

**MONTHLY REPORT ON ECONOMIC AND FINANCIAL  
STATE AND THE IMPLEMENTATION OF THE  
MEASURES OF EXTRAORDINARY ADMINISTRATION  
OF AGROKOR D.D.**

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**FOR THE PERIOD BETWEEN 11 JULY AND 10 AUGUST 2017.**

*Prepared pursuant to Article 12 paragraph 9 of the Act on the procedure of extraordinary administration in commercial companies of systemic importance for the Republic of Croatia (Official Gazette 32/2017)*

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## 1. Executive summary

This monthly report provides an update on the economic and financial state of, and implementation of activities and measures under the extraordinary administration of Agrokor d.d. in the period 11 July and 10 August 2017. The ongoing demanding process of financial and operational restructuring of the Group companies in the reporting period continues to improve the overall state of the Group, in particular with respect to the stabilisation of the business operations of the group companies in retail.

The results of the Retail sector are seasonal and subject to lower profitability in Q1 and Q2, and companies achieving better results during the summer tourist season. In the pre-petition period, the Retail and Wholesale sector experienced significant liquidity problems, but with the new financing in place the situation has started to stabilize, with the customer numbers recovering and nearing the levels recorded in previous years. Optimisation of cost and restructuring measures continue with the objective of further improving the results. The Food sector, which is mostly seasonal, has achieved solid results in the six-month period: the food companies have normalized production and business processes which were disrupted in the pre-petition period. One goal was to increase the level of stock of the companies by increasing production, as stock levels were significantly lower than last year, in order to be well prepared for a successful summer season. While the first months of 2017 in the Agri sector were marked with low liquidity, worsening of the suppliers' conditions and challenges to the normal functioning of the supply chain, the new financing significantly increased liquidity and stability of the companies, with adequate liquidity improving raw material purchasing conditions and positively affecting profitability.

The Temporary Creditors Council delivered a decision to repay in full amount the pre-petition claims of Pool A suppliers, family farms (OPG), small entrepreneurs and micro-suppliers with annual revenue less than 5.2 million HRK, maximum level of 2,6 million HRK in assets, and up to 10 employees. In their July meeting the members of the Council were presented with a list of suppliers fulfilling the criteria for payment in the full amount. Payment was approved for more than 2,100 suppliers in total amount of 132 million HRK, covering in full the agreed Pool A claims. The Temporary Creditors Council is expected to decide on the payment of pre-petition claims of Pool B suppliers, i.e. all other suppliers, by the end of August.

The suppliers have the option to participate in the 50 million EUR tranche of additional financing. Interested suppliers are invited to review the information issued to suppliers and submit a Statement of intent to participate in the financing of Agrokor

and/or its companies with goods or services by 25 August. Suppliers' pre-petition debt will be refinanced in line with the conditions of the documentation circulated suppliers.

Significant progress has been made on the Group's viability plan since the last report, with initial draft viability plans completed for the 5 divisions (Agrokor Group including Agrokor d.d., retail, food, agri-business, and Agrokor Portfolio Holdings) and 9 businesses, totalling 14 planning entities and encompassing 143 legal entities within the Group. In order to have a sound and solid foundation for the preparation of the financial plan for 2017 and beyond, the PwC audit needs to be completed before these plans can be finalised. Additional technical checks in relation to all financial models will have to be performed as well as a number of different additional steps in order to finalize a comprehensive Group viability plan.

The Group is continuing to process the 12,051 timely claim registration applications received and all duplicate applications have been removed from the processing. A total of 10,782 applications had been fully processed on 10 August 2017, and 1,269 are yet to be processed. In July 2017, the Commercial Court issued two new rulings increasing the number of companies subject to the Act on Extraordinary Administration. The decisions dated 5 July 2017 and 13 July 2017 included companies HU-PO and Vinka, and Mliječno govedarstvo Klisa, respectively. The creditors were informed of this via the Group's website and were invited to register their claims against HU-PO and Vinka by 2 September 2017, and by 11 September 2017 for Mliječno govedarstvo Klisa. Following expiry of these deadlines, the claims will be processed as per the established methodology so that the final claim amounts might be determined and the Group companies the claims are lodged against identified.

Various litigation and enforcement proceedings have been formally issued against Agrokor d.d. and a number of its affiliates in the period. These include enforcement proceedings in Slovenia by Sberbank d.d. Ljubljana which have been suspended by operation of law, and proceedings relating to other financial obligations due to a number of third party creditors under bills of exchange and facility agreements in courts of Serbia and Montenegro, as well as three arbitration proceedings issued in London. The appeal lodged by Sberbank of Russia against the decision of the Commercial Court in Zagreb on the legality of the refinancing model is pending, with the extraordinary administration contesting the appeal.

During the reporting period, the extensive communication with the government representatives and Agrokor stakeholders in Bosnia and Herzegovina continued, while the activities in Bosnia and Herzegovina continue to concentrate on the transformation of Agrokor's retail business in the country and revitalising Mercator's brand in that market.

## 2. State of companies under the Extraordinary Administration during the reporting period

The financial information in the table below relates to the six months (year-to-date) revenue and EBITDA for certain key companies. As the 2016 financial statements are currently being audited, no comparable information in relation to the prior year has been included.

Financial results for individual companies for the first six months of 2017, included in this section, are not audited. A summary of the audited results for FY 2016 will be included in one of the upcoming monthly reports, once available. As previously stated, the unaudited information for 2016 is unreliable.

Jan – Jun 2017 performance*				
HRK m	Retail and Wholesale <sup>1</sup>	Food <sup>2</sup>	Agri <sup>3</sup>	
Revenue	7,294	3,982	1,353	
Gross margin	916	1,392	322	
Gross margin %	12.6%	34.9%	23.8%	
EBITDA	-234	521	141	
EBITDA %	-3.2%	13.1%	10.4%	

Source: Company information

1) **Retail and Wholesale** includes 5 companies summarized results:

- Retail: Konzum Cro, Konzum BH, Tisak
- Wholesale: Velpro centar and Velpro BH

2) **Food** includes 9 companies summarized results:

- Water – Jamnica, Sarajevski kiseljak and Roto dinamic
- Ice cream and Frozen food – Ledo, Frikom and Ledo Čitluk
- Oil – Zvijezda and Dijamant
- Meat – PIK Vrbovec

3) **Agri** includes 4 companies summarized results:

- Belje, PIK Vinkovci, Vupik and Agrokori Trgovina

\*NOTE: All results are estimated.

The results of the Retail sector are seasonal and subject to lower profitability in Q1 and Q2. Croatian retail companies achieve better results during the summer tourist season. In the pre-petition period, the Retail and Wholesale sector experienced significant liquidity problems which manifested themselves through an inability to execute the payment of obligations and the purchase goods and services. This resulted in suboptimal stock levels, negative perception in the market and a drop in

customer numbers. After the petition and with the new financing, the situation started to stabilize. The customer numbers and average basket value have recovered and are nearing the levels from previous years. Optimisation of cost and restructuring measures continue with the objective of further improving the results.

The Food sector, which is mostly seasonal, has achieved solid results in the six-month period. After the petition and with the liquidity assured, the food companies normalized production and business processes which had been disrupted in the pre-petition period. The goal to increase the level of stock became a focus of the companies by growing production in order to prepare for a successful summer season, as stock levels were significantly lower than last year.

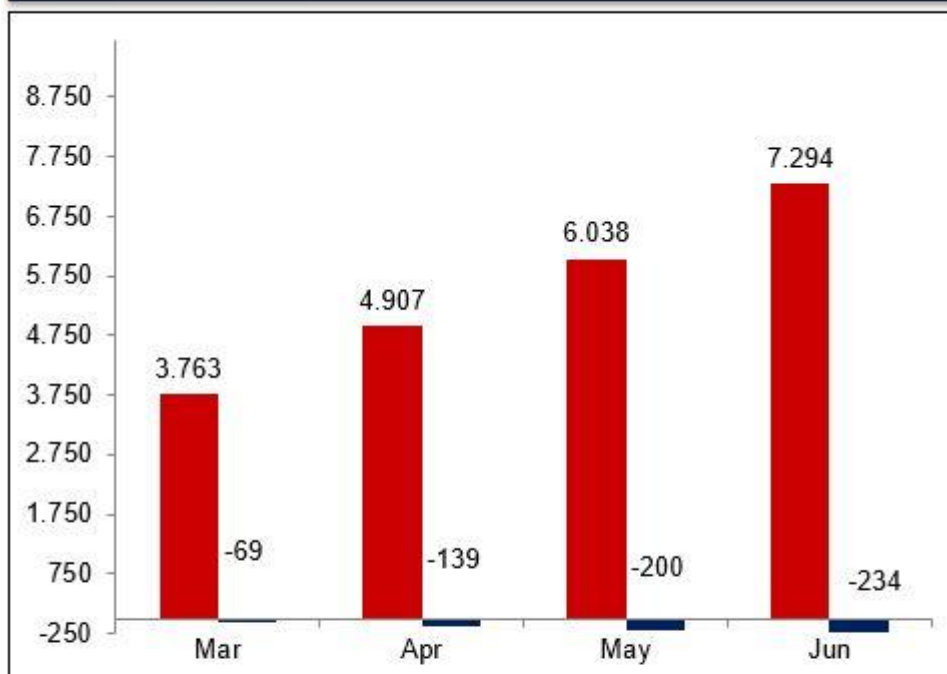
The first months of 2017 in the Agri sector were marked with low liquidity, worsening of the suppliers' conditions and challenges to the normal functioning of the supply chain. The new financing significantly increased liquidity and stability of the companies, and the adequate liquidity provides for the purchase of raw materials at a better price, and this will positively affect the strengthening of profitability. A restructuring strategy was defined during June 2017, which includes closing non-profitable business segments, as well as other activities aiming to achieve better results through lowering of operational costs.

## 2.1. Companies in the retail and wholesale sector

Companies in the retail and wholesale sector are Konzum, Konzum BH, Tisak, Velpro centar, and Velpro BH. The table below shows the cumulative revenue and EBITDA by month for the sector, with results of individual companies portrayed in detail in subsections which follow.

### Cumulative revenue and EBITDA by Month 2017 (HRK m)\*

#### Retail & Wholesale



- Includes 5 companies summarized results:
  - Retail: Konzum Cro, Konzum BH, Tisak
  - Wholesale: Velpro centar and Velpro BH

■ Revenue ■ EBITDA

*\*NOTE: All results are estimated.*

## 2.1.1. Companies in the retail and wholesale sector: Konzum d.d.

### 2.1.1.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VI 2017 (HRK m)</b>
Revenue	4,206
EBITDA	-75
EBITDA %	-1.8%
<b>Key performance indicators</b>	<b>June 2017</b>
Gross margin %	13.0%
DSO	17 days
DIO	38 days

*\*NOTE: All results are estimated.*

### 2.1.1.2. Commentary on recent trading

- In the first six months of 2017 the Company experienced liquidity and solvency problems that influenced both its top line and bottom line.
- Some suppliers terminated their relationship with the Company which caused out-of-stocks, loss of customers and lower value of the average basket.
- Market research has shown that the main reasons for the drop in sales are out-of-stocks, high prices and negative publicity.



## 2.1.2. Companies in the retail and wholesale sector: Tisak d.d.

### 2.1.2.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VI 2017 (HRK m)</b>
Revenue	973
EBITDA	-37
EBITDA %	-3.8%
<b>Key performance indicators</b>	<b>June 2017</b>
Gross margin %	19.9 %
DSO	33 days
DIO	20 days

*\*NOTE: All results are estimated.*

### 2.1.2.2. Commentary on recent trading

- The Group's restructuring strategy is currently being defined and will be implemented as soon as possible. This likely to result in a reduction in the number of retail outlets and some changes to the current business lines.

## 2.1.3. Companies in the retail and wholesale sector: Velpro - Centar d.o.o.

### 2.1.3.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VI 2017 (HRK m)</b>
Revenue	894
EBITDA	-53
EBITDA %	-6.0%
<b>Key performance indicators</b>	<b>June 2017</b>
Gross margin %	4.6 %
DSO	88 days
DIO	30 days

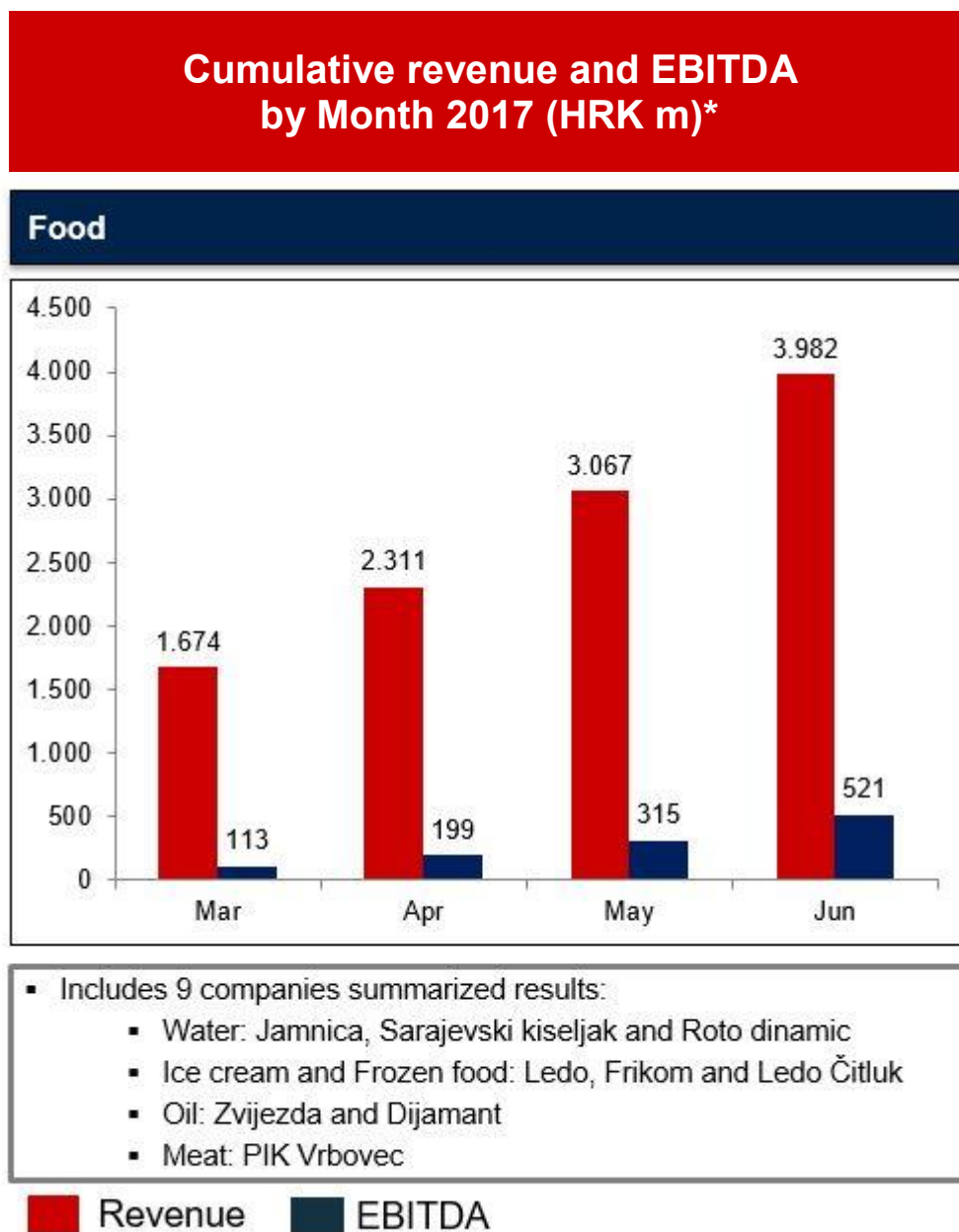
*\*NOTE: All results are estimated.*

### 2.1.3.2. Commentary on recent trading

- Following a decision to restock, daily turnover has been growing consistently.
- Whilst signing and negotiating new annual contracts with customers, the lack of stock available in relation to certain critical products has had the biggest adverse impact on turnover.
- Unprofitable business with transit customers and sub-distributors has ceased.
- In order to optimise the business, the option of decreasing the number of centres is being considered.
- The decrease in EBITDA is a result of a significant decrease in stock levels which has caused a drop of margin.
- Stock in absolute value terms at the end of June 2017 was 35% lower than at the same time last year.

## 2.2. Companies in the food sector

Companies in the retail and wholesale sector are Jamnica, Sarajevski kiseljak and Roto dinamic, Ledo Frikom, Ledo Čitluk, Zvijezda, Dijamant, and PIK Vrbovec. The table below shows cumulative revenue and EBITDA by month for the sector, with results of individual companies portrayed in detail in subsections which follow.



**\*NOTE: All results are estimated.**

## 2.2.1. Companies in the food sector: Jamnica d.d.

### 2.2.1.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VI 2017 (HRK m)</b>
Revenue	645
EBITDA	132
EBITDA %	20%
<b>Key performance indicators</b>	<b>June 2017</b>
Gross margin %	53%
DSO	113 days
DIO	68 days

*\*NOTE: All results are estimated.*

### 2.2.1.2. Commentary on recent trading

- The new financing has led to a significant liquidity improvement and overall stabilization of Jamnica. In the last few months normalization in business processes has resumed, as well as supplier and customer relations.
- Jamnica implemented activities to increase operational efficiency under the restructuring process, and as a result of that we can see a significant increase in EBITDA and EBITDA margin.
- June's sales results are at an historically high level. Jamnica is focused on securing the optimal stocks level for the season to create the prerequisites for continued sales and profitability growth thereafter.

## 2.2.2. Companies in the food sector: Roto dinamic d.o.o.

### 2.2.2.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VI 2017 (HRK m)</b>
Revenue	462
EBITDA	23
EBITDA %	5%
<b>Key performance indicators</b>	<b>June 2017</b>
Gross margin %	19%
DSO	68 days
DIO	118 days

*\*NOTE: All results are estimated.*

### 2.2.2.2. Commentary on recent trading

- Despite significant liquidity challenges at the beginning of the year, compared to the previous period, the sales results for the first six months have grown.
- Ensuring adequate and continued liquidity is extremely important during the season to increase stock levels and enable further sales growth.
- This will also help to restore relationships with business partners and regain their trust.

## 2.2.3. Companies in the food sector: Ledo d.d.

### 2.2.3.1. Financial results YTD and KPIs

Financial results*	I-VI 2017 (HRK m)
Revenue	488
EBITDA	106
EBITDA %	22%
Key performance indicators	June 2017
Gross margin %	46%
DSO	93 days
DIO	106 days

*\*NOTE: All results are estimated.*

### 2.2.3.2. Commentary on recent trading

- Liquidity difficulties at the beginning of the year had an adverse impact on stock levels of finished products, and thus on the sales results achieved for the first six months, particularly in frozen food.
- In order to achieve the best possible financial results Ledo focused on its core category – ice cream - achieving growth in the first part of the summer season.
- The restructuring process has created operational efficiencies, resulting in a significant increase in profitability and EBITDA.
- Improvements in business processes and supplier and customer relationships have created the conditions for the continued expansion needed to generate positive trends throughout the season.

## 2.2.4. Companies in the food sector: Zvijezda d.d.

### 2.2.4.1. Financial results YTD and KPIs

Financial results*	I-VI 2017 (HRK m)
Revenue	306
EBITDA	24
EBITDA %	7.8%
Key performance indicators	June 2017
Gross margin %	27%
DSO	99 days
DIO	48 days

*\*NOTE: All results are estimated.*

### 2.2.4.2. Commentary on recent trading

- The financial stabilisation of Zvijezda has had a positive impact on production and helped to stabilise goods' deliveries.
- Together with a liquidity issue and the consequential disruption of delivery of goods from suppliers, there has been a fall in sales compared to the first half of 2016.
- In a bid to compensate for the decrease in sales, Zvijezda is undertaking proactive steps to attempt to increase exports and the first container of goods has recently been delivered to South Korea. Zvijezda's export sales have grown by 4% in the year to date.
- Zvijezda is working intensively to simultaneously decrease costs and increase operational efficiency, therefore gradually increasing stock levels in preparation for the new season after the harvest.
- Ensuring adequate liquidity will enable procurement of the main raw materials at good prices and will have a positive impact on profitability.

## 2.2.5. Companies in the food sector: PIK Vrbovec d.d.

### 2.2.5.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VI 2017 (HRK m)</b>
Revenue	823
EBITDA	40
EBITDA %	4.9%
<b>Key performance indicators</b>	<b>June 2017</b>
Gross margin %	24.3%
DSO	129 days
DIO	42 days

*\*NOTE: All results are estimated.*

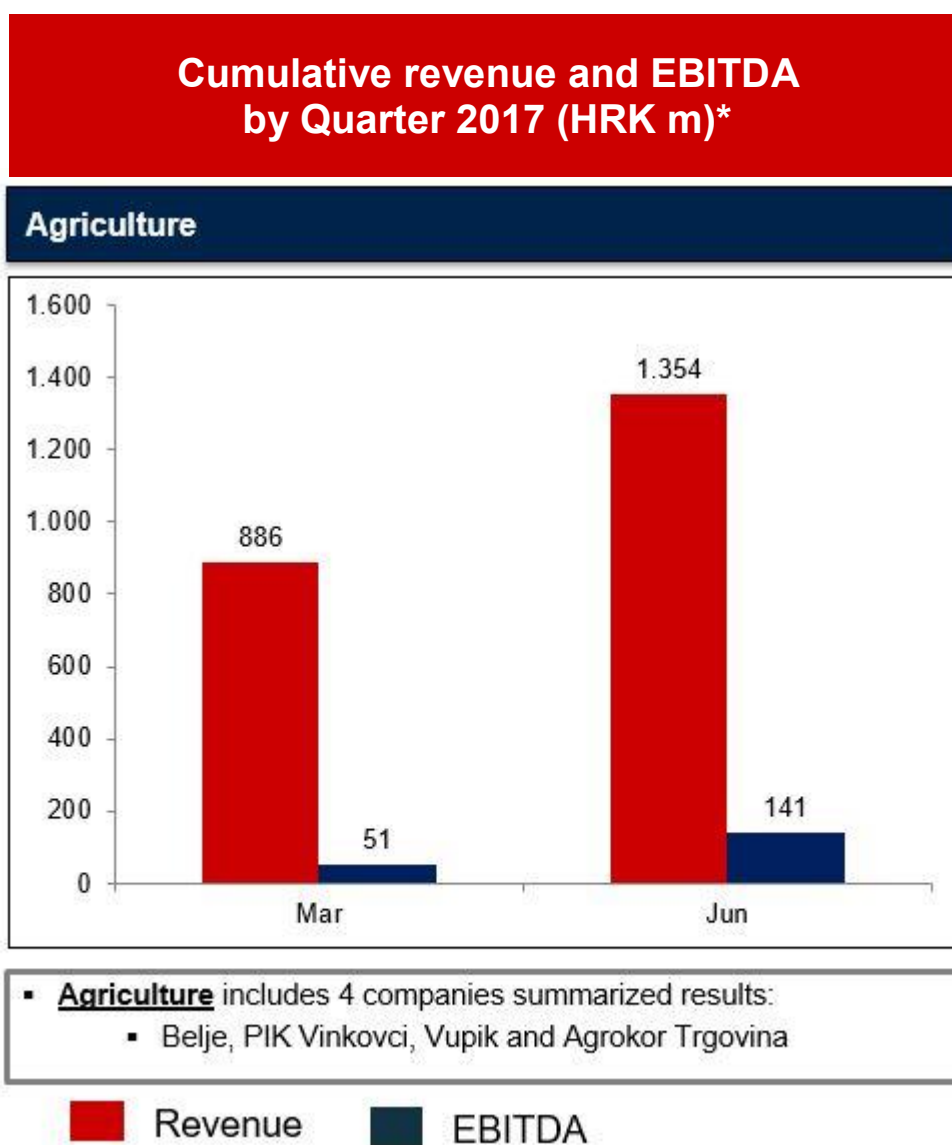
### 2.2.5.2. Commentary on recent trading

- During May and June, PIK normalized the production process which had been destabilized amidst the Group's liquidity challenges at the beginning of the year.
- Due to continued activities aimed at increasing internal efficiency and improving cost management, a better operating result was achieved in June compared to previous months, showing a positive change.
- There is also an ongoing process to normalise customer and supplier relationships, aimed at further increasing in the levels of production and sales in order to achieve overall operational results similar to that of 2016.



## 2.3. Companies in the agriculture sector

Companies in the agri sector are Belje, PIK Vinkovci, Vupik and Agrokor Trgovina. The table below shows the cumulative revenue and EBITDA by quarter for the sector, with results of individual companies portrayed in detail in subsections which follow.



*\*NOTE: All results are estimated.*

## 2.3.1. Companies in the agriculture sector: Belje d.d.

### 2.3.1.1. Financial results YTD and KPIs

Financial results*	I-VI 2017 (HRK m)
Revenue	597
EBITDA	81
EBITDA %	14%
Key performance indicators	June 2017
Gross margin %	31%
DSO	88 days
DIO	202 days

*\*NOTE: All results are estimated.*

### 2.3.1.2. Commentary on recent trading

- Liquidity problems in the first months of this year had a negative effect on production, due to the lack of raw materials and packaging, and thus the realized product sales.
- The drop in revenues is most visible in the Animal Feed Factory, which due to the lack of raw materials produced mixtures for their own farms, while production and sales for external buyers was completely stopped.
- In spite of the smaller production volume due to excellent natural indicators in agricultural production and cost optimization, the realized margins for the first six months of 2017 are at the high level - gross margin of 31% and EBITDA margin of 14%.
- Thanks to the new financing, the Company's liquidity and stability have significantly improved, while providing sufficient liquidity will enable the purchase of raw materials at a favourable price and will have a positive impact on strengthening profitability.
- The days of outstanding customer receivables and suppliers payables are still above the target average days, however coupled with a normalization of relations it will gradually lead to a decrease days receivables and days payables.

## 2.3.2. Companies in the agriculture sector: PIK Vinkovci d.d.

### 2.3.2.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VI 2017 (HRK m)</b>
Revenue	148
EBITDA	15
EBITDA %	10%
<b>Key performance indicators</b>	<b>June 2017</b>
Gross margin %	38%
DSO	98 days
DIO	404 days

*\*NOTE: All results are estimated.*

### 2.3.2.2. Commentary on recent trading

- During the first six months PIK Vinkovci faced liquidity problems which reflected negatively on the revenue and profitability levels.
- Cost rationalization is currently being undertaken in order to increase efficiency while efforts continue to improve production.
- The new financing has stabilised liquidity, and the focus on the company in the period to follow will be improving collection of receivables and regular payment of supplier obligations.

## 2.3.3. Companies in the agriculture sector: Vupik d.d.

### 2.3.3.1. Financial results YTD and KPIs

<b>Financial results*</b>	<b>I-VI 2017 (HRK m)</b>
Revenue	134
EBITDA	32
EBITDA %	24%
<b>Key performance indicators</b>	<b>June 2017</b>
Gross margin %	40%
DSO	76 days
DIO	323 days

*\*NOTE: All results are estimated.*

### 2.3.3.2. Commentary on recent trading

- First months of 2017 were characterized by weak liquidity, deteriorated conditions with suppliers and challenges to the normal functioning of the supply chain.
- In June 2017, a restructuring strategy was defined, encompassing the closure of unprofitable business segments and other activities aimed at improving the results through reduction of operating costs.
- Thanks to the new financing, liquidity has improved significantly with a visible normalization of business processes as well as relations with suppliers and customers.

## 2.3.4. Companies in the agriculture sector: Agrokor trgovina d.o.o.

### 2.3.4.1. Financial results YTD and KPIs

Financial results*	I-VI 2017 (HRK m)
Revenue	475
EBITDA	13
EBITDA %	3%
Key performance indicators	June 2017
Gross margin %	6%
DSO	59 days
DIO	2 days

*\*NOTE: All results are estimated.*

### 2.3.4.2. Commentary on recent trading

- The company experienced a lack of liquidity in Q1 with continuous obligations which led to financial difficulties.
- The loss of market confidence which the Group experienced, as well as loss of all credit lines with insurance companies led to a dramatic fall in Q2 revenue.
- At the end of Q2, the new financing significantly increased liquidity and stability of the company, with relationships with the suppliers and the buyers normalising as well. However, a number of international partners have not yet decided to continue to cooperate with the company.
- A number of claims, both internal and external, are at the moment difficult to collect due to claims of the buyers in relation to other companies in the Group.
- Thanks to the new financing, liquidity has improved significantly with a visible normalization of business processes as well as relations with suppliers and customers.
- Ensuring adequate liquidity will enable return of the market confidence and purchase of goods in the upcoming harvest season.

## 3. Short-term cash position

### 3.1. Cash management

The business continues to actively manage its liquidity with cash flow forecasts being updated on a bi-weekly basis, and weekly payment budgets being set and approved based on these forecasts. In order to assist with the liquidity in the Group, HRK 727 million of the new finance raised has been deployed in the businesses to date. This cash has been used primarily for a combination of unwinding trade payables in relation to the period post 10 April 2017, and for restocking the businesses to allow them to prepare for the peak summer season.

A dialogue with trade credit insurers is also ongoing with the objective of assisting suppliers in improving supply terms. A successful outcome would help the Group to return to normal terms of business, particularly with its international supplier base.

### 3.2. Supplier claims settlement

It was communicated publicly in the week ending 28 July 2017 that there would be a tranche of €150m made available for settlement of pre-petition trade claims. This €150m tranche has been split into three pools:

- Pool A (up to €30 million): Dedicated pool for 'micro' suppliers, defined as family farms (OPG), small entrepreneurs and micro-suppliers with annual revenue less than HRK 5.2 million, a maximum of HRK 2.6 million in assets and up to 10 employees
- Pool B (€110 - €120 million): This pool is open to all suppliers (except the Pool A micro-suppliers). Suppliers must confirm they will return to historic and/or industry standard terms of supply in order to be eligible; and
- Pool C (up to €10 million): Discretionary pool for settlement of pre-petition trade suppliers in accordance with identified business needs.

Pool A suppliers have been identified and total HRK132 million across approximately 2,100 suppliers with each supplier due to receive 100% of its pre-petition debt.

Payment of these amounts commenced at the end of July 2017. In the event additional qualifying suppliers are identified at a later date, these will be proposed to the Temporary Creditors Council in August, with any remaining funds from Pool A being allocated to Pool B.

Subscription to Pool B is ongoing and as at the date of this report, companies are in discussions with suppliers which are expected to last until mid-August. Based on the outcome of negotiations a payment proposal will be presented for approval at the next Temporary Creditors Council meeting at the end of August 2017. Claims will

then be reconciled with payments anticipated to commence from the end of August 2017.

### **3.3. Trade finance facility**

The Group is offering a €50 million tranche of additional financing for supplier participation. Suppliers will only be eligible if they subscribe to the tranche with goods, services or cash at the best price and subject to a written order from the Group. Participation will be open until 25 August 2017, subject to the conditions contained in the documentation made available to suppliers, and drawdown of the facility is envisaged to commence from the end of September 2017.

Suppliers participating will have a portion of their pre-petition debt refinanced up to the lower of the value of goods or services provided or amount of pre-petition debt.

The refinancing will occur on delivery of goods/completion of services within three months from the drawdown date (envisaged in September). Failure to deliver/complete services will mean no refinancing in relation to the portion of goods/services not delivered.

## 4. Business reviews

There has been significant progress on the Group's viability plan since the last monthly report. Initial draft viability plans for the 5 divisions and 9 businesses (see below) have been developed.

Overview of 5 Divisions and 9 Businesses, making up 14 planning entities

Agrokor Group incl. Agrokor DD (Holding)					
<b>Divisions (4 +1)</b>	<b>Retail</b>	<b>Food</b>	<b>Agri-Business</b>	<b>APH: A. Portfolio Holdings</b>	
	<ul style="list-style-type: none"> <li>• Mercator</li> <li>• Konzum</li> </ul>	<ul style="list-style-type: none"> <li>• Beverages</li> <li>• Frozen</li> </ul>			
<b>Businesses (Σ 9)</b>	<ul style="list-style-type: none"> <li>• Velpro</li> <li>• Tisak</li> <li>• <u>BiH</u> business</li> </ul>	<ul style="list-style-type: none"> <li>• Oils</li> <li>• Meat</li> </ul>			
<b>Legal entities (Σ143)</b>	26	33	17	66	1

At this stage, the initial draft viability plans are for internal purposes only and will be used as the basis for discussion to finalise the full viability plan. The draft will highlight any remaining inconsistencies, missing data, and allow proposals to be challenged and resolve any other shortcomings discovered in an iterative process designed to refine the plans. These issues are now being addressed and the initial draft viability plans are being further refined in order to finalize a full Group viability plan.

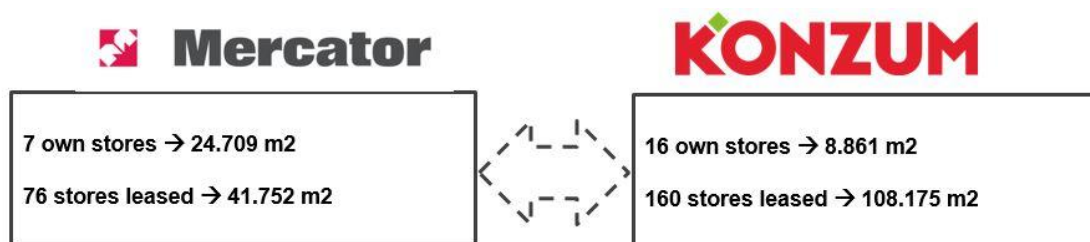
As previously discussed it is critical that PwC finalises the 2016 Group audit, in order that there is a solid foundation for the financial plan for 2017 and beyond. Further, technical checks of all financial models will be performed as well as a high-level assessment of value for the businesses. Additional work will relate to the legal and tax implications. The Extraordinary Administrator plans to develop a full Group viability plan by the end of September 2017.

### 4.1. Restructuring of retail in Bosnia and Herzegovina

Due to challenges in the Bosnian retail market discussions regarding solutions for the businesses have been in progress for some months. A transaction which would see 83 Mercator owned stores transferred back from Konzum BiH to Mercator, with the Mercator brand returning to the market in the following months is being examined. A portfolio of 176 stores would remain in Konzum BiH.



## Konzum BiH and Mercator BiH stores after restructuring



Certain operational restructuring levers for each of the separate parts of the business have been identified by both Mercator and Konzum BiH in order to return all 259 stores to a profitability in the medium-term.

The precise details and steps related of the proposed transaction are yet to be finalised and an update in this regard will be provided in the next monthly report.

In the meantime, Konzum continues to liaise with landlords, suppliers and other key creditors in order to maintain their support of the business going forward. Certain performance improvement measures have already been implemented and are being monitored closely to help ensure the business can continue whilst the proposed transaction with Mercator is progressed.

## 5. Litigation

Various litigation and enforcement proceedings have been formally issued against Agrokor d.d. and a number of its affiliates. The Extraordinary Administrator also understands that certain other proceedings have been issued but not yet formally served on the relevant Agrokor company. He will address these proceedings when such service takes place.

Particularly, enforcement proceedings were initiated in Slovenia by Sberbank d.d. Ljubljana against Agrokor d.d. and Jamnica d.d. in respect of Agrokor's shares in Mercator d.d. and the business share in the company Jamnica Mineralna Voda d.o.o. held by Jamnica d.d. An enforcement order was issued on 4 July 2017 and the Extraordinary Administrator filed an objection in accordance with the prescribed process. However, following the recognition of the extraordinary administration proceedings in Slovenia, these enforcement proceedings are suspended by operation of law. The Extraordinary Administrator has informed the enforcement court that the decision on recognition has been published and proposed that the court issue a declaratory decision suspending the enforcement proceeding. The Extraordinary Administrator is awaiting the formal declaration from the enforcement court on the suspension of the proceedings.

The Extraordinary Administrator also understands that Sberbank d.d. Ljubljana has sought an injunction preventing the disposal or encumbrance of the same shares. No documentation has yet been served on the Extraordinary Administrator relating to these proceedings, but the necessary steps will be taken if such service takes place.

In respect of the recognition of the Act on Extraordinary Administration proceedings in Slovenia, appeals/objections have been filed by the Republic of Slovenia and two Sberbank entities. The Extraordinary Administrator is taking legal advice in respect of these objections, and the recognition order granted on 14 July 2017 is still in force.

Further, enforcement proceedings have been issued in Serbia by both Slovenian and Croatian companies in the Sberbank group against Jamnica d.d. in respect of its shareholding in MG Mivela d.o.o. and against Konzum d.d. in respect of its shareholding in Idea d.o.o. The Extraordinary Administrator is taking steps to object to these proceedings, and has filed an application for recognition of the Act on Extraordinary Administration procedure in Serbia.

The Extraordinary Administrator has also filed an application in the Chancery Division of the High Court of England and Wales seeking the recognition of the process of the Act on Extraordinary Administration. Sberbank filed a response to that application, and a hearing listed for 3 August 2017 was vacated to allow for the exchange of further evidence.

There is also an outstanding temporary injunction proceeding in front of the Commercial Court in Zagreb brought by Sberbank of Russia regarding the new financing undertaken in June this year. This motion had previously been rejected, however an appeal was accepted on procedural grounds, and it has been returned to the Commercial Court in Zagreb for reconsideration.

The remaining proceedings relate to other financial obligations due to a number of third party creditors under bills of exchange and facility agreements. Proceedings have been issued in the courts of Montenegro and three arbitration proceedings have been issued in London. The Extraordinary Administrator is taking legal advice in relation to each set of proceedings and is in communication with the relevant creditors.

The Extraordinary Administrator will take any such steps as are necessary in relation to these proceedings as required by the law on extraordinary administration and the best interests of Agrokor d.d. and its affiliates.

## 6. Temporary Creditors Council

The Temporary Creditors Council convened once in the period from 11 July to 10 August (5th session).

The Temporary Creditors Council held its 5th meeting on 26 July 2017. All members attended the meeting.

The agenda for the meeting was:

1. Consent for the payment of pre-petition claims due and payable to family farms (OPG), small entrepreneurs and micro-suppliers with annual revenue less than HRK 5.2 million, a maximum of HRK 2.6 million in assets, and up to 10 employees.

Consent was given by majority votes with three Temporary Creditors Council members voting in favour and two Temporary Creditors Council members abstained.

## 7. Bills of exchange

During the period Agrokor continued providing assistance and support in relation to bilateral discussions held between suppliers and creditors.

A meeting of the Joint Working Group of the creditor and supplier representatives, established pursuant to the Memorandum dated 14 April 2017, was held on 14 July 2017.

The parties discussed the overall progress of the Extraordinary Administration, especially focusing on the following topics:

- 1) The claims filing process has been successfully completed, and the process of recognizing the claims is currently under way. It is envisioned that the process should be completed within the timeframe stated by the Act on Extraordinary Administration.
- 2) Three companies from the list of suppliers that participated in bills of exchange related transactions initiated pre-bankruptcy procedures under Croatian law: AWT International, Unex and Granolio.

The creditor representatives reported that a bilateral agreement was reached with almost 90% of the companies that signed the Memorandum. With respect to the remaining companies with whom no agreement was reached, nor was any alternative satisfactory model found, the creditors are in daily communication in order to find a solution. As of the 10 August 2017 the creditors have not imposed a forced collection of claims on those suppliers.

## 8. Registration of claims

Throughout July 2017, the Group continued processing the applications to register claims. The process is being carried out through an interface that allows aggregation of data on any single creditor from multiple sources. In addition, the interface provides an overview of all claim applications received, their comparison against the data in the Group's database and provides an opportunity for all relevant claim-related details (review of the claimed amount, the legal basis for the claim, calculation and/or review of any associated costs and interest if applicable, as well as the basis and details of any disputed claims) to be recorded.

The claims are being processed by teams comprising of staff from the Group's accounting, finance and legal services departments. Several outside law firms as well as the auditing firm, KPMG, have been engaged to provide guidance in determining claim amounts.

The total number of claim registration applications received, after excluding all duplicate applications and all applications mailed by post or delivered by carrier before the deadline, is 12,051. As at 10 August 2017, a total of 10,782 applications have been processed - approximately 90% - whilst the remaining 1,269 applications are still being processed.

Once all applications have been processed the Commercial Court will post a list of all creditors and claim amounts on the e-board. Creditors will then have eight days to lodge any complaints against claims agreed.

Furthermore, in July 2017 the Commercial Court issued two new rulings increasing the number of companies subject to the Act on Extraordinary Administration. The decisions dated 5 July 2017 and 13 July 2017 included companies HU-PO and Vinka, and Mliječno govedarstvo Klisa, respectively.

The creditors were informed of this via the Group's website and were invited to register their claims against the above-named companies within the 60-day deadline prescribed by the Act on Extraordinary Administration. This deadline expires on 2 September 2017 for HU-PO and Vinka, and on 11 September 2017 for Mliječno govedarstvo Klisa. Five claim applications against Vinka were received during July.

The 60-day period following the end of the claim registration process will be used to determine the final claim amounts and which Group entities they are lodged against.

## 9. Stakeholder relations and communications

Regular, direct and formal communication with all the key stakeholders - creditors, suppliers, unions, employees and management, as well as the government representatives and institutions in the countries where Agrokor operates - has been maintained through a number of different channels during the reporting period.

The communication with respect to internal stakeholders is primarily focused on the developments in retail. For example, with respect to Velpro-centar d.o.o. where on 13 July a meeting was held between the Management Board and the Workers' Council. During the meeting, a decision was made to extend the validity of the Collective Agreement until the end of 2017 and permanently increase by an average of 8% the salary of 550 workers with the lowest coefficients, starting as of 1 August 2017. Similar meetings and arrangements are under way in other operational companies of Agrokor. Internal communications were particularly focused on the activities of the Steering group, as well as activities with respect to the new financing.

The extraordinary administration is primarily focused on maintaining communication with all groups of creditors, through direct meetings and through the Temporary Creditors Council which convened once during the reporting period, as detailed in section 6 of this report.

Furthermore, the direct communications with the media in Croatia, Bosnia and Herzegovina, and Slovenia continues daily. During the present reporting period, the extraordinary administration was engaged in more than 60 media activities in the countries throughout the region where Agrokor operates, including around 20 press releases, statements for the media and several dozen responses to queries from the media, several interviews and guest appearances, and two media briefings.

The communication with local, regional and international media related to all the activities of the extraordinary administration and the processes connected to the extraordinary administration, as well as topics such as, for example, the processing of the received claims applications, restructuring of Konzum, transformation of Konzum BiH, relationship with the creditors and suppliers in Croatia and BiH, Zvijezda's exports to South Korea, record yields in Belje, payment of the old obligations, and especially the obligations of Agrokor companies towards family farms, manufactures, and micro-suppliers, as well as with respect to the decision of the Slovenian court on the recognition of the procedure of extraordinary administration, etc. In order to further maintain consistency and transparency, the extraordinary administration continues to pay special attention to media relations.

With respect to regular communication with stakeholders in other countries where Agrokor operates during the present reporting period, the extraordinary administration held meeting with the government representatives and representatives of state institutions, and Agrokor's suppliers in Bosnia and Herzegovina.

On 13 July 2017, the extraordinary trustee, together with the assistant to the President of the Board of Poslovni system Mercator (Igor Maroš) and the Director of Konzum BiH (Tomislav Bagić) in Sarajevo held a meeting with the representatives of more than a hundred suppliers of Konzum BiH. The topic of the meeting was further work on advancement of the cooperation of Konzum and the supplier under bilaterally long-term sustainable grounds, where the process of the transformation of Agrokor's retail in Bosnia and Herzegovina and return of Mercator to the market in September was presented to the suppliers.

On 27 July, the fourth meeting between the extraordinary commissioner and the representatives of the government of Bosnia and Herzegovina took place, with the representatives of the employer and suppliers took place. On the occasion, the talks focused on the continuation of the restructuring, separation of Konzum and Mercator, and re-establishment of Mercator's operations in Bosnia and Herzegovina. On the same date, the decision was made public to start the process of liquidation of Velpro d.o.o. Sarajevo. The obligations of Velpro BiH towards the suppliers will be transferred to Konzum BiH before the end of liquidation. For as many as possible out of the 163 workers of Velpro d.o.o. attempts will be made to source alternative positions in other Agrokor companies in Bosnia and Herzegovina, while the remaining workers will be paid the severance pay and provided with the protections available within the legal framework, all in consultation with the Union of the workers in trade and service sector of Bosnia and Herzegovina.

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