, as the Group is not a first-time IFRS adopter and dividends received are already presented as income in the separate financial statements.

IFRS 2 Share-based Payment (Revised, effective for annual periods beginning on or after 1 January 2009)

The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It is not expected that this amendment to IFRS 2 will have any impact on the financial position or performance of the Group as no events occurred that this interpretation relates to.

IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009)

The IASB issued IFRS 8 in November 2006. IFRS 8 replaces IAS 14 Segment Reporting (IAS 14) upon its effective date. The Group has concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

IFRIC 13 Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008)

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group operates such scheme and currently recognizes the provision for customer loyalty program through expenses. Adoption of the IFRIC 13 will result in both the change of the presentation in the income statement and balance sheet.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRIC 15 Agreements for construction of Real Estates (effective for annual periods beginning on or after 1 January 2009)

This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. Agreements in the scope of this Interpretation are agreements for the construction of real estate. In addition to the construction of real estate, such agreements may include the delivery of other goods or services. It is not expected that adoption of this interpretation will have influence on the Group's financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008)

This Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The Group does not have hedges, and accordingly the adoption of this interpretation is not expected to have any effect on the financial position or performance of the Group.

Improvements to IFRSs

In May 2008 the International Accounting Standards Board (IASB) issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has early adopted the following amendments to standards:

IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. The Group has analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the balance sheet.

IAS 16 Property, Plant and Equipment: Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one—the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

IAS 28 Investment in Associates: If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group as it does not account for its associates at fair value in accordance with IAS 39.

An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply. As the Group has no investments in joint ventures this amendment has no impact on the Group.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IAS 36 Impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment has no immediate impact on the consolidated financial statements of the Group as discounted cash flows are not used to estimate 'fair value less cost to sell'.

IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate. The following reclassifications have been made to the Group 2007 balances to conform to the 2008 presentation (amounts in HRK thousands) which is assessed as more appropriate presentation.

| Amount | Previously reported | As reclassified | Comment |
|---|---|---|---|
| | BALANCE SHEET | | |
| 132,447 | Property, plant and equipment | Other non-current investments | Transfer of investments |
| 42,754 | Other current assets | Other current liabilities | Advance payments that have been netted off |
| 67,198 | Income tax payable | Other current liabilities | Reclassification to be consistent with 2008 |

The Group has not early adopted any IFRS standards where adoption is not mandatory at the balance sheet date, except for IAS 23 Revised Borrowing costs.. Where transition provisions in IFRS adopted give an entity a choice whether to apply the new standards prospectively or retrospectively the Group has elected to apply the standard prospectively from the date of transition.

## NOTE 2. GROUP STRUCTURE

### 2.1. Acquisition of subsidiaries

**Acro d.o.o.**

During 2008, the Group acquired management control of Acro Group, through the purchase of 100% ownership of Acro d.o.o. by Agrokor d.d. for HRK 132.447 thousand, paid entirely in cash. The main business activity of Acro d.o.o. is development of real estate projects.

## NOTE 2. GROUP STRUCTURE (Continued)

Assets and liabilities of Acro d.o.o., as of 01 January 2008 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Acro) |
|---|---|---|
| Non-current financial assets | 218 | 218 |
| Inventories | 145,605 | 145,605 |
| Accounts receivable | 90 | 90 |
| Cash and cash equivalents | 325 | 325 |
| **Total assets** | **146,238** | **146,238** |
| Long-term liabilities | 9,669 | 9,669 |
| Long-term provisions for employee benefits | 7 | — |
| Borrowings | 2,408 | 2,408 |
| Accounts payable | 1,701 | 1,701 |
| Other current liabilities | 6 | 6 |
| **Total liabilities** | **13,791** | **13,784** |
| **Fair value of net assets** | **132,447** | **132,454** |
| Acquired | 132,447 | |
| Goodwill | 0 | |
| Consideration paid | 132,447 | |
| Net cash acquired with the subsidiary | 325 | |
| Net cash outflow on acquisition of Acro | 132,122 | |
| Additional investments in other subsidiaries | — | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 132,122 | |

From the date of acquisition, Acro d.o.o. in 2008 has contributed HRK 180,114 thousand to the net profit of the Group.

## NOTE 2. GROUP STRUCTURE (Continued)

**Bootleggers d.o.o.**

During 2008, the Group acquired management control of Bootleggers Group, through the purchase of 100% ownership of Bootleggers d.o.o. by Idea d.o.o. for HRK 99,068 thousand, paid entirely in cash. The main business activity of Bootleggers d.o.o. is wholesale and retail trade.

Assets and liabilities of Bootleggers d.o.o., as of 31 May 2008 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Bootleggers) |
|---|---|---|
| Long-term assets | 184,878 | 121,019 |
| Goodwill | 22,759 | 22,759 |
| Non-current financial assets | 1,131 | 1,146 |
| Inventories | 669 | 775 |
| Accounts receivable | 675 | 1,011 |
| Cash and cash equivalents | 78 | 78 |
| Other current assets | 3,916 | 3,916 |
| **Total assets** | **214,106** | **150,704** |
| Long-term liabilities | 15,943 | 15,943 |
| Long-term provisions for employee benefits | 390 | — |
| Deferred tax | 6,458 | — |
| Taxes | 1,243 | 1,243 |
| Accounts payable | 136,488 | 136,451 |
| Other current liabilities | 10,868 | 347 |
| **Total liabilities** | **171,390** | **153,984** |
| **Fair value of net assets** | **42,716** | **(3,280)** |
| Minority interests | (42,848) | |
| Acquired | (132) | |
| Goodwill | (99,200) | |
| Consideration paid | 99,068 | |
| Net cash acquired with the subsidiary | 78 | |
| Net cash outflow on acquisition of Bootleggers | 98,990 | |
| Additional investments in other subsidiaries | — | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 98,990 | |

From the date of acquisition, Bootleggers d.o.o. in 2008 has contributed HRK 739 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased by HRK 19,647 thousand and revenue of the Group would have been increased by HRK 4,061 thousand.

The accounting recognized in the 31 December 2008 financial statements is based on a provisional assessment of fair value as the Group has not finalized the valuation of the land and buildings by an independent evaluator.

## NOTE 2. GROUP STRUCTURE (Continued)

### Ciglane Zagreb d.d.

During 2008, the Group acquired management control of Ciglane Zagreb d.d., through the purchase of 50.79% ownership of Ciglane Zagreb d.d. by Agrokor d.d. for HRK 116,552 thousand, paid entirely in cash. The main business activity of Ciglane Zagreb d.d. is production of brick.

Assets and liabilities of Ciglane Zagreb d.d., as of 30 June 2008 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Ciglane Zagreb) |
|---|---|---|
| Long-term assets | 200,618 | 37,758 |
| Non-current financial assets | 946 | 946 |
| Inventories | 5,492 | 6,534 |
| Accounts receivable | 10,021 | 10,814 |
| Cash and cash equivalents | 422 | 422 |
| Other current assets | 2,974 | 2,974 |
| **Total assets** | **220,473** | **59,448** |
| Long-term liabilities | 3,087 | 2,187 |
| Long-term provisions for employee benefits | 277 | — |
| Deferred tax | 32,594 | — |
| Taxes | 2,611 | 2,611 |
| Borrowings | 4 | 4 |
| Accounts payable | 3,329 | 3,329 |
| Other current liabilities | 5,483 | 4,400 |
| **Total liabilities** | **47,385** | **12,531** |
| **Fair value of net assets** | **173,088** | **46,917** |
| Acquired | 87,908 | |
| Goodwill | (28,644) | |
| Consideration paid | 116,552 | |
| Net cash acquired with the subsidiary | 422 | |
| Net cash outflow on acquisition of Ciglane Zagreb | 116,130 | |
| Additional investments in other subsidiaries | — | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 116,130 | |

From the date of acquisition, Ciglane Zagreb d.d. in 2008 has contributed HRK 6,318 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased by HRK 2,637 thousand and revenue of the Group would have been increased by HRK 22,989 thousand.

## NOTE 2. GROUP STRUCTURE (Continued)

### Krma d.d. and Ervenica d.o.o.

During 2008, the Group acquired management control of Krma d.d. and Ervenica d.o.o., through the purchase of 95.28% ownership of Krma d.d. and 100% ownership of Ervenica d.o.o. by PIK Vinkovci d.d., for HRK 19,044 thousand, paid entirely in cash. The main business activity of Krma d.d. and Ervenica d.o.o. is live stock food production and cultivation of crops.

Assets and liabilities of Krma d.d. and Ervenica d.o.o., as of 30 June 2008 (acquisition date) are summarised below (thousands of HRK):

| | **Recognised on acquisition** | **Carrying value (in Krma and Ervenica)** |
|---|---|---|
| Long-term assets | 67,214 | 23,693 |
| Inventories | 7,043 | 7,043 |
| Accounts receivable | 7,307 | 7,482 |
| Cash and cash equivalents | 1,316 | 1,316 |
| Other current assets | 6 | 6 |
| **Total assets** | **82,886** | **39,540** |
| Long-term liabilities | 1,655 | 1,655 |
| Long-term provisions for employee benefits | 90 | — |
| Deferred tax | 8,704 | — |
| Taxes | 970 | 866 |
| Accounts payable | 13,594 | 13,594 |
| Other current liabilities | 159 | 159 |
| **Total liabilities** | **25,172** | **16,274** |
| **Fair value of net assets** | **57,714** | **23,266** |
| Minority interests | (11,266) | |
| Acquired | 46,448 | |
| Excess of fair value of net assets over the cost of acquisition | 27,404 | |
| Consideration paid | 19,044 | |
| Net cash acquired with the subsidiary | 1,316 | |
| Net cash outflow on acquisition of Krma and Ervenica | 17,728 | |
| Additional investments in other subsidiaries | — | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 17,728 | |

From the date of acquisition, Krma d.d. and Ervenica d.o.o. in 2008 has contributed HRK 4,618 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased by HRK 565 thousand and revenue of the Group would have been increased by HRK 1,035 thousand. Excess of fair value of net assets over the cost of acquisition occurred due to the bargain purchase.

## NOTE 2. GROUP STRUCTURE (Continued)

### Grafoplast d.o.o.

During 2008, the Group acquired management control of Grafoplast d.o.o., through the purchase of 100% ownership of Grafoplast d.o.o. by Lovno gospodarstvo Moslavina d.o.o. for HRK 43,890 thousand, paid entirely in cash. The main business activity of Grafoplast d.o.o. is printing.

Assets and liabilities of Grafoplast d.o.o., as of 01 January 2008 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Grafoplast) |
|---|---|---|
| Long-term assets | 3,675 | 3,675 |
| Accounts receivable | 79 | 79 |
| Cash and cash equivalents | 157 | 157 |
| **Total assets** | **3,911** | **3,911** |
| Taxes | 119 | 119 |
| Accounts payable | 358 | 358 |
| Other current liabilities | 70 | 70 |
| **Total liabilities** | **547** | **547** |
| **Fair value of net assets** | **3,364** | **3,364** |
| Acquired | 3,364 | |
| Goodwill | (40,526) | |
| Consideration paid | 43,890 | |
| Net cash acquired with the subsidiary | 157 | |
| Net cash outflow on acquisition of Grafoplast | 43,733 | |
| Additional investments in other subsidiaries | — | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 43,733 | |

From the date of acquisition, Grafoplast d.o.o. in 2008 has contributed HRK 13 thousand to the net profit of the Group.

## NOTE 2. GROUP STRUCTURE (Continued)

**Lokica d.o.o.**

During 2008, the Group acquired management control of Lokica d.o.o., through the purchase of 100% ownership of Lokica d.o.o. by Konzum d.d. for HRK 170,747 thousand, paid entirely in cash. The main business activity of Lokica d.o.o. is retail.

Assets and liabilities of Lokica d.o.o., as of 31 December 2008 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Lokica) |
|---|---|---|
| Long-term assets | 49,734 | 49,734 |
| Accounts receivable | 20,045 | 20,045 |
| Cash and cash equivalents | 207 | 207 |
| **Total assets** | **69,986** | **69,986** |
| Long-term liabilities | 10,630 | 10,630 |
| Long-term provisions for employee benefits | 1,075 | — |
| Taxes | 2,079 | 2,079 |
| Borrowings | 3,211 | 3,211 |
| Accounts payable | 45,182 | 45,182 |
| Other current liabilities | 1,725 | 1,725 |
| **Total liabilities** | **63,902** | **62,827** |
| **Fair value of net assets** | **6,084** | **7,159** |
| Acquired | 4,901 | |
| Goodwill | (165,846) | |
| Consideration paid | 170,747 | |
| Net cash acquired with the subsidiary | 207 | |
| Net cash outflow on acquisition of Lokica | 170,540 | |
| Additional investments in other subsidiaries | — | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 170,540 | |

The accounting recognized in the 31 December 2008 financial statements is based on a provisional assessment of fair value as the Group has not finalized the valuation of the land and buildings by an independent evaluator.

## NOTE 2. GROUP STRUCTURE (Continued)

### Media d.o.o.

During 2008, the Group acquired management control of Media d.o.o., through the purchase of 100% ownership of Media d.o.o. by Agrokor d.d. for HRK 22,230 thousand, paid entirely in cash. The main business activity of Media d.o.o. is advertising.

Assets and liabilities of Media d.o.o., as of 30 June 2008 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Media) |
|---|---|---|
| Long-term assets | 546 | 546 |
| Non-current financial assets | 109,000 | 109,000 |
| Accounts receivable | 9,216 | 9,742 |
| Cash and cash equivalents | 198 | 198 |
| Other current assets | 62 | 62 |
| **Total assets** | **119,022** | **119,548** |
| Long-term provisions for employee benefits | 83 | — |
| Taxes | 476 | 476 |
| Borrowings | 49 | 49 |
| Accounts payable | 119,921 | 119,921 |
| Other current liabilities | 247 | 247 |
| **Total liabilities** | **120,776** | **120,693** |
| **Fair value of net assets** | **(1,754)** | **(1,145)** |
| Acquired | (1,754) | |
| Goodwill | (23,984) | |
| Consideration paid | 22,230 | |
| Net cash acquired with the subsidiary | 198 | |
| Net cash outflow on acquisition of Media | 22,032 | |
| Additional investments in other subsidiaries | — | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 22,032 | |

From the date of acquisition, Media d.o.o. in 2008 decreased the net profit of the Group by HRK 2,310 thousand. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased by HRK 3,332 thousand and revenue of the Group would have been increased by HRK 5,392 thousand.

## NOTE 2. GROUP STRUCTURE (Continued)

### Mlinar d.d.

During 2008, the Group acquired management control of Mlinar Group, through the purchase of 90.36% ownership of Mlinar d.d. by Agrokor d.d. for HRK 321,311 thousand, paid entirely in cash. The main business activity of Mlinar d.d. is production of bread and pastry.

Assets and liabilities of Mlinar d.d., as of 30 September 2008 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Mlinar) |
|---|---|---|
| Long-term assets | 593,938 | 334,707 |
| Non-current financial assets | 5,899 | 8,077 |
| Inventories | 139,739 | 74,419 |
| Accounts receivable | 68,337 | 72,878 |
| Cash and cash equivalents | 4,110 | 1,126 |
| Other current assets | 5,833 | 5,833 |
| **Total assets** | **817,856** | **497,040** |
| Long-term liabilities | 49,609 | 58,269 |
| Long-term provisions for employee benefits | 3,143 | — |
| Deferred tax | 55,520 | — |
| Taxes | 8,976 | 9,105 |
| Borrowings | 78,939 | 71,082 |
| Accounts payable | 87,760 | 87,422 |
| Other current liabilities | 19,698 | 11,179 |
| **Total liabilities** | **303,645** | **237,057** |
| **Fair value of net assets** | **514,211** | **259,983** |
| Minority interests | (43,766) | |
| Acquired | 470,445 | |
| Excess of fair value of net assets over the cost of acquisition | 149,134 | |
| Consideration paid | 321,311 | |
| Net cash acquired with the subsidiary | 4,110 | |
| Net cash outflow on acquisition of Mlinar | 317,201 | |
| Additional investments in other subsidiaries | — | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 317,201 | |

From the date of acquisition, Mlinar d.d. in 2008 has contributed HRK 36,052 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased by HRK 25,486 thousand and revenue of the Group would have been increased by HRK 278,875 thousand. Excess of fair value of net assets over the cost of acquisition occurred due to the bargain purchase.

## NOTE 2. GROUP STRUCTURE (Continued)

### SL Gross d.o.o.

During 2008, the Group acquired management control of SL Gross d.o.o., through the purchase of 100% ownership of SL Gross d.o.o. by Idea d.o.o. for HRK 370,671 thousand, paid entirely in cash. The main business activity of SL Gross d.o.o. is wholesale and retail trade.

Assets and liabilities of SL Gross d.o.o., as of 31 March 2008 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in SL Gross) |
|---|---|---|
| Long-term assets | 409,974 | 283,523 |
| Non-current financial assets | 355 | 7,236 |
| Inventories | — | 3,107 |
| Accounts receivable | 143,374 | 144,584 |
| Cash and cash equivalents | 315 | 315 |
| **Total assets** | **554,018** | **438,765** |
| Long-term provisions for employee benefits | 1,477 | — |
| Deferred tax | 14,015 | — |
| Taxes | 862 | 91 |
| Borrowings | 139,706 | 139,706 |
| Accounts payable | 26,828 | 26,122 |
| Other current liabilities | 2,514 | 991 |
| **Total liabilities** | **185,402** | **166,910** |
| **Fair value of net assets** | **368,616** | **271,855** |
| Acquired | 368,616 | |
| Goodwill | (2,055) | |
| Consideration paid | 370,671 | |
| Net cash acquired with the subsidiary | 315 | |
| Net cash outflow on acquisition of SL Gross | 370,356 | |
| Additional investments in other subsidiaries | — | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 370,356 | |

From the date of acquisition, SL Gross d.o.o. in 2008 decreased the net profit of the Group by HRK 22,159 thousand. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased by HRK 33,924 thousand and revenue of the Group would have been increased by HRK 18,920 thousand.

## NOTE 2. GROUP STRUCTURE (Continued)

### Štampa a.d.

During 2008, the Group acquired management control of Štampa Group, through the purchase of 90.70% ownership of Štampa a.d. by Agrokor d.d. for HRK 9,050 thousand, paid entirely in cash. The main business activity of Štampa a.d. is retail.

Assets and liabilities of Štampa a.d., as of 31 May 2008 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Štampa) |
|---|---|---|
| Long-term assets | 21,865 | 22,377 |
| Goodwill | 65,215 | 65,215 |
| Non-current financial assets | 508 | 508 |
| Inventories | 16,595 | 16,921 |
| Accounts receivable | 9,823 | 13,209 |
| Cash and cash equivalents | 2,840 | 2,840 |
| Other current assets | 462 | 462 |
| **Total assets** | **117,308** | **121,532** |
| Long-term liabilities | 12,967 | 12,967 |
| Long-term provisions for employee benefits | 1,368 | — |
| Taxes | 1,234 | 1,234 |
| Borrowings | 32,041 | 32,041 |
| Accounts payable | 80,205 | 77,791 |
| Other current liabilities | 3,453 | 2,751 |
| **Total liabilities** | **131,268** | **126,784** |
| **Fair value of net assets** | **(13,960)** | **(5,252)** |
| Minority interests | 22 | |
| Acquired | (12,641) | |
| Goodwill | (21,691) | |
| Consideration paid | 9,050 | |
| Net cash acquired with the subsidiary | 2,840 | |
| Net cash outflow on acquisition of Štampa | 6,210 | |
| Additional investments in other subsidiaries | — | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 6,210 | |

From the date of acquisition, Štampa a.d. in 2008 decreased the net profit of the Group by HRK 14,118 thousand. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased by HRK 12,866 thousand and revenue of the Group would have been increased by HRK 56,348 thousand.

### 2.2. Acquisitions during 2007

During 2007, the Group acquired management control over:

- Euroviba d.d., through the purchase of 71.85% ownership of Euroviba d.d. by Konzum d.d. for HRK 123,428 thousand, paid entirely in cash. The main business activity of Euroviba d.d. is retail.
- Duhan trgovina d.o.o., through the purchase of 100% ownership of Duhan trgovina d.o.o by Agrokor d.d. for HRK 9,000 thousand, paid entirely in cash. The main business activity of Duhan trgovina d.o.o. is retail.

## NOTE 2. GROUP STRUCTURE (Continued)

- Jadran trgovina d.o.o., through the purchase of 100% ownership of Jadran trgovina d.o.o. by Konzum d.d. for HRK 54,000 thousand, paid entirely in cash. The main business activity of Jadran trgovina d.o.o. is retail.
- Kikindski mlin a.d. Kikinda, through the purchase of 54.72% ownership of Kikindski mlin a.d. by Dijamant a.d. and 24.90% ownership of Kikindski mlin a.d. by Frikom a.d. for HRK 33,269 thousand, paid entirely in cash. The main business activity of Kikindski mlin a.d. is production of mill products.
- Krka d.o.o., through the purchase of 80.78% ownership of Krka d.o.o. by Konzum d.d. for HRK 51,270 thousand, paid entirely in cash. The main business activity of Krka d.o.o. is production of bread and pastry.
- Plodovi zemlje Matijević d.o.o., through the purchase of 50% ownership of Plodovi zemlje Matijević d.o.o. by Konzum d.d. for HRK 6,000 thousand, paid entirely in cash. The main business activity of Plodovi zemlje Matijević d.o.o. is wholesale of fruits and vegetables.
- Tisak d.d., through the purchase of 54.15% ownership of Tisak d.d. by Agrokor d.d. for HRK 344,079 thousand, paid entirely in cash. The main business activity of Tisak d.d. is retail.
- Unex MPG d.o.o., through the purchase of 50% ownership of Unex MPG d.o.o. by Agrokor d.d. for HRK 10 thousand, paid entirely in cash. The main business activity of Unex MPG d.o.o. is promotion (advertising).

### 2.3. Investments in Subsidiaries

| 2008 | Country | Ownership Interest of Agrokor d.d. | Ownership Interest of Subsidiary | Group Voting Rights | Group Ownership |
|---|---|---|---|---|---|
| Acro d.o.o. | Serbia | 100.00% | | 100.00% | 100.00% |
| Agrokor AG | Switzerland | 100.00% | | 100.00% | 100.00% |
| Agrokor—trgovina d.d. | Croatia | 100.00% | | 100.00% | 100.00% |
| Agrokor—Zagreb d.o.o. | Bosnia and Herzegovina | 100.00% | | 100.00% | 100.00% |
| Agrolaguna d.d. | Croatia | 85.20% | | 85.20% | 85.20% |
| Agroprerada d.d. | Croatia | 98.86% | | 98.86% | 98.86% |
| Belje d.d | Croatia | 67.92% | | 67.92% | 67.92% |
| Bootleggers d.o.o. | Serbia | | 100.00%(8) | 100.00% | 100.00% |
| Centropromet d.d. | Croatia | | 96.89%(4) | 96.89% | 78.04% |
| Ciglane Zagreb d.d. | Croatia | 50.79% | | 50.79% | 50.79% |
| Dijamant a.d. | Serbia | 73.08% | | 73.08% | 73.08% |
| Duhan trgovina d.o.o. | Croatia | | 100.00%(9) | 100.00% | 54.15% |
| Euroviba d.d. | Croatia | | 93.23%(4) | 93.23% | 75.09% |
| Frikom a.d | Serbia | 95.83% | | 95.83% | 95.83% |
| Fonyodi kft. | Hungary | | 100.00%(1) | 100.00% | 80.44% |
| Idea d.o.o. | Serbia | 100.00% | | 100.00% | 100.00% |
| Irida d.o.o | Croatia | | 100.00%(2) | 100.00% | 78.85% |
| Jadran trgovina d.o.o | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Jamnica d.d. | Croatia | 80.44% | | 80.44% | 80.44% |
| Japetić d.d. | Croatia | | 99.60%(4) | 99.60% | 80.23% |
| Kikindski mlin a.d. | Serbia | | 54.72%(6)<br>24.90%(7) | 79.62% | 63.85% |
| Konzum d.d. | Croatia | 71.62% | 11.10%(1) | 82.72% | 80.55% |
| Konzum d.o.o. Sarajevo | Bosnia and Herzegovina | | 100.00%(4) | 100.00% | 80.55% |
| Krka d.o.o. | Croatia | | 81.43%(4) | 81.43% | 65.59% |
| Ledo d.d. | Croatia | 78.85% | | 78.85% | 78.85% |
| Ledo Čitluk d.o.o. | Bosnia and Herzegovina | | 100.00%(2) | 100.00% | 78.85% |
| Ledo kft. | Hungary | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. | Slovenia | | 100.00%(2) | 100.00% | 78.85% |

## NOTE 2. GROUP STRUCTURE (Continued)

| 2008 | Country | Ownership Interest of Agrokor d.d. | Ownership Interest of Subsidiary | Group Voting Rights | Group Ownership |
|---|---|---|---|---|---|
| Ledo d.o.o. Podgorica | Montenegro | 100.00% | | 100.00% | 100.00% |
| Lokica d.o.o. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Lovno gospodarstvo Moslavina d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Media d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Mladina d.d. | Croatia | | 60.89%(1) | 60.89% | 48.98% |
| Mlinar d.d. | Croatia | 90.36% | | 89.04% | 90.36% |
| PIK Vinkovci d.d. | Croatia | 70.87% | | 70.87% | 70.87% |
| PIK Vrbovec d.d. | Croatia | 99.76% | | 99.76% | 99.76% |
| Plodovi zemlje Matijević d.o.o.* | Croatia | | 50.00%(4) | 50.00% | 40.28% |
| Riječka tvornica konopa d.d. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Sarajevski kiseljak d.d. | Bosnia and Herzegovina | | 96.54%(1) 3.30%(5) | 99.84% | 80.97% |
| SL Gross d.o.o. | Serbia | | 100.00%(8) | 100.00% | 100.00% |
| Sojara d.d. | Croatia | | 100.00%(3) | 100.00% | 51.84% |
| Solana Pag d.d. | Croatia | 91.93% | | 91.93% | 91.93% |
| Štampa d.d. | Montenegro | 90.70% | | 90.70% | 90.70% |
| Tisak d.d. | Croatia | 54.15% | | 54.15% | 54.15% |
| TPDC Sarajevo d.d. | Bosnia and Herzegovina | 51.00% | | 51.00% | 51.00% |
| Unex MPG d.o.o.* | Croatia | 50.00% | | 50.00% | 50.00% |
| Zvijezda d.d. | Croatia | 51.84% | | 51.84% | 51.84% |
| Zvijezda d.o.o. Ljubljana | Slovenia | | 100.00%(3) | 100.00% | 51.84% |
| Zvijezda d.o.o. Sarajevo | Bosnia and Herzegovina | | 100.00%(3) | 100.00% | 51.84% |

(1) held by Jamnica;

(2) held by Ledo;

(3) held by Zvijezda;

(4) held by Konzum;

(5) held by Agrokor Zagreb d.o.o. Grude;

(6) held by Dijamant;

(7) held by Frikom;

(8) held by Idea;

(9) held by Tisak.

* Management control is exercised by the Group.

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

Under International Financial Reporting Standards, subsequent acquisitions of minority interests in subsidiaries do not represent business combinations. Consequently, the assets and liabilities of the subsidiary are not remeasured to reflect their fair values at the date of the transaction. The Group accounts for subsequent acquisitions of minority interest using entity concept method of accounting whereby any difference between acquisition cost of additional share and book value of minority interest acquired is recognised directly in equity. During 2008, the Group has increased ownership in subsidiary Agrolaguna d.d. from 69.38% to 85.20%, by transfer of receivables of HRK 75,000 thousand. The Group has also increased share capital of Idea do.o. for HRK 361,879 thousand and Media d.o.o. for HRK 110,000 thousand. Minority shareholders did not participate in these share capital increases and consequently, amount of HRK 45,962 thousand was reclassified from minority interest to retain earnings.

## NOTE 2. GROUP STRUCTURE (Continued)

| 2007 | Country | Ownership Interest of Agrokor d.d. | Ownership Interest of Subsidiary | Group Voting Rights | Group Ownership |
|---|---|---|---|---|---|
| Agrokor AG | Switzerland | 100.00% | | 100.00% | 100.00% |
| Agrokor—trgovina d.d. | Croatia | 100.00% | | 100.00% | 100.00% |
| Agrokor—Zagreb d.o.o. | Bosnia and Herzegovina | 100.00% | | 100.00% | 100.00% |
| Agrolaguna d.d. | Croatia | 69.38% | | 69.38% | 69.38% |
| Agroprerada d.d. | Croatia | 98.77% | | 98.77% | 98.77% |
| Belje d.d. | Croatia | 67.92% | | 67.92% | 67.92% |
| Centropromet d.d. | Croatia | | 87.76%(4) | 87.76% | 70.69% |
| Dijamant a.d. | Serbia | 73.08% | | 73.08% | 73.08% |
| Duhan trgovina d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Euroviba d.d. | Croatia | | 71.85%(4) | 71.85% | 57.87% |
| Frikom a.d. | Serbia | 95.83% | | 95.83% | 95.83% |
| Fonyodi kft. | Hungary | | 100.00%(1) | 100.00% | 80.44% |
| Idea d.o.o. | Serbia | 100.00% | | 100.00% | 100.00% |
| Irida d.o.o. | Croatia | | 100.00%(2) | 100.00% | 78.85% |
| Jadran trgovina d.o.o. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Jamnica d.d. | Croatia | 80.44% | | 80.44% | 80.44% |
| Japetić d.d. | Croatia | | 99.22%(4) | 99.22% | 79.92% |
| Kikindski mlin a.d. | Serbia | | 54.72%(6)<br>24.90%(7) | 79.62% | 63.85% |
| Konzum d.d. | Croatia | 71.62% | 11.10%(1) | 82.72% | 80.55% |
| Krka d.o.o. | Croatia | | 80.78%(4) | 80.78% | 65.07% |
| Ledo d.d. | Croatia | 78.85% | | 78.85% | 78.85% |
| Ledo Čitluk d.o.o. | Bosnia and Herzegovina | | 100.00%(2) | 100.00% | 78.85% |
| Ledo kft. | Hungary | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. | Slovenia | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. Podgorica | Montenegro | 100.00% | | 100.00% | 100.00% |
| Lovno gospodarstvo Moslavina d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Mediator d.o.o. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Mladina d.d. | Croatia | | 60.80%(1) | 60.80% | 48.91% |
| PIK Vinkovci d.d. | Croatia | 70.87% | | 70.87% | 70.87% |
| PIK Vrbovec d.d. | Croatia | 99.76% | | 99.76% | 99.76% |
| Plodovi zemlje Matijević d.o.o.* | Croatia | | 50.00%(4) | 50.00% | 40.28% |
| Riječka tvornica konopa d.d. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Sarajevski kiseljak d.d. | Bosnia and Herzegovina | | 96.54%(1)<br>3.30%(5) | 99.84% | 80.97% |
| Sojara d.d. | Croatia | | 100.00%(3) | 100.00% | 51.84% |
| Solana Pag d.d. | Croatia | 88.81% | | 88.81% | 88.81% |
| Tisak d.d. | Croatia | 54.15% | | 54.15% | 54.15% |
| TPDC Sarajevo d.d. | Bosnia and Herzegovina | 51.00% | | 51.00% | 51.00% |
| Unex MPG d.o.o.* | Croatia | 50.00% | | 50.00% | 50.00% |
| Veleprodajni centar Sarajevo d.o.o. | Bosnia and Herzegovina | | 100.00%(4) | 100.00% | 80.55% |
| Zvijezda d.d. | Croatia | 51.84% | | 51.84% | 51.84% |
| Zvijezda d.o.o. Sarajevo | Bosnia and Herzegovina | | 100.00%(3) | 100.00% | 51.84% |

(1) held by Jamnica;

(2) held by Ledo;

(3) held by Zvijezda;

(4) held by Konzum;

(5) held by Agrokor Zagreb d.o.o. Grude;

(6) held by Dijamant;

(7) held by Frikom.

* Management control is exercised by the Group.

## NOTE 3. SEGMENTAL ANALYSIS

**Business segments**

| 2008 | Agrokor Holding | Food, Manufacturing and Distribution | Retailing and Wholesale | Other Businesses | Intersegment sales | Consolidated |
|---|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | | |
| **SALES** | | | | | | |
| Sales to external customers | 26,275 | 5,815,461 | 18,848,215 | 2,972,963 | | |
| Inter-segment sales | 337,725 | 4,206,414 | 556,406 | 1,409,541 | (6,510,086) | |
| **Total sales** | **364,000** | **10,021,875** | **19,404,621** | **4,382,504** | **(6,510,086)** | **27,662,914** |
| **OPERATING PROFIT** | **(484,798)** | **729,205** | **726,491** | **344,867** | | **1,315,765** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | | | | | | (19,391) |
| Sale of properties, net | | | | | | 34,167 |
| Financial expenses | | | | | | (920,662) |
| Impairment of financial assets | | | | | | (15,863) |
| Financial income | | | | | | 112,107 |
| **Income before taxation** | | | | | | **506,123** |
| Taxation | | | | | | (264,405) |
| **Net profit for the year** | | | | | | **241,718** |
| **Other information** | | | | | | |
| Segment assets | 1,428,306 | 10,867,778 | 8,877,303 | 1,882,544 | | 23,055,930 |
| Investments in associates | — | — | 59,056 | 109,173 | | 168,229 |
| **Total segment assets** | 1,428,306 | 10,867,778 | **8,936,360** | **1,991,717** | | **23,224,160** |
| **Total segment liabilities** | **(5,941,409)** | **(3,522,057)** | **(7,013,853)** | **(929,042)** | | **(17,406,361)** |
| Capital expenditures | 87,784 | 1,523,478 | 885,105 | 15,160 | | 2,511,527 |
| Depreciation and amortisation | 15,951 | 339,223 | 253,417 | 5,122 | | 613,713 |

## NOTE 3. SEGMENTAL ANALYSIS

### Business segments

| 2007 | Agrokor Holding | Food, Manufacturing and Distribution | Retailing and Wholesale | Other Businesses | Intersegment sales | Consolidated |
|---|---|---|---|---|---|---|
| | | | Restated (in thousands of HRK) | | | |
| **SALES** | | | | | | |
| Sales to external customers | 74,341 | 4,676,038 | 14,164,088 | 1,784,157 | | |
| Inter-segment sales | 300,696 | 2,972,377 | 352,153 | 859,828 | (4,485,054) | |
| **Total sales** | **375,037** | **7,648,415** | **14,516,241** | **2,643,985** | **(4,485,054)** | **20,698,624** |
| **OPERATING PROFIT** | **(194,508)** | **626,450** | **584,904** | **62,176** | | **1,079,022** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | | | | | | (54,652) |
| Sale of properties, net | | | | | | 19,640 |
| Financial expenses | | | | | | (492,389) |
| Impairment of financial assets | | | | | | (18,565) |
| Financial income | | | | | | 78,139 |
| **Income before taxation** | | | | | | **611,195** |
| Taxation | | | | | | (156,928) |
| **Net profit for the year** | | | | | | **454,267** |
| **Other information** | | | | | | |
| Segment assets | 1,276,364 | 8,326,665 | 6,991,990 | 916,413 | | 17,511,432 |
| Investments in associates | — | — | 57,806 | — | | 57,806 |
| **Total segment assets** | **1,276,364** | 8,326,665 | 7,049,797 | **916,413** | | 17,569,238 |
| **Total segment liabilities** | **(4,843,689)** | **(2,226,159)** | **(4,951,063)** | **(649,919)** | | **(12,670,830)** |
| Capital expenditures | 158,046 | 932,598 | 1,044,860 | 7,168 | | 2,142,672 |
| Depreciation and amortisation | 10,204 | 304,047 | 155,842 | 2,717 | | 472,810 |

### Geographical segments

| 2008 | Sales | Assets | Capital Expenditure |
|---|---|---|---|
| | (in thousands of HRK) | | |
| Croatia | 20,918,224 | 17,600,603 | 2,010,825 |
| Other European countries | 6,744,690 | 5,623,557 | 500,702 |
| **Total** | **27,662,914** | **23,224,160** | **2,511,527** |

| 2007 | Sales | Assets | Capital Expenditure |
|---|---|---|---|
| | (in thousands of HRK) | | |
| Croatia | 16,558,427 | 13,537,302 | 1,521,401 |
| Other European countries | 4,140,197 | 4,031,936 | 621,271 |
| **Total** | **20,698,624** | **17,569,238** | **2,142,672** |

Out of total sales income HRK 382,078 thousand relate to income from services (2007: HRK 200,949 thousand).

## NOTE 4. COST OF MATERIALS

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Cost of goods sold | 20,005,000 | 15,206,696 |
| Change in inventory | (51,530) | (311,969) |
| | **19,953,470** | **14,894,727** |

## NOTE 5. OTHER INCOME

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Gain on sale of subsidiaries | 83 | 141,648 |
| Government grants | 152,734 | 102,323 |
| Reversal of value adjustment | — | 40,454 |
| Reversal of provision for litigation | 14,392 | 36,718 |
| Collected receivables written off | 57,497 | 35,673 |
| Other revenues | 68,161 | 21,016 |
| Value adjustment of receivables | (61,860) | (44,800) |
| **Total** | **231,007** | **333,032** |

## NOTE 6. OTHER EXPENSES

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Wages and salaries | 1,656,870 | 1,309,940 |
| Taxes, social insurance and pension costs | 1,142,820 | 900,393 |
| Depreciation and amortisation | 613,713 | 472,810 |
| Research and development costs | 8,467 | 6,720 |
| Write off of bad debts and other short-term assets, net | — | 683 |
| Other expenses | 1,098,906 | 782,282 |
| | **4,520,776** | **3,472,828** |

**Management board compensation:**

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Salaries | 22,048 | 16,490 |
| Taxes, social insurance and pension costs | 25,725 | 17,480 |
| Severance pay | 1,302 | 1,051 |
| | **49,075** | **35,021** |

## NOTE 7. EXCESS OF FAIR VALUE OF NET ASSETS OVER THE COST OF ACQUISITION, NET OF WRITTEN OFF GOODWILL

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Excess of fair value of net assets over the cost of acquisition | 176,537 | 53,165 |
| Written off goodwill | (195,928) | (107,817) |
| | **(19,391)** | **(54,652)** |

## NOTE 7. EXCESS OF FAIR VALUE OF NET ASSETS OVER THE COST OF ACQUISITION, NET OF WRITTEN OFF GOODWILL

Excess of fair value of net assets over the cost of acquisition relates to acquisition of Mlinar and Krma.

Written off goodwill relates to Štampa, Ledo Podgorica, Grafoplast and Kiosk promet. Goodwill was impaired by 100%, due to future plans and expectations that remaining goodwill will not be recoverable in future periods.

## NOTE 8. INTANGIBLE ASSETS

| | Development Costs | Concession rights | Other Intangibles | Goodwill | Total |
|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | |
| **At 31 December 2006** | | | | | |
| Cost | **1,041** | **20,449** | **126,089** | **206,678** | **354,257** |
| Accumulated depreciation | (489) | (16,431) | (61,651) | — | (78,571) |
| **Net book amount** | **552** | **4,018** | **64,438** | **206,678** | **275,686** |
| **At 01 January 2007** | | | | | |
| Opening net book amount | 552 | 4,018 | 64,438 | 206,678 | 275,686 |
| Acquisition (new subsidiaries) | — | — | 4,234 | 361,464 | 365,698 |
| Additions | — | — | 159,135 | — | 159,135 |
| Transfer | 324 | — | (324) | — | — |
| Disposals | — | — | (6,804) | — | (6,804) |
| Write-off | — | — | — | (107,817) | (107,817) |
| Depreciation | (303) | (204) | (16,866) | — | (17,373) |
| Advance payments for intangible assets | — | — | (172) | — | (172) |
| Foreign exchange differences | (1) | (11) | (124) | — | (136) |
| **Net book amount** | **572** | **3,803** | **203,517** | **460,325** | **668,217** |
| **At 31 December 2007** | | | | | |
| Cost | 1,362 | 20,438 | 294,128 | 460,325 | 776,253 |
| Accumulated depreciation | (790) | (16,635) | (90,611) | — | (108,036) |
| **Net book amount** | **572** | **3,803** | **203,517** | **460,325** | **668,217** |
| **At 01 January 2008** | | | | | |
| Opening net book amount | 572 | 3,803 | 203,517 | 460,325 | 668,217 |
| Acquisition (new subsidiaries) | — | — | 1,874 | 493,533 | 495,407 |
| Additions | — | — | 106,653 | — | 106,653 |
| Transfer | — | — | — | — | — |
| Disposals | (572) | — | (377) | — | (949) |
| Write-off | — | — | — | (171,735) | (171,735) |
| Depreciation | — | (201) | (36,249) | — | (36,450) |
| Advance payments for intangible assets | — | — | (805) | — | (805) |
| Foreign exchange differences | — | (3) | (2,098) | 683 | (1,418) |
| **Net book amount** | **—** | **3,599** | **272,515** | **782,806** | **1,058,920** |
| **At 31 December 2008** | | | | | |
| Cost | — | 20,438 | 397,513 | 782,806 | 1,200,757 |
| Accumulated depreciation | — | (16,839) | (124,998) | — | (141,837) |
| **Net book amount** | **—** | **3,599** | **272,515** | **782,806** | **1,058,920** |

Concession rights relate to the concession for extraction of the mineral water granted to Jamnica d.d. The concession is amortised according to the accounting policy (note 1.6.).

## NOTE 8. INTANGIBLE ASSETS

Other intangible assets relates to acquired brand in 2007, software and similar intangible assets, as well as investments in intangibles and advances for purchase of intangible assets. During 2008, the Group acquired software relating to SAP and Oracle for total consideration of HRK 57,191 thousand.

As at 31 December 2008 the goodwill relates to the following companies: Frikom a.d. in the amount of HRK 85,921 thousand, which was acquired in 2003, as well as Sarajevski kiseljak d.d. in the amount of HRK 12,002 thousand acquired in 2001, Dijamant a.d. in the amount of HRK 900 thousand, Idea d.o.o. in the amount of HRK 5,673 thousand, acquired in 2005, Euroviba d.d. in the amount of HRK 31,219 thousand, Duhan trgovina d.o.o. in the amount of HRK 8,980 thousand, Jadran trgovina d.o.o. in the amount of HRK 20,264 thousand, Krka d.o.o. in the amount of HRK 37,171 thousand, Plodovi zemlje Matijević d.o.o. in the amount of HRK 3,241 thousand, and Tisak d.d. in the amount of HRK 230,234 thousand, acquired in 2007, PIK Vinkovci d.d. in the amount of HRK 4,029 thousand, and Bootleggers d.o.o. in the amount of HRK 121,959 thousand, Ciglane Zagreb d.d. in the amount of HRK 28,644 thousand, Media d.o.o. in the amount of HRK 23,984 thousand, Lokica d.o.o. in the amount of HRK 165,846 thousand and SL Gross d.o.o. in the amount of HRK 2,054 thousand acquired in 2008.

As all the entities represent single cash generating units, goodwill impairment testing was performed on an entity basis.

The recoverable amounts of cash generating units have been determined based on a value in use calculation using cash flow projections based on financial plans covering a five-year period. The discount rate applied to cash flow projections ranges from 11 to 20 percent, while the cash flows beyond the 5-year period were extrapolated using a no growth assumption (zero percent growth rate). The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected any applicable efficiency improvements.

## NOTE 9. INVESTMENTS

| | 2008 | Restated 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **Investments in associates** | | |
| **Balance at 1 January** | **57,806** | **18,201** |
| Sale of shares | — | (18,201) |
| Acquisitions | 111,356 | 57,806 |
| Share of gain/loss of associates | (933) | — |
| **Balance at 31 December** | **168,229** | **57,806** |
| **Other non-current investments** | | |
| Investment securities available for sale | 282,744 | 344,336 |
| Loans | 203,189 | 174,378 |
| Long-term deposits | 126,804 | 70,392 |
| **Balance at 31 December** | **612,737** | **589,106** |

Acquisition in the amount of HRK 111,356 thousand relates to investment in Zagreb plakat d.o.o. and Slobodna Dalmacija -trgovina d.o.o. The Group has 27,07% ownership of Slobodna Dalmacija-trgovina and 49% ownership of Zagreb plakat.

**NOTE 9. INVESTMENTS (Continued)**

Summarized financial information of associates

Zagreb plakat d.o.o.

| | 2008 |
|---|---|
| | (in thousands of HRK) |
| Current assets | 8,905 |
| Non-current assets | 3,096 |
| Current liabilities | (6,125) |
| Non-current liabilities | (5,504) |
| **Net assets** | **372** |
| Revenue | 10,084 |
| Profit | 352 |

Slobodna Dalmacija-trgovina d.o.o.

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Current assets | 53,709 | 30,795 |
| Non-current assets | 54,530 | 30,659 |
| Current liabilities | (61,432) | (16,439) |
| Non-current liabilities | (13,430) | (6,426) |
| **Net assets** | **33,377** | **38,589** |
| Revenue | 254,439 | 221,825 |
| (Loss)/Profit | (4,084) | 1,128 |

Long term deposits mainly relate to deposits per leasing which bear no interest and are due at the day of repayment of contractual liabilities. Other long term deposits bear a interest of 2% to 6.5% and are due from 2 to 10 years.

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **Investment securities available for sale** | | |
| MSTART telekomunikacije d.o.o. | 47,668 | 47,668 |
| Nova Sloga d.o.o. Trstenik | 40,178 | — |
| Perutnina Ptuj d.d. | 31,246 | 31,246 |
| RTL d.o.o. | 35,042 | 35,042 |
| Kron a.d. | — | 132,447 |
| Other | 128,610 | 97,933 |
| | **282,744** | **344,336** |

| | 2008 | Maturity | Interest |
|---|---|---|---|
| | (in thousands of HRK) | | |
| **Loans given** | | | |
| Housing employee loans | 141,401 | 3-20 years | 4.5-6% |
| Investco vrijednosnice d.o.o. | 51,847 | 2 years | 4% |
| Other | 9,941 | within 3 years | 4.5-6% |
| **Total** | **203,189** | | |

## NOTE 9. INVESTMENTS (Continued)

| | 2007 (in thousands of HRK) | Maturity | Interest |
|---|---|---|---|
| **Loans given** | | | |
| Housing employee loans | 115,176 | 3-15 years | 4.5-6% |
| Investco vrijednosnice d.o.o. | 45,128 | 2 years | 4% |
| Other | 14,074 | within 3 years | 4.5-6% |
| **Total** | **174,378** | | |

## NOTE 10. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings | Plant, Machinery and Equipment | Leasehold improvements | Other Fixed Assets | Items in course of construction | Total |
|---|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | | |
| **At 31 December 2006** | | | | | | |
| Cost | 6,599,848 | 3,887,789 | 332,691 | 19,473 | 601,670 | **11,441,471** |
| Accumulated depreciation | (1,653,151) | (2,446,141) | (127,672) | — | — | **(4,226,964)** |
| **Net book amount** | **4,946,697** | **1,441,648** | **205,019** | **19,473** | **601,670** | **7,214,507** |
| **At 01 January 2007 (restated)** | | | | | | |
| Opening net book amount | 4,946,697 | 1,441,648 | 205,019 | 19,473 | 601,670 | 7,214,507 |
| Acquisition (new subsidiaries) | 564,608 | 50,426 | 1,981 | — | 2,299 | 619,314 |
| Additions | — | — | — | — | 1,940,808 | 1,940,808 |
| Transfer | 497,076 | 585,692 | 129,807 | — | (1,246,534) | (33,959) |
| Disposals | (329,356) | (33,918) | (1,907) | — | (146,235) | (511,416) |
| Depreciation | (96,076) | (307,281) | (44,719) | — | — | (448,076) |
| Advance payments for tangible assets | — | — | — | 42,902 | — | 42,902 |
| Foreign exchange differences | (2,209) | (2,235) | (224) | — | (192) | (4,860) |
| Other | 67,781 | 19,930 | (1,445) | — | (137,870) | (51,604) |
| **Net book amount** | **5,648,521** | **1,754,262** | **288,512** | **62,375** | **1,013,946** | **8,767,616** |
| **Net balance at 31 December** | | | | | | |
| **—at historical cost** | **7,379,996** | **4,231,575** | **452,422** | **62,375** | **1,013,946** | **13,230,314** |
| **—at revalued amounts** | **(1,731,475)** | **(2,567,313)** | **(163,910)** | **—** | **—** | **(4,462,698)** |
| | **5,648,521** | **1,754,262** | **288,512** | **62,375** | **1,013,946** | **8,767,616** |

## NOTE 10. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Land and Buildings | Plant, Machinery and Equipment | Leasehold improvements | Other Fixed Assets | Items in course of construction | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2007** | | | | | | |
| Cost | 3,721,578 | 1,754,262 | 288,512 | 62,375 | 1,013,946 | 6,840,673 |
| Accumulated depreciation | 1,926,943 | — | — | — | — | 1,926,943 |
| **Net book amount** | **5,648,521** | **1,754,262** | **288,512** | **62,375** | **1,013,946** | **8,767,616** |
| **At 01 January 2008** | | | | | | |
| Opening net book amount | 5,648,521 | 1,754,262 | 288,512 | 62,375 | 1,013,946 | 8,767,616 |
| Acquisition (new subsidiaries) | 1,294,417 | 89,558 | 4 | — | 6,216 | 1,390,195 |
| Additions | — | — | — | — | 2,379,839 | 2,379,839 |
| Transfer | 742,390 | 592,470 | 330,947 | — | (1,665,807) | — |
| Disposals | (183,017) | (23,440) | (645) | — | (124,066) | (331,168) |
| Revalorization during the year | 1,083,541 | — | — | — | — | 1,083,541 |
| Depreciation | (145,178) | (359,922) | (60,089) | — | — | (565,189) |
| Advance payments for tangible assets | — | — | — | (17,765) | — | (17,765) |
| Transfer to assets held for sale | (116,944) | — | (1,981) | — | (176,447) | (295,372) |
| Foreign exchange differences | (46,726) | (26,927) | (3,553) | — | (23,040) | (100,246) |
| Other | (28,267) | 8,679 | 4,820 | — | (4,645) | (19,413) |
| **Net book amount** | **8,248,737** | **2,034,680** | **558,015** | **44,610** | **1,405,996** | **12,292,038** |
| **At 31 December 2008** | | | | | | |
| Cost | 10,403,264 | 4,993,190 | 786,208 | 44,610 | 1,405,996 | 17,633,268 |
| Accumulated depreciation | (2,154,527) | (2,958,510) | (228,193) | — | — | (5,341,230) |
| **Net book amount** | **8,248,737** | **2,034,680** | **558,015** | **44,610** | **1,405,996** | **12,292,038** |
| **Net balance at 31 December** | | | | | | |
| **—at historical cost** | **4,844,582** | **2,034,680** | **558,015** | **44,610** | **1,405,996** | **8,887,883** |
| **—at revalued amounts** | **3,404,155** | **—** | **—** | **—** | **—** | **3,404,155** |
| | **8,248,737** | **2,034,680** | **558,015** | **44,610** | **1,405,996** | **12,292,038** |

As at 31 December 2008 the group share of revaluation surplus in respect of revalued assets amounts to HRK 904,534 thousand.

Property, plant and equipment with a book value of HRK 1,421,145 thousand (31 December 2007—HRK 680,514 thousand) has been pledged as collateral.

Revaluation surplus included in the equity with respect to this revaluation is not distributable until realized.

In 2008 Group capitalised borrowing costs of HRK 23,120 thousand and the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.5%.

## NOTE 10. PROPERTY, PLANT AND EQUIPMENT (Continued)

Leased assets included in property, plant and equipment are as follows:

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **Cost** | | |
| **At 1 January** | **18,576** | **11,468** |
| Acquisitions | 7,859 | 5,485 |
| Additions | 8,144 | 1,623 |
| **Cost at 31 December** | **34,579** | **18,576** |
| **Accumulated depreciation at 1 January** | **5,738** | **1,219** |
| Acquisitions | 1,639 | 685 |
| Charge for the year | 4,860 | 3,834 |
| **Accumulated depreciation at 31 December** | **12,237** | **5,738** |
| **Net balance at 31 December** | **22,342** | **12,838** |

## NOTE 11. INVENTORIES

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Raw materials | 621,318 | 459,321 |
| Work in progress | 489,182 | 577,920 |
| Merchandise | 1,681,416 | 1,377,478 |
| Finished goods | 412,235 | 272,455 |
| | **3,204,151** | **2,687,174** |

## NOTE 12. BIOLOGICAL ASSETS

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

**Biological assets at fair value**

**(a) Current biological assets**

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Live stock | 182,053 | 196,100 |
| | **182,053** | **196,100** |

**(b) Non-current biological assets**

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **Biological assets as at 1 January** | **93,595** | **70,836** |
| Increase due to purchases | 12,660 | 14,214 |
| Gains arising from changes in fair value less estimated point of sale costs | 55,524 | 29,606 |
| Decreases due to sales | (30,952) | (21,061) |
| **Biological assets as at 31 December** | **130,827** | **93,595** |

## NOTE 12. BIOLOGICAL ASSETS (Continued)

### Biological assets at cost

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

### (a) Current biological assets

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Crops | 189,407 | 115,746 |
| | **189,407** | **115,746** |

### (b) Non-current biological assets

| Movement of biological assets during the year | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **Gross book value as at 1 January** | **65,520** | **48,008** |
| Increase due to purchases | 12,376 | 19,745 |
| Decreases due to sales | (2,161) | (2,233) |
| **Gross book value as at 31 December** | **75,735** | **65,520** |
| **Depreciation as at 1 January** | **21,587** | **19,777** |
| Additions | 4,285 | 3,076 |
| Disposals | (1,776) | (1,266) |
| **Depreciation as at 31 December** | **24,096** | **21,587** |
| **Net book value of biological assets as at 1 January** | **43,933** | **28,230** |
| **Net book value of biological assets as at 31 December** | **51,639** | **43,933** |

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

### Total biological assets

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Non current biological assets | 182,466 | 137,527 |
| Live stock and crops | 371,460 | 311,846 |

### (c) Government grants

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Fattening of live stock | 77,983 | 46,461 |
| Agricultural production (sowing, orchards and vineyards) | 74,752 | 55,862 |
| **TOTAL** | **152,735** | **102,323** |

Government grants are unconditional and relate to biological assets measured at its fair value less estimated point-of-sale costs.

Income is recognised (note 5) when the government grant becomes receivable.

## NOTE 13. NON-CURRENT ASSETS HELD FOR SALE

At 31 December 2008 assets held for sale relate to buildings and land in the amount of HRK 226,374 thousand and securities in the amount of HRK 116,564 thousand. A disposal is due to be completed in the one year period and as at 31 December 2008 final negotiations for the sale were in progress.

## NOTE 14. LOANS GRANTED

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Commercial loans to farmers | 86,798 | 58,887 |
| Uni Group | 10,889 | — |
| M.O.F. Razvoj trgovačkih centara | 10,390 | — |
| Aureum Terra | 10,332 | 10,181 |
| Niva inženjering | 9,441 | 4,041 |
| Jana New York | 7,527 | 3,539 |
| Institut građevinarstva Hrvatske | 6,226 | — |
| Init Sarajevo | 5,903 | 6,280 |
| Vupik | 2,334 | 3,953 |
| Other | 45,113 | 139,172 |
| | **194,953** | **226,053** |

Loans granted relate to current portion of long term loans granted (Note 9), and short term loans granted in the normal course of business which bear interest at annual rate of 4–10%.

## NOTE 15. ACCOUNTS RECEIVABLE

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Trade accounts receivable | 3,691,242 | 2,980,213 |
| Other receivables | 393,703 | 346,517 |
| Value adjustment of trade receivables | (366,049) | (313,835) |
| | **3,718,896** | **3,012,895** |

As at 31 December, the ageing analysis of trade receivables is as follows:

| | Total | Neither past due nor impaired | < 90 days | 90–180 days | 180–270 days | >270 days |
|---|---|---|---|---|---|---|
| **2008** | 3,325,193 | 2,085,129 | 865,018 | 189,801 | 62,380 | 122,865 |
| **2007** | 2,666,378 | 1,637,375 | 659,469 | 169,421 | 84,278 | 115,835 |

Value adjustment is made for all outstanding domestic receivables older than 360 days and based on individual assessments. Movements in the provision for impairment of trade receivables were as follows:

| | 2008 | restated 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| At 1 January | 313,835 | 230,252 |
| Acquisitions during the year | 51,745 | 50,027 |
| Charge for the year | 61,860 | 44,800 |
| Amounts written off | (61,391) | (11,244) |
| **At 31 December** | **366,049** | **313,835** |

## NOTE 16. OTHER CURRENT ASSETS

| | 2008 | restated 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Prepaid expenses | 91,268 | 59,269 |
| Other advance payments | 279,947 | 178,522 |
| | **371,215** | **237,791** |

## NOTE 17. CASH AND CASH EQUIVALENTS

| | 2008 | restated 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Cash in bank and cash on hand | 402,174 | 504,142 |
| Short term deposits | 303,983 | 369,065 |
| | **706,157** | **873,207** |

Short term deposits bear interest up to 5%.

## NOTE 18. SHARE CAPITAL AND RESERVES

| | Number of shares | Nominal value | Value |
|---|---|---|---|
| | | | (in thousands of HRK) |
| AGKR-R-A | 296,250 | 500 kn | 148,125 |
| AGKR-P-A | 26,932 | 500 kn | 13,466 |
| | **323,182** | | **161,591** |

By decision of the General Assembly of the Company, on 6 July 2006, the share capital was increased whereby the share structure of Agrokor is as follows:

Share capital amounts to HRK 161,591,000 and constitutes the following:

– 296,250 regular shares in the name of Mr. Ivica Todorić, designated as AGKR-R-A each with a nominal value of HRK 500

– 26,932 preferred shares in the name of the European Bank for Reconstruction and Development (EBRD), designated as AGKR-P-A each with a nominal value of HRK 500

Each preferred share provides the owner with the following rights:

– 1 vote at the General Assembly of the Company

– Dividend distribution as per the decision of the General Assembly

– Payment from the remainder after liquidation or insolvency preferred to the holder of regular shares

– Transfer of preferred shares into regular in a manner that the preferred shares can at any time be converted in total or partially into regular shares

– In the case of an initial public offering, the preferred shares shall automatically be converted into regular shares

Retained earnings include legal reserves and foreign currency translation reserve. Legal reserves are not distributable in the amount of HRK 65,728 thousand.

## NOTE 18. SHARE CAPITAL AND RESERVES (Continued)

The decision on paying dividends is brought at the General Assembly. After the balance sheet date until the date of signing of this report such a decision was not made.

## NOTE 19. MINORITY INTERESTS

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **Balance at 1 January** | **1,780,135** | **1,528,532** |
| Acquisitions | 129,966 | 112,209 |
| Dividends paid | (26,952) | (13,030) |
| Result for the year | 158,384 | 155,746 |
| Revalorization | 211,621 | — |
| Foreign exchange | (20,889) | (3,322) |
| **Balance at 31 December** | **2,232,265** | **1,780,135** |

## NOTE 20. LEASE LIABILITIES AND COMMITMENTS

FINANCE LEASE LIABILITIES

Assets acquired under finance leases are real estate and transportation equipment.

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Payable over 5 years | 5,515 | — |
| Payable in 4 to 5 years | 2,136 | 87 |
| Payable in 3 to 4 years | 2,333 | 691 |
| Payable in 2 to 3 years | 3,652 | 2,374 |
| Payable in 1 to 2 years | 8,993 | 3,633 |
| Payable within 1 year | 10,809 | 3,463 |
| Less future finance charges | (5,647) | (537) |
| Included in borrowings (note 21) | **27,791** | **9,711** |
| Less current portion of obligation | (10,809) | (3,463) |
| **Total long-term obligation** | **16,982** | **6,248** |

OPERATING LEASE COMMITMENTS

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

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Payable over 5 years | 510,681 | 483,541 |
| Payable in 2 to 5 years | 553,401 | 466,985 |
| Payable in 1 to 2 years | 313,280 | 245,603 |
| Payable within 1 year | 352,801 | 277,673 |
| | **1,730,163** | **1,473,802** |

Average cancellation period in operating lease agreements is between 6–9 months.

Operating lease commitments are not provided for in the financial statements in accordance with accounting conventions.

## CAPITAL COMMITMENTS

Capital commitments at the balance sheet date amount to HRK 195,000 thousand (31 December 2007—HRK 118,000 thousand).

## NOTE 21. BORROWINGS

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **Long-term borrowings** | | |
| —Bank loans | 3,898,540 | 3,059,705 |
| —Bonds | 1,087,666 | 1,084,000 |
| —Non-bank loans | 15,765 | 21,247 |
| —Finance leases | 27,791 | 9,711 |
| **Total long-term borrowings** | **5,029,762** | **4,174,663** |
| **Current portion of long-term borrowings** | | |
| —Bank loans | (873,157) | (297,716) |
| —Non-bank loans | (5,482) | (5,482) |
| —Finance leases | (10,809) | (3,463) |
| **Total current portion of long-term borrowings** | **(889,448)** | **(306,661)** |
| **Long-term debt** | **4,140,314** | **3,868,002** |
| **Short-term borrowings** | | |
| —Bank loans | 3,123,788 | 1,820,977 |
| —Non-bank loans | 199,161 | 2,783 |
| **Total short-term borrowings** | **3,322,949** | **1,823,760** |
| **TOTAL BORROWINGS** | **8,352,711** | **5,998,423** |

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

| Maturity | Bank loans and bonds |
|---|---|
| | (in thousands of HRK) |
| 2010 | 806,369 |
| 2011 | 2,479,765 |
| 2012 | 218,583 |
| 2013 | 212,861 |
| 2014 | 182,753 |
| 2015 | 212,718 |
| | **4,113,049** |

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

| Maturity | EUR | USD | CHF | OTHER |
|---|---|---|---|---|
| | | (in thousands of HRK) | | |
| 2010 | 763,288 | 991 | 33,531 | 8,559 |
| 2011 | 2,473,446 | — | — | 6,319 |
| 2012 | 216,358 | — | — | 2,225 |
| 2013 | 212,696 | — | — | 165 |
| 2014 | 182,575 | — | — | 178 |
| 2015 | 212,529 | — | — | 189 |
| | **4,060,892** | **991** | **33,531** | **17,635** |

Interest rates of the above loans are mainly variable, linked to EURIBOR, CHF Libor, Libor and are in the range of 3 to 11% p.a. for loans while bonds bear fixed interest of 7% p.a.

## NOTE 21. BORROWINGS

The above mentioned indebtedness included bonds issued during 2006 in the amount of EUR 150,000 thousand, with maturity of November 2011, bearing a coupon of 7%. According to the terms of the issue, the Agrokor Group is required to maintain a leverage ratio equal to or less than 3.75:1 in 2007 and thereafter, and interest cover ratio of minimum 2.75 in 2007 and 3.00 in 2008 and thereafter.

According to the Loan Agreements with the International Finance Corporation (IFC), first one signed in June 2006 and the second signed in July 2008, the ratio of consolidated net financial indebtedness to EBITDA has to be less than 4.00 until 30 April 2008 and less than 3.75 thereafter. The Tangible Net Worth less the aggregate of any consolidated Off-Balance Sheet Liabilities of at least the equivalent of three hundred million Euros (€300,000,000);

In accordance to Senior facilities agreement with ABN Amro Bank N. V. and Bank Austria Creditanstalt AG and the Loan Agreement with Erste Bank der oesterreichischen Sparkassen AG the Group is obliged to maintain the ratio between Consolidated Total Net Debt and EBITDA of maximum 3.75 in 2007 to 2008 and 3.50 in 2009 and therafter, the ratio between Senior Consolidated Total Net Debt and EBITDA of maximum 3.75 in 2007, 3.25 in 2008, 3.00 in 2009 and thereafter and Interest Cover ratio of minimum 2.75 in 2007, 3.50 in 2008, 3.75 in 2009, 4.00 in 2010 and thereafter.

The Group complies with debt covenants.

According to the agreement with the EBRD, signed in October 2008, the Guarantor shall, at all times, maintain a ratio of Net Financial Debt to EBITDA of not more than 3.75.

Property, plant and equipment with a book value of HRK 1,421,145 (31 December 2007—HRK 680,514 thousand) has been pledged as collateral for HRK 4,986,206 thousand of borrowings (31 December 2007—HRK 4,143,705 thousand).

In addition, all of the shares of Jamnica, Ledo, Konzum and Zvijezda owned by Agrokor d.d. have been pledged as collateral.

## NOTE 22. EMPLOYEE BENEFIT OBLIGATIONS

All employees are covered by the State pension fund. Provisions are established for other employee benefits payable in respect of retirement, jubilee (length of service) and surviving dependant payments. Retirement benefits are dependent on the employees fulfilling the required conditions to enter retirement from the Group and jubilee benefits are dependent on the number of years of service. The amount of all benefit entitlements is determined by the respective employee's monthly remuneration.

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

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Net liability, beginning of year | 71,913 | 60,104 |
| Net expense recognised in the income statement | 19,200 | 22,699 |
| Payments made during the year | (11,366) | (10,890) |
| Net liability, end of year | **79,747** | **71,913** |

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

| | 2008 | 2007 |
|---|---|---|
| Discount rate (annually) | 4.33% | 4.33% |
| Wage and salary increases (annually) | 3.00% | 3.00% |

### NOTE 22. EMPLOYEE BENEFIT OBLIGATIONS (Continued)

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

### NOTE 23. GOVERNMENT GRANTS

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| At 1 January | — | — |
| Received during the year | 28,234 | — |
| Released to the income statement | 8,234 | — |
| **At 31 December** | **20,000** | **—** |
| Current | 4,000 | — |
| Non-current | 16,000 | — |

Government grants relate to capital investments.

### NOTE 24. ACCOUNTS PAYABLE

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Accounts payable—domestic | 3,904,231 | 3,318,048 |
| Accounts payable—foreign | 870,239 | 562,226 |
| Accruals for goods received and not invoiced | 96,302 | 26,981 |
| Bills of exchange | 2,264,746 | 1,577,040 |
| | **7,135,518** | **5,484,295** |

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

### NOTE 25. OTHER CURRENT LIABILITIES

| | 2008 | restated 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Sales and employment taxes | 168,913 | 131,959 |
| Amounts due to employees | 142,249 | 129,400 |
| Advance payments | 226,747 | 42,754 |
| Other current liabilities | 261,912 | 200,027 |
| Accrued expenses and deferred income | 99,152 | 99,517 |
| | **898,973** | **603,657** |

### NOTE 26. TAXATION

| Tax charge for the year | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Croatian corporate taxation | 224,017 | 145,569 |
| Foreign corporate taxation | 38,247 | 8,042 |
| Deferred taxation | 2,141 | 3,317 |
| | **264,405** | **156,928** |

## NOTE 26. TAXATION (Continued)

Income taxes paid during 2008 amounted to HRK 200,937 thousand (2007: HRK 99,587 thousand).

A reconciliation of the statutory tax rate to the effective tax rate applicable to income (before minority interest) for the years ended 31 December was as follows:

| | 2008 | 2007 |
|---|---|---|
| Local statutory rate | 20.00% | 20.00% |
| Tax disallowable items, net | 30.11% | 6.63% |
| Utilisation of tax losses brought forward | (3.26%) | (2.78%) |
| Tax relieves | (1.31%) | (3.93%) |
| Other, net | 6.70% | 5.76% |
| **Effective tax rate** | **52.24%** | **25.68%** |

In accordance with Croatian tax law, every company within the Group in the Republic of Croatia is independently liable for corporate tax at a rate of 20% (31 December 2007—20%). Several subsidiaries have tax losses amounting to HRK 1,086,448 thousand (31 December 2007—HRK 877,022 thousand) which are available to be carried forward against their future taxable income. Due to the uncertainty as to whether these assets could be utilised in the short to medium term no deferred tax asset has been recognised. Unutilised tax losses of HRK 173,403 thousand will expire in 2009 and, if not utilised, will be forfeited by the subsidiaries.

The tax losses carried forward utilised in 2008, amounted to HRK 91,138 thousand (31 December 2007—HRK 208,643 thousand).

The deferred tax liability consists of:

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| Deferred tax liability related to land revaluation | 547,756 | 303,314 |
| Deferred tax liability related to accelerated depreciation for the tax purposes | 44,285 | 42,143 |
| **Total** | **592,041** | **345,457** |

Movements of deferred tax liability are as follows:

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **Deferred tax liability at 1 January** | 345,457 | 309,083 |
| Deferred tax arising on acquisition | 244,443 | 33,058 |
| Profit and loss deferred taxes charge | 2,141 | 3,316 |
| **Deferred tax liability at 31 December** | **592,041** | **345,457** |

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

## NOTE 27. CONTINGENCIES

The Group is involved in commercial litigation relating to the collection of outstanding amounts from debtors of HRK 316,233 thousand and disputes with creditors over amounts of HRK 21,445 thousand. In addition, proceedings are ongoing in relation to other short-term receivables of HRK 64,383 thousand and other short-term liabilities of HRK 123,258 thousand.

## NOTE 28. RELATED PARTY TRANSACTIONS

The volumes of related party transactions (Slobodna Dalmacija-trgovina d.o.o. and Zagreb plakat d.o.o.), outstanding balances at the year-end, and relating income for the year are as follows:

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **ACCOUNTS RECEIVABLE** | | |
| Accounts receivable | 27,018 | 817 |
| Other receivables | — | — |
| | **27,018** | **817** |

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **LIABILITIES** | | |
| Accounts payable | 11,142 | 3,727 |
| Other | — | — |
| | **11,142** | **3,727** |

| | 2008 | 2007 |
|---|---|---|
| | (in thousands of HRK) | |
| **INCOME** | | |
| Sales revenue | 44,035 | 23,500 |
| Other revenue | 3,616 | — |
| | **47,651** | **23,500** |

## NOTE 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES

### (a) FINANCIAL INSTRUMENTS

The Group has no derivative financial instruments or any financial instruments that potentially subject the Group to concentrations of credit risk. It is the Group's policy to enter into financial instruments with a diversity of creditworthy counterparties. Therefore, the Group does not expect to incur material credit losses on its risk management or other financial instruments.

**Fair values of financial assets and liabilities**

Fair value represents the amount for which an asset could be exchanged or a liability settled on an arm's length basis. As market prices are not available for a portion of the Group's financial assets and liabilities, fair values have been based on management assumptions according to the profile of the respective assets and liabilities. The Management Board believes that the fair values of assets and liabilities (unless otherwise disclosed in this note) are not significantly different from book values.

The Group has used the following methods and assumptions when assessing the fair value of financial instruments:

**Amounts Due from Banks**

For assets maturing within three months, the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term deposits, the interest rates applicable approximate market rates and, consequently, the fair value approximates the carrying amounts.

## NOTE 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Loans**

As practically all loans are short term, the Management Board believes that their fair values are not significantly different from book values.

**Investment securities**

Securities available for sale are included in the balance sheet at their fair values. Securities whose fair value can not be reliably measured as they are not actively traded are included at acquisition cost. The Management believes that their fair values approximates their carrying amounts.

**Loan liabilities**

For balances maturing within one year the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. Nominal value of Eurobonds issued amounts to HRK 1,099 Million, while their fair value as at 31 December 2008, based on closing prices on the Stock Exchange, amounted to HRK 654 million as they are traded at 59.5% of nominal value. As a significant portion of other longer term funds received is contracted with variable interest rates, their fair value approximates the carrying amounts. For longer term funds with fixed interest rates, the average interest rates applicable approximate market rates and, consequently, the fair value approximates the carrying amounts.

**Biological assets**

The Group is exposed to financial risks arising from changes in live stock and crops prices. The Group does not anticipate that live stock or crops prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in live stock or crops prices. The Group reviews its outlook for live stock and crops prices regularly in considering the need for active financial risk management.

### (b) RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk and interest rate risk. The Management reviews and agrees policies for managing each of these risks and they are summarised below.

The Group is exposed to international markets. As a result, it can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

**Credit risk**

The Group is exposed to credit risk representing risk that the debtor will not be able to repay its liabilities to the Group as they fall due. The Group manages this risk by setting limits of exposure towards one debtor or group of debtors. As there is no significant concentration of credit exposure, the Group does not consider to be excessively exposed to credit risk.

The Group does not guarantee for obligations of other parties.

Group considers that its maximum exposure is reflected by the amount of debtors net of provisions for impairment recognised at the balance sheet date.

**NOTE 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**

**Liquidity risk**

Liquidity risk, also referred to as financing risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group has a strong focus on its cash flow with short-term inflows and outflows forecasts. Surplus of funds is placed in short term deposits and available for sale investments.

Maturity of long term bank loans is presented in note 21.

The table below summarizes the maturity profile of the Group's account payables, liabilities for bills of exchange and other liabilities at 31 December 2008 and 2007.

| | < 90 days | 90–180 days | 180–270 days | > 270 days | Total |
|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | |
| Trade payables | | | | | |
| Year ended 31 December 2008 | 4,694,511 | 123,575 | 18,623 | 34,063 | 4,870,772 |
| Year ended 31 December 2007 (restated) | 3,856,778 | 33,906 | 8,984 | 7,587 | 3,907,255 |
| Bills of exchange | | | | | |
| Year ended 31 December 2008 | 1,417,458 | 815,871 | — | 31,417 | 2,264,746 |
| Year ended 31 December 2007 | 329,369 | 893,486 | 354,185 | — | 1,577,040 |
| Other liabilities | | | | | |
| Year ended 31 December 2008 | 837,007 | 12,591 | 4,175 | 45,200 | 898,973 |
| Year ended 31 December 2007 (restated) | 503,644 | 100,013 | — | — | 603,657 |

The table below summarizes the maturity profile of the Group's contractual bank loan liabilities at 31 December 2008.

| Maturity | Total |
|---|---|
| | (in thousands of HRK) |
| 2009 | 4,524,095 |
| 2010 | 1,073,717 |
| 2011 | 2,694,700 |
| 2012 | 272,332 |
| 2013 | 252,403 |
| 2014 | 208,459 |
| 2015 | 226,545 |
| | **9,252,251** |

**Interest rate risk**

The majority of interest bearing assets and liabilities represent loans received. As the majority of long term loans is fixed interest debt, the Group does not consider itself to be excessively exposed to risk of adverse change in interest rates.

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

## NOTE 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings):

| | Increase/decrease in base points | Effect on profit before tax |
|---|---|---|
| | | (in thousands of HRK) |
| **2008** | | |
| EUR | +/− 50 | 28,031 |
| USD | +/− 50 | 9 |
| 100 HUF | +/− 50 | 3,523 |
| CHF | +/− 50 | 822 |
| HRK | +/− 50 | 2,383 |
| **2007** | | |
| EUR | +/− 50 | 20,364 |
| USD | +/− 50 | 140 |
| 100 HUF | +/− 50 | 2,342 |
| CHF | +/− 50 | 2,053 |
| HRK | +/− 50 | 427 |

**Foreign currency risk**

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

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

| | Increase/decrease in rate | Effect on profit before tax |
|---|---|---|
| | | (in thousands of HRK) |
| **2008** | | |
| EUR | +/− 5% | 372,427 |
| USD | +/− 5% | 1,962 |
| CHF | +/− 5% | 14,275 |
| CZK | +/− 5% | 195 |
| SEK | +/− 5% | 8 |
| **2007** | | |
| EUR | +/− 5% | 198,963 |
| USD | +/− 5% | 983 |
| CHF | +/− 5% | 20,530 |
| 100 HUF | +/− 5% | 23,422 |

## NOTE 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Capital management**

The primary objective of the Group's capital management is to ensure that it support its business and maximise shareholder value. The capital structure of the Group consists of equity attributable to shareholders, comprising issued capital, reserves and retained earnings.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. Capital includes share capital reserves and minority interests. The Group is trying to maintain the ratio in the range 68–75%.

**AGROKOR GROUP**
**FINANCIAL REPORT 2007**

**AGROKOR GROUP**

**REPORT OF THE MANAGEMENT BOARD**

***for the year ended 31 December 2007***

The members of the Management Board have the pleasure of presenting their Annual Report for the Agrokor Group (the Company and its subsidiaries collectively "the Group") for the year ended 31 December 2007.

**Results and Dividends**

The Statement of Income is set out on page 4 and shows the result of the Group for the year.

**Principal activities, trading review and future development**

The Group operates through its two business groups: Business Group Food and Business Group Retailing. A detailed review of these activities and future developments is set out in the President's Report and Review of Operations.

**Supervisory Board**

The Supervisory Board of Agrokor d.d. on 31 December 2007 consists of the following members:

| | |
|---|---|
| **Ante Todorić (Junior)** | Chairman |
| **Branko Mikša** | Deputy Chairman |
| **Hans Christian Jacobsen** | Board Member |
| **Branko Tarnik** | Board Member |
| **Mirko Novosel** | Board Member |

**Management Board**

The Management Board of Agrokor d.d. on 31 December 2007 consists of the following members:

| | |
|---|---|
| **Ivica Todorić** | President |
| **Ante Todorić** | Senior Vice President for technology, research and development |
| **Ljerka Puljić** | Senior Vice President for strategic business segments |
| **Piruška Canjuga** | Executive Vice President for retail |
| **Tomislav Lučić** | Executive Vice President for finance |

On 1 June 2007, Stjepan Ledić was discharged from his duties as the Board Member and as the Executive Vice President for foreign markets, and on 16 August 2007, Saša Galić was discharged from his duties as the Board Member and as the Executive Vice President for strategy.

## STATEMENT OF RESPONSIBILITIES OF THE MANAGEMENT BOARD

Pursuant to the Croatian Accounting Law in force, the Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the financial position and results of the Group for that period.

The Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the 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 the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

**Management Board**

Ivica Todorić, President

Zagreb, 25 April 2008

**AUDITOR'S OPINION**

**To the Management Board and the Shareholders of Agrokor d.d.**

We have audited the accompanying consolidated financial statements ("the consolidated financial statements" of Agrokor d.d. (the Company) and its subsidiaries (together, the Group)) which comprise the consolidated balance sheet as at 31 December 2007 and consolidated income statement, consolidated statement in changes of equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (as set out on pages 4 to 47).

**Management Responsibility**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to the fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly in all material aspects, the financial position of the Group as at 31 December 2007 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young d.o.o.
Zagreb

Baker Tilly Discordia d.o.o.
Zagreb

Zagreb, 25 April 2008

**AGROKOR GROUP**

**CONSOLIDATED STATEMENT OF INCOME**

***For the years ended 31 December 2007 and 2006***

***(in thousands of HRK)***

| | Notes | 2007 | Restated 2006 |
|---|---|---|---|
| Sales | 3 | **20,698,624** | **15,067,439** |
| Cost of materials | 4 | **(14,894,727)** | **(10,601,964)** |
| Cost of services | | **(1,585,079)** | **(1,092,567)** |
| | | **4,218,818** | **3,372,908** |
| Other income | 5 | **333,032** | **150,411** |
| Other expenses | 6 | **(3,472,828)** | **(2,857,904)** |
| **OPERATING PROFIT** | | **1,079,022** | **665,415** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | 7 | **(54,652)** | **—** |
| Impairment of financial assets | | **(18,848)** | **(7,052)** |
| Dividend income | | **283** | **4,198** |
| Sale of properties, net | | **19,640** | **5,449** |
| Interest income | | **70,925** | **50,739** |
| Interest expense | | **(492,389)** | **(480,080)** |
| Net foreign exchange profit | | **7,214** | **32,566** |
| **PROFIT BEFORE TAXATION** | | **611,195** | **271,235** |
| Taxation | 24 | **(156,928)** | **(85,465)** |
| **NET PROFIT FOR THE YEAR** | | **454,267** | **185,770** |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the parent | | 298,521 | 108,842 |
| Minority interest | | 155,746 | 76,928 |

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

**AGROKOR GROUP**

**CONSOLIDATED BALANCE SHEET**

***As at 31 December 2007 and 2006***

***(in thousands of HRK)***

| | Notes | 2007 | Restated 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | **8,900,063** | **7,214,507** |
| Intangible assets | 8 | **668,217** | **275,686** |
| Biological assets | 12 | **137,527** | **99,065** |
| Investments in associates | 9 | **57,806** | **18,201** |
| Other non-current investments | 9 | **456,659** | **443,452** |
| **TOTAL NON-CURRENT ASSETS** | | **10,220,272** | **8,050,911** |
| CURRENT ASSETS | | | |
| Inventories | 11 | **2,687,174** | **2,041,509** |
| Live stock and crops | 12 | **311,846** | **266,871** |
| Loans granted | 13 | **226,053** | **162,449** |
| Accounts receivable | 14 | **3,012,895** | **2,053,067** |
| Other current assets | 15 | **195,037** | **204,247** |
| Cash and cash equivalents | 16 | **873,207** | **447,757** |
| **TOTAL CURRENT ASSETS** | | **7,306,212** | **5,175,900** |
| **TOTAL ASSETS** | | **17,526,484** | **13,226,811** |

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

**AGROKOR GROUP**

**CONSOLIDATED BALANCE SHEET**

***As at 31 December 2007 and 2006***

***(in thousands of HRK)***

| | Notes | 2007 | Restated 2006 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| Share capital | 17 | **161,591** | **161,591** |
| Reserves | 17 | **2,956,682** | **2,595,777** |
| | | **3,118,273** | **2,757,368** |
| **MINORITY INTERESTS** | 18 | **1,780,135** | **1,528,532** |
| **TOTAL EQUITY** | | **4,898,408** | **4,285,900** |
| **LIABILITIES** | | | |
| LONG-TERM LIABILITIES | | | |
| Borrowings | 20 | **3,868,002** | **3,734,818** |
| Provision for employee benefits | 21 | **71,913** | **60,104** |
| Deferred tax liability related to land revaluation | 24 | **303,314** | **270,149** |
| Other deferred taxation | 24 | **42,143** | **38,934** |
| Other long-term liabilities | | **80,672** | **—** |
| **TOTAL LONG-TERM LIABILITIES** | | **4,366,044** | **4,104,005** |
| CURRENT LIABILITIES | | | |
| Accounts payable | 22 | **5,484,295** | **3,814,055** |
| Income tax payable | 24 | **153,611** | **81,775** |
| Current portion of long-term borrowings | 20 | **306,661** | **201,400** |
| Bank borrowings | 20 | **1,820,977** | **383,455** |
| Non-bank borrowings | 20 | **2,783** | **2,791** |
| Other current liabilities | 23 | **493,705** | **353,430** |
| **TOTAL CURRENT LIABILITIES** | | **8,262,032** | **4,836,906** |
| **TOTAL LIABILITIES** | | **12,628,076** | **8,940,911** |
| **TOTAL EQUITY AND LIABILITIES** | | **17,526,484** | **13,226,811** |

**Approved by the Management Board of Agrokor d.d.**

Ivica Todorić, President

Zagreb, 25 April 2008

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

**AGROKOR GROUP**

**CONSOLIDATED CASH FLOW STATEMENT**

***For the years ended 31 December 2007 and 2006***

***(in thousands of HRK)***

| | 2007 | Restated 2006 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | 611,195 | 271,235 |
| **Adjustments to reconcile net earnings to net cash provided by operating activities** | | |
| Depreciation and amortisation | 472,810 | 376,482 |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | 54,652 | — |
| Interest income | (70,925) | (50,739) |
| Impairment of financial assets | 18,848 | 7,052 |
| Gain on sale of properties | (19,640) | (5,449) |
| Gain on sale of subsidiaries | (141,647) | (46,861) |
| Value adjustment of receivables | 45,483 | 31,600 |
| Dividend income | (283) | (4,198) |
| Interest expense | 492,389 | 480,080 |
| **Net cash flows from operating activities before changes in working capital** | **1,462,882** | **1,059,202** |
| (Increase) in receivables | (991,545) | (414,108) |
| (Increase) in inventories | (690,642) | (530,448) |
| Increase of liabilities towards creditors | 1,670,240 | 1,657,503 |
| Decrease/(Increase) of other short term assets | 9,210 | (93,138) |
| (Decrease) in other short term liabilities | (14,448) | (1,131,845) |
| **Net cash inflow from operating activities before interest and taxes** | **1,445,697** | **547,166** |
| Income tax paid | (99,587) | (76,603) |
| Interest paid | (382,295) | (556,725) |
| **Net cash provided from operating activities** | **963,815** | **(86,162)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of subsidiaries, net of cash acquired | (622,809) | (78,440) |
| Additions to properties and intangible assets | (2,142,672) | (1,009,814) |
| Increase in long term investments | (230,454) | (147,501) |
| Increase/(decrease) in short term investments | (82,452) | 37,449 |
| Proceeds from sale of properties | 564,623 | 202,545 |
| Proceeds from sale of financial assets | 308,522 | 78,536 |
| Interest received | 57,161 | 36,883 |
| Dividends received | 283 | 4,198 |
| **Net cash used in investing activities** | **(2,147,798)** | **(876,144)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from long-term debt | 439,845 | 1,462,993 |
| Repayments of long-term debt | (201,400) | (179,739) |
| Proceeds/Repayments from short-term debt | 1,437,522 | (740,986) |
| Proceeds/Repayments from short-term non-bank debt | (8) | (261,596) |
| Proceeds of share issue to EBRD | — | 796,347 |
| Dividends paid | (66,526) | (50,218) |
| **Net cash from financing activities** | **1,609,433** | **1,026,801** |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | **425,450** | **64,495** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR** | **447,757** | **383,262** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **873,207** | **447,757** |

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

# AGROKOR GROUP

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

***For the years ended 31 December 2007 and 2006***

***(in thousands of HRK)***

| | | Attributable to equity of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Notes** | **Share capital** | **Revaluation surplus** | **Share premium** | **Retained earnings** | **Total** | **Minority interest** | **Total equity** |
| **Balance at 1 January 2006—as previously reported** | 17 | **148,125** | **456,812** | **—** | **1,223,360** | **1,828,297** | **1,521,587** | **3,349,884** |
| Restatement-packaging adjustment | | — | — | — | (27,232) | (27,232) | (6,568) | (33,800) |
| **Balance at 1 January 2006—restated** | | **148,125** | **456,812** | **—** | **1,196,128** | **1,801,065** | **1,515,019** | **3,316,084** |
| Depreciation and sale of revalued assets | | — | (1,030) | — | (1,144) | (2,174) | (1,491) | (3,665) |
| Movement in foreign currency translation reserve | | — | — | — | 41,963 | 41,963 | 8,977 | 50,940 |
| Total income and expense for the year recognised directly in equity | | — | (1,030) | — | 40,819 | 39,789 | 7,486 | 47,275 |
| Net income for 2006 | | — | — | — | 108,842 | 108,842 | 76,928 | 185,770 |
| Total of income and expenses for the period | | — | (1,030) | — | 149,661 | 148,631 | 84,414 | 233,045 |
| Increase of share capital by EBRD | | 13,466 | — | 782,881 | — | 796,347 | — | 796,347 |
| Other | | — | — | — | 46,875 | 46,875 | (58,807) | (11,932) |
| Transfer to reserves | | — | (2,445) | — | 2,445 | — | — | — |
| Dividends distributed for the year | | — | — | — | (35,550) | (35,550) | (12,094) | (47,644) |
| **Restated 31 December 2006** | | **161,591** | **453,337** | **782,881** | **1,359,559** | **2,757,368** | **1,528,532** | **4,285,900** |
| Depreciation and sale of revalued assets | | **—** | **(1,768)** | **—** | **(1,341)** | **(3,109)** | **(2,179)** | **(5,288)** |
| Movement in foreign currency translation reserve | | — | — | — | (6,305) | (6,305) | (1,143) | (7,448) |
| Total income and expense for the year recognised directly in equity | | — | (1,768) | — | (7,646) | (9,414) | (3,322) | (12,736) |
| Net income for 2007 | | — | — | — | 298,521 | 298,521 | 155,746 | 454,267 |
| Total of income and expenses for the period | | — | (1,768) | — | 290,875 | 289,107 | 152,424 | 441,531 |
| Acquisition of subsidiaries | | — | — | — | 12,343 | 12,343 | 225,161 | 237,506 |
| Acquisition of minority interest | | | 858 | | 112,095 | 112,951 | (112,951) | — |
| Transfer to reserves | | — | (25,494) | — | 25,494 | — | — | — |
| Dividends distributed for the year | | — | — | — | (53,498) | (53,498) | (13,031) | (66,529) |
| **Balance at 31 December 2007** | 17 | **161,591** | **426,933** | **782,881** | **1,746,868** | **3,118,273** | **1,780,135** | **4,898,408** |

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

## General

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

Majority owner of the Group is Mr. Ivica Todorić with a share of 91.66%.

The Company's registered main office is located at Trg Dražena Petrovića 3, Zagreb.

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

At 31 December 2007 the Group employed 28,930 employees (31 December 2006 21,230 employees).

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for certain property, plant and equipment and long-term investments which are included at valuation, as described in the following accounting policy notes.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year, except as described in the note 1.28.

The Group's consolidated financial statements are presented in Croatian Kuna (HRK) which is the Group's functional currency. The effective exchange rate of the Croatian currency (expressed in HRK) at 31 December 2007 was HRK 4.99 per United States Dollar (USD) (2006: HRK 5.58) and HRK 7.33 per Euro (2006: HRK 7.35). All amounts disclosed in the financial statements are stated in thousands of HRK if not otherwise stated.

### 1.2 Principles of Consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries after the elimination of all material inter-company transactions. A subsidiary is an entity that is controlled by the Company through direct or indirect ownership of more than 50 percent of that entity's voting rights or through management control.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal.

Acquisitions of subsidiaries are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to align any dissimilar material accounting policies that may exist.

A listing of the Group's subsidiaries and a summary of the financial effect of the acquisition of subsidiaries during the year is set out in note 2.

Minority interests in the equity and the results of the entities that are controlled by the Company are shown separately in the consolidated financial statements.

### 1.3 Investments in Associates

Investments in associates over which the Company has significant influence (those that are 20-50% owned) are accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted amount and the recoverable amount, and the attributable share of income (loss) of associates is included in income.

## NOTE 1. SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

### 1.4 Financial assets and liabilities

All financial assets and liabilities are initially recognised at cost, being the fair value of the consideration given or received and including acquisition charges associated with the instrument.

After initial recognition, investments which are classified as financial assets at the fair value through profit or loss are measured at fair value. Gains or losses on investments which are classified as financial assets at the fair value through profit or loss are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Other financial assets that are intended to be held-to maturity as well as financial liabilities, such as loans and advances given and received as well as issued bonds, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investment is derecognised or impaired, as well as through the amortisation process.

Transactions in financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset is not recognised until the settlement date, changes in value on the underlying asset are recognised.

### 1.5 Goodwill

Goodwill and Excess of fair value of net assets over the cost of acquisition represent the difference between the cost of acquisition and the acquirer's interest in the fair value of the identifiable net assets at the date of acquisition.

Goodwill is subject to impairment test at each reporting date, as described in the accounting policy 1.8. Impairment of assets. Excess of fair value of net assets over the cost of acquisition is reported as a gain through the Profit and Loss Account in the year of acquisition.

### 1.6 Intangible Assets

Intangible assets are recorded at cost and amortised on a straight-line basis over their expected useful lives, which do not exceed five years. All intangible assets of the Group have finite useful lives. Intangible assets are subject to annual impairment test, as described in the accounting policy 1.8. Impairment of assets.

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

### 1.7 Property, Plant and Equipment

Assets, with the exception of land, are carried at cost less accumulated depreciation and impairment. In 1993 fixed assets were revalued at year end in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. The revaluation effect was allocated to income. Hyperinflation accounting was discontinued in 1993. Subsequent revaluations relates only to land and have been based upon valuations performed by independent appraisers, in a period not longer than three years. The latest revaluation took place in 2005. The basis used in appraisals is comparable market prices. When an asset is revalued, any increase in the carrying value is credited directly to a revaluation surplus within equity or appropriate obligations for deferred taxation, if applicable.

**NOTE 1. SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

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

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

Expenditures incurred in the repair or maintenance of property, plant and equipment to restore or maintain future economic benefits is recognised as an expense when incurred.

Depreciation is recorded by a charge to income computed on a straight-line basis over the estimated useful life of the asset, as follows:

| | |
|---|---|
| Buildings | 5 to 55 years |
| Plant, Machinery and Equipment | 4 to 15 years |
| Other fixed assets | to 5 years |

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

### 1.8 Impairment of Assets

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. The recoverable amount is estimated as the higher of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs. Cash-generating units are primarily identified at entity level. Where carrying values exceed this estimated recoverable amount the assets are written down to their recoverable value.

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

### 1.9 Leased Assets

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

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

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

**NOTE 1. SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

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

### 1.10 Inventories

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

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

Raw materials—purchase cost on a weighted average basis.

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

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

### 1.11 Agriculture

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

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

### 1.12 Trade and other receivables

Trade receivables, which generally have 30-90 days terms are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

### 1.13 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, balances with banks, demand deposits, deposits with contractual maturity of less than 3 months.

### 1.14 Taxation

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

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

Deferred income tax is calculated, using the liability method, on all temporary differences at the balance sheet date due to differences in treatment of certain items for taxation and for accounting purposes within the consolidated financial statements. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

**NOTE 1. SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

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

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

### 1.15 Foreign Currencies

Transactions denominated in foreign currencies are recorded on initial recognition in the reporting currency by applying the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in a foreign currency are translated into the reporting currency using the reporting period closing exchange rate. Non-monetary assets and liabilities are translated using the exchange rate that existed when the values were determined.

Exchange differences arising on foreign currency transactions and the translation of monetary and non-monetary assets and liabilities are recognised in the consolidated income statement in the period in which they arise.

The assets and liabilities of foreign subsidiaries are translated into the reporting currency using the Croatian National Bank middle exchange rate at the balance sheet date. Revenues and expenses are translated at the average exchange rate for the year. The effects of translating these items are included in reserves.

Any goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of that foreign subsidiary and are translated at the closing rate.

### 1.16 Revenue Recognition

In relation to the sale of goods, revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer and no significant uncertainties remain regarding the derivation of consideration, associated costs or the possible return of goods.

In relation to the rendering of services, revenue is recognised by reference to the stage of completeness of the transaction, when no significant uncertainties remain concerning the derivation of consideration or associated costs.

Interest and dividends arising from the use by others of the Group’s resources are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is recognised as it accrues (taking into account the effective yield on the asset) unless collection is in doubt. Dividend income is recognised when a dividend is declared.

### 1.17 Definition of operating profit

Operating profit consists of sales revenues, cost of sales, other revenues (income from sales of financial assets, collected written-off receivables, inventory surpluses and other revenues) and other expenses (depreciation and amortisation, wages and salaries, taxes, social insurance and pension costs, write off of bad debts and other short-term assets, research and development costs and other expenses).

### 1.18 Research and Development

Research and development costs are expensed as incurred, except for development costs which are recognised as an asset where it is expected that the product under development will generate future economic benefits and the technical feasibility of the product has been demonstrated.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalised development costs are amortised on a straight-line basis over the period of expected future benefits, not exceeding a maximum period of five years.

The development costs of a project are written down to the extent that the unamortised balance, taken together with further development costs, related production costs, and selling and administrative costs directly incurred in marketing the product, are no longer probable of being recovered from the expected future economic benefits. The unamortised balance of development costs of a project are written off as soon as any of the criteria for recognition of the development costs as an asset cease to be met.

### 1.19 Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

### 1.20 Segment reporting

Segmental information is based on two segment formats. The primary format represents business segments reflecting the Group's management structure. The secondary format represents the Group's geographical markets.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of Group revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Group policy.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis, as well as finance liabilities which are allocated to segments based on the segment allocation of the subsidiary being the original debtor. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's balance sheet. Segment assets and liabilities do not include income tax items.

Unallocated items mainly comprise corporate, general and administrative expenses that relate to the group as a whole, and assets not directly attributable to the operations of the segments such as short and long term investments. Segment results are determined before any adjustments for minority interest.

Capital expenditure represents the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

### 1.21 Pensions and employee benefits

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

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

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

### 1.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

### 1.23 Contingencies

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

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

### 1.24 Subsequent Events

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

### 1.25 Estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details are given in note 7.

Purchase price allocations

Significant estimates are used in purchase price allocation process and mainly relate to assessments of fair value of land, impairment of plant and equipment, valuation of allowances and doubtful debts, provisions for employee benefits, legal claims as well as value of any separable intangible assets existing at the acquisition date.

Furthermore, in the Group's normal course of business, estimates are used for, but not limited to: assessments of value of land, depreciable lives and residual values of property, plant and equipment and intangible assets, allowances for inventories and doubtful debts and provisions for employee benefits, legal claims and taxes. Future events and their effects cannot be perceived with certainty. Details of estimates and related amounts are disclosed in the respective accounting policies and notes to the financial statements.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 1.26 Judgements

In the process of applying the Group's accounting policies, the management made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating Lease Commitments—Group as Lessee

The Group has entered into significant operating lease arrangements as a lessee. The Group has determined that the lessor retains all the significant risks and rewards of ownership of properties which are leased by the Group as operating leases.

Sale and leaseback transactions

The Group has entered into significant sale and lease back transactions. The Group has determined that the lessor retains all the significant risks and rewards of ownership of properties which are leased by the Group as operating leases and transactions are established at fair values.

### 1.27 Government grants

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

### 1.28 Changes in accounting policies

The remaining accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new and revised standards mandatory for financial years beginning on or after 1 January 2007. Adoption of revised standards did not have material effect on equity as at 31 December 2006 or at 31 December 2007, and are the result of adoption of the following new and modified standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC):

- *IFRS 7 Financial instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the various notes to the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

- *IAS 1 Presentation of Financial Statements*

This amendment requires the Group to make new disclosures which enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

Adoption of the following revised standards and interpretations did not have any effect on the financial statements of the Group:

- *IFRIC 8 Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangements in which the Group cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

• *IFRIC 9 Reassessment of Embedded Derivatives*

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

• *IFRIC 10 Interim Financial Reporting and Impairment*

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

**New International Financial Reporting Standards (IFRS) and interpretations**

Certain new standards, amendments and interpretations to existing standards have been published and will be mandatory for the Group in periods beginning on or after 1 January 2008 or later periods. The Group has not early adopted any of these standards or interpretations and will adopt them at their effective date, as follows:

• *IFRIC 13 Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008)*

IFRIC 13 Customer Loyalty Programmes requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted, and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group operates such a scheme and currently recognizes the provision for customer loyalty program through expenses. Adoption of IFRIC 13 will result in both a change of the presentation in the income statement and balance sheet and the revaluation of the related balance sheet item at the fair value of award credits granted.

• *IFRS 8—Operating segments (effective 1 January 2009)*

This standard will have an impact only on presentation and disclosures in financial statements in respect of operating segments.

• *IFRIC 11—IFRS 2—Group and Treasury Share Transactions (effective 1 March 2007)*

It is not expected that IFRIC 11 will have any impact on the Group's financial statements.

• *IFRIC 12—Service Concession Arrangements (effective 1 January 2008)*

It is not expected that IFRIC 12 will have any impact on the Group's financial statements.

• *IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008)*

It is not expected that IFRIC 14 will have any impact on the Group's financial statements.

• *IAS 23 (Amendment), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)*

It is not expected that IAS 23 Amendment will have material impact on the Group's financial statement.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group is analysing potential impact of the following recently published but not yet effective standards and interpretations the impact of which is not known at the moment of authorisation of these financial statements:

- *IAS 1—Presentation of financial statements—revised (effective 1 January 2009)*
- *IFRS 3 (revised 2008)—Business combinations—revised (effective 1 January 2009)*
- *IAS 27 (amended 2008)—Amendments to IAS 27 (effective 1 January 2009)*

The following reclassifications have been made to the Group 2006 balances to conform to the 2007 presentation (amounts in HRK thousands) which is assessed as more appropriate presentation.

| Amount | Previously reported | As reclassified | Comment |
|---|---|---|---|
| | BALANCE SHEET | | |
| 99,065 | Property, plant and equipment | Biological assets | Reclassification of biological assets in separate line item |
| 70,417 | Inventories | Property, plant and equipment | Restatement of returnable containers |
| 14,083 | Other deferred taxation | Value adjustment—non current tangible assets | Restatement of returnable containers |
| 19,473 | Other current assets | Property, plant and equipment | Reclassification of advance payments for fixed assets |
| 6,459 | Other current assets | Intangible assets | Reclassification of advance payments for intangible assets |
| 1,014,493 | Other current liabilities | Accounts payable | Reclassification of bills of exchange to accounts payable since in substance they are related to working capital |
| | INCOME STATEMENT | | |
| 1,092,567 | Cost of materials and services | Cost of services | Reclassification of cost of services to separate line item |
| 17,088 | Other revenues | Cost of materials | Reclassification of inventories surpluses from other income to cost of materials |
| 26,228 | Other expenses | Cost of materials | Reclassification of inventories shortages from other expenses to cost of materials |
| 2,802 | Other expenses | Other income | Reclassification of other expenses |
| 98,986 | Sales | Other income | Reclassification of government grants |

During 2007 the Group has changed accounting policy for returnable containers so that they are classified as Property, plant and equipment and depreciated over 5 years. As a result, opening retained earnings as of 1 January 2006 were reduced by HRK 33,801 million and comparative figures as of 31 December 2006 are adjusted accordingly as explained in the above table.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The Group has not early adopted any IFRS standards where adoption is not mandatory at the balance sheet date. Where transition provisions in IFRS adopted give an entity a choice whether to apply the new standards prospectively or retrospectively (such as IFRS 5) the Group has elected to apply the standard prospectively from the date of transition.

## NOTE 2. GROUP STRUCTURE

### 2.1 Acquisition of subsidiaries

**Euroviba d.d.**

During 2007, the Group acquired management control of Euroviba d.d., through the purchase of 71.85% ownership of Euroviba d.d. by Konzum d.d. for HRK 123,428 thousand, paid entirely in cash. The main business activity of Euroviba d.d. is retail.

Assets and liabilities of Euroviba d.d., as of 30 November 2007 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Euroviba) |
|---|---|---|
| Long-term assets | 120,712 | 120,712 |
| Accounts receivable | 6,834 | 6,834 |
| Cash and cash equivalents | 1,142 | 1,142 |
| Other non-current assets | 95,861 | 95,861 |
| **Total assets** | **224,549** | **224,549** |
| Long-term liabilities | 1,212 | 1,212 |
| Deferred tax | 115 | 115 |
| Provision for employee benefits | 6 | — |
| Borrowings | 90,181 | 90,181 |
| Accounts payable | 9,588 | 9,588 |
| Other current liabilities | 57 | 57 |
| **Total liabilities** | **101,159** | **101,153** |
| **Fair value of net assets** | **123,390** | **123,396** |
| Acquired (57.87%) | 71,409 | |
| Goodwill | (52,019) | |
| Consideration paid | 123,428 | |
| Net cash acquired with the subsidiary | 1,142 | |
| Net cash outflow on acquisition of Euroviba | 122,286 | |
| Additional investments in other subsidiaries | | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 122,286 | |

From the date of acquisition, Euroviba d.d. in 2007 has contributed HRK 26,415 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased by HRK 15,937 thousand and revenue of the Group would have been increased by HRK 32,190 thousand.

## NOTE 2. GROUP STRUCTURE

### Duhan trgovina d.o.o.

During 2007, the Group acquired management control of Duhan trgovina d.o.o., through the purchase of 100% ownership of Duhan trgovina d.o.o by Agrokor d.d. for HRK 9,000 thousand, paid entirely in cash. The main business activity of Duhan trgovina d.o.o. is retail.

Assets and liabilities of Duhan trgovina d.o.o., as of 31 July 2007 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Duhan trgovina) |
|---|---|---|
| Cash and cash equivalents | 40 | 40 |
| **Total assets** | **40** | **40** |
| Deferred tax | 4 | 4 |
| Accounts payable | 16 | — |
| **Total liabilities** | **20** | **4** |
| **Fair value of net assets** | **20** | **36** |
| Acquired (100.00%) | 20 | |
| Goodwill | (8,980) | |
| Consideration paid | 9,000 | |
| Net cash acquired with the subsidiary | 40 | |
| Net cash outflow on acquisition of Duhan trgovina | 8,960 | |
| Additional investments in other subsidiaries | | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 8,960 | |

From the date of acquisition, Duhan trgovina d.o.o. in 2007 has contributed HRK 164 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would not have been changed and revenue of the Group would have been increased by HRK 17 thousand.

## NOTE 2. GROUP STRUCTURE (Continued)

### Jadran trgovina d.o.o.

During 2007, the Group acquired management control of Jadran trgovina d.o.o., through the purchase of 100% ownership of Jadran trgovina d.o.o. by Konzum d.d. for HRK 54,000 thousand, paid entirely in cash. The main business activity of Jadran trgovina d.o.o. is retail.

Assets and liabilities of Jadran trgovina d.o.o., as of 31 May 2007 (acquisition date) are summarised below (thousands of HRK):

| | **Recognised on acquisition** | **Carrying value (in Jadran trgovina)** |
|---|---|---|
| Long-term assets | 35,818 | 28,517 |
| Accounts receivable | 16,268 | 16,268 |
| Cash and cash equivalents | 2,471 | 2,471 |
| Other non-current assets | 7,367 | 7,367 |
| **Total assets** | **61,924** | **54,623** |
| Deferred tax | 1,460 | — |
| Provision for employee benefits | 541 | — |
| Accounts payable | 12,730 | 12,677 |
| Other current liabilities | 5,311 | 5,248 |
| **Total liabilities** | **20,042** | **17,925** |
| **Fair value of net assets** | **41,882** | **36,698** |
| Acquired (80.55%) | 33,736 | |
| Goodwill | (20,264) | |
| Consideration paid | 54,000 | |
| Net cash acquired with the subsidiary | 2,471 | |
| Net cash outflow on acquisition of Jadran trgovina | 51,529 | |
| Additional investments in other subsidiaries | | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 51,529 | |

From the date of acquisition, Jadran trgovina d.o.o. in 2007 decreased the net profit of the Group by HRK 2,515 thousand. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased by HRK 6,180 thousand and revenue of the Group would have been increased by HRK 7,058 thousand.

## NOTE 2. GROUP STRUCTURE

**Kikindski mlin a.d.**

During 2007, the Group acquired management control of Kikindski mlin a.d. Kikinda, through the purchase of 54.72% ownership of Kikindski mlin a.d. by Dijamant a.d. and 24.90% ownership of Kikindski mlin a.d. by Frikom a.d. for HRK 33,269 thousand, paid entirely in cash. The main business activity of Kikindski mlin a.d. is production of mill products.

Assets and liabilities of Kikindski mlin a.d., as of 30 June 2007 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Kikindski mlin) |
|---|---|---|
| Long-term assets | 152,715 | 36,798 |
| Non-current financial assets | 5,359 | 5,359 |
| Inventories | 20,953 | 22,730 |
| Accounts receivable | 14,326 | 15,264 |
| Cash and cash equivalents | 1,747 | 1,747 |
| Other non-current assets | 251 | 251 |
| **Total assets** | **195,351** | **82,149** |
| Long-term liabilities | 23,302 | 23,202 |
| Deferred tax | 23,187 | — |
| Provision for employee benefits | 661 | 312 |
| Accounts payable | 16,205 | 16,195 |
| Other current liabilities | 1,856 | 1,856 |
| **Total liabilities** | **65,211** | **41,665** |
| **Fair value of net assets** | **130,140** | **40,484** |
| Acquired (63.85%) | 83,098 | |
| Excess of fair value of net assets over the cost of acquisition | 49,829 | |
| Consideration paid | 33,269 | |
| Net cash acquired with the subsidiary | 1,747 | |
| Net cash outflow on acquisition of Kikindski mlin | 31,522 | |
| Additional investments in other subsidiaries | | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 31,522 | |

From the date of acquisition, Kikindski mlin a.d. in 2007 has contributed HRK 7,114 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased by HRK 3,041 thousand and revenue of the Group would have been increased by HRK 30,961 thousand.

## NOTE 2. GROUP STRUCTURE

### Krka d.o.o.

During 2007, the Group acquired management control of Krka d.o.o., through the purchase of 80.78% ownership of Krka d.o.o. by Konzum d.d. for HRK 51,270 thousand, paid entirely in cash. The main business activity of Krka d.o.o. is production of bread and pastry.

Assets and liabilities of Krka d.o.o., as of 28 February 2007 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Krka) |
|---|---|---|
| Long-term assets | 40,815 | 34,837 |
| Non-current financial assets | 3,640 | 3,640 |
| Inventories | 2,260 | 2,689 |
| Accounts receivable | 4,285 | 6,092 |
| Cash and cash equivalents | 2,309 | 2,309 |
| Other non-current assets | 850 | 850 |
| **Total assets** | **54,159** | **50,417** |
| Long-term liabilities | 2,379 | 2,032 |
| Deferred tax | 1,196 | — |
| Provision for employee benefits | 589 | — |
| Accounts payable | 11,835 | 11,474 |
| Other current liabilities | 1,709 | 2,434 |
| **Total liabilities** | **17,708** | **15,940** |
| **Fair value of net assets** | **36,451** | **34,477** |
| Acquired (65.07%) | 23,719 | |
| Goodwill | (27,551) | |
| Consideration paid | 51,270 | |
| Net cash acquired with the subsidiary | 2,309 | |
| Net cash outflow on acquisition of Krka | 48,961 | |
| Additional investments in other subsidiaries | | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 48,961 | |

From the date of acquisition, Krka d.o.o. in 2007 decreased the net profit of the Group by HRK 1.722 thousand. If the combination had taken place at the beginning of the year, the profit for the Group would have been increased by HRK 1,975 thousand and revenue of the Group would have been increased by HRK 9,243 thousand.

## NOTE 2. GROUP STRUCTURE (Continued)

### Plodovi zemlje Matijević d.o.o.

During 2007, the Group acquired management control of Plodovi zemlje Matijević d.o.o., through the purchase of 50,00% ownership of Plodovi zemlje Matijević d.o.o. by Konzum d.d. for HRK 6,000 thousand, paid entirely in cash. The main business activity of Plodovi zemlje Matijević d.o.o. is wholesale of fruits and vegetables.

Assets and liabilities of Plodovi zemlje Matijević d.o.o., as of 30 June 2007 (acquisition date) are summarised below (thousands of HRK):

| | **Recognised on acquisition** | **Carrying value (in PZ Matijević)** |
|---|---|---|
| Long-term assets | 26,102 | 23,860 |
| Non-current financial assets | 1,046 | 1,046 |
| Inventories | 2,493 | 3,992 |
| Accounts receivable | 41,115 | 41,233 |
| Cash and cash equivalents | 1,411 | 1,411 |
| **Total assets** | **72,167** | **71,542** |
| Long-term liabilities | 19,879 | 19,879 |
| Deferred tax | 447 | — |
| Provision for employee benefits | 227 | — |
| Borrowings | 9,535 | 9,535 |
| Accounts payable | 32,851 | 32,851 |
| Other current liabilities | 2,378 | 2,370 |
| **Total liabilities** | **65,317** | **64,635** |
| **Fair value of net assets** | **6,850** | **6,907** |
| Acquired (40.28%) | 2,759 | |
| Goodwill | (3,241) | |
| Consideration paid | 6,000 | |
| Net cash acquired with the subsidiary | 1,411 | |
| Net cash outflow on acquisition of Plodovi zemlje Matijević | 4,589 | |
| Additional investments in other subsidiaries | | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 4,589 | |

From the date of acquisition, Plodovi zemlje Matijević d.o.o. in 2007 has contributed HRK 1,667 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been decreased for HRK 1,336 thousand and revenue of the Group would have been increased by HRK 14,115 thousand.

## NOTE 2. GROUP STRUCTURE

### Tisak d.d.

During 2007, the Group acquired management control of Tisak d.d., through the purchase of 54.15% ownership of Tisak d.d. by Agrokor d.d. for HRK 344,079 thousand, paid entirely in cash. The main business activity of Tisak d.d. is retail.

Assets and liabilities of Tisak d.d., as of 30 April 2007 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Tisak) |
|---|---|---|
| Long-term assets | 238,579 | 188,727 |
| Non-current financial assets | 24,529 | 24,529 |
| Inventories | 64,958 | 65,037 |
| Accounts receivable | 108,762 | 109,126 |
| Cash and cash equivalents | 20,698 | 20,698 |
| Other non-current assets | 118,468 | 118,469 |
| **Total assets** | **575,994** | **526,586** |
| Long-term liabilities | 56,221 | 56,221 |
| Long-term provisions | 152,970 | 153,080 |
| Deferred tax | 14,071 | — |
| Taxes | 7,616 | 7,616 |
| Provision for employee benefits | 8,594 | — |
| Borrowings | 24,502 | 24,502 |
| Accounts payable | 78,989 | 78,654 |
| Other current liabilities | 22,799 | 53,361 |
| **Total liabilities** | **365,762** | **373,434** |
| **Fair value of net assets** | **210,232** | **153,152** |
| Acquired (54.15%) | 113,844 | |
| Goodwill | (230,235) | |
| Consideration paid | 344,079 | |
| Net cash acquired with the subsidiary | 20,698 | |
| Net cash outflow on acquisition of Tisak | 323,381 | |
| Additional investments in other subsidiaries | | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 323,381 | |

From the date of acquisition, Tisak d.d. in 2007 has contributed HRK 143,743 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been increased by HRK 22,027 thousand and revenue of the Group would have been increased by HRK 676,776 thousand.

## NOTE 2. GROUP STRUCTURE

**Unex MPG d.o.o.**

During 2007, the Group acquired management control of Unex MPG d.o.o., through the purchase of 50% ownership of Unex MPG d.o.o. by Agrokor d.d. for HRK 10 thousand, paid entirely in cash. The main business activity of Unex MPG d.o.o. is promotion (advertising).

Assets and liabilities of Unex MPG d.o.o., as of 30 June 2007 (acquisition date) are summarised below (thousands of HRK):

| | Recognised on acquisition | Carrying value (in Unex MPG) |
|---|---|---|
| Long-term assets | 329 | 329 |
| Accounts receivable | 124,795 | 124,859 |
| Cash and cash equivalents | 9,012 | 9,012 |
| Other non-current assets | 5,688 | 5,688 |
| **Total assets** | **139,824** | **139,888** |
| Long-term liabilities | | |
| Deferred tax | 3,209 | 3,209 |
| Provision for employee benefits | 95 | — |
| Borrowings | 4,091 | 4,091 |
| Accounts payable | 118,503 | 112,953 |
| Other current liabilities | 7,234 | 7,234 |
| **Total liabilities** | **133,132** | **127,487** |
| **Fair value of net assets** | **6,692** | **12,401** |
| Acquired (50.00%) | 3,346 | |
| Excess of fair value of net assets over the cost of acquisition | 3,336 | |
| Consideration paid | 10 | |
| Net cash acquired with the subsidiary | 9,012 | |
| Net cash outflow on acquisition of Unex MPG | 9,002 | |
| Additional investments in other subsidiaries | | |
| Total payment on acquisitions of the subsidiaries, net of cash acquired | 9,002 | |

From the date of acquisition, UNEX MPG d.o.o. in 2007 has contributed HRK 8,721 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been increased by HRK 6,769 thousand and revenue of the Group would have been increased by HRK 67,725 thousand.

During the year the Group has acquired a number of subsidiaries whose main assets were real-estate. Those companies were sold which resulted in profit disclosed in Note 5 under caption Gain from sale of subsidiaries.

### 2.2 Acquisitions during 2006

During 2006, the Group acquired management control over:

- Ledo d.o.o. Podgorica., through the purchase of 100% ownership of Ledo d.o.o. Podgorica by Agrokor d.d. for HRK 68,076 thousand, paid entirely in cash. The main business of Ledo d.o.o. Podgorica is production and sale of ice cream.

## NOTE 2. GROUP STRUCTURE (Continued)

### 2.3 Investments in Subsidiaries

| 2007 | Country | Ownership Interest of Agrokor d.d. | Ownership Interest of Subsidiary | Group Voting Rights | Group Ownership |
|---|---|---|---|---|---|
| Agrokor AG | Switzerland | 100.00% | | 100.00% | 100.00% |
| Agrokor—trgovina d.d. | Croatia | 100.00% | | 100.00% | 100.00% |
| Agrokor—Zagreb d.o.o. | Bosnia and Herzegovina | 100.00% | | 100.00% | 100.00% |
| Agrolaguna d.d. | Croatia | 69.38% | | 69.38% | 69.38% |
| Agroprerada d.d. | Croatia | 98.77% | | 98.77% | 98.77% |
| Belje d.d. | Croatia | 67.92% | | 67.92% | 67.92% |
| Centropromet d.d. | Croatia | | 87.76%(4) | 87.76% | 70.69% |
| Dijamant a.d. | Serbia | 73.08% | | 73.08% | 73.08% |
| Duhan trgovina d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Euroviba d.d. | Croatia | | 71.85%(4) | 71.85% | 57.87% |
| Frikom a.d. | Serbia | 95.83% | | 95.83% | 95.83% |
| Fonyodi kft. | Hungary | | 100.00%(1) | 100.00% | 80.44% |
| Idea d.o.o. | Serbia | 100.00% | | 100.00% | 100.00% |
| Irida d.o.o. | Croatia | | 100.00%(2) | 100.00% | 78.85% |
| Jadran trgovina d.o.o. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Jamnica d.d. | Croatia | 80.44% | | 80.44% | 80.44% |
| Japetić d.d. | Croatia | | 99.22%(4) | 99.22% | 79.92% |
| Kikindski mlin a.d. | Serbia | | 54.72%(6)<br>24.90%(7) | 79.62% | 63.85% |
| Konzum d.d. | Croatia | 71.62% | 11.10%(1) | 82.72% | 80.55% |
| Krka d.o.o. | Croatia | | 80.78%(4) | 80.78% | 65.07% |
| Ledo d.d. | Croatia | 78.85% | | 78.85% | 78.85% |
| Ledo Čitluk d.o.o. | Bosnia and Herzegovina | | 100.00%(2) | 100.00% | 78.85% |
| Ledo kft. | Hungary | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. | Slovenia | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. Podgorica | Montenegro | 100.00% | | 100.00% | 100.00% |
| Lovno gospodarstvo Moslavina d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Mediator d.o.o. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Mladina d.d. | Croatia | | 60.80%(1) | 60.80% | 48.91% |
| PIK Vinkovci d.d. | Croatia | 70.87% | | 70.87% | 70.87% |
| PIK Vrbovec d.d. | Croatia | 99.76% | | 99.76% | 99.76% |
| Plodovi zemlje Matijević d.o.o.* | Croatia | | 50.00%(4) | 50.00% | 40.28% |
| Riječka tvornica konopa d.d. | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Sarajevski kiseljak d.d. | Bosnia and Herzegovina | | 96.54%(1)<br>3.30%(5) | 99.84% | 80.97% |
| Sojara d.d. | Croatia | | 100.00%(3) | 100.00% | 51.84% |
| Solana Pag d.d. | Croatia | 88.81% | | 88.81% | 88.81% |
| Tisak d.d. | Croatia | 54.15% | | 54.15% | 54.15% |
| TPDC Sarajevo d.d. | Bosnia and Herzegovina | 51.00% | | 51.00% | 51.00% |
| Unex MPG d.o.o.* | Croatia | 50.00% | | 50.00% | 50.00% |
| Veleprodajni centar Sarajevo d.o.o. | Bosnia and Herzegovina | | 100.00%(4) | 100.00% | 80.55% |
| Zvijezda d.d. | Croatia | 51.84% | | 51.84% | 51.84% |
| Zvijezda d.o.o. Sarajevo | Bosnia and Herzegovina | | 100.00%(3) | 100.00% | 51.84% |

(1) held by Jamnica;

(2) held by Ledo;

(3) held by Zvijezda;

(4) held by Konzum;

(5) held by Agrokor Zagreb d.o.o. Grude;

(6) held by Dijamant;

(7) held by Frikom.

* Management control is exercised by the Group.

## NOTE 2. GROUP STRUCTURE (Continued)

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

Under International Financial Reporting Standards, subsequent acquisitions of minority interests in subsidiaries do not represent business combinations. Consequently, the assets and liabilities of the subsidiary are not remeasured to reflect their fair values at the date of the transaction. The Group accounts for subsequent acquisitions of minority interest using entity concept method of accounting whereby any difference between acquisition cost of additional share and book value of minority interest acquired is recognised directly in equity. During the year, the Group has increased ownership in subsidiary Belje d.d. from 52.21% to 67.92% by contribution in cash. Minority shareholders did not participate in this share capital increase and consequently, amount of HRK 111,382 thousand was reclassified from minority interest to retained earnings.

| 2006 | Country | Ownership Interest of Agrokor d.d. | Ownership Interest of Subsidiary | Group Voting Rights | Group Ownership |
|---|---|---|---|---|---|
| Agrokor AG | Switzerland | 100.00% | | 100.00% | 100.00% |
| Agrokor—trgovina d.d. | Croatia | 100.00% | | 100.00% | 100.00% |
| Agrokor—Zagreb d.o.o. | Bosnia and Herzegovina | 100.00% | | 100.00% | 100.00% |
| Agrolaguna d.d. | Croatia | 69.35% | | 69.35% | 69.35% |
| Agroprerada d.d. | Croatia | 97.65% | | 97.65% | 97.65% |
| Belje d.d. | Croatia | 52.21% | | 52.21% | 52.21% |
| Centropromet d.d. | Croatia | | 87.76%(4) | 87.76% | 70.69% |
| Dijamant a.d. | Serbia | 73.08% | | 73.08% | 73.08% |
| Frikom a.d. | Serbia | 95.83% | | 95.83% | 95.83% |
| Fonyodi kft. | Hungary | | 100.00%(1) | 100.00% | 80.44% |
| Idea d.o.o. | Serbia | 100.00% | | 100.00% | 100.00% |
| Irida d.o.o. | Croatia | | 100.00%(2) | 100.00% | 78.85% |
| Jamnica d.d. | Croatia | 80.44% | | 80.44% | 80.44% |
| Japetić d.d. | Croatia | | 99.22%(4) | 99.22% | 79.92% |
| Konzum d.d. | Croatia | 71.62% | 11.10%(1) | 82.72% | 80.55% |
| Ledo d.d. | Croatia | 78.85% | | 78.85% | 78.85% |
| Ledo Čitluk d.o.o. | Bosnia and Herzegovina | | 100.00%(2) | 100.00% | 78.85% |
| Ledo kft. | Hungary | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. | Slovenia | | 100.00%(2) | 100.00% | 78.85% |
| Ledo d.o.o. Podgorica | Montenegro | 100.00% | | 100.00% | 100.00% |
| Lovno gospodarstvo Moslavina d.o.o. | Croatia | 100.00% | | 100.00% | 100.00% |
| Mediator d.o.o | Croatia | | 100.00%(4) | 100.00% | 80.55% |
| Mladina d.d. | Croatia | | 60.76%(1) | 60.62% | 48.88% |
| PIK Vinkovci d.d. | Croatia | 70.87% | | 70.87% | 70.87% |
| PIK Vrbovec d.d. | Croatia | 99.76% | | 99.76% | 99.76% |
| Riječka tvornica konopa d.d. | Croatia | | 99.51%(4) | 99.51% | 80.16% |
| Sarajevski kiseljak d.d. | Bosnia and Herzegovina | | 96.54%(1)<br>3.30%(5) | 99.84% | 80.97% |
| Sojara d.d. | Croatia | | 100.00%(3) | 100.00% | 51.84% |
| Solana Pag d.d. | Croatia | 88.32% | | 88.32% | 88.32% |
| TPDC Sarajevo d.d. | Bosnia and Herzegovina | 51.00% | | 51.00% | 51.00% |
| Veleprodajni centar Sarajevo d.o.o. | Bosnia and Herzegovina | | 100.00%(4) | 100.00% | 80.55% |
| Zvijezda d.d. | Croatia | 51.84% | | 51.84% | 51.84% |
| Zvijezda d.o.o. Sarajevo | Bosnia and Herzegovina | | 100.00%(3) | 100.00% | 51.84% |

(1) held by Jamnica;

(2) held by Ledo;

(3) held by Zvijezda;

(4) held by Konzum;

(5) held by Agrokor Zagreb d.o.o. Grude.

## NOTE 3. SEGMENTAL ANALYSIS

### Business segments

| 2007 | Agrokor Holding | Food, Manufacturing and Distribution | Retailing | Other Businesses | Intersegment sales | Consolidated |
|---|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | | |
| **SALES** | | | | | | |
| Sales to external customers | 74,341 | 4,676,038 | 14,164,088 | 1,784,157 | | |
| Inter-segment sales | 300,696 | 2,972,377 | 352,153 | 859,828 | (4,485,054) | |
| **Total sales** | **375,037** | **7,648,415** | **14,516,241** | **2,643,985** | **(4,485,054)** | **20,698,624** |
| **OPERATING PROFIT** | **(194,508)** | **626,450** | **584,904** | **62,176** | | **1,079,022** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | | | | | | (54,652) |
| Sale of properties, net | | | | | | 19,640 |
| Financial expenses | | | | | | (492,389) |
| Impairment of financial assets | | | | | | (18,565) |
| Financial income | | | | | | 78,139 |
| **Income before taxation** | | | | | | **611,195** |
| Taxation | | | | | | (156,928) |
| **Net profit for the year** | | | | | | **454,267** |
| **Other information** | | | | | | |
| Segment assets | 1,276,364 | 8,303,104 | 7,046,760 | 900,256 | | 17,526,484 |
| **Total segment assets** | **1,276,364** | **8,303,104** | **7,046,760** | **900,256** | | **17,526,484** |
| **Total segment liabilities** | **(4,843,689)** | **(2,202,597)** | **(4,948,026)** | **(633,764)** | | **(12,628,076)** |
| Capital expenditures | 158,046 | 932,598 | 1,044,860 | 7,168 | | 2,142,672 |
| Depreciation and amortisation | 10,204 | 304,047 | 155,842 | 2,717 | | 472,810 |

| 2006 | Agrokor Holding | Food, Manufacturing and Distribution | Retailing | Other Businesses | Intersegment sales | Consolidated |
|---|---|---|---|---|---|---|
| | | | | | | Restated |
| | | | (in thousands of HRK) | | | |
| **SALES** | | | | | | |
| Sales to external customers | 7,239 | 3,784,464 | 10,403,420 | 872,316 | | |
| Inter-segment sales | 261,519 | 2,418,854 | 167,479 | 635,408 | (3,483,260) | |
| **Total sales** | **268,758** | **6,203,318** | **10,570,899** | **1,507,724** | **(3,483,260)** | **15,067,439** |
| **OPERATING PROFIT** | **(281,774)** | **563,855** | **339,162** | **44,172** | | **665,415** |
| Sale of properties, net | | | | | | 5,449 |
| Financial expenses | | | | | | (480,080) |
| Impairment of financial assets | | | | | | (2,854) |
| Financial income | | | | | | 83,305 |
| **Income before taxation** | | | | | | **271,235** |
| Taxation | | | | | | (85,465) |
| **Net profit for the year** | | | | | | **185,770** |
| **Other information** | | | | | | |
| Segment assets | 876,355 | 6,696,047 | 4,995,826 | 640,382 | | 13,208,610 |
| Investments in associates | — | 18,201 | — | — | | 18,201 |
| **Total segment assets** | **876,355** | **6,714,247** | **4,995,826** | **640,382** | | **13,226,811** |
| **Total segment liabilities** | **(3,882,841)** | **(1,736,556)** | **(3,136,491)** | **(185,023)** | | **(8,940,911)** |
| Capital expenditures | 18,392 | 592,485 | 396,636 | 2,301 | | 1,009,814 |
| Depreciation and amortisation | 7,370 | 257,293 | 109,534 | 2,286 | | 376,482 |

## NOTE 3. SEGMENTAL ANALYSIS

### Geographical segments

| 2007 | Sales | Assets | Capital Expenditure |
|---|---|---|---|
| | (in thousands of HRK) | | |
| Croatia | 16,558,427 | 13,500,610 | 1,521,401 |
| Other European countries | 4,140,197 | 4,025,874 | 621,271 |
| **Total** | **20,698,624** | **17,526,484** | **2,142,672** |

| 2006 | Sales | Assets | Capital Expenditure |
|---|---|---|---|
| | (in thousands of HRK) | | |
| Croatia | 12,530,492 | 10,553,711 | 755,713 |
| Other European countries | 2,536,947 | 2,673,100 | 254,101 |
| **Total** | **15,067,439** | **13,226,811** | **1,009,814** |

Out of total sales income HRK 200,949 thousand relate to income from services (2006: HRK 106,586 thousand).

## NOTE 4. COST OF MATERIALS

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Raw materials | 48,455 | 246,578 |
| Cost of goods sold | 15,158,241 | 10,614,254 |
| Change in inventory | (311,969) | (258,868) |
| | **14,894,727** | **10,601,964** |

## NOTE 5. OTHER INCOME

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Gain on sale of subsidiaries | 141,648 | 46,861 |
| Government grants | 102,323 | 98,986 |
| Reversal of value adjustment | 40,454 | — |
| Reversal of provision for litigation | 36,718 | — |
| Collected receivables written off | 35,673 | 32,341 |
| Other revenues | 21,016 | 7,366 |
| Value adjustment of receivables | (44,800) | (35,143) |
| **Total** | **333,032** | **150,411** |

Gain on sale of real estate subsidiaries amounts to HRK 142 million and it relates mainly to sale of Tehnika Nekretnine d.o.o., Tehnika Centar Samobor d.o.o., Tehnika Sopot d.o.o. and Euroviba Špansko d.o.o.that were acquired during the year (see Note 2.1).

Reversal of value adjustment relates to reversal of value adjustment of investment in Slobodna Dalmacija trgovina after the settlement of dispute. This reversal was in the amount of HRK 40 million.

Reversal of provision for litigation relates to dispute Tisak had with Splitska banka regarding the loan enforcement from Splitska banka. By valid court ruling it was decided that Splitska banka has no valid claim and therefore provision was reversed.

## NOTE 6. OTHER EXPENSES

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Wages and salaries | 1,309,940 | 1,023,351 |
| Taxes, social insurance and pension costs | 900,393 | 704,581 |
| Depreciation and amortisation | 472,810 | 376,482 |
| Research and development costs | 6,720 | 8,115 |
| Write off of bad debts and other short-term assets, net | 683 | — |
| Other expenses | 782,282 | 745,375 |
| | **3,472,828** | **2,857,904** |

**Management board compensation:**

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Salaries | 16,490 | 13,487 |
| Taxes, social insurance and pension costs | 17,480 | 13,255 |
| Write off of bad debts and other short-term assets | 1,051 | 1,204 |
| | **35,021** | **27,946** |

## NOTE 7. EXCESS OF FAIR VALUE OF NET ASSETS OVER THE COST OF ACQUISITION, NET OF WRITTEN OFF GOODWILL

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Excess of fair value of net assets over the cost of acquisition | 53,165 | — |
| Written off goodwill | (107,817) | — |
| | **(54,652)** | **—** |

Excess of fair value of net assets over the cost of acquisition relates to acquisition of Kikindski mlin and Unex MPG.

Written off goodwill relates to Idea, Ledo kft and Odobenus. Goodwill written off on Ledo kft and Idea is based on the losses that the Company had in several periods and as a result goodwill is assessed as not recoverable. Goodwill on Idea was impaired by 90% due to future plans and expectations that remaining goodwill will be recoverable in future periods.

## NOTE 8. INTANGIBLE ASSETS

| 2007 | Development Costs | Concession rights | Other Intangibles | Goodwill | Total |
|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | |
| **Cost at 1 January 2007** | 1,041 | 20,449 | 126,089 | 206,678 | 354,257 |
| Acquisitions (new subsidiaries) | — | — | 17,171 | 361,464 | 378,635 |
| | **1,041** | **20,449** | **143,260** | **568,142** | **732,892** |
| Additions | — | — | 159,135 | — | 159,135 |
| Transfers | 324 | — | (6,855) | — | (6,531) |
| Disposals | — | — | (1,071) | — | (1,071) |
| Write-off | — | — | — | (107,817) | (107,817) |
| Advance payments for intangible assets | — | — | (172) | — | (172) |
| Net foreign exchange loss | (3) | (11) | (169) | — | (183) |
| **Cost at 31 December 2007** | **1,362** | **20,438** | **294,128** | **460,325** | **776,253** |
| **Accumulated amortisation at 1 January 2007** | **489** | **16,431** | **61,651** | **—** | **78,571** |
| Acquisitions | — | — | 12,937 | — | 12,937 |
| | **489** | **16,431** | **74,588** | **—** | **91,508** |
| Charge for the year | 303 | 204 | 16,866 | — | 17,373 |
| Disposals | — | — | (731) | — | (731) |
| Transfers | — | — | (67) | — | (67) |
| Net foreign exchange loss | (2) | — | (45) | — | (47) |
| **Accumulated amortisation at 31 December 2007** | **790** | **16,635** | **90,611** | **—** | **108,036** |
| **Net balance at 31 December 2007** | **572** | **3,803** | **203,517** | **460,325** | **668,217** |

## NOTE 8. INTANGIBLE ASSETS (Continued)

| 2006 | Development Costs | Concession rights | Other Intangibles | Goodwill | Total |
|---|---|---|---|---|---|
| | | | | (in thousands of HRK) | |
| **Cost at 1 January 2006** | **7,489** | **16,363** | **118,526** | **142,108** | **284,486** |
| Acquisitions (new subsidiaries) | — | — | 14,583 | 64,570 | 79,153 |
| | **7,489** | **16,363** | **133,109** | **206,678** | **363,639** |
| Additions | — | — | 34,153 | — | 34,153 |
| Transfers | 1,044 | 4,086 | (11,534) | — | (6,404) |
| Disposals | (7,489) | — | (36,582) | — | (44,071) |
| Write-off | — | — | — | — | — |
| Advance payments for intangible assets | — | — | 6,459 | — | 6,459 |
| Net foreign exchange loss | (3) | — | 484 | — | 481 |
| **Cost at 31 December 2006** | **1,041** | **20,449** | **126,089** | **206,678** | **354,257** |
| **Accumulated amortisation at 1 January 2006** | **7,489** | **16,363** | **90,202** | **—** | **114,054** |
| Acquisitions | — | — | 243 | — | 243 |
| | **7,489** | **16,363** | **90,445** | **—** | **114,297** |
| Charge for the year | 164 | 68 | 10,772 | — | 11,004 |
| Disposals | (7,489) | — | (36,581) | — | (44,070) |
| Transfers | 325 | — | (3,103) | — | (2,778) |
| Net foreign exchange loss | — | — | 118 | — | 118 |
| **Accumulated amortisation at 31 December 2006** | **489** | **16,431** | **61,651** | **—** | **78,571** |
| **Net balance at 31 December 2006** | **552** | **4,018** | **64,438** | **206,678** | **275,686** |

Concession rights relate to the concession for extraction of the mineral water granted to Jamnica d.d. The concession is amortised according to the accounting policy (note 1.6.).

Other intangible assets relates to acquired brand, software and similar intangible assets, as well as investments in intangibles and advances for purchase of intangible assets. During the year, the Group acquired registered trademarks of retail chain (WISA and VF Komerc) operating in Bosnia and Herzegovina for a total consideration of HRK 131,711 thousands.

As at 31 December 2007 the goodwill relates to the following companies: Frikom a.d. in the amount of HRK 71,928 thousand, which was acquired in 2003, as well as Sarajevski kiseljak d.d. in the amount of HRK 12,002 thousand acquired in 2001, Dijamant a.d. in the amount of HRK 900 thousand, Idea d.o.o. in the amount of HRK 5,673 thousand, acquired in 2005, Ledo Podgorica d.o.o. in the amount of HRK 40,169 thousand, acquired in 2006, Euroviba d.d. in the amount of HRK 31,219 thousand, Duhan trgovina d.o.o. in the amount of HRK 8,980 thousand, Jadran trgovina d.o.o. in the amount of HRK 20,264 thousand, Krka d.o.o. in the amount of HRK 27,551 thousand, Plodovi zemlje Matijević d.o.o. in the amount of HRK 3,241 thousand, and Tisak d.d. in the amount of HRK 234,369 thousand, acqiured in 2007, PIK Vinkovci d.d. in the amount of HRK 4,029 thousand.

As all the entities represent single cash generating units, goodwill impairment testing was performed on an entity basis.

## NOTE 8. INTANGIBLE ASSETS (Continued)

The recoverable amounts of cash generating units have been determined based on a value in use calculation using cash flow projections based on financial plans covering a five-year period. The discount rate applied to cash flow projections ranges from 9 to 11 percent, while the cash flows beyond the 5-year period were extrapolated using a no growth assumption (zero percent growth rate). The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected any applicable efficiency improvements.

## NOTE 9. INVESTMENTS

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Investments in associates** | | |
| **Balance at 1 January** | **18,201** | **16,888** |
| Sale of shares | (18,201) | — |
| Acquisitions | 57,806 | 1,313 |
| Share of profit for the year | — | — |
| **Balance at 31 December** | **57,806** | **18,201** |
| **Other non-current investments** | | |
| Investment securities available for sale | 211,889 | 131,743 |
| Loans | 174,378 | 106,275 |
| Long-term deposits | 70,392 | 205,434 |
| **Balance at 31 December** | **456,659** | **443,452** |

At 31 December 2007 the revaluation surplus from previous years in respect of investment securities amounts to HRK 921 thousand. This surplus is included within revaluation reserve in equity.

Acquisition in the amount of HRK 57,806 thousand relates to investment in Slobodna Dalmacija trgovina d.o.o.

Long term deposits mainly relate to deposits per leasing which bear no interest and are due at the day of repayment of contractual liabilities. Other long term deposits bear a interest of 2% to 6.5% and are due from 2 to 10 years.

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Investment securities available for sale** | | |
| MSTART telekomunikacije d.o.o. | 47,668 | — |
| Perutnina Ptuj d.d. | 31,246 | 31,246 |
| RTL d.o.o. | 35,042 | 32,176 |
| Other | 97,933 | 68,321 |
| | **211,889** | **131,743** |

| | 2007 | Maturity | Interest |
|---|---|---|---|
| | (in thousands of HRK) | | |
| **Loans given** | | | |
| Housing employee loans | 115,176 | 3–15 years | 4.5–6% |
| Investco vrijednosnice d.o.o. | 45,128 | 2 years | 4% |
| Other | 14,074 | within 3 years | 4.5–6% |
| **Total** | **174,378** | | |

## NOTE 9. INVESTMENTS (Continued)

| | 2006 (in thousands of HRK) | Maturity | Interest |
|---|---|---|---|
| **Loans given** | | | |
| Housing employee loans | 54,756 | 3–15 years | 4.5–6% |
| Investco vrijednosnice d.o.o. | 45,128 | 3 years | 4.5% |
| Other | 6,391 | within 3 years | 6% |
| **Total** | **106,275** | | |

## NOTE 10. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings | Plant, Machinery and Equipment | Leasehold improvements | Other Fixed Assets | Items in course of construction | Total |
|---|---|---|---|---|---|---|
| | (in thousands of HRK) | | | | | |
| **2007** | | | | | | |
| **Cost or valuation at 1 January** | **6,599,848** | **3,887,789** | **332,691** | **19,473** | **601,670** | **11,441,471** |
| Acquisitions (new subsidiaries) | 564,608 | 50,426 | 1,981 | — | 2,299 | 619,314 |
| | **7,164,456** | **3,938,215** | **334,672** | **19,473** | **603,969** | **12,060,785** |
| Additions | — | — | — | — | 1,940,808 | 1,940,808 |
| Transfers | 497,076 | 585,692 | 129,807 | — | (1,246,534) | (33,959) |
| Disposals | (366,635) | (232,684) | (8,649) | — | (146,235) | (754,203) |
| Advance payments for fixed assets | — | — | — | 42,902 | — | 42,902 |
| Net foreign exchange loss | (3,186) | (4,088) | (211) | — | (192) | (7,677) |
| Other | 88,285 | 34,440 | (3,197) | — | (5,423) | 114,105 |
| **Cost or valuation at 31 December** | **7,379,996** | **4,321,575** | **452,422** | **62,375** | **1,146,393** | **13,362,761** |
| **Accumulated depreciation at 1 January** | **1,653,151** | **2,446,141** | **127,672** | **—** | **—** | **4,226,964** |
| Charge for the year | 96,076 | 307,281 | 44,719 | — | — | 448,076 |
| Disposals | (34,830) | (198,766) | (6,742) | — | — | (240,338) |
| Net foreign exchange loss | (977) | (1,853) | 13 | — | — | (2,817) |
| Other | 18,055 | 14,510 | (1,752) | — | — | 30,813 |
| **Accumulated depreciation at 31 December** | **1,731,475** | **2,567,313** | **163,910** | **—** | **—** | **4,462,698** |
| **Net balance at 31 December** | | | | | | |
| **—at historical cost** | **3,721,578** | **1,754,262** | **288,512** | **62,375** | **1,146,393** | **6,973,120** |
| **—at revalued amounts** | **1,926,943** | **—** | **—** | **—** | **—** | **1,926,943** |
| | **5,648,521** | **1,754,262** | **288,512** | **62,375** | **1,146,393** | **8,900,063** |

## NOTE 10. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Land and Buildings | Plant, Machinery and Equipment | Leasehold improvements | Other Fixed Assets | Items in course of construction | Total |
|---|---|---|---|---|---|---|
| | | | (in thousands of HRK) | | | |
| **2006** restated | | | | | | |
| **Cost or valuation at 1 January** | **6,379,371** | **3,591,808** | **259,716** | **—** | **531,778** | **10,762,673** |
| Acquisitions (new subsidiaries) | 5,895 | 8,150 | — | — | 960 | 15,005 |
| | **6,385,266** | **3,599,958** | **259,716** | **—** | **532,738** | **10,777,678** |
| Additions | — | 79 | 146 | — | 949,502 | 949,727 |
| Transfers | 417,050 | 367,187 | 72,531 | — | (864,157) | (7,389) |
| Disposals | (256,317) | (196,569) | (2,077) | — | (20,522) | (475,485) |
| Advance payments for fixed assets | — | — | — | 19,473 | — | 19,473 |
| Net foreign exchange loss | 14,748 | 29,704 | 493 | — | 5,939 | 50,884 |
| Other | 39,101 | 87,430 | 1,882 | — | (1,830) | 126,583 |
| **Cost or valuation at 31 December** | **6,599,848** | **3,887,789** | **332,691** | **19,473** | **601,670** | **11,441,471** |
| **Accumulated depreciation at 1 January** | **1,611,406** | **2,308,402** | **92,746** | **—** | **—** | **4,012,554** |
| Acquisitions | 151 | 660 | — | — | — | 811 |
| | **1,611,557** | **2,309,062** | **92,746** | **—** | **—** | **4,013,365** |
| Charge for the year | 83,032 | 243,992 | 32,299 | — | — | 359,323 |
| Disposals | (55,790) | (178,670) | (524) | — | — | (234,984) |
| Net foreign exchange loss | 10,404 | 19,394 | 110 | — | — | 29,908 |
| Other | 3,948 | 52,363 | 3,041 | — | — | 59,352 |
| **Accumulated depreciation at 31 December** | **1,653,151** | **2,446,141** | **127,672** | **—** | **—** | **4,226,964** |
| **Net balance at 31 December** | | | | | | |
| **—at historical cost** | **3,199,509** | **1,441,648** | **205,019** | **19,473** | **601,670** | **5,467,319** |
| **—at revalued amounts** | **1,747,188** | **—** | **—** | **—** | **—** | **1,747,188** |
| | **4,946,697** | **1,441,648** | **205,019** | **19,473** | **601,670** | **7,214,507** |

As at 31 December 2007 the group share of revaluation surplus in respect of revalued assets amounts to HRK 426,012 thousand.

Disposal during the year mainly relate to sale of land (book value HRK 61,380 thousands) and several retail shops (net book value of approximate HRK 156,625 thousands). These retail shops were leased back on period of 15 years (note 20).

Property, plant and equipment with a book value of HRK 680,514 thousand (31 December 2006— HRK 572,491 thousand) has been pledged as collateral.

Revaluation surplus included in the equity with respect to this revaluation is not distributable until realized.

## NOTE 10. PROPERTY, PLANT AND EQUIPMENT (Continued)

Leased assets included in property, plant and equipment are as follows:

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Cost** | | |
| **At 1 January** | **11,468** | **12,315** |
| Acquisitions | 5,485 | 2,372 |
| Additions/(retirements) | 1,623 | (3,219) |
| **Cost at 31 December** | **18,576** | **11,468** |
| **Accumulated depreciation at 1 January** | **1,219** | **6,418** |
| Acquisitions | 685 | 420 |
| Charge for the year | 3,834 | (5,619) |
| **Accumulated depreciation at 31 December** | **5,738** | **1,219** |
| **Net balance at 31 December** | **12,838** | **10,249** |

## NOTE 11. INVENTORIES

| | 2007 | Restated 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Raw materials | 459,321 | 460,331 |
| Work in progress | 577,920 | 404,600 |
| Merchandise | 1,377,478 | 900,069 |
| Finished goods | 272,455 | 276,509 |
| | **2,687,174** | **2,041,509** |

## NOTE 12. BIOLOGICAL ASSETS

### (a) LIVE STOCK AND CROPS

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Live stock | 196,100 | 178,856 |
| Crops | 115,746 | 88,015 |
| | **311,846** | **266,871** |

### (b) LONG TERM BIOLOGICAL ASSETS

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Movement of biological assets during the year** | | |
| **Gross book value as at 1 January 2007** | **127,899** | **116,514** |
| Increase due to purchases | 40,694 | 24,162 |
| Gains arising from changes in fair value less estimated point of sale costs | 25,412 | 16,436 |
| Decreases due to sales | (23,294) | (29,213) |
| **Gross book value as at 31 December 2007** | **170,711** | **127,899** |
| **Value adjustments as at 1 January 2007** | **28,834** | **26,334** |
| Additions | 7,361 | 6,155 |
| Disposals | (3,011) | (3,655) |
| **Value adjustments as at 31 December 2007** | **33,184** | **28,834** |
| **Net book value of biological assets as at 1 January 2007** | **99,065** | **90,180** |
| **Net book value of biological assets as at 31 December 2007** | **137,527** | **99,065** |

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

### (c) GOVERNMENT GRANTS

| | 2007 | 2006 |
|---|---|---|
| Fattening of live stock | 46,461 | 31,571 |
| Agricultural production (sowing, orchards and vineyards) | 55,862 | 67,415 |
| **Total** | **102,323** | **98,986** |

Government grants are unconditional and relate to biological assets measured at its fair value less estimated point-of-sale costs.

Income is recognised (note 5) when the government grant becomes receivable.

## NOTE 13. LOANS GRANTED

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Commercial loans to farmers | 58,887 | 43,719 |
| Investco vrijednosnice d.o.o. | 26,458 | 28,685 |
| Nenadić trade d.o.o. | 14,715 | — |
| Commercial loans abroad | 13,536 | 18,089 |
| Auctor projekt | 11,206 | — |
| Aureum Terra | 10,181 | — |
| Iredal | 9,521 | — |
| Grokomp nekretnine | 7,727 | — |
| Media | 6,300 | — |
| Init Sarajevo | 6,280 | 641 |
| Vupik d.d. | 3,953 | 3,975 |
| Other | 57,290 | 67,340 |
| | **226,053** | **162,449** |

Loans granted relate to current portion of long term loans granted (Note 8), and short term loans granted in the normal course of business which bear interest at annual rate of 4–10%.

## NOTE 14. ACCOUNTS RECEIVABLE

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Trade accounts receivable | 2,980,213 | 2,048,720 |
| Other receivables | 346,517 | 234,599 |
| Value adjustment of trade receivables | (313,835) | (230,252) |
| | **3,012,895** | **2,053,067** |

As at 31 December, the ageing analysis of trade receivables is as follows:

| | Total | Neither past due nor impaired | < 90 days | 90–190 days | 190–270 days | >270 days |
|---|---|---|---|---|---|---|
| **2007** | 2,666,378 | 1,637,375 | 659,469 | 169,421 | 84,278 | 115,835 |
| **2006** | 1,818,468 | 946,918 | 544,333 | 146,841 | 86,927 | 93,449 |

Value adjustment is made for all outstanding domestic receivables older than 360 days and based on individual assessments. Movements in the provision for impairment of trade receivables were as follows:

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| At 1 January | 230,252 | 221,542 |
| Charge for the year | 111,730 | 34,642 |
| Amounts written off | (28,147) | (25,932) |
| **At 31 December** | **313,835** | **230,252** |

## NOTE 15. OTHER CURRENT ASSETS

| | 2007 | 2006 |
|---|---|---|
| | | Restated |
| | (in thousands of HRK) | |
| Prepaid expenses | 59,269 | 38,609 |
| Other advance payments | 135,768 | 165,638 |
| | **195,037** | **204,247** |

## NOTE 16. CASH AND CASH EQUIVALENTS

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Cash in bank and cash on hand | 504,142 | 248,830 |
| Short term deposits | 369,065 | 198,927 |
| | **873,207** | **447,757** |

Short term deposits bear interest up to 5%.

## NOTE 17. SHARE CAPITAL AND RESERVES

| | Number of shares | Nominal value | Value |
|---|---|---|---|
| | | | (in 000 HRK) |
| AGKR-R-A | 296,250 | 500 kn | 148,125 |
| AGKR-P-A | 26,932 | 500 kn | 13,466 |
| | **323,182** | | **161,591** |

By decision of the General Assembly of the Company, on 6 July 2006, the share capital was increased whereby the share structure of Agrokor is as follows:

Share capital amounts to HRK 161,591,000 and constitutes the following:

– 296,250 regular shares in the name of Mr. Ivica Todorić, designated as AGKR-R-A each with a nominal value of HRK 500;

– 26,932 preferred shares in the name of the European Bank for Reconstruction and Development (EBRD), designated as AGKR-P-A each with a nominal value of HRK 500.

Preferred shares provide the owner with the following rights:

– 1 vote at the General Assembly of the Company;

– Dividend distribution as per the decision of the General Assembly;

– Payment from the remainder after liquidation or insolvency preferred to the holder of regular shares;

– Transfer of preferred shares into regular in a manner that the preferred shares can at any time be converted in total or partially into regular shares;

– In the case of an initial public offering, the preferred shares shall automatically be converted into regular shares.

Retained earnings include legal reserves and foreign currency translation reserve. Legal reserves are not distributable in the amount of HRK 200,887 thousand.

The decision on paying dividends is brought at the General Assembly. Since the balance sheet date until the date of signing of this report; such a decision was not made.

## NOTE 18. MINORITY INTERESTS

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Balance at 1 January** | **1,528,532** | **1,521,587** |
| Acquisitions | 112,209 | (60,298) |
| Dividends paid | (13,030) | (12,094) |
| Result for the year | 155,746 | 76,928 |
| Foreign exchange | (3,322) | 8,977 |
| Reclassification | — | (6,568) |
| **Balance at 31 December** | **1,780,135** | **1,528,532** |

## NOTE 19. LEASE LIABILITIES AND COMMITMENTS

### FINANCE LEASE LIABILITIES

Assets acquired under finance leases are real estate and transportation equipment.

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Payable over 5 years | — | — |
| Payable in 4 to 5 years | 87 | — |
| Payable in 3 to 4 years | 691 | 1,286 |
| Payable in 2 to 3 years | 2,374 | 2,327 |
| Payable in 1 to 2 years | 3,633 | 2,759 |
| Payable within 1 year | 3,463 | 2,431 |
| Less future finance charges | (537) | (450) |
| Included in borrowings (note 20) | **9,711** | **8,353** |
| Less current portion of obligation | (3,463) | (2,432) |
| **Total long-term obligation** | **6,248** | **5,921** |

### OPERATING LEASE COMMITMENTS

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

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Payable over 5 years | 483,541 | 250,428 |
| Payable in 2 to 5 years | 466,985 | 281,634 |
| Payable in 1 to 2 years | 245,603 | 165,529 |
| Payable within 1 year | 277,673 | 187,559 |
| | **1,473,802** | **885,150** |

Average cancellation period in operating lease agreements is between 6–9 months.

Operating lease commitments are not provided for in the financial statements in accordance with accounting conventions.

### CAPITAL COMMITMENTS

Capital commitments at the balance sheet date amount to HRK 118,000 thousand (31 December 2006—HRK 175,000 thousand).

## NOTE 20. BORROWINGS

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Long-term borrowings** | | |
| —Bank loans | 3,059,705 | 2,844,638 |
| —Bonds | 1,084,000 | 1,083,222 |
| —Non-bank loans | 21,247 | 5 |
| —Finance leases | 9,711 | 8,353 |
| **Total long-term borrowings** | **4,174,663** | **3,936,218** |
| **Current portion of long-term borrowings** | | |
| —Bank loans | (297,716) | (198,969) |
| —Non-bank loans | (5,482) | — |
| —Finance leases | (3,463) | (2,431) |
| **Total current portion of long-term borrowings** | **(306,661)** | **(201,400)** |
| **Long-term debt** | **3,868,002** | **3,734,818** |
| **Short-term borrowings** | | |
| —Bank loans | 1,820,977 | 383,455 |
| —Non-bank loans | 2,783 | 2,791 |
| **Total short-term borrowings** | **1,823,760** | **386,246** |
| **Total borrowings** | **5,998,423** | **4,322,464** |

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

| | Bank loans and bonds |
|---|---|
| | (in thousands of HRK) |
| **Maturity** | |
| 2009 | 620,671 |
| 2010 | 746,489 |
| 2011 | 2,350,958 |
| 2012 | 66,910 |
| 2013 | 35,523 |
| 2014 | 25,438 |
| | **3,845,989** |

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

| | EUR | USD | Other |
|---|---|---|---|
| | | | (in thousands of HRK) |
| **Maturity** | | | |
| 2009 | 584,437 | 986 | 35,248 |
| 2010 | 710,375 | 958 | 35,156 |
| 2011 | 2,345,807 | — | 5,152 |
| 2012 | 64,656 | — | 2,254 |
| 2013 | 35,358 | — | 165 |
| 2014 | 25,071 | — | 366 |
| | **3,765,704** | **1,944** | **78,341** |

**NOTE 20. BORROWINGS (Continued)**

Interest rates of the above loans are mainly variable, linked to EURIBOR, CHF Libor, Libor and are in the range of 3 to 11% p.a. for loans while bonds bear fixed interest of 7% p.a.

The above mentioned indebtedness included bonds issued during 2006 in the amount of EUR 150,000 thousand, with maturity of November 2011, bearing a coupon of 7%. According to the terms of the issue, the Agrokor Group is required to maintain a leverage ratio equal to or less than 3.75:1 in 2007 to 2008 and 3.50:1 from 2009 to 2011, and interest cover ratio of minimum 2.75 in 2007.

According to the Loan Agreement with the International Finance Corporation (IFC), the ratio of consolidated net financial indebtedness to EBITDA has to be less than 4.00 until 30 April 2008 and less than 3.75 thereafter. The aggregate of tangible net worth and minority interests less the aggregate of any consolidated off balance sheet liabilities must be at least the equivalent of EUR 200 million.

In accordance to Senior facilities agreement with ABN Amro Bank N.V. and Bank Austria Creditanstalt AG and the Loan Agreement with Erste Bank der oesterreichischen Sparkassen AG the Group is obliged to maintain the ratio between Consolidated Total Net Debt and EBITDA of maximum 3.75 in 2007 to 2008 and 3.50 in 2009 and therafter, the ratio between Senior Consolidated Total Net Debt and EBITDA of maximum 3.75 in 2007, 3.25 in 2008, 3.00 in 2009 and thereafter and Interest Cover ratio of minimum 2.75 in 2007, 3.50 in 2008, 3.75 in 2009, 4.00 in 2010 and thereafter.

The Group complies with debt covenants.

Property, plant and equipment with a book value of HRK 680,514 (31 December 2006—HRK 572,491 thousand) has been pledged as collateral for HRK 4,143,705 thousand of borrowings (31 December 2006—HRK 3,927,860 thousand).

In addition, all of the shares of Jamnica, Ledo, Konzum and Zvijezda owned by Agrokor d.d. have been pledged as collateral.

**NOTE 21. EMPLOYEE BENEFIT OBLIGATIONS**

All employees are covered by the State pension fund. Provisions are established for other employee benefits payable in respect of retirement, jubilee (length of service) and surviving dependant payments. Retirement benefits are dependent on the employees fulfilling the required conditions to enter retirement from the Group and jubilee benefits are dependent on the number of years of service. The amount of all benefit entitlements is determined by the respective employee's monthly remuneration.

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

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Net liability, beginning of year | 60,104 | 60,104 |
| Net expense recognised in the income statement | 22,699 | 18,746 |
| Payments made during the year | (10,890) | (18,746) |
| Net liability, end of year | **71,913** | **60,104** |

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

| | 2007 | 2006 |
|---|---|---|
| Discount rate (annually) | 4.33% | 4.33% |
| Wage and salary increases (annually) | 3.00% | 3.00% |

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

## NOTE 22. ACCOUNTS PAYABLE

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Accounts payable—domestic | 3,318,048 | 2,373,379 |
| Accounts payable—foreign | 562,226 | 412,141 |
| Accruals for goods received and not invoiced | 26,981 | 14,042 |
| Bills of exchange | 1,577,040 | 1,014,493 |
| | **5,484,295** | **3,814,055** |

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

## NOTE 23. OTHER CURRENT LIABILITIES

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Sales and employment taxes | 64,762 | 34,164 |
| Amounts due to employees | 129,400 | 95,563 |
| Other current liabilities | 200,026 | 154,061 |
| Accrued expenses | 99,517 | 69,642 |
| | **493,705** | **353,430** |

## NOTE 24. TAXATION

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Tax charge for the year** | | |
| Croatian corporate taxation | 145,569 | 71,683 |
| Foreign corporate taxation | 8,042 | 9,589 |
| Deferred taxation | 3,317 | 4,193 |
| | **156,928** | **85,465** |

Income taxes paid during 2007 amounted to HRK 99,587 thousand (2006: HRK 76,603 thousand).

A reconciliation of the statutory tax rate to the effective tax rate applicable to income (before minority interest) for the years ended 31 December was as follows:

| | 2007 | 2006 |
|---|---|---|
| Local statutory rate | 20.00% | 20.00% |
| Tax disallowable items, net | 6.63% | 6.56% |
| Utilisation of tax losses brought forward | (2.78%) | (1.75%) |
| Tax relieves | (3.93%) | (1.13%) |
| Other, net | 5.76% | 7.84% |
| **Effective tax rate** | **25.68%** | **31.51%** |

In accordance with Croatian tax law, every company within the Group in the Republic of Croatia is independently liable for corporate tax at a rate of 20% (31 December 2006—20%). Several subsidiaries have tax losses amounting to HRK 877,022 thousand (31 December 2006—HRK 1,040,972 thousand) which are available to be carried forward against their future taxable income. Due to the uncertainty as to whether these assets could be utilised in the short to medium term no deferred tax asset has been

## NOTE 24. TAXATION (Continued)

recognised. Unutilised tax losses of HRK 136,320 thousand will expire in 2007 and, if not utilised, will be forfeited by the subsidiaries.

The tax losses carried forward utilised in 2007, amounted to HRK 208,643 thousand (31 December 2006— HRK 40,717 thousand).

The deferred tax liability consists of:

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| Deferred tax liability related to land revaluation | 303,314 | 270,149 |
| Deferred tax liability related to accelerated depreciation for the tax purposes | 42,143 | 38,934 |
| **Total** | **345,457** | **309,083** |

Movements of deferred tax liability are as follows:

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Deferred tax liability at 1 January** | 309,083 | 305,169 |
| Deferred tax arising on acquisition | 33,058 | (324) |
| Profit and loss deferred taxes charge | 3,316 | 4,132 |
| Other movements | — | 106 |
| **Deferred tax liability at 31 December** | **345,457** | **309,083** |

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

## NOTE 25. CONTINGENCIES

The Group is involved in commercial litigation relating to the collection of outstanding amounts from debtors of HRK 308,075 thousand and disputes with creditors over amounts of HRK 29,290 thousand. In addition, proceedings are ongoing in relation to other short-term receivables of HRK 64,202 thousand and other short-term liabilities of HRK 148,466 thousand.

## NOTE 26. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Intragroup related party transactions have been eliminated on consolidation.

As at 31 December 2006 transactions with related party relate to Kikindski mlin d.d. (Serbia), in which the Group has a share of 42.23%.

As at 31 December 2007 there were no such transactions.

Management remuneration is disclosed under note 6.

## NOTE 26. RELATED PARTY TRANSACTIONS (Continued)

The volumes of other related party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Accounts receivable** | | |
| Deposits and cash accounts | — | 1,445 |
| Long-term loans | — | — |
| Short-term loans | — | 1,116 |
| Other receivables | — | 8,950 |
| | **—** | **11,511** |

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Liabilities** | | |
| Other | — | 701 |

The following table summarises other income and expenses with related parties:

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Income** | | |
| Sales revenue | — | 19,589 |
| Interest income | — | 264 |

| | 2007 | 2006 |
|---|---|---|
| | (in thousands of HRK) | |
| **Expenses** | | |
| Interest expenses | — | — |
| Money transfer services expenses | — | — |

## NOTE 27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES

### (a) FINANCIAL INSTRUMENTS

The Group has no derivative financial instruments or any financial instruments that potentially subject the Group to concentrations of credit risk. It is the Group's policy to enter into financial instruments with a diversity of creditworthy counterparties. Therefore, the Group does not expect to incur material credit losses on its risk management or other financial instruments.

**Fair values of financial assets and liabilities**

Fair value represents the amount for which an asset could be exchanged or a liability settled on an arm's length basis. As market prices are not available for a portion of the Group's financial assets and liabilities, fair values have been based on management assumptions according to the profile of the respective assets and liabilities. The Management Board believes that the fair values of assets and liabilities (unless otherwise disclosed in this note) are not significantly different from book values.

## NOTE 27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The Group has used the following methods and assumptions when assessing the fair value of financial instruments:

**Amounts Due from Banks**

For assets maturing within three months, the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term deposits, the interest rates applicable approximate market rates and, consequently, the fair value approximates the carrying amounts.

**Loans**

As practically all loans are short term, the Management Board believes that their fair values are not significantly different from book values.

**Investment securities**

Securities available for sale are included in the balance sheet at their fair values. Securities whose fair value can not be reliably measured as they are not actively traded are included at acquisition cost. The Management believes that their fair values approximates their carrying amounts.

**Loan liabilities**

For balances maturing within one year the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. Nominal value of Eurobonds issued amounts to 1,099 Million, while their fair value as at 31 December 2007, based on closing prices on the Stock Exchange, amounted to HRK 1,137 million as they are traded at 103.5% of nominal value. As a significant portion of other longer term funds received is contracted with variable interest rates, their fair value approximates the carrying amounts. For longer term funds with fixed interest rates, the average interest rates applicable approximate market rates and, consequently, the fair value approximates the carrying amounts.

**Biological assets**

The Group is exposed to financial risks arising from changes in live stock and crops prices. The Group does not anticipate that live stock or crops prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in live stock or crops prices. The Group reviews its outlook for live stock and crops prices regularly in considering the need for active financial risk management.

### (b) RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk and interest rate risk. The Management reviews and agrees policies for managing each of these risks and they are summarised below.

The Group is exposed to international markets. As a result, it can be affected by changes in foreign exchange rates. The Group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. The Group does not use derivative instruments either to manage risk or for speculative purposes.

## NOTE 27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit risk

The Group is exposed to credit risk representing risk that the debtor will not be able to repay its liabilities to the Group as they fall due. The Group manages this risk by setting limits of exposure towards one debtor or group of debtors. As there is no significant concentration of credit exposure, the Group does not consider to be excessively exposed to credit risk.

The Group does not guarantee for obligations of other parties.

Group considers that its maximum exposure is reflected by the amount of debtors net of provisions for impairment recognised at the balance sheet date.

### Liquidity risk

Liquidity risk, also referred to as financing risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group has a strong focus on its cash flow with short-term inflows and outflows forecasts. Surplus of funds is placed in short term deposits and available for sale investments.

Maturity of long term bank loans is presented in note 20.

The table below summarizes the maturity profile of the Group's account payables, liabilities for bills of exchange and other liabilities at 31 December 2007.

| | < 90 days | 90–180 days | 180–270 days | >270 days | Total |
|---|---|---|---|---|---|
| | (in thousands of HRK) | | | | |
| **Trade payables** | | | | | |
| Year ended 31 December 2007 | 3,736,423 | 127,303 | 23,029 | 20,500 | 3,907,255 |
| Year ended 31 December 2006 | 2,689,015 | 73,190 | 15,449 | 21,908 | 2,799,562 |
| **Bills of exchange** | | | | | |
| Year ended 31 December 2007 | 329,368 | 893,486 | 354,185 | — | 1,577,040 |
| Year ended 31 December 2006 | 615,569 | 385,756 | 13,168 | — | 1,014,493 |
| **Other liabilities** | | | | | |
| Year ended 31 December 2007 | 393,692 | 100,013 | — | — | 493,705 |
| Year ended 31 December 2006 | 276,399 | 77,031 | — | — | 353,430 |

The table below summarizes the maturity profile of the Group's contractual bank loan liabilities at 31 December 2007.

| | Total |
|---|---|
| | (in thousands of HRK) |
| **Maturity** | |
| 2008 | 2,506,397 |
| 2009 | 870,660 |
| 2010 | 956,135 |
| 2011 | 2,512,082 |
| 2012 | 75,222 |
| 2013 | 39,485 |
| 2014 | 27,091 |
| | **6,987,073** |

## NOTE 27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Interest rate risk

The majority of interest bearing assets and liabilities represent loans received. As the majority of long term loans is fixed interest debt, the Group does not consider itself to be excessively exposed to risk of adverse change in interest rates.

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings):

| | Increase/ decrease in base points | Effect on profit before tax (in thousands of HRK) |
|---|---|---|
| **2007** | | |
| Euro | +/− 50 | 20,364 |
| USD | +/− 50 | 140 |
| HUF | +/− 50 | 2,342 |
| CHF | +/− 50 | 2,053 |
| HRK | +/− 50 | 427 |
| **2006** | | |
| Euro | +/− 50 | 16,409 |
| USD | +/− 50 | 81 |
| HUF | +/− 50 | 736 |

### Foreign currency risk

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

## NOTE 27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

| | Increase/ decrease in Euro rate | Effect on profit before tax |
|---|---|---|
| | | (in thousands of HRK) |
| **2007** | | |
| Euro | +/− 5% | 198,963 |
| HUF | +/− 5% | 23,422 |
| CHF | +/− 5% | 20,530 |
| USD | +/− 5% | 983 |
| **2006** | | |
| Euro | +/− 5% | 159,970 |
| HUF | +/− 5% | 7,360 |
| USD | +/− 5% | 636 |

### Capital management

The primary objective of the Group's capital management is to ensure that it support its business and maximise shareholder value. The capital structure of the Group consists of equity attributable to shareholders, comprising issued capital, reserves and retained earnings.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. Capital includes share capital reserves and minority interests. The Group is trying to maintain the ratio in the range 65–72%.

## NOTE 28. POST BALANCE SHEET EVENTS

As at 15 March 2008 Idea d.o.o. has acquired 1 share of SL Gros Company in Serbia, which makes 100% of its paid in capital. The purchase price was HRK 234,404 thousand. The Company's main activities are wholesale and retail trade.

The Group is currently in negotiations of restructuring of its short term debt and believes that these will be successfully completed.

## SUPPLEMENTAL FINANCIAL INFORMATION

The following unaudited supplemental financial information has been prepared specifically for the application to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

***For the period ended 30 September 2010***

**(*in HRK*)**

| | Issuer | Subsidiary Guarantors | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Sales | 344,391,237 | 13,674,974,336 | 10,503,461,271 | (4,810,369,753) | 19,712,457,092 |
| Cost of materials | (8,522,143) | (10,062,333,597) | (7,710,228,265) | 4,109,059,830 | (13,672,024,174) |
| Cost of services | (75,437,812) | (933,549, 630) | (948,080,602) | 295,909,683 | (1,661,158,362) |
| **Gross margin** | **260,431,282** | **2,679,091,109** | **1,845,152,404** | **(405,400,240)** | **4,379,274,556** |
| Other income | (17,550,196) | 63,140,373 | 130,660,302 | (37,295,248) | 174,055,622 |
| Other expenses | (241,451,624) | (2,006,336,386) | (1,664,845,327) | 465,062,142 | (3,447,571,196) |
| **EBIT** | **(36,529,855)** | **735,895,095** | **310,967,379** | **22,366,654** | **1,105,758,983** |
| Excess of fair value of net assets over the cost of acquisition, net of written off goodwill | 0 | (24,553,624) | (26,564,285) | 65,291,178 | 14,173,269 |
| Impairment of financial assets | 0 | (129,860) | (6,036,763) | 0 | (6,166,623) |
| Dividend income | 274,498 | 23,190,461 | 846,547 | (24,033,443) | 278,063 |
| Sale of subsidiaries | 0 | 0 | 0 | 0 | 0 |
| Sale of properties, net | 3,647 | (5,501,080.89) | 1,801,533 | 0 | (3,695,901) |
| Interest income | 204,374,743 | 142,888,023 | 81,134,124 | (355,428,902) | 72,967,989 |
| Interest expense | (344,283,904) | (342,624,964) | (270,961,946) | 355,428,902 | (602,441,912) |
| Net foreign exchange profit/(loss) | (45,506,654) | (6,410,051) | (185,877,684) | 0 | (237,794,389) |
| **INCOME BEFORE TAXATION** | **(148,607,815)** | **522,754,000** | **(94,691,095)** | **63,624,389** | **343,079,480** |
| Taxation | 0 | 141,905,563 | 13,530,124 | 1,273,331 | 156,709,019 |
| **NET PROFIT FOR THE YEAR** | **(148,607,815)** | **380,848,437** | **(108,221,219)** | **62,351,058** | **186,370,461** |

**CONSOLIDATED BALANCE SHEET**

***As at 30 September 2010***

**(*in thousands of HRK*)**

| | **Issuer** | **Subsidiary Guarantors** | **Non-guarantor Subsidiaries** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 154,740,602 | 4,874,314,781 | 6,816,067,320 | 1,035,640,154 | 12,880,762,858 |
| Intangible assets | 107,632 | 291,189,644 | 291,123,715 | 722,780,650 | 1,305,201,640 |
| Biological assets | 0 | 0 | 281,562,069 | 0 | 281,562,069 |
| Investments in associates | 0 | 0 | 118,106,455 | (652,761) | 117,453,694 |
| Other non-current investments | 6,256,172,890 | 1,429,234,965 | 760,611,365 | (7,461,217,829) | 984,801,391 |
| **TOTAL NON-CURRENT ASSETS** | **6,411,021,124** | **6,594,739,390** | **8,267,470,924** | **(5,703,449,786)** | **15,569,781,652** |
| CURRENT ASSETS | | | | | |
| Inventories | 357,394 | 2,105,668,496 | 2,561,174,379 | (1,029,243,431) | 3,637,956,838 |
| Live stock and crops | 0 | 0 | 0 | 756,798,902 | 756,798,902 |
| Other assets held for sale | 0 | 0 | 0 | 148,226,795 | 148,226,975 |
| Loans granted | 3,524,281,497 | 1,913,657,009 | 1,484,756,274 | (6,577,951,186) | 344,743,594 |
| Accounts receivable | 246,505,769 | 2,275,056,753 | 2,244,942,455 | (1,124,477,425) | 3,642,027,552 |
| Other current assets | 79,514,126 | 77,254,291 | 73,274,798 | 203,605,925 | 433,649,140 |
| Cash and cash equivalents | 49,770,930 | 120,281,110 | 122,843,920 | 556,884,723 | 849,780,684 |
| **TOTAL CURRENT ASSETS** | **3,900,429,716** | **6,491,917,658** | **6,486,991,826** | **(7,066,155,697)** | **9,813,183,504** |
| **TOTAL ASSETS** | **10,311,450,841** | **13,086,657,048** | **14,754,462,750** | **(12,769,605,483)** | **25,382,965,156** |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | | | |
| Share capital | 944,471,980 | 875,791,199 | 4,437,477,846 | (6,096,150,024) | 161,591,000 |
| Reserves | 1,041,266,091 | 4,096,314,225 | 684,097,252 | (2,488,732,615) | 3,332,944,952 |
| EQUITY | 1,985,738,070 | 4,972,105,424 | 5,121,575,097 | (8,584,882,639) | 3,494,535,953 |
| MINORITY INTERESTS | 0 | 0 | 0 | 2,376,572,838 | 2,376,572,838 |
| **TOTAL EQUITY** | **1,985,738,070** | **4,972,105,424** | **5,121,575,097** | **(6,208,309,801)** | **5,871,108,791** |
| **LIABILITIES** | | | | | |
| LONG-TERM LIABILITIES | | | | | |
| Borrowings | 5,374,752,169 | 89,221,213 | 2,061,542,718 | (662,557,640) | 6,862,958,459 |
| Deferred tax liability related to land revaluation | 0 | 0 | 8,775,450 | 489,984,233 | 498,759,683 |
| Provision for employee benefits | 0 | 0 | 0 | 60,596,772 | 60,596,772 |
| Other deferred taxation | 0 | 0 | 0 | 47,257,760 | 47,257,760 |
| Liabilities towards associates | 0 | 0 | 1,234,898,341 | (1,234,898,341) | 0 |
| Other long term liabilities | 0 | 1,000,000 | 114,656,083 | 0 | 115,656,083 |
| **TOTAL LONG-TERM LIABILITIES** | **5,374,752,169** | **90,221,213** | **3,419,872,592** | **(1,299,617,216)** | **7,585,228,758** |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | 1,151,306,778 | 5,004,973,037 | 5,266,075,203 | (3,321,230,196) | 8,101,124,821 |
| Liabilities due to other assets held for sale | 0 | 597,800 | 0 | 0 | 597,800 |
| Income tax payable | 28,004,809 | 274,700,216 | 107,546,889 | (369,452,964) | 40,798,949 |
| Bank borrowings | 1,569,879,713 | 39,739,679 | 448,286,763 | (67,865,192) | 1,990,040,963 |
| Current portion of long-term borrowings | 0 | 0 | 0 | 735,726,886 | 735,726,886 |
| Non-bank borrowings | 5,063 | 22,332,659 | 8,916,176 | (5,304,054) | 25,949,844 |
| Other current liabilities | 201,764,240 | 2,681,987,022 | 382,190,029 | (2,233,552,946) | 1,032,388,344 |
| **TOTAL CURRENT LIABILITIES** | **2,950,960,602** | **8,024,330,412** | **6,213,015,060** | **(5,261,678,466)** | **11,926,627,608** |
| **TOTAL LIABILITIES** | **8,325,712,770** | **8,114,551,625** | **9,632,887,653** | **(6,561,295,682)** | **19,511,856,366** |
| **TOTAL EQUITY AND LIABILITIES** | **10,311,450,841** | **13,086,657,049** | **14,754,462,750** | **(12,769,605,483)** | **25,382,965,156** |

**ISSUER**
**Agrokor d.d.**
Trg Dražena Petrovića 3
10000 Zagreb
Croatia

**SUBSIDIARY GUARANTORS**

**Agrokor trgovina d.d.**
Ulica grada
Vukovara 284/a
10000 Zagreb
Croatia

**Jamnica d.d.**
Getaldićeva 3
10000 Zagreb
Croatia

**Konzum d.d.**
Marijana Čavića 1a
10000 Zagreb
Croatia

**Ledo d.d.**
M. Čavića 9
10000 Zagreb
Croatia

**Ledo d.o.o. Čitluk**
Industrijska zona—
Tromeota b.b.
88260 Čitluk
Bosnia and Herzegovina

**PIK Vinkovci d.d.**
Matije Gupca 130
32100 Vinkovci
Croatia

**Sarajevski kiseljak d.d.**
Ulica Kraljice mira br.7
71250 Kiseljak
Bosnia and Herzegovina

**Zvijezda d.d.**
M. Čavića 1
10000 Zagreb
Croatia

**LEGAL ADVISORS**

*To the Issuer*
*as to US law*
**Sidley Austin LLP**
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA
United Kingdom

*To the Issuer*
*as to Croatian law*
**Travaš I Partneri Law Firm Ltd.**
Jurkovićeva 24
10000 Zagreb
Croatia

*To the Initial Purchasers*
*as to US law*
**Latham & Watkins (London) LLP**
99 Bishopsgate
London EC2M 3XF
United Kingdom

*To the Initial Purchasers*
*as to Croatian law*
**Law Firm Glinska & Mišković Ltd.**
Eurotower
Ivana Lučića 2A/20
10000 Zagreb
Croatia

*To the Issuer and the Initial Purchasers*
*as to Bosnian law*
**Attorney Femil Čurt (Advokat Femil Čurt)**
Trampina 6
71 000 Sarajevo
Bosnia and Herzegovina

**TRUSTEE**
**BNY Corporate Trustee Services Limited**
One Canada Square
London E14 5AL
United Kingdom

**PRINCIPAL PAYING AGENT**
**The Bank of New York Mellon**
One Canada Square
London E14 5AL
United Kingdom

**LUXEMBOURG LISTING AND PAYING AGENT**
**The Bank of New York Mellon (Luxembourg) S.A.**
Vertigo Building
Polaris, 2-4 rue Eugene Ruppert
L-2453
Luxembourg