ANNUAL REPORT 2017

ATLANTIC GRUPA

BEVERAGES

- CEDEVITA
- Cockta
- Donat Mg
- Kala

COFFEE

- barcaffè
- grand KAFA
- Bonito prava kafa

SNACKS

- Najlepše želje
- Smoki
- Bananica
- Integrino
- Chipsos chips

PHARMA AND PERSONAL CARE

- MELEM
- plidenta
- ROSAL
- DIETPHARM
- farmacia

SPORTS AND FUNCTIONAL FOOD

- MULTIPOWER
- SPORTS LINE Champ
- MULTABEN

SAVOURY SPREADS

- ARGETA
- montana

GOURMET

- Bakina Tajna
- Amfissa

BABY FOOD

- Bebi

Summary of Key
Financial Indicators

(in HRK millions)	2017	2016	2017/2016
REVENUES	**5,372.1**	5,174.5	**3.8%**
SALES	**5,306.8**	5,106.3	**3.9%**
EBITDA	**582.2**	474.4	**22.7%**
EBITDA MARGIN	**11.0%**	9.3%	
EBITDA (NORMALIZED)	**517.4**	**474.4**	**9.1%**
EBITDA MARGIN (NORMALIZED)	**9.7%**	**9.3%**	
EBIT	**406.5**	307.8	**32.1%**
EBIT MARGIN	**7.7%**	6.0%	
EBIT (NORMALIZED)	**341.7**	**307.8**	**11.0%**
EBIT MARGIN (NORMALIZED)	**6.4%**	**6.0%**	
NET PROFIT	**275.5**	162.8	**69.2%**
NET PROFIT MARGIN	**5.2%**	3.2%	
NET PROFIT (NORMALIZED)	**210.7**	**162.8**	**29.4%**
NET PROFIT MARGIN (NORMALIZED)	**4.0%**	**3.2%**	
NET DEBT	**1,185.4**	1,502.3	**-21.1%**
NET DEBT/EBITDA (NORMALIZED)	**2.3**	3.2	**-27.6%**
CASH FLOW FROM OPERATING ACTIVITIES	**348.2**	292.0	**19.3%**
CAPITAL EXPENDITURE	**129.2**	140.2	**-7.8%**
MARKET CAPITALIZATION AS AT 31 DEC	**2,874.2**	2,940.9	**-2.3%**
EV	**4,063.2**	4,446.1	**-8.6%**
EPS (NORMALIZED, IN HRK)	**63.2**	48.8	**29.5%**
PPS AS AT 31 DEC (IN HRK)	**862.0**	882.0	**-2.3%**
DPS (IN HRK)	**13.5**	**13.5**	**0.0%**


ATLANTIC
GRUPA

EMIL TEDESCHI

PRESIDENT OF THE MANAGEMENT BOARD OF ATLANTIC GRUPA

Letter of President of the Management Board to Shareholders

In the year 2017, which proved to be particularly demanding, **ATLANTIC GRUPA** achieved exceptional business results with profitability above expectations and solid revenue growth, despite a significant decline in sales to retail chains of the Agrokor concern. In addition to these results, we are satisfied with the implemented divestment process in the production segment of sports food and with our resulting focus on developing own brands. The factories in Bleckede (Germany) and Nova Gradiška (Croatia) that were acquired by the Belgian company Aminolabs will continue producing Atlantic's sports food assortment on a contract basis, while numerous activities on a more profitable and focused approach to Western European markets were initiated during the restructuring process. In the wider business context, the strategy of strengthening our distribution operations was successfully implemented and, because of excellent preparations, we enter the year 2018 with two new important principals – Red Bull in Serbia and the company Mars in Croatia.

These are also the key business developments in 2017 with regard to Atlantic Grupa's activities arising from the company's strategic determinants. In the context of economies in the region, the year was marked by the escalation of business challenges related to Agrokor at the end of the first quarter that we, as the Group, successfully addressed. Due to our good strategy, strength of our brands and systematic risk management, Atlantic Grupa's business operations were never compromised by neither the lower turnover with Agrokor nor the delayed collection of the so called "borderline" debt.

As a responsible company, we have realised the announced results for 40 successive quarters, on the basis of which the capital market as well as our shareholders recognise us as a transparent, responsible and perspective company. In addition to constantly working on building and developing quality working conditions and distinguishable corporate culture, we have placed additional focus on strengthening our management team, digital transformation, and enhancement of capacities. At the same time, the company is continually dedicated to risk management, liquidity maintenance and debt management. We are pleased that our success is recognised by the professional community; in 2017, Atlantic was again awarded by the Zagreb Stock Exchange for transparent and quality management of investor relations, while from Dublin we brought an annual award for human resources management given by HRO Today, the world umbrella organisation that brings together experts in human resources management.

Corporate Profile of Atlantic Grupa

ABOUT THE COMPANY

ATLANTIC GRUPA is a vertically integrated multinational company whose business activities incorporate R&D, production and distribution of fast moving consumer goods in South-East Europe, the West European markets, Russia and the Commonwealth of Independent States (CIS). Since the company's inception in early 1990's, Atlantic Grupa pursued a growth strategy based on combination of organic growth and M&A activities and in the last decade executed almost 50 acquisitions of different sizes, most prominent one being the acquisition of Droga Kolinska in 2010.

Today, Atlantic Grupa is a company with: (i) HRK 5.3 billion in sales revenues, (ii) modern production network (in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Macedonia), (iii) regional distribution infrastructure and (iv) 11 brands with sales above HRK 120 million, high market shares and consumer recognisability. Atlantic Grupa has a well-balanced presence in South-East Europe accounting for 83.9% of total sales, while 16.1% refers to the company's presence in West Europe, CIS countries and other countries. Since 2014, the Group's business operations are organised through the system of business units that monitor the operations related to specific product groups from the company's production portfolio and distribution units. Until the end of 2017 distribution units were allocated to two main zones: Zone East and Zone West, while Atlantic Grupa, wishing to create a simple and effective approach to markets, at the beginning of 2018 decided to reorganise the overall distribution business into one unit covering the six major markets – Croatia, Serbia, Slovenia, Macedonia, Austria and the HoReCa segment. Additionally, the Department of Global Distribution Account Management was established, covering the markets dominantly managed by our distribution partners.

We are one of the leading food and beverage manufacturers in South-East Europe with prominent coffee brands Grand kafa and Barcaffè, range of beverage brands Cockta, Donat Mg, Cedevita, Kala and Kalnička, portfolio of sweet and salted snacks brands Smoki, Chipsos, Najlepše Želje and Bananica, brands Argeta in the segment of savoury spreads and Bakina Tajna in the gourmet segment. Additionally, Atlantic Grupa has a wide personal care product portfolio, owns the leading Croatian producer of vitamins, minerals, supplements and OTC drugs Dietpharm, as well as the leading pharmacy chain in Croatia under Farmacia brand. Furthermore, Atlantic Grupa manufactures and is one of the leading European brands in the sports nutrition – Multipower has a strong foothold on the Russian and CIS markets with its baby food portfolio under Bebi brand. With its own distribution network in Croatia, Slovenia, Serbia, Macedonia and Austria, the company also distributes a range of products from external partners.

COMPANY HISTORY

The beginning of Atlantic Grupa goes back to 1991 and the incorporation of the company Atlantic Trade d.o.o. for distribution of consumer goods. In the following years, the company grew into a strong national distributor with distribution centres in Zagreb, Split, Rijeka and Osijek and a respectable distribution portfolio from principals such as Wrigley, Procter & Gamble, Ferrero, Johnson & Johnson, etc.

By opening the representative office in Bosnia & Herzegovina in 2001, the company became a regional company, which was in later years followed by establishing own distribution companies in Serbia, Macedonia and Slovenia. In addition to being a distribution company, with the acquisition of Cedevita d.o.o. in 2001 Atlantic Grupa also became a production company.

Breaking out of the region followed in 2005 with the acquisition of a German producer of sports food with the well-known Multipower brand, with which Atlantic Grupa entered the West European market and became an international company. In 2006, the company was transformed into a joint stock company and next year, after successful implementation of the initial public offer of shares, Atlantic Grupa quoted its shares on the official market of the Zagreb Stock Exchange. In 2008, the company started to acquire pharmacy institutions and form its own pharmacy chain. Based on the company's business development, by mid-2010 Atlantic Grupa grew into one of the leading European producers of sports food, the regional leader in the production of vitamin drinks and food supplements, a prominent regional producer of cosmetics and personal care products, the leading consumer goods distributor in South-East Europe as well as the owner of one of the leading private pharmacy chains joined under the name Farmacia.

A turning point in the company's operations was its largest acquisition in the Group's history – acquisition of the company with a developed brand portfolio from its own production programme and leading positions in regional markets – Droga Kolinska d.d. By finalising the acquisition in 2010, Atlantic Grupa became one of the leading regional food companies.

The company's operations in the post-acquisition period were marked by the processes of comprehensive integration, the most noticeable of which was certainly the process related to distribution and logistics. The executed process of merging the distribution operations of the two companies into single distribution entities in each regional market resulted in the creation of a strong regional distribution network. In the production segment, focus was placed on integrating individual production activities and transferring outsourced production activities into own activities for the purpose of a more cost-efficient use of the existing production capacities. The supply segment saw the implementation of a centralised system with the introduction of a key client concept for basic raw materials. In 2012 and 2013, IT consolidation at the Group's level was successfully completed by redefinition of the model of user support, redesign of a portion of the IT service and standardisation of the technological platform. The listed integration processes, which were successfully completed by the end of 2013, transformed Atlantic Grupa into a strong regional producer and distributor, thus creating a strong foundation for its further business development and expansion.

In 2015, Atlantic Grupa acquired Foodland d.o.o. with a recognisable brand Bakina Tajna and a range of top-quality products; in the same year, a new factory of energy bars from the product range of Sports and Functional Food in the Industrial Park Nova Gradiška started its operations.

In 2016, distribution companies in Germany and Austria were established for the purpose of facilitating the marketing of a targeted group of Atlantic Grupa's products in those markets.

The restructuring of the business unit Sports and Functional Food.was carried out in 2017 under which the strategic partnership was concluded with the respectable Belgian company Aminolabs, to which two production facilities were sold – one in Bleckede (Germany) and one in Nova Gradiška (Croatia), together with associated contracts for service production on behalf of third parties (private label).

NATIONAL COMPANY

1991 Incorporation of Atlantic Trade and the development of consumer goods distribution

Establishing cooperation with the company Wrigley

1992 Opening of the distribution centre Split

1994 Opening of distribution centres Osijek and Rijeka

1996 Cooperation with Procter & Gamble

1997 Investment in the Ataco distribution system in BiH

1998 Launch of Montana, the first Croatian ready-made sandwich with prolonged freshness

1999 Establishing cooperation with Johnson & Johnson

REGIONAL COMPANY

2001 Establishing a representative office in Bosnia & Herzegovina

Start up of a distribution company Atlantic Trade d.o.o. Serbia

Acquisition of Cedevita d.o.o.

Establishing cooperation with Ferrero

2002 Incorporation of Atlantic Grupa d.o.o.

2003 Acquisition of Neva d.o.o.

Start up of a distribution company Atlantic Trade Skopje d.o.o.

2004 Start up of a distribution company Atlantic Trade d.o.o. Ljubljana

Acquisition of the brand Melem

EUROPEAN COMPANY

2005 Acquisition of a German sports food producer Multipower

2006 Establishing a representative office in Moscow

Transformation of Atlantic Grupa into a joint-stock company

2007 Acquisition of Fidifarm d.o.o.

Acquisition of Multivita d.o.o.

Listing of Atlantic Grupa d.d. shares on the official market of the Zagreb Stock Exchange

2008 Acquisition of pharmacies and forming of the pharmacy chain Farmacia

2010 Acquisition of Droga Kolinska d.d.

Acquisition of Kalničke Vode Bio Natura d.d.

2013 Establishing cooperation with Unilever

2015 Acquisition of Foodland d.o.o. and construction of the factory of Atlantic Multipower Croatia

2016 Establishing distribution companies in Austria and Germany

2017 Strategic partnership with Aminolabs

Representative Offices and Companies **in 12 Countries**

OFFICE + FACTORY

–

Croatia
Bosnia & Herzegovina
Macedonia
Germany
Slovenia
Serbia

OFFICE

–

Austria
Montenegro
Italy
Russia
Spain
Great Britain


ATLANTIC
GRUPA

Organisational Structure

The business organisation of Atlantic Grupa comprises two basic segments:

- **Business Operations** and
- **Corporate Support Functions.**

Business operations of Atlantic Grupa in 2017 may be followed through business activities of special business units related to individual product type, and special sales units which cover all major markets as well as strategic sales channels, namely:

- **six Strategic Business Units (SBUs)** – Coffee, Snacks, Beverages, Savoury Spreads, Pharma and Personal Care, and Sports and Functional Food;
- **two Business Units (BUs)** – Baby Food and Gourmet.

In line with Atlantic Grupa's strategic focus on the internationalisation of operations, in 2017 the Group's business operations were, with the aim to manage particular distribution markets and business segments as effectively as possible, organised in two main distribution zones: Zone East and Zone West, where the Zone East covers South-East Europe, the CIS and the Baltics, and the Zone West covers Central and South-West Europe, the Nordic countries and all overseas markets.

Each business unit has its own internal organisational structure which is, depending on its activity and business volume, composed of organisational areas: **business units, organisational units and departments**. Along with Strategic Business Units, Business Units, Strategic Distribution Units, Strategic Distribution Regions and Distribution Units, the Business Operations segment of the company also includes the functions of **Central Purchasing, Central Marketing and Corporate Quality Management**, established in order to take advantage of all synergies within the system and to ensure efficient coordination of purchasing, marketing and quality assurance tasks as well as to establish uniform standards on the entire Group's level.

Corporate support functions ensure the implementation of uniform corporate standards and more transparent and efficient business operations at the company level. Corporate support functions are centrally organised and, depending on their respective functional area, provide support to the development and management of the entire Atlantic Grupa.

These corporate support functions are divided into:

- **Corporate Activities** and
- **Finances.**

The strategic corporate function Corporate Activities includes the following departments: **Secretariat General, EU Project, Funds and Regional Subsidies, Human Resources, Corporate Communications, Legal Affairs, Quality Assurance and Asset Management,** and **Corporate Services.**

The strategic corporate function Finance includes the following units: **Corporate Reporting and Consolidation, Corporate Controlling, Corporate Tax, Corporate Treasury** and **Investor Relations.**

The organisational structure includes the **Department for Business Development and Strategy** and the **Department for Transformation and Information Technology**. The Department for Business Development and Strategy is responsible for providing support to the Company's Management Board in the segment of identifying strategic initiatives, implementing the long-term development strategy and business development activities with a focus on M&A and strategic partnerships, and the Department for Transformation and Information Technology is responsible for managing information communication technology functions required for maintaining and improving Atlantic Grupa's operations, level of service and competitiveness.

In addition to the above, the organisational structure also includes the support function of **Internal Audit**, which operates as an independent function that reports to the Supervisory Board of Atlantic Grupa.

REORGANISATION OF DISTRIBUTION OPERATIONS

Near the end of 2017, the company decided to reorganise the overall distribution business with effect from 1 January 2018, namely by forming one unit which will cover the six largest markets – Croatia, Serbia, Slovenia, Macedonia, Austria and the HoReCa segment in order to ensure a simple and effective approach to markets. Additionally, the Department of Global Distribution Account Management was established, covering the markets dominantly managed by our distribution partners.

ATLANTIC GRUPA

BUSINESS OPERATIONS

BUSINESS UNITS

- SBU COFFEE
- SBU SPORTS AND FUNCTIONAL FOOD
- SBU BEVERAGES
- SBU SNACKS
- SBU PHARMA AND PERSONAL CARE
- SBU SAVOURY SPREADS
- BU GOURMET

DISTRIBUTION UNITS

- SDU CROATIA
- SDU SERBIA
- DU SLOVENIA
- DU MACEDONIA
- DU AUSTRIA
- SDR HoReCa
- DEPARTMENT OF GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT

CORPORATE SUPPORT FUNCTIONS

FINANCE

CORPORATE ACTIVITIES

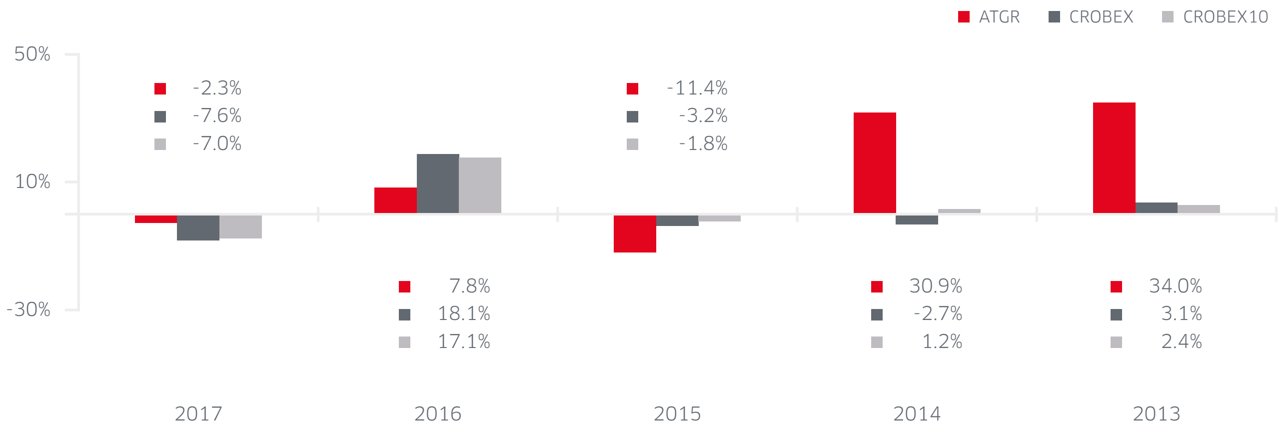
SBU STRATEGIC BUSINESS UNIT, **BU** BUSINESS UNIT, **SDU** STRATEGIC DISTRIBUTION UNIT, **DU** DISTRIBUTION UNIT, **SDR** STRATEGIC DISTRIBUTION REGION

Performance on the **Croatian Capital Market** in 2017

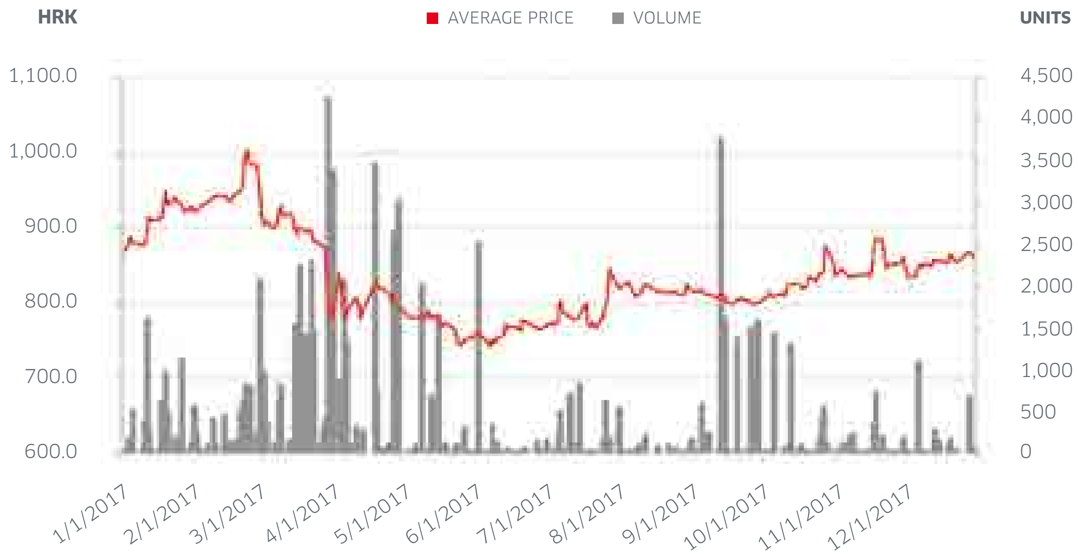
Despite the optimistic beginning of the year marked by the growth in sales and prices of most shares and indexes, the situation on the Croatian capital market reversed after the outbreak of the Agrokor crisis. Accordingly, on the Zagreb Stock Exchange in 2017, the CROBEX stock index dropped by 7.6%, while the CROBEX10 stock index dropped by 7.0%. In the same period, the Atlantic Grupa's shares posted a 2.3% decline.

PERFORMANCE ON TEH CAPITAL MARKET

The average price of an Atlantic Grupa's share in 2017 amounted to HRK 837.2, while the average regular daily turnover amounted to HRK 352.6 thousand. With the average market capitalisation of HRK 3,783.0 million, Atlantic Grupa takes the fourth place among the components of the CROBEX10 stock index. Moreover, according to the total turnover in 2017, the Atlantic Grupa's share holds the ninth place compared to all the shares quoted on the Zagreb Stock Exchange with the total turnover of HRK 76.2 million.

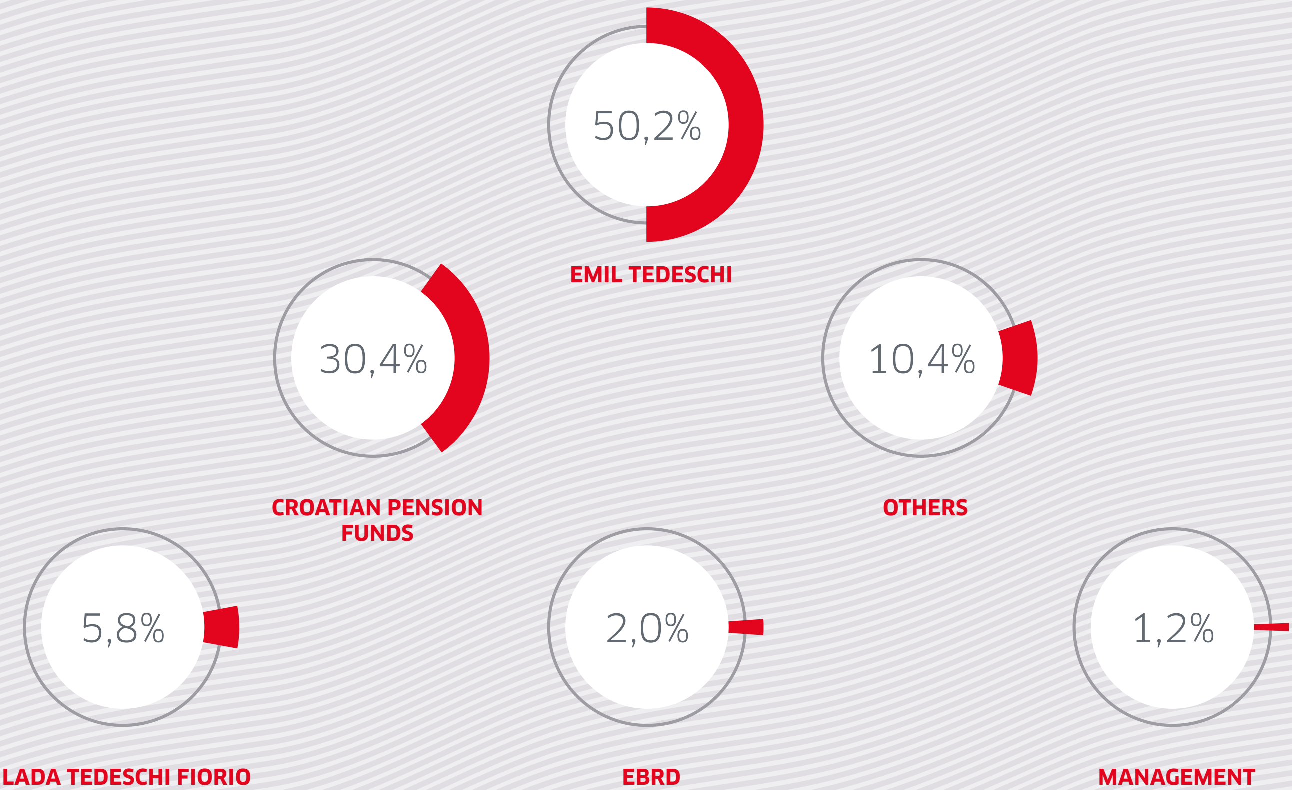


MOVEMENTS IN THE AVERAGE PRICE AND VOLUME OF THE ATLANTIC GRUPA'S SHARE IN 2017



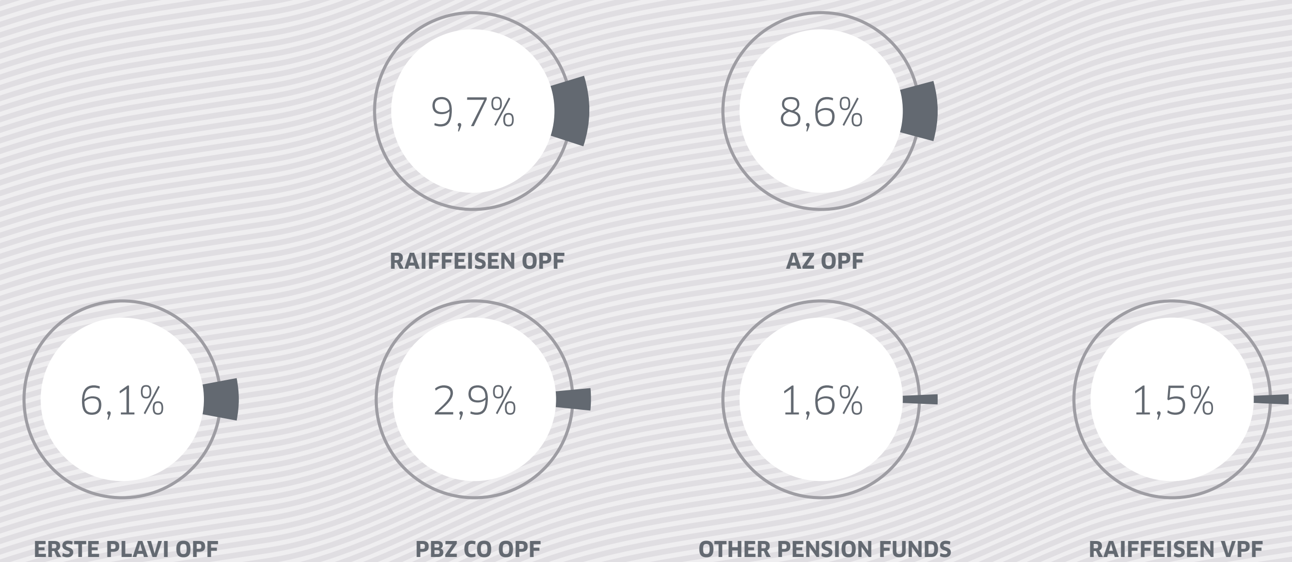
OWNERSHIP STRUCTURE ON DECEMBER 31ST 2017

Atlantic Grupa has a stable ownership structure: 50.2% of the company is owned by Emil Tedeschi, 5.8% by Lada Tedeschi Fiorio, and 30.4% of Atlantic Grupa is owned by pension funds. At the end of 2017, the free float of Atlantic Grupa was 44.0%.



* free float of Atlantic Grupa: 44.0%

SHARE OF THE CROATIAN PENSION FUNDS (30,4%)



OVERVIEW OF TOP 10 SHAREHOLDERS OF ATLANTIC GRUPA D.D. ON DEC 31ST 2017

SHAREHOLDER	NO. OF SHARES	% OWNERSHIP
EMIL TEDESCHI	1,673,819	50.2%
RAIFFEISEN OBLIGATORY PENSION FUND, CATEGORY B	322,729	9.7%
AZ OBLIGATORY PENSION FUND, CATEGORY B	286,946	8.6%
ERSTE PLAVI OBLIGATORY PENSION FUND, CATEGORY B	202,328	6.1%
LADA TEDESCHI FIORIO	193,156	5.8%
PBZ CO OBLIGATORY PENSION FUND, CATEGORY B	98,146	2.9%
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT – EBRD	66,686	2.0%
PBZ D.D./JOINT CUSTODIAL ACCOUNT	53,771	1.6%
RAIFFEISEN VOLUNTARY PENSION FUND	51,598	1.5%
KAPITALNI FOND D.D.	24,830	0.7%

According to the decision of the Company's General Assembly held on 29 June 2017, the dividend distribution was approved in the amount of HRK 13.50 per share, i.e. a total of HRK 45 million. The dividend was distributed in July 2017.

INVESTOR RELATIONS IN 2017

In 2017, at the annual conference of the Zagreb Stock Exchange, Atlantic Grupa has for the seventh time in a row been awarded as one of the three companies with best relations with investors. This award is given by Poslovni dnevnik as the investment community's recognition of companies who have fair and transparent relations with investors.

Moreover, in 2017 Atlantic Grupa participated in various investor conferences, both in the country and abroad, and held a large number of meetings with domestic and foreign investors.

NEVEN VRANKOVIĆ
GROUP VICE PRESIDENT FOR CORPORATE ACTIVITIES

Statement of the Group Vice President **for Corporate Activities**

ATLANTIC GRUPA represents a successful business system which takes pride in not only its achieved business results, but also in the culture we are building and values we are promoting, both among the company's employees and in the community where we live and work. The responsibility with regard to all stakeholders has been an integral part of our development strategy, while business growth and expansion have, at the same time, extended the range of responsibility towards our internal and external surroundings and raised the awareness about the possibilities and the need to have own influence on improving the general conditions around us. The core of our corporate culture is respecting individual diversity and fostering cooperation and synergies between the different segments of production, innovations, marketing and sales. Our essential values rest on symbols of the three basic natural elements: the sun which symbolises passion, a wave which symbolises creativity, and a mountain as our symbol of growth. By creating a healthy and encouraging working environment, we try to provide our employees with more than just a job – many programmes developed within the system are aimed at developing human resources and careers within the company, performance management, appropriate rewarding of excellent results and retention of key employee categories. In 2017, we were especially proud of receiving the award given by the world umbrella organisation that brings together experts in human resources management, HRO Today, for promoting good practice in human resources management, thus ranking AG among the top European companies that promote such corporate values.

Quality is at the heart of all our activities and covers the entire system, regardless of whether it concerns relations with employees, activities related to high production and quality control standards or providing top and uniform distribution services to all our partners in all our markets. In respect to environmental protection, we can say that, within a consistent Environmental Management System (EMS), it has expanded from a local approach to the corporate level with the key focus on sustainability and protecting the future. With its main activities in this area, which arise from three dimensions – environment and energy efficiency, people and society, and governance, Atlantic Grupa has made a big step toward sustainability. The sustainable environmental management system is based on a well-considered and economical use of natural sources, using environmental friendly technologies in our production, reduction of waste and lower consumption of energy and water. The international ISO 14001 environmental management system certificate shows that our Environmental Management System complies with the best practice standards, while the reports issued since 2014 in accordance with the Global Reporting Initiative guidelines show that we are a steadily progressive regional company in respect of the criterion of transparency.

Finally, but certainly not least, Atlantic Grupa, as a part of the wider community, is aware of the importance and need for making its own impact on the improvement of general social conditions, promotion of correct values and the need to invest a part of its own profits into the community. In addition to a wide range of donor projects, our sponsorship activities are also notable, especially when it comes to the promotion of sports and healthy lifestyle for youth and adults. The largest sustained, structured and comprehensive arrangement in this sense we invested in supporting projects such as the Basketball Club Cedevita where, other than being the main sponsor, through the club's basketball academy attended by over one thousand children and youth, we are trying to promote correct values among the new generations. Atlantic Grupa is also an active participant and organiser of a number of humanitarian actions and we systematically support a whole series of organisations and associations involved in protecting and helping vulnerable social groups.

At the formal level, it should be noted that Atlantic Grupa has, since its foundation, based its business activities on the Code of Corporate Governance with which, particularly after the listing on the Zagreb Stock Exchange in 2007, the standards of business transparency in line with European Union directives and relevant Croatian legislation have been significantly improved. Atlantic Grupa is also a signatory of the Code of Ethics in Business and in 2007 we joined the UN initiative Global Compact.

IMPLEMENTING THE PRINCIPLES OF CORPORATE MANAGEMENT

Since its foundation and listing on the ZSE, Atlantic Grupa based its business activities on the Code of Corporate Governance of Atlantic Grupa with which the standards of business transparency are aligned with Croatian and EU legislation. With the given Code, Atlantic Grupa defined the procedures for the functioning of the Supervisory Board, Management Board and other bodies and structures responsible for decision-making, thus ensuring the avoidance of conflicts of interest, efficient internal control and an effective responsibility system. The Code also prescribes the obligation of publishing data belonging to categories of price-sensitive information, all in an effort to ensure equal treatment of shareholders and information transparency for present and future investors. In line with consistent implementation of the Code's principles, Atlantic Grupa develops and operates in accordance with the good corporate governance practice and strives to contribute with its business strategy, business policy, key internal acts and business practice to transparent and efficient business operations and quality relations with the business environment in which it operates.

STATEMENT OF APPLICATION OF THE CODE OF CORPORATE GOVERNANCE

Considering that the shares of Atlantic Grupa d.d. are quoted on the Zagreb Stock Exchange, Atlantic Grupa applies the valid Code of Corporate Governance of the Zagreb Stock Exchange and complies with the obligations arising therefrom, save for the provisions whose application is impractical at the given time. In accordance with relevant regulations, Atlantic Grupa in 2017 issued a Statement of Application of the Code of Corporate Governance, thereby confirming its actions and development in accordance with the good corporate governance practice in all business segments. The Statement of Application of the Code of Corporate Governance has been published on the Company's website (www.atlanticgrupa.com) as well as on the website of the Zagreb Stock Exchange (www.zse.hr) and of the Croatian Financial Services Supervisory Agency – HANFA (www.hanfa.hr). Derogations from the Code of Corporate Governance of the Zagreb Stock Exchange Inc. are the following:

15	Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, explain)	NO	The Company is currently in negotiations to introduce a service that would allow participating and voting at the general assembly of the Company by using modern communication technology.
23	Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)	NO	The remuneration for the Supervisory Board members is determined as a fixed amount, so they would be as independent as possible from the Company and those they are supervising.

In addition to the above, Atlantic Grupa is a signatory of the Code of Ethics in Business initiated by the Croatian Chamber of Economy. The listed Code lays down guidelines for ethical behaviour of business subjects in the Croatian economy. Such definition of ethical criteria contributes to more transparent and efficient business operations and high-quality relations between economic operators in Croatia and the business environment in which they operate. By signing the Code of Ethics, its parties are obliged to responsible and ethical behaviour towards the other companies on the market as well as the development of high quality relations and loyal competition.

At the business conference of the Zagreb Stock Exchange and the fund industry held in October 2017, Atlantic Grupa won the award for investor relations. Atlantic Grupa is developing and acting in accordance with good practice of corporate governance and endeavours, through its business strategy, business policy and key internal acts, to contribute to transparent and efficient business and quality relationships with the business environment in which it operates, following global and European trends.

ORGANISATION OF CORPORATE MANAGEMENT IN ATLANTIC GRUPA

Atlantic Grupa's corporate management structure is based on a dual system consisting of the Company's **Supervisory Board** and **Management Board**. Together with the **General Assembly**, they represent the three principal bodies of the Company under the Articles of Association and the Companies Act.

GENERAL ASSEMBLY

The General Assembly is a body in which shareholders accomplish their rights in Company matters. In order to decide on issues prescribed by law and the Company's Articles of Association, the regular General Assembly of Atlantic Grupa d.d. was held on 29 June 2017. The following decisions were made at that Assembly: issuing the note of release to the members of the Management Board and the Supervisory Board, paying a dividend to the Company shareholders in the amount of HRK 13.50 per share, in proportion to the number of shares held by each shareholder, election of three members of the Supervisory Board, and appointment of an independent Auditor of the Company for the year 2017. All decisions from the held General Assembly were made in line with legal regulations and are available on web pages of Atlantic Grupa (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr).

SUPERVISORY BOARD OF ATLANTIC GRUPA

The joint stock company Atlantic Grupa has a Supervisory Board consisting of seven members. In 2017, the Supervisory Board held four sessions in accordance with the previously announced Schedule posted on web pages of the Company (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr). In line with the OECD Principles of Corporative Governance and the Code's recommendations, the Supervisory Board of Atlantic Grupa is mostly composed of independent members who are not in business, family, or other connections with the company, the majority shareholder, or a group of majority shareholders, or management board members or supervisory board members of the company or the majority shareholder. Six out of the total of seven Supervisory Board members come from the ranks of independent experts. The members of the Supervisory Board are:

ZDENKO ADROVIĆ

PRESIDENT

ZDENKO ADROVIĆ, one of the leading experts in Croatian financial industry, is the director and one of the founders of the Croatian Banking Association. He was Chairman of the Management Board of Raiffeisenbank Austria d.d in the period 1996 – 2014, which in his term of office developed into one of the leading financial institutions and received several awards from the Croatian Chamber of Economy as the most successful bank in Croatia. Prior to his current position, he was the Executive Vice President responsible for the treasury and liquidity at Privredna Banka Zagreb, where he also worked as the Investment Banking Sector Manager and Deputy General Manager. He is a member of the Croatian Parliament's Finance and State Budget Committee since 2017. In the period 2008 – 2016 he was a member of the Executive Board of the Croatian Employers Association, and in the period 2004 – 2013 a member of the Management Board of the Croatian Chamber of Economy. In addition to the above, he was a member of the Supervisory Board in Pliva d.d. in the period 1999 – 2006. He graduated from the Faculty for foreign trade, University of Zagreb, where he also earned his M. Sc. degree in corporate finance. He also continued his professional specialisation at universities in USA and UK.

LADA TEDESCHI FIORIO

VICE PRESIDENT

LADA TEDESCHI FIORIO began her career in Atlantic in 1997 as the Deputy Director for Finance. As Vice President for Investor Relations she had an important role in negotiations with potential investors during different Atlantic's acquisitions as well as in the initial public offer process in 2007. As Atlantic Grupa was transformed into a joint stock company, she was appointed Vice President of the Supervisory Board and today she is also heading the Investment Committee. Before joining Atlantic, she acquired business experience in multinational companies, Wrigley in Germany and Mars Masterfood in the United Kingdom, the Netherlands, Poland and the United Arab Emirates. She received her bachelor's degree in economics at Universita' commerciale L. Bocconi in Milan, and continued her professional specialisation at the London Business School.

SINIŠA PETROVIĆ

MEMBER

SINIŠA PETROVIĆ is a tenured professor at the Commercial and Company Law Department of the Faculty of Law at the University of Zagreb. In 1995, he was a special envoy of the delegation of the Republic of Croatia for negotiations with the international community as well as a member of the delegation of the Republic of Croatia at the International Peace Conference for Bosnia & Herzegovina in Dayton. He was Vice President of the Council for the Protection of Market Competition and the Croatian representative in the Arbitration Committee of the International Chamber of Commerce. He is the author of many expert papers and participated in the drafting of Croatian regulations concerning companies, market competition, real estate mediation, privatisation, sports and prevention of conflicts of interest in performance of public functions. He was a member of the Negotiating Team for the Accession of the Republic of Croatia to the EU. He received his bachelor's, master's and doctor's degrees from the Faculty of Law at the University of Zagreb.

FRANZ-JOSEF FLOSBACH

MEMBER

FRANZ-JOSEF FLOSBACH obtained a "Diplom–Wirtschaftsingenieur" (industrial engineer) degree at the Technische Hochschule Darmstadt, renamed Technische Universität Darmstadt, in 1973. He had spent most of his working life, since 1975, with DEG-Deutsche Investitions und Entwicklungsgesellschaft mbH. DEG promote the Private Business in Emerging and Developing countries. DEG is a subsidiary of the German KFW – Bankengruppe, Frankfurt, since 2001. Mr. Flosbach has been assigned a number of executive tasks: management audit – which includes credit review, responsibility and work outs for investments in Asia, the Arabian countries, South East Europe, Anglophone Africa; business planning and controlling – which include a duty of successful implementation of the SAP System; business development and portfolio management for Sub-Saharan Africa; Management Consultancy-"Deutsche Mittelstand", Programmes of the European Community (ECIP, CDI, JOPP), Foreign Promotion Agencies, Stability Pact for South East Europe. Besides, he was responsible for DEG's Business in East and South East Europe, Caucasus, Central Asia, Turkey and Near East – about 30 Countries, 1.5 billion Euro in investments, about 110 portfolio companies, 200-500 million new Commitments per year. Prior to his career in DEG , he worked as a Senior Consultant with Treuhand-Vereinigung AG/ Coopers & Lybrand GmbH, today PriceWaterhouseCoopers (PWC) with a special focus on Merger & Acquisition activities. Mr Flosbach has special knowledge in the following areas: financing – project financing, providing long term loans, equity; mergers and acquisition; restructuring and privatization; management advisory services; risk management. He has a profound country and sector know how. Mr Flosbach has retired in early 2013. At present he serves as a member of five Supervisory Boards, three Audit Committees and one Risk Committee in five renowned companies in the region.

ALEKSANDAR PEKEČ

MEMBER

SAŠA PEKEČ is an Associate Professor at Duke University's Fuqua School of Business. He is an expert in managerial decision-making in complex competitive environments, and has published articles in top academic journals in management sciences, as well as in top journals in other fields such as economics, mathematics and psychology. His consulting experience includes banking, internet, pharmaceutical, retail, and telecommunications industries. He was a member of the Economic Council of the President of the Republic of Croatia in the period 2010 – 2015. Saša Pekeč holds a Ph.D. degree from Rutgers University and B.Sc. degree from the University of Zagreb.

JEAN LOUIS YVON GOURBIN

MEMBER

JEAN LOUIS YVON GOURBIN has a 40 years of business experience in executive positions in consumer foods and agricultural commodities companies in Europe, North America, Latin America, Asia Pacific, Middle East and Sub-Saharan Africa. He spent the majority of his career, more than 15 years, at Kellogg Company. He built his career in companies such as Kronenbourg, leading beer company, La Maison du Café, ground coffee company, Ralston Purina pet food company, Danone Group and Bunge, one of the three global leaders in agricultural commodities trading and agribusiness. He is retired since 2012, when he became engaged in projects where he may contribute with his multi-faceted career. Since 2013 he has been a member of the Supervisory Board of Desmet Ballestra Group, the world leader in the fields of engineering and supply of plants and equipment. In 2015, he has created the annual Grand Prix Generation Entrepreneur, a program promoting the young entrepreneurs in Switzerland. He has a post-graduate degree in Economics from the Sorbonne University.

LARS PETER ELAM HÅKANSSON

MEMBER

LARS PETER ELAM HÅKANSSON, as Chairman and Chief Investment Officer Peter Elam Håkansson leads East Capital's different investment teams in East Europe and Asia. Peter established East Capital's investment philosophy and strategy, which he still oversees. He has worked within emerging and frontier markets since the early nineties and continues to travel and visit companies throughout the world. Peter has been awarded the Gold Star for best Fund Manager five times by Morningstar and Sweden's largest financial daily Dagens Industri. He and the investment teams have also received numerous Lipper awards for the performance of the funds that East Capital manages. He is Chairman of the Board of Swedish Music Hall of Fame, member of the Board of Bonnier Business Press and Inter Peace Sweden. Prior to founding East Capital, Peter held a series of senior positions at Enskilda Securities in London, Paris and Stockholm – where his last role was Head of Equities and Global Head of Research. Peter has a degree from Stockholm School of Economics and has also studied at l´EDHEC in Lille. He is fluent in Swedish, English and French.

The members of the Supervisory Board have been remunerated for their work and have the right to remuneration appropriate to the period of their engagement and the tasks performed, as well as the Company's situation and business performance. In 2017, members of the Supervisory Board of Atlantic Grupa d.d. on the said grounds received compensation in the total gross amount of HRK 1,269,832.21.

SUPERVISORY BOARD COMMITTEES

Three Committees function within the Supervisory Board with the purpose of assisting the operation and functioning of the Supervisory Board: **Audit Committee, Nomination and Remuneration Committee** and **Corporate Governance Committee**. Each of these Committees consists of three members, of which two are appointed from the ranks of the Supervisory Board members, while one member is appointed from the ranks of top experts in the subject area.

THE CORPORATE GOVERNANCE COMMITTEE defines a system of mechanisms for ensuring a balance between the rights of shareholders and the needs of management to direct and manage the company's operations. It provides a framework to establish the company's objectives and define the funds required to achieve those objectives as well as to monitor the implementation and efficacy of those objectives. The Committee is chaired by Siniša Petrović, while Nina Tepeš was appointed as a member from the ranks of external experts.

THE NOMINATION AND REMUNERATION COMMITTEE proposes candidates for the Management Board, Supervisory Board and senior management personnel as well as contents of contracts with the members of Management Board, structure of their compensation and compensation of the Supervisory Board's members. The Committee is chaired by Aleksandar Pekeč, Lars Peter Elam Håkansson was appointed as a member from the ranks of the Supervisory Board and Zoran Sušanj as a member from the ranks of external experts.

THE AUDIT COMMITTEE analyses in detail the financial reports, provides support to the company's accounting and establishes good and quality internal control within the Company. It monitors the integrity of financial information of the company, particularly the accuracy and consistency of accounting methods used by the Company and the Group to which it belongs, including the criteria for consolidation of financial reports of the companies that belong to the Group. Also, the Committee assess the quality of the internal control and risk management system, with the aim of properly identifying, publicizing and managing the major risks to which the company is exposed to. The Committee was chaired by Lada Tedeschi Fiorio, Franz-Josef Flosbach was appointed as a member from the ranks of the Supervisory Board and Marko Lesić as a member from the ranks of external experts.

The members of the said Committees who are not members of the Supervisory Board have received remuneration for their work and contribution to the functioning of the Supervisory Board of Atlantic Grupa in 2017 in the total gross amount of HRK 45,849.76.

Management Board of Atlantic Grupa

The Management Board of Atlantic Grupa consists of the President and Group Vice Presidents. Fourteen sessions of the Management Board were held in 2017. The Management Board of Atlantic Grupa operates in the following composition:

EMIL TEDESCHI

PRESIDENT OF THE
MANAGEMENT BOARD

EMIL TEDESCHI is the founder and majority owner of Atlantic Grupa. In his career he has received numerous professional and media awards and in 2010 received the state decoration of the President of the Republic of Croatia for his special contribution to Croatian economy. He was actively engaged in the process of Croatia's accession to the EU by participating in the work of the Parliamentary Committee overseeing the negotiating process. He was a member of the Social-Economic Council, President of the Croatian Employers Association in the period 2005 – 2007 and a member of the Council of Economic Advisers to the President of Croatia in the period 2010 – 2015. He is an Honorary Consul of the Republic of Ireland in the Republic of Croatia, a member of the Trilateral Commission, the INSEAD Alumni Association, the Programme Council of the Zagreb School of Economics and Management, the Business Council at the Faculty of Economics in Ljubljana. the Council of the University of Rijeka and the Board of Trustees of Moscow State Institute for International Relations.

MLADEN VEBER

SENIOR GROUP VICE PRESIDENT
FOR BUSINESS OPERATIONS

MLADEN VEBER joined Atlantic in 1996 as the Director of the Rijeka Distribution Centre, while as the General Manager of Ataco (a partnership company in BiH) he made a key contribution to its development as one of the leading distributors in BiH. In July 2001, he was appointed Vice President of Atlantic Trade responsible for brand management and international markets. In 2006 he was appointed Senior Vice President responsible for all business operations of Atlantic Grupa. Since 2001, he has been a board member of the Trade Association Council of the Croatian Chamber of Economy. He is the President of the Management Board of the Basketball Club Cedevita. He graduated at the Faculty of Mechanical Engineering and Naval Architecture at the University of Zagreb, and continued his education at the business school IEDC in Bled.

NEVEN VRANKOVIĆ

GROUP VICE PRESIDENT
FOR CORPORATE ACTIVITIES

NEVEN VRANKOVIĆ joined Atlantic Grupa in 1998 as the Executive Director of Corporate Activities. In 2001 he was responsible for Atlantic Grupa's merger and acquisition activities, while in 2002 he was appointed Vice President for Corporate Activities. He gained his business experience by working in the legal department of Bergen Bank in Norway and as a career diplomat at Croatian embassies in Washington and Belgrade. He was a member of the Working Group for Preparing Negotiations for the Accession of the Republic of Croatia to the European Union for Chapter 6 – Company Law. He graduated from the Faculty of Law at the University of Zagreb and received his master's degree from the Washington College of Law, USA. Furthermore, he gained additional professional knowledge in the field of mergers and acquisitions at the business school INSEAD in France.

ZORAN STANKOVIĆ

VICE PRESIDENT
FOR FINANCE

ZORAN STANKOVIĆ joined Atlantic Grupa in February 2007 at the position of Vice President of Finance. Prior to that, he spent three years at Pliva as the Group's Director of Controlling responsible for the coordination and supervision of financial activities of the Pliva's network of companies, both domestic and abroad. Before his arrival to Pliva, from 1995 to 2003, he worked at Arthur Andersen and Ernst&Young as a Senior Audit Manager responsible for key accounts. He is a member of the international Association of Chartered Certified Accountants. He Graduated from the Faculty of Economics and Business at the University of Zagreb.

REMUNERATION POLICY FOR MANAGEMENT BOARD MEMBERS

The contract on performing activities of a member of the Management Board i.e. the employment contract for board members who are employed at Atlantic Grupa lays down the **rights and obligations of board members** based on their function as the Management Board members, as follows:

- **monthly salary** for board members, set in the gross amount,
- **annual bonus** (bonus remuneration) per year of contract duration, set in the defined percentage of the realised principal annual gross salary and remuneration on the grounds of membership in supervisory boards of associated companies. The payment of the annual bonus is conditioned upon the realisation of planned business results in the ratio of at least 95% of the EBT plan for the consolidated Atlantic Grupa's business year. Provided that all contractual criteria were satisfied, board members are paid the amount of realised bonus remuneration through the Stock Option Programme by acquiring own shares of Atlantic Grupa, while a part is retained through the Loyalty Programme and paid in cash after 3 years. For the President of the Management Board, the whole bonus remuneration amount is paid in cash,
- **life insurance policy** for the members of the Management Board contracted by Atlantic Grupa at the reputable insurance companies in Croatia, with the annual premium of HRK 8,250,
- **personal accident insurance policy** with the annual premium of HRK 8,300,
- **voluntary health insurance policy** that includes the Management Board members, with which Atlantic Grupa, as the insurance contractor, with an annual premium of HRK 7,500 per person, provides a quality health treatment through an annual comprehensive health examination, any required specialist medical tests with the application of most contemporary and efficient medical devices and equipment in specialised polyclinics with the best health experts,
- **right to use an official vehicle**, right to compensation of all costs incurred by the Management Board member while performing his/her functions.

All Management Board members have manager contracts which include **a whole set of binding provisions** as well as incentive ones, as follows:

- **confidentiality clause** – board members are obliged to keep confidential the Company's business secrets during and after their employment, regardless of the reasons for employment termination. The obligation of confidentiality extends to business secrets of AG's associated companies as well,
- **no-competition clause** – binds a board member to a period of one year from the date of receiving severance pay, if he/she is entitled to it,
- **contract penalty** – in case of breaking the no-competition clause, any board member shall be liable to pay the contract penalty in the amount of twelve average net monthly salaries paid to that board member in the period of three months before contract termination,
- **prohibition of participation of any board member in the ownership and/or management structure**, whether directly or indirectly, in any company which is in market competition with Atlantic Grupa and associated companies, or in a company with which Atlantic Grupa and associated companies have business cooperation, as well as to act as an advisor or consultant in such companies, regardless of being paid or not for such activities,
- **performance of other activities as a board member**, except those performed for Atlantic Grupa's associated companies, regardless of being paid or not for such activities, including the membership in supervisory boards, advisory bodies, etc. shall only be allowed pursuant to the prior approval of the Management Board of Atlantic Grupa,
- **employment, contract duration and termination periods** – board members are employed for an indefinite period in Atlantic Grupa or its associated companies, and the contract on performing the function of a board member is concluded for the period of 3 years, with the possibility of termination in accordance with the periods prescribed by law,
- **severance pay** – severance pay is contracted in the amount of twelve (12) average monthly gross salaries of the board member and gross remunerations based on the membership in supervisory boards of associated companies paid to that board member in the period of three months prior to contract termination. The obligation of severance payment occurs in a case of contract termination by Atlantic Grupa in the period of its duration, unless the contract is terminated due to reasons caused by the fault of the board member.

In 2017, members of the Management Board of Atlantic Grupa d.d., on the grounds of salary and remuneration for supervisory board membership in operating companies and annual bonus received a gross amount of HRK 18,813,311.57. From that amount, on the basis of salary, remuneration for supervisory board membership in operating companies and annual bonus, President of the Management Board Emil Tedeschi in 2017 received a gross amount of HRK 4,357,785.72.

STRATEGIC MANAGEMENT COUNCIL

Since its establishment in early 2012, the Strategic Management Council operates as a multifunctional body that discusses vital strategic and operational corporate issues, business analysis, priority definition, supervision of strategic plans, coordination between organisational units and key decision making. The Council includes the following members: President of the Management Board, Senior Group Vice President for Business Operations, Group Vice President for Finance, Group Vice President for Corporate Activities, Vice President for Distribution, Vice President for Business Development and Strategy, Managing Directors of Global Distribution Account Management, Strategic Business Units and Strategic Distribution Units, Executive Director of the Business Unit Gourmet, Senior Executive Directors of Corporate Legal Affairs, Quality Assurance and Asset Management, Transformation and Information Technology, and Corporate Key Accounts Management, Secretary General, and Executive Directors of Central Purchasing, Corporate Human Resources and Corporate Controlling.

BUSINESS COMMITTEES

THE INVESTMENT COMMITTEE assists the Management Board by providing expert analyses and opinions on strategic decisions regarding the acquisition of companies, brands, businesses, or the sale of existing organisational business parts and on all individual investment projects exceeding EUR 2 million. The Investment Committee is headed by the Vice President for Business Development and Strategy, and its members are the Director of Internal Audit and Control and the Director of Corporate Treasury.

THE SOCIAL RESPONSIBILITY COMMITTEE contributes to the implementation of principles of sustainable development in the company's everyday operations, monitors its status and starts initiatives for the improvement of socially responsible business conduct. The Social Responsibility Committee is headed by the Company's Secretary General, while its members are the Executive Director of Corporate Human Resources, the Director of Corporate Communications and the Director of Corporate Quality Management.

INTERNAL AUDIT IN 2017

The corporate internal audit of Atlantic Grupa performs an independent audit and control function and informs managers through comprehensive audit reports (findings and proposed improvements). Internal audit is responsible for estimating the level of risk management in business processes, reviewing the efficiency of the internal control systems with the purpose of advancing risk management and compliance with procedures, testing and analyses of compliance of the existing business systems with adopted policies, plans, procedures, laws and regulations that can have a significant influence on business reports. It is responsible for recommending preventive measures in the area of financial reporting, compliance, business and control in order to eliminate risks and eventual deficiencies that could lead to inefficient processes or fraud. Internal audit informs the Board of Auditors on its activities and audit plans, while its findings and recommendations help the management to improve processes, preventively eliminate potential risks or reduce risks to an acceptable level.

In 2017, fourteen audits were performed in the following areas: distribution and logistics in retail and HoReCa sales channels, marketing, the Group's production and sales companies in Macedonia, Austria and Serbia, during which no significant irregularities were detected.

Sponsorships and Donations
(Socially Responsible Business)

In its broader sense, socially responsible business conduct is a determinant of Atlantic Grupa's actions. Through its sponsorships and donations, the company aims to promote the values shared with its social environment, namely passion, responsibility and growth. There is a multitude of activities and support that the company provided last year to different associations, organisations and actions, of which some are listed below.

SPORT

- **PLANICA SKI JUMP**
- **BC CEDEVITA**
- **BC BOSNA**
- **B2B RACE**
- **VK JADRAN**
- **STREET WORKOUT**
- **KHL MEDVEŠČAK**

BASKETBALL

Atlantic Grupa is actively involved in the promotion of basketball as a sport of national importance by attracting increasingly better players and trainers. We are proud sponsors of the basketball blub Bosna, while the flagship of all Atlantic's sponsorships continues to be the basketball club Cedevita, which this year won a fourth consecutive Croatian Basketball Championship. What is particularly important and upon which the success of this project lies is Atlantic Grupa's dedicated support in financing, organising, and managing the club's Basketball Academy with over 1,000 children. The club and academy actively work in 24 basketball schools organised in Zagreb's elementary schools, thus ensuring both the future of this sport and the option of a healthy and useful free time activity. As a result of Atlantic Grupa's sponsorship, as well as the efforts put in getting additional sponsors for the BC Cedevita, the club is now one of the most promising teams in Croatia and regional leagues and a regular participant in European competitions.

1,000

CHILDREN IN CLUB'S BASKETBALL ACADEMY

24

BASKETBALL SCHOOLS ARE ORGANISED IN ZAGREB'S ELEMENTARY SCHOOLS

OTHER SPORTS

Atlantic Grupa is a traditional sponsor of the Slovenian Ski Federation – Alpine and Nordic skiing national team, as well as a long-standing sponsor of the ski jumping competition in Planica by supporting successful skiers. However, the support to skiing does not end after the Ski Cup. We are sponsoring a special Cockta Cup, a year-round competition system that allows younger skiers to gain experience and improve their skiing technique for new victories.

MORE THAN

50

LITTLE BASKETBALL PLAYERS FOUND THEIR WAY INTO ARGETA'S FACTORY

Young participants in the Argeta Junior Kids League had the opportunity to visit Argeta in Hadžići (Bosnia and Herzegovina) and to learn first-hand the secrets of how their favourite Argeta products are made. At the beginning of 2017, more than 50 little basketball players found their way into Argeta's factory and, together with their coaches, toured the production facility where they were, under professional guidance, acquainted with the factory's method of operation and its employees.

MORE THAN

1,300

ATLANTIC EMPLOYEES FROM NINE COUNTRIES PARTICIPATED ON SIXTH VALUE DAY

VALUE DAY

The sixth in a row Atlantic Grupa's Value Day has once again exceeded all expectations and showed that hard-working Atlantic employees can, with their teamwork, limitless positive energy, humanitarian efforts and great will, leave a positive trace and live their corporate values. More than 1,300 Atlantic employees participated in over 60 different activities in nine countries where they passionately, creatively and responsibly assisted their local communities and each other through different forms of help: cleaning their work spaces and the environment, gardening, painting, cleaning and by donating blood. Consequently, at the eight international conference on corporate social responsibility CRS Forum Serbia, Atlantic Grupa received the Award for Corporate Volunteering. This award was established in 2011, in cooperation with international partners CSR Europe and BITC, under the European Year of Volunteering and, as part of a wider initiative, realised in 23 European countries.

EVERY DAY IS VALUE DAY –"Programme for the Soul" was implemented in 2017, supporting the humanitarian actions of our employees not only for Value Day, but throughout the year. Atlantic Grupa understands the importance of the community it operates in, and supports the good deeds of its employees that affect the well-being of our community and represent our corporate values:

DONATIONS – One of the possibilities for creating positive values is donating to those who are most in need. For every financial support to an organisation that was part of Value Day, Atlantic Grupa will participate with its own donation in the amount of 50% of the donated sum.

VOLUNTEERING – Identifying the needs of the community and willingness to act is supported by Atlantic Grupa with an additional day off. Namely, for every two days of volunteer work in an organisation that was part of Value Day, the employees will receive an extra day off for volunteering.

VALUE DAY
EVERY

CULTURE AND KNOWLEDGE

- **23rd SARAJEVO FILM FESTIVAL**
- **ŠPANCIRFEST**
- **LEAP SUMMIT**
- **SEA STAR**
- **YAMMATOVO**
- **STEM REVOLUTION**
- **EXIT FESTIVAL**

MORE THAN
2,280
OF MOVIE LOVERS WATCHED THE FILM "THE OTHER SIDE OF HOPE"

Atlantic Grupa has again in 2017 supported the 23rd Sarajevo Film Festival (SFF) as a central cultural manifestation in the region, not only as a Festival sponsor, but also as the main partner of the special festival project Sarajevo grad filma ("Sarajevo Film City"). On one hand, the project is concerned with the future of young professionals and, on the other, the future of the regional film industry. This year's special feature was that fans of good movies could feel the Festival's atmosphere and energy with one click, but also could contribute to symbolic connection between cities in the region. On the platform www.svismo-miizistogfilma.com, more than 2,280 of movie lovers watched the film "The Other Side of Hope" that this year opened the Festival, and was previously awarded at the Berlinale. The film was streamed on the above web-page simultaneously with the other live projection of the film in Sarajevo, allowing everyone who wanted to be at the Festival, but couldn't, to achieve this for at least 98 minutes from the comfort of their home. The campaign "Svi smo mi iz istog filma" (We're All from the Same Movie) achieved excellent results – the web-page was visited by 75,290 individual users, and its popularity among the viewers contributed to the title of the largest viewing share in the field of culture on the regional web platform.

Atlantic Grupa has in 2017 supported the so-called STEM revolution, the most successful charity crowdfunding campaign in Croatia whose goal is to raise the digital literacy in Croatian schools. This was the basis for the project ProMikro, under which computing has officially been introduced in elementary schools. More precisely, the project is related to donating Micro:bits to more than 1,000 educational institutions – robots that are very affordable, use the latest programming tools, attractive for use and anybody can program them and create creative projects in literally 5 minutes. This means investing in the future and creating a comparative advantage for our school kids in the competitive times that are inevitably coming.

HUMANITARIAN ACTIONS

- **PLASTIC BOTTLE CAPS FOR EXPENSIVE MEDICINES**
- **RED CROSS**
- **DIABETIC ASSOCIATION SISAK**
- **HUMANITARIAN CONCERTS**
- **POSITIVE FESTIVAL**

Employment of Persons with Disabilities is a project by which Atlantic Grupa, as one of the first in its business environment, joined the process that includes a review of the status and adaptability of work positions for potential employment of persons with disabilities, thus offering them an opportunity for equal participation in our professional environment. With this project, Atlantic Grupa has once again shown that it participates in projects which promote, raise awareness and the level of discussion about the issues of employment of persons with disabilities. This is not the first such project in which Atlantic participates. It is already for years a partner of Poslovni dnevnik in the project "Iskustvo zlata vrijedi" (Experience is Golden) which every year provides practical training to students with disabilities, so this project is a logical next step with the same objectives and efforts in Croatia and, over time, in the region.

In Serbia, Atlantic Grupa jointed the action of Marketing Mreža called #KampanjaNaDar by inviting the Food Bank to use its three billboards for sending an appeal to join the fight against hunger. In another action, Atlantic Grupa has donated two air conditioners to Medical Centre Voždovac, department of occupational medicine, to facilitate their work in summer months.

HEALTH

"Active and amateur athletes in pharmacies" was the topic of the professional conference for masters of pharmacy held in May 2017 in Zagreb, which was attended by 180 pharmacists. At this conference, Farmacia presented its Sports Counselling Centre and generated great interest among pharmacists who measured their parameters on the Gaia body composition analyser. Further, in 2017 Farmacia also realised the project "Škola zdravog mršavljenja" (School of Healthy Weight Loss) within its Nutritional Counselling Centre at Ilica 11 in Zagreb, in cooperation with Vitaminoteka. The school is designed as a weight-loss programme with professional assistance. Nutritionists created individual menus for each participant, and menus were modified 3 times (3 x 14 days) according to the season and personal needs.

Sustainable Development and Environmental Protection in 2017

The environmental management system of Atlantic Grupa, which is based on the standard ISO 14001, was refreshed in 2017. We focused on understanding the context of organisation and risk management and, accordingly, in the field of environmental preservation and protection given more attention to the proactive approach.

The other milestone that marked the year 2017 is related to upgrading the environmental management system with the energy management system, thus bringing energy efficiency to centre stage. Our focus on continuous improvements in the area of energy efficiency and environmental protection was confirmed with the certificate of compliance with requirements of the standard ISO 50001 for our operating companies Cedevita d.o.o., Zagreb, Atlantic Trade d.o.o., Zagreb, and Droga Kolinska d.d., Ljubljana.

ENERGY AND WATER CONSUMPTION

The systemic approach to energy management approach in Atlantic Grupa includes production and distribution facilities and is integrated into the existing quality management systems. For the purpose of minimising environmental impacts of energy use, Atlantic Grupa's energy policy includes:

- encouraging activities aimed at increasing the efficiency of using electricity and other fuels in all facilities of Atlantic Grupa,
- respecting optimal product design and packaging solutions at the stage of product development, which has indirect effects on energy consumption,
- procurement of energy efficient technologies,
- transfer of best internal practices for energy efficiency improvements between the Group companies, and
- complying with regulatory requirements relating to energy use, consumption and efficiency.

As regards energy management, in addition to usual activities of replacing the existing fixtures with LED lighting, we are regularly investing in modern technologies that are more environmentally friendly, technologically advanced and energy efficient. The significant advancements achieved in 2017 include, among others, the improvement of metering equipment of the Snacks production programme at the production site in Serbia, improvement of the Savoury Spreads production programme in Bosnia and Herzegovina, while in Slovenia, at the production facilities of Savoury Spreads and Coffee in Izola, we invested in the energy information system, renovation of the control system SCADA/HMI and the system of reporting and GSM alarms.

ENVIRONMENTALLY FRIENDLY PRODUCTS

Our care for environmentally friendly products is integrated into the process of developing new products. When designing, planning and manufacturing new products, great attention is given to the aspects of environmental protection and sustainable development. By carefully selecting source and packaging materials, we are reducing negative environmental impacts throughout the life cycle of our products. In the selection of packaging materials we are considering, in addition to ensuring the integrity of products, reducing the amount of packaging used. The other area of consideration is the potential use of recycled and partially recycled materials. Further, we are regularly considering the use of take-back packaging and design of packaging which facilitates the separation of packaging waste after product use.

Resulting from this approach, in the Beverages production programme we introduced the use of R-PET plastic bottles made of 50% recycled plastics for the assortment of Cockta products, reduced the weight of thermal shrinking foil on products under the brand Donat Mg, and reduced the weight of the cap on Cedevita On-The-Go packaging.

In addition to the above, in the Savoury Spreads production programme we initiated a pilot project of life cycle assessment (LCA) for the purpose of identifying the areas suitable for reducing negative environmental impacts, thus making another step towards our sustainability.

WASTE AND WASTEWATERS

Waste management remains in the focus of Atlantic Grupa's environmental and energy management system. In addition to regular training of employees aimed at raising their awareness on the need to separate and recycle waste, we are investing in appropriate infrastructure to improve the conditions for separate waste collection and minimise the amount of municipal waste.

In the production plant of Soko Štark we organised a recycling yard with an additional space for organic waste and installed equipment for additional separation of different types of waste.

When it comes to wastewater management, the wastewater treatment system in production facilities of Soko Štark in Belgrade and Ljubovija, Palanački Kiseljak and Foodland was audited by external consultants for the purpose of identifying areas for improvement. We used the received proposals for action to prepare our plan of activities. Additionally, by investing in neutralisation we achieved further optimisation of the biological system for wastewater treatment and thus improved our impact on the environment.

REPORTING ACCORDING TO GRI PRINCIPLES

Atlantic Grupa's sustainable environmental management is based on a well-considered and economical use of natural sources, using environmentally friendly technologies in our production, reduction of waste and rational consumption of energy and water. This encourages us to identify the best solutions in the area of sustainable development. We are transparently presenting our accomplishments by publishing annual reports according to GRI principles since 2014.

In the 2017 report, we focused on analysing and measuring key indicators that have been identified on the basis of an initial broad list of topics that may affect our business or be of concern to our stakeholders. Sources for this list include relevant issues addressed by media, industry and sector benchmarks, matters raised by stakeholders in public debate, internal documents and business strategy. Considering the significance of our economic, environmental and social impacts helped us focus on those aspects that deliver the greatest value to our business and stakeholders, within four major areas: economic impacts, product responsibility, workplace responsibility and environment responsibility.

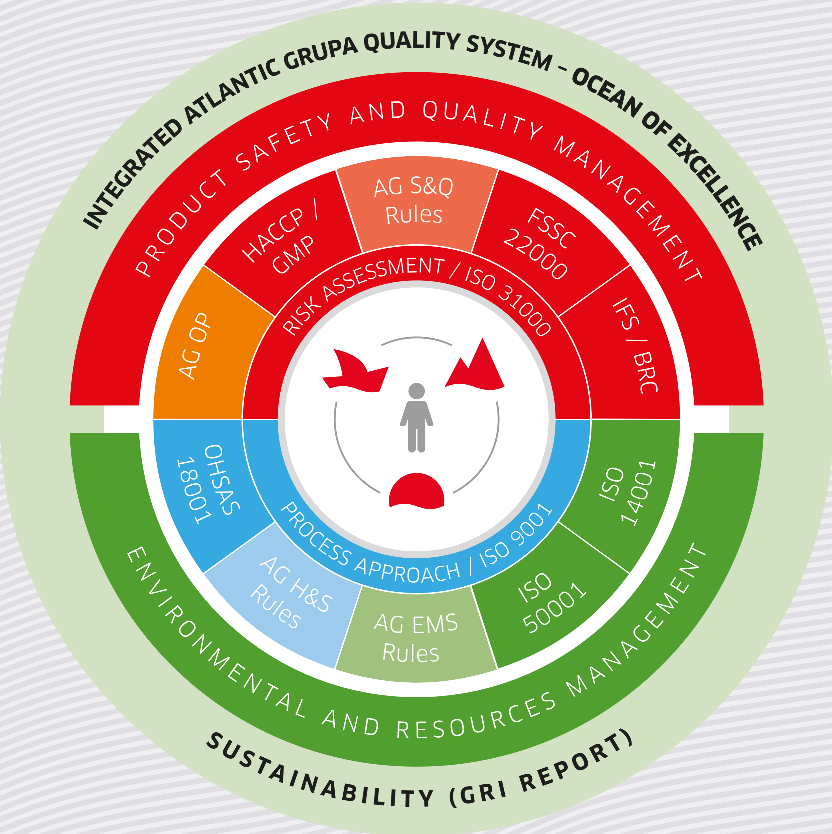
ECONOMIC IMPACTS
- ECONOMIC PERFORMANCE

PRODUCT RESPONSIBILITY
- CUSTOMER HEALTH AND SAFETY
- PRODUCT AND SERVICE LABELLING

WORKPLACE RESPONSIBILITY
- EMPLOYMENT
- OCCUPATIONAL HEALTH AND SAFETY
- TRAINING AND EDUCATION

ENVIRONMENT RESPONSIBILITY
- ENERGY
- BIODIVERSITY
- WASTE

Integrated **Process Management System** in 2017



In the field of process management, the year 2017 was marked by several key projects:

1. recertification of Atlantic Grupa according to the new versions of standards 9001:2015 and 14001:2015, and implementation and certification of energy efficiency ISO 50001:2012;
2. completion of implementing the single platform for management of non-compliances;
3. improvement of reporting on the system efficiency.

1. Recertification of Atlantic Grupa according to the new versions of standards 9001:2015 and 14001:2015, and certification of energy efficiency

During 2016 we were focused on implementing new requirements under standards 9001 and 14001, primarily on identifying risks and opportunities, and on introducing a new standard on energy efficiency management. As a result, the successful implementation of new requirements for the entire Group was confirmed by external certification in the first quarter of 2017. The energy efficiency management system was successfully certified on the corporate level, namely in the company Atlantic Grupa d.d. and in companies Atlantic Trade d.o.o., Zagreb; Cedevita d.o.o., Zagreb and Droga Kolinska d.d., Ljubljana. In line with the above, our certificate family was in 2017 extended by the new ISO 50001 standard in eight facilities.

Our certificates in 2017:

Legal entity (location)	Market	Process Management Standard	Food Safety System Certification	Food Safety Standard	Environmental Management Standard	EnMS	Good Manufacturing Practice
ATLANTIC GRUPA	CRO	ISO 9001			ISO 14001	ISO 50001	
CEDEVITA (PLANINSKA)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001	GMP (CL)
CEDEVITA (APATOVEC)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001	
AMHR	CRO	ISO 9001	IFS		ISO 14001		
APHC				HACCP			
NEVA	CRO	ISO 9001	IFS		ISO 14001		ISO 22716
MONTANA	CRO	ISO 9001		HACCP	ISO 14001		
FIDIFARM	CRO	ISO 9001		HACCP	ISO 14001		GMP
ATLANTIC TRADE	CRO	ISO 9001		HACCP	ISO 14001	ISO 50001	
BIONATURA	CRO			HACCP			
DROGA KOLINSKA (LJUBLJANA)	SLO	ISO 9001			ISO 14001	ISO 50001	
DROGA KOLINSKA (IZOLA)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001	
DROGA KOLINSKA (MIRNA)	SLO	ISO 9001		HACCP	ISO 14001	ISO 50001	
DROGA KOLINSKA (ROGAŠKA)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001	
ARGETA	B&H	ISO 9001	FSSC 22000	HACCP	ISO 14001		
KOFIKOM PRODUCT	B&H	ISO 9001			ISO 14001		
SOKO ŠTARK	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001		
SOKO ŠTARK LJUBOVIJA	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001		
PALANAČKI KISELJAK	SER	ISO 9001		HACCP	ISO 14001		
GRAND PROM	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001		
FOODLAND	SER	ISO 9001	FSSC 22000	HACCP			
ATLANTIC BRANDS	SER	ISO 9001		HACCP	ISO 14001		
ATLANTIC MULTIPOWER	GER	ISO 9001	IFS	HACCP	ISO 14001		
DROGA KOLINSKA (SKOPJE)	MAC	ISO 9001		HACCP	ISO 14001		
ATLANTIC TRADE (SKOPJE)	MAC	ISO 9001		HACCP	ISO 14001		

2. Completion of implementing the single platform for management of non-compliances and improvement of reporting on the system efficiency.

The implementation of the single platform for management of non-compliances at the level of the entire Atlantic Grupa was finalised in the first quarter of 2017. The system provides real-time reporting according to:

- category (risk),
- process,
- source,
- corrective action effectiveness rating.

The new single platform provided for a systematic approach to addressing the identified nonconformities during 2017:

Source	Number of nonconformities
Nonconformities identified by external audits	215
Nonconformities identified by internal audits	205
Other process audits	424

as well as systematic monitoring of the implemented corrective actions:

Corrective action effectiveness rating	% of nonconformities
Effective	88%
Partially effective	11%
Ineffective	1%

The new nonconformity management platform ensured real-time monitoring of the process of addressing each nonconformity at the level of the responsible person and at the level of superior and corporate process owners, which provides the head auditors with direct information on the results of previous audits and the status of implementing corrective actions. It established a regular monthly, semi-annual and annual reporting system that allows timely identification of risks and their proactive management by all stakeholders in the process.

Additionally, the project of redefining key indicators (KPIs) of production processes was implemented, which introduced the system of monthly reporting that provides information on the status of production KPI realisation, all for the purpose of better monitoring of trends in production process efficiency.

The improvement of overall reporting resulted in better communication within individual company units, better prediction models, better risk management and improved quality of decision-making.

Finally, it should be noted that the project of reviewing the key sustainable development objectives, which started in 2017, also initiated the process of improving reporting on the company's sustainable development.

All activities in 2017 were followed by continuous work of the competent staff on improving their own knowledge and skills within the organised educational programme "Functional Lab Quality". Over 3,000 participants attended different forms of training for developing specific knowledge related to the process approach and quality systems, namely:

1. Process Management Conference,
2. Quality Conference,
3. Environmental Management Conference,
4. Distribution Quality Conference;
5. internal control days of Atlantic Grupa,
6. nonconformity workshops for basic users,
7. workshops on different topics.

Human Resources
in 2017

Top strategic goals of the Human Resources department today are to build a high performing and entrepreneurial culture, to develop great leaders and to engage employees. Alignment of those three goals is assured by the key HRM process – planning and managing of all HR aspects of the organisation, including employee data/information and administration, recruitment, employee integration, employee development, performance management, talent and career management, corporate culture, benefits administration, rewarding, retention, organisational design, payroll processing and labour union management.

THE HR DEPARTMENT HAS

54

EMPLOYEES

The HR department has 54 employees led by the corporate HR executive director, whose main areas of responsibility are participation in strategic directions and action plans definition, leadership, definition and consistency in formation of corporate culture and identity, definition and execution of HR strategic projects, HR business support, the board consultancy, complete HR cost control and tracking. The director is a member of Strategic Management Council (together with other business and corporate function heads) and on a daily basis communicates with the members of the Council and the Management Bard and consults them on a wide range of topics and matters that could have direct impact on employees.

Today, Atlantic Grupa defines itself as Ocean of Opportunities. On the HR department level, we created the HR purpose and vision statement, coupled with detailed success factors that will support them. The purpose is 'To ensure our people make a difference that matters to them, our company and society.''; the vision is ''To be a key driver in creating Atlantic Grupa High Performing culture with engaged employees and great leaders'', while the success factors are Strategic Partner, Credible activist, Customer Driven, Trustworthy expert.

The HR Department contributes to the achievement of diverse dimensions of organizational effectiveness. Few of the most important dimensions are gaining and maintaining of competitive advantage, as well as fostering positive organisational culture among all employees. A good and strong corporate culture is the key factor which leads to the company being more than "just a workplace" for its people, to the products being more than just "a need", to contributions to the community and society being more than "just a donation". Consequently, Atlantic Grupa places emphasis on communication and promotion of corporate culture. Communication is conducted through various internal and external communication channels (intranet, corporate website, LinkedIn profile, office layouts, etc.) and also through various inspirational programmes and the fact that all HR processes are interconnected and have a strong link with company values.

Top strategic goals are the critical strategic HRM processes such as: reward and recognition, career planning, culture & climate management, personal development, talent management, recruitment, leadership development, competency management, change management, performance management, knowledge management, organisational effectiveness. The HR department measured its own effectiveness through the years by the use of people metrics and can report improvements in each year.

The strategic project Fast Forward that has started in 2016 in the area of Human Resources ran very fast during 2017. Two of the PEOPLE cluster projects develop additional strategies on how to ensure talent succession and retention of employees and they implemented various sub-projects aiming to address project scope: Atlantic Tag (employee referrals), extension of talent detection on all employee population, Atlantic Alumni and the Retention Programme.

PEOPLE, BEHAVIOURS & CULTURE

The talent identification and succession project is focused on management in the areas of identification, attraction and development of talents. Goal of this project is to ensure stable and strong pipeline in the organisation. Within this project, the total talent pool is segmented into the three 'benches' – Rookies (junior potentials), Point Guards (Key positions) and Coaches (SPV positions). The project deliverables are grouped under three pillars – attraction and acquisition of talents, accelerated development of talents and talent analytics.

The Retention Programme came about as a result of Atlantic Grupa's desire to show its loyalty to its best people. It stemmed from the understanding that not only must our employees be engaged, the company itself has to engage with its employees. The Retention Programme was tailored in order to encourage the best people to stay with us for the long term so that we can maintain the ongoing and future value of the enterprise and build our employees' personal success in line with our company's growth. We are well aware that engagement is crucial to the success of any employment relationship and that financial incentives alone are insufficient. In this way, the financial incentives are reinforced with an equally valuable palette of non-financial incentives within a new retention strategy that addresses real engagement with the organisation. The goal of the Retention Programme is to reward employees who assume key positions and demonstrate not only strong work performance but also the potential to take on additional business challenges. The programme was launched in 2017 and comprises several elements: loyalty programme (deferred bonus scheme), sabbatical options, flexible benefits option, care programme (divided into body&mind, soul and balance – private vs professional life).

Within the F2 Initiative in the Programme for the Soul, supporting the humanitarian efforts of our employees that affect the well-being of our community and represent our corporate values. Value Day offers all employees the opportunity to take one day off and be involved in one of many humanitarian activities. However, the part of the programme devoted to the soul enables the creation of positive values all year round. Atlantic Grupa understands the importance of the community it operates in, and supports the good deeds of its employees by motivating them to leave a positive trace in society with their humanitarian efforts. One of the possibilities of creating positive values is donating to those who are most in need. For every financial support to an organisation that was part of Value Day, Atlantic Grupa will participate with its own donation. Identifying the needs of the community and willingness to act is supported by Atlantic Grupa with an additional day off. Namely, for every two days of volunteer work in an organisation that was part of Value Day, the employees will receive an extra day off to do volunteer work. Atlantic Grupa will not give paid leave for the first two days, instead the employee must decide whether he/she will do volunteer work during the weekend or use two days of vacation leave. Every day Atlantic Grupa's employees are given the opportunity to recall how a little effort can result in many valuable achievements, and make their community a more beautiful place for future generations.

Atlantic Grupa is aware of the importance of actively taking care of all its employees and has therefore implemented the new Balance Programme, which is based on creating a balance between private and business life, that is, between work and family. For example, out employees, in their role as parents, are given the opportunity to take the day off for their first-graders' first day of school.

We are beginning with a new and redesigned Innowave Programme and presenting an overview of novelties. The Innowave adventure begins at the moment when an employee decides to contribute to the Company's development, which may in turn result in employees' personal, as well as career development. An employee submits a proposal for an innovation via the application form, after which the project coordinator assesses the received proposals, and forwards them to members of the functional committee for evaluation. Innowave Challenge is another novelty, aimed at further motivating employees to send their proposals that are within the framework of the Company's current business focus. All implemented ideas will be rewarded in the same way as generic innovations. While we encourage employees to submit proposals for generic innovations, proposals with a challenge theme will have an advantage in the selection for Value Ambassadors. The most successful innovations that have been accepted and are included the implementation plan (or already implemented), will undergo their final evaluation by the head committee. The one who proposes the best innovation will be the winner in the Wave category of our corporate Value Ambassadors Programme.

We have tried to go one step forward and, beside the employee engagement, we become more focused on employee experience. The Employee Experience is the sum of the various perceptions employees have about their interactions with the organisation in which they work. Employee experience is about seeing the world through the eyes of our employees, taking into account the physical environment our employees work in, the tools and technologies that enable their productivity and above all the “vibe” they get when they walk in the door and inspiration they get from their colleagues and leaders. Finding the best and the brightest talent is one of the toughest tasks any business is facing. So, we invested our time and money in building a redesigned centrally managed hiring process. We implemented the new tool to help in sourcing, engaging and hiring the best talent with intelligence and guidance along every step of recruiting. We also implemented new intranet pages that are providing practical guidance to all involved in the process.

The most important asset any business or any organization has is the people. Taking shortcuts to build your team may ease immediate growing pains, but creates regrets in the long-term. Finding the best possible people who can fit within our culture and contribute to our organisation is both a challenge and an opportunity. Keeping the best people, once you find them, is easy if you do the right things right.

We built our recruitment and selection policy on the principles listed below:

- Equal treatment for all,
- Procedural fairness,
- Selection according to merit,
- Respect for diversity,
- Ethical decision making.

We believe that adherence to this policy will not only ensure job applicants are treated fairly, but will also greatly increase our chances of securing the best possible people for Atlantic Grupa. Additionally, several new approaches are being implemented, such as our internal referral programme Atlantic TAG.

The Atlantic TAG Programme enables employees to recognise those people with whom they've had the opportunity to work with professionally and who they know would fit well in our company – and to recommend them. In addition to contributing to working together in a good company, recommendations will also make the community we work in a better place. We reward each personal contribution, everyone whose recommendation brings a new colleague to our team will be rewarded with a personal bonus. The company will match the same amount by investing in the Talent Fund, from which we will jointly award grants to the development of young art, athlete and science talents within the communities where Atlantic operates.

Atlantic Grupa is growing; every day and in every respect, and so is the number of new colleagues who join us every day. To give them a warm welcome to our society, we have come up with ways to boost their networking with other colleagues through an individual presentation on the "Good Catch" wall. Every new colleague who joins us here will find his place and get the opportunity to be presented in a unique way through a brief glimpse of himself.

As a part of continuous education and employee development, we launched LEARN Summer School and LEARN Back to School programmes. Employees get opportunity to get some new knowledge's and skills from different area of business.

Information Technologies in 2017

The development of information technologies in 2017 was focused on two main areas: as regards core infrastructure, development of the private cloud concept and systematic management of IT services and, as regards information systems, introduction of new technologies which, along with the already initiated consolidation programme, brought a step forward in the Group's competitiveness. In addition to strengthening the Group's IT function by hiring new employees, the implemented activities and projects marked the beginning of the company's digital transformation.

In the area of information infrastructure, the concept of a private cloud is realised by implementing the Group's high-capacity data transfer network that connects all of the Group's locations, by developing redundant and consolidated data centres, by harmonisation at the virtualization technology level and by implementing the Group's information security concept.

The data transfer network was implemented after a tender procedure for the Group's technology partner. The selected solution is based on Cisco technology and includes the interconnection of all locations within a single network (WAN Wide Area Network), and wireless (WiFi) unified access for all IT service users, with significantly extended capacity and coverage. In a separate tender procedure, the Group's strategic partner for procuring links to connect all Atlantic's business locations in Europe was selected. The capacity of these new links is significantly higher and, as planned, 75% of implementations have been completed by the end of the year.

Concurrently, the construction of the Group's second redundant data centre was completed, thus realising the preconditions for implementing full redundancy and DR (disaster recovery) functionality in line with strategic targets in the area of data centres. A single corporate data storage solution was implemented, while a consolidated corporate server infrastructure solution was selected. These solutions are based on Hewlett Packard Enterprise technology with significantly enhanced capacity in line with the needs and development plans.

Harmonisation in the area of virtualization technology is achieved by replacing heterogeneous virtualization environment of the server infrastructure with the jointly selected single solution based on VMware technology.

The area of information security was further strengthened by organisation and technical measures, and implementation of the integrated system for management, correlation and surveillance of events related to information security.

The management of IT services was improved by introducing the IT Service Management System. This system is used at the level of the entire Group and based in best industrial practices and ITIL processes. Its implementation is divided into several steps, and the first stage, completed in the third quarter of 2017, covered the digitalisation of basic processes of managing IT service user requests and incidents, together with initial stage of operation of the Group's IT Support Centre.

The implementation of the corporate data network also helped to increase efficiency through the use of advanced communication systems. In mid-year, a video-conferencing system with high-resolution video and audio that connects all the main locations of the Group was installed, thus decreasing the need to travel, improving collaboration and strengthening the corporate management functions.

In the segment of IT business support systems, 2017 was marked by actions in two main directions – IT system consolidation at the Group's level, and introduction of new technologies.

The main goal of consolidation is the unified technological platform, which would create preconditions for standardization of business processes. This is achieved by either unifying the already existing platforms or selecting a single corporate solution when introducing new IT systems. Consolidation activities covered all segments of the company, of which the most important projects are: upgrading the WMS (Warehouse Management System) solution in the distribution company in Serbia, under which this system was aligned with the one in Croatia; upgrading to the corporate IT system standard in Argeta's factory in BiH; introduction of corporate data collection and reporting platform based on IBM technology for all members of the Group; introduction of the corporate DMS (Document Management System) solution for management of digital documents, which was successfully implemented in the markets of Croatia, Serbia, Austria, Germany, BiH and Macedonia, and facilitated the management of incoming invoices, contracts and mail in all companies within Atlantic Grupa and implementation of the corporate IT solution for marketing cost management in the Slovenian market.

By introducing new technological solutions, we are raising Atlantic Grupa's competitiveness through increasing operating efficiency and opening of new areas of action. These activities are implemented under the Group's overall digital transformation with a specific focus on cloud computing and cognitive computing with the so called artificial intelligence elements. The following activities should be noted: use of advanced cognitive analytics in different business areas, for which the IBM platform Watson was used;implementation of the SAP Success Factors Cloud solutions for employment management, which opened the possibility of using best global practices and monitoring all technological trends in the hiring process; selection of the SAP Hybris solution for digital marketing, which provided the technological basis for implementing Atlantic's strategy of focusing on better understanding the needs of end consumers; and implementing voice communication between workers and the process management computer in the central distribution warehouse in Zagreb, which achieved a significant increase in the efficiency of logistics operations.

The year 2017 was a year of significant development of Atlantic Grupa's information systems. This is in line with the plans for the following period, in which technological innovations will contribute to its digital transformation.

Strategic Business Units
and Business Units

Strategic Business Units and Business Units produce and develop brands which have through continuous development of new and innovation of existing products secured leading market positions not only in Croatia and the region, but also in European Union and CIS markets. Business Units include six Strategic Business Units – Beverages, Coffee, Snacks, Savoury Spreads, Pharma and Personal Care, and Sports and Functional Food and two Business Units – Baby Food and Gourmet.

MLADEN VEBER

SENIOR GROUP VICE PRESIDENT
FOR BUSINESS OPERATIONS

Statement of the Senior Group Vice President **for Business Operations**

ATLANTIC GRUPA ended 2017 as another year with excellent business results, not only as the leading producer of consumer goods in South-East Europe, but also as the distributor with a strong market presence in Croatia, Serbia, Slovenia and Austria. Business operations in 2017 were marked by the growth in sales of own brands in all business segments except sports food, as well as by agreements with new principals. The crisis of the largest regional retail chain was overcome by increased cooperation with other key customers and, due to strict control, potential risks related to that retail chain were reduced to a minimum.

The sale of two production facilities under the Strategic Business Unit Sports and Functional Food (located in Bleckede (Germany) and Nova Gradiška (Croatia)) to the Belgian company Aminolabs marked the conclusion of this unit's restructuring process, and the funds from the transaction were used for further decrease in debt. With this transaction, Atlantic Grupa is shifting its full focus on own brands and distribution development.

When distribution is concerned, we have continued our significant investments in regional and Western European markets in order to ensure further development of our strong distribution network. Thanks to the good results, Austria will become a separate distribution unit in 2018, while the German market, which remains at the centre of our internationalisation efforts, will continue to be developed with reliable local distribution partners. The distribution development is further enhanced by agreements with new principals, of which the agreement with Red Bull for the market of Serbia and the agreement with Mars for the market of Croatia should be noted.

Atlantic Grupa established a promising collaboration with a new production partner with significant experience in the production of meat spreads, the American company "Brother&Sister", which started the production of two flavours of chicken Argeta pâté according to our recipes for the markets of USA and Canada. Due to strict regulations that prevented the import of meat Argeta spreads to those markets, consumers were able to enjoy only Argeta salmon and Argeta tuna pâté. The above products are expected to win over a significant share in the ethno segment.

Atlantic Grupa continued to work on strengthening its own brands, namely through innovations, redesign of the existing portfolio, launching of numerous new products and extensions of existing ones, while at the same time applying strict cost control and increased focus on the company's profitability. In cooperation with the Institute Ruđer Bošković, we initiated a new project for developing a low-calorie functional beverage, for which we received a HRK 10 million grant from EU funds aimed at fostering complex research and development activities. Together with many prizes and awards received in 2017, this excellent year offers a bright perspective for 2018.


for a
beautiful
day
for a
beautiful
day

Strategic Business Unit
Coffee

The Strategic Business Unit Coffee (SBU Coffee) has again in this year successfully addressed all challenges and retained its leading positions in all coffee segments in the markets of Slovenia, Serbia, Bosnia and Herzegovina, and Macedonia. Atlantic Grupa is still the leading coffee producer in the region (if only traditional coffee is considered, one of the largest in Europe) known for consumption of traditional coffee. This leading position is based on the strong portfolio of high-quality products in the categories of traditional, instant and espresso coffee, regional know-how and flexible organisation. The most important brands are Barcaffè, Grand kafa and Bonito. SBU Coffee stands out as Atlantic Grupa's leading business unit that sold 22,471 coffee tonnes and generated revenues of HRK 1,098.4 million in 2017, which represents 20.7% of the total turnover. Key markets are Serbia and Slovenia, accounting for 46.5% and 28.2% of sales, respectively, followed by BiH (9.4%) Croatia (8.5%) and Macedonia (5.5%). Exports to other markets (Montenegro, Kosovo, etc.) in 2017 recorded a 1.0% value growth compared to the previous year. Sales in coffee categories are dominated by traditional coffee with 88.7% of total sales, followed by espresso 7.3%, instant coffee 2.7% and other coffee 1.3%.

The market of raw coffee in 2017 recorded the largest price increase in the last three years, which translated into significant pressures on the SBU Coffee's profitability. Despite the complex market situation, the leading market shares in all regional markets were successfully maintained and increased. The trend of declining sales of ground and bean coffee continued in Slovenia where, despite a slight decrease in sales volume, SBU Coffee recorded 1.8% higher sales revenues, bringing our market share to 71.2%. In Croatia, Barcaffè achieved the highest market share since its launching (volume share of 16.4%, value share of 17.4%), i.e. recorded a 4.3% growth. In Serbia, Atlantic's brands maintained their dominant position with a 53.1% market share. In Bosnia and Herzegovina, Grand kafa continued to strengthen its leading position in the category of traditional coffee with the brands Grand kafa Gold and Grand Aroma. At the request of consumers, the loyalty programme "Vidim ti siguran dobitak" (I see sure winnings for you), which achieved a record number of participants and a record number of free gifts, was continued in 2017. In Macedonia, Grand kafa successfully dealt with the pressures of local competition, which was in 2017 extremely aggressive in terms of prices in the segment of traditional coffee. At the year's end, a five-month prize contest "Otvori i keš osvoji!" (Open and win cash) stabilised the sales and provided an adequate answer concerning the preferences of local consumers of Grand kafa.

22,471
COFFEE TONNES SOLD IN 2017

SBU COFFEE GENERATED REVENUES OF HRK
1,098.4
MILLION IN 2017

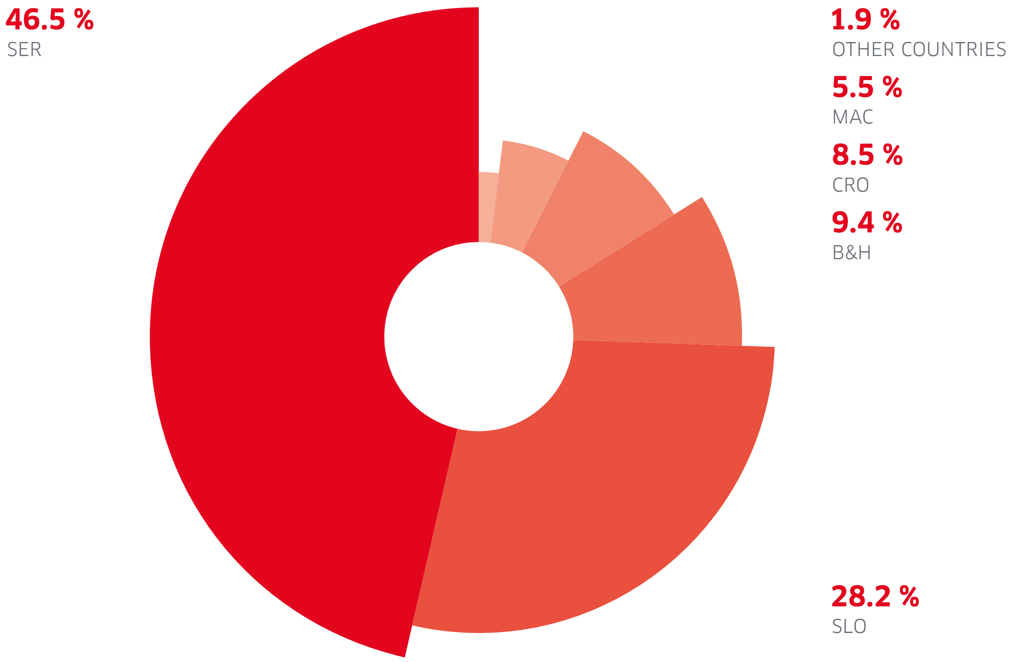
In view of the development of new products and our vision to always be the customer's first choice, we continued the trend of portfolio innovation and strengthening in 2017. A key innovation is Barcaffè D.O.T., a new sophisticated capsule product line with 3 products: espresso, cappuccino and caffe latte. Market research has shown that consumers rated Barcaffè D.O.T. as better than the category leader. When capsule espresso is concerned, 59% of consumers prefer Barcaffè D.O.T., while the results for cappuccino are even better, with a 75% Barcaffè D.O.T. preference. The innovative category Black'n'Easy was further developed by seizing the main opportunities, i.e. developing the traditional coffee consumption away from home. A new creative platform "Gdje god poželiš" (Wherever you want) was prepared with the aim to motivate employed persons aged 25 to 45 years, which are also the largest consumers of Black'n'Easy coffee. Excellent results were also achieved in Serbia and Slovenia, where one month the market share reached 16% and 19%, respectively. The sales of this product are constantly growing, and in 2017 reached the number of 25 million cups of instant Turkish coffee.

Following the development of new consumption trends, SBU Coffee is strongly developing the Barcaffè&Go segment, a modern and trendy concept that provides freedom of movement together with excellent quality of Barcaffè espresso coffee. In 2017, we offered an excellent Barcaffè drink to consumers in Montenegro and Kosovo and, together with expanding locations in other countries, increased the number of points-of-sale by one fifth. In Slovenia, the number of sold Barcaffè drinks reached a respectable 9 million, and in Croatia almost 1.5 million in the Coffee2Go segment. The development and expansion through the Petrol channel in BiH and Serbia initiated in 2015 were continued, whereas the sales of Barcaffè drinks grew by 36% in Serbia and 24% in BiH, which keeps Barcaffè&Go in the position of the number one brand. In the HoReCa channel, SBU Coffee posted a 10% growth in the number of active Barcaffè espresso machines in 2017, thus successfully expanding its presence in the region.

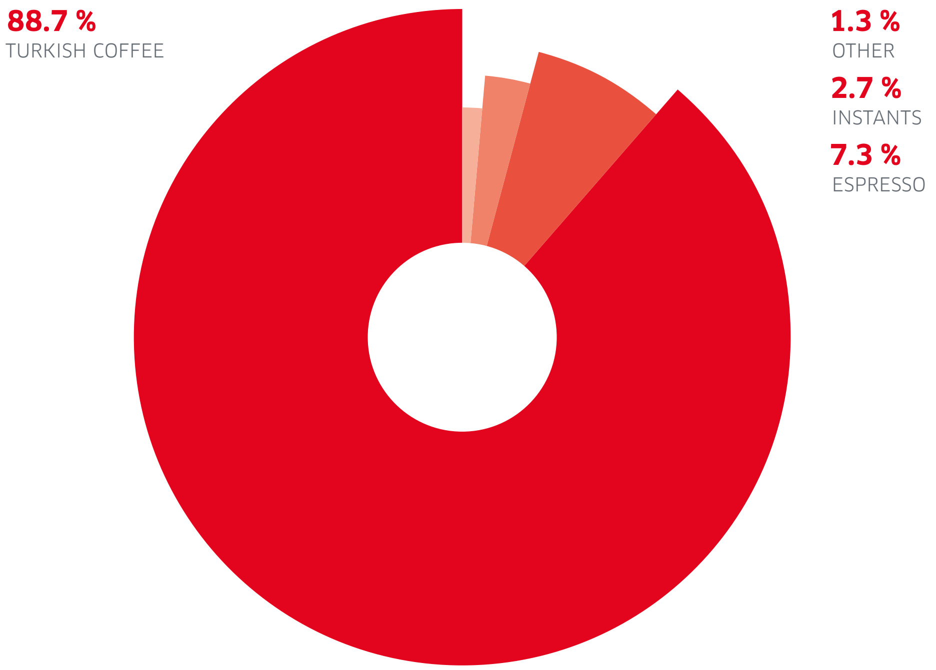
The year 2017 was also important for communication platforms of all brands under the SBU Coffee. In Slovenia and Croatia, Barcaffè continued to build its communication platform "Za ljepši dan" (For a better day), while in Croatia the campaign "Jeste li probali Barcaffè?" (Have you tried Barcaffè) was continued. In Slovenia, Barcaffè retained its traditionally strong position and close relations with loyal consumers through an image campaign "Prisluhne vsaki zgodbi" (Listens to every story). The launching of coffee in capsules, Barcaffè D.O.T. was supported by the campaign "New dimension of taste". Barcaffè Black'n'Easy continued its campaign "Gdje god poželiš" in Slovenia and Croatia aimed at introducing consumers to the possibility of preparing Turkish coffee outside their home, at work or on holiday. Celebrating its 20th birthday in Serbia, Grand kafa Gold published a monograph "Gospodin mangup" (Mr. Mischief), a blend of friendly stories about the former brand ambassador, actor Dragan Nikolić, which became one of the best-selling books in 2017. On its birthday night, Grand kafa donated freshly prepared coffee for the night shift of hospitals, emergency medical centres and municipal services in several Serbian towns. The communication strategy resulted in numerous awards. At the first Effie Awards festival in Serbia, Grand kafa won two awards, and at the award ceremony of the Serbian Association of Market Communication Professionals (UEPS) received three awards. In Slovenia, Barcaffè is again the most trusted brand in 2017 and was ranked first on the list of the strongest FMCG brands according to Valicon.

During the year, SBU Coffee's production facilities increased their operating efficiency. At the production facility in Izola, the project of replacing the roaster and increasing the capacity of the warehouse for roasted coffee was initiated. The labelling of products with excise duty stamps will start in Serbia at the beginning of 2018, from which we are expecting a significant contribution to reducing illegal "black" trade, which is estimated at over 4 thousand coffee tonnes per year. The production technology in Macedonia and BiH was further enhanced by adding modern equipment.

SALES BY COUNTRIES



SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic Business Unit **Beverages**

The Strategic Business Unit Beverages (SBU Beverages) covers several of the most recognisable brands in the segment of beverages in the region, among which are Cedevita in the category of instant vitamin drinks, Cockta in the category of “cola” drinks, and Donat Mg in the category of mineral waters rich in magnesium. In addition to the above, SBU Beverages also manages brands in the category of non-carbonated and carbonated mineral and spring waters (Kala, Kalnička, Tempel and Karađorđe) and Multivita in the category of instant vitamin drinks. The portfolio of production facilities comprises three bottling plants located in Croatia, Slovenia and Serbia, and one plant for instant vitamin drinks in Croatia.

In 2017, SBU Beverages generated sales revenues in the amount of HRK 677.0 million, which is a 7.3% increase compared to the previous year. The majority of sales comes from countries in the region (92.5% in 2017), with a 39.1% share of the Croatian market. As regards the sales structure according to brands, Cedevita accounts for 44.7% of sales, followed by Donat Mg with 25.1%, Cockta 19.8%, waters 6.5% and pressed candies accounting for the rest.

A high annual growth in sales was recorded in the markets of Croatia (12.6%), Slovenia (4.9%) and BiH (4.8%). This result was facilitated by the excellent summer season coupled with well-implemented sales and marketing activities. As a result of the stabilising economic situation in the markets of Russia and Ukraine, sales in Russia recorded a 19.0% and sales in Ukraine a 60.0% growth in sales compared to 2016. Higher sales than in 2016 were also recorded in the markets of Austria, Switzerland, France, Great Britain, Sweden, Baltic States, USA and Canada.

The strong increase in prices of white sugar on the global market in 2016 (up to around 600 USD/t) translated into a high market price of EU sugar from the first to the third quarter of 2017. In the same period, the price of white sugar on the global market started to decline in the fourth quarter and, with the end of the EU sugar reform (no production and import quotas) and the beginning of the sugar campaign, sugar prices on EU market experienced a significant drop. The price agreed in a three-year deal with companies in Slovenia and Croatia mitigated the high market price in the first three quarters, while the fourth quarter’s price decline was used to contract additional quantities under more favourable conditions. In 2017, the market of vitamins experienced a significant disturbance and an exceptionally high price increases of almost all vitamins – the highest increase was recorded by vitamins B and C. This price increase has not affected Atlantic Grupa’s companies because hedging was applied to contract sufficient quantities for 2017 with suppliers under guaranteed, lower prices.

In 2017, Cedevita brands recorded a total value growth of 9.0% compared to 2016. All categories of Cedevita drinks recorded a growth in sales value. The segment of at-home drinks grew by 6.0% compared to 2016, due to strong activations in the excellent season. In 2017, the sales value grew in all the key markets: Croatia 9.0%, Slovenia 4.2% and Serbia 3.5%, where a significant increase in value share of 2% was also recorded. In the on-the-go segment, Cedevita recorded an 8.6% growth, while in the HoReCa segment Cedevita continued its strong double-digit growth and, compared to the previous year, posted a 18.8% growth. This expansion in the HoReCa segment is a result of strong consumer activations in Croatia, Serbia and Slovenia (“Cedevitu naruči i Vespu odvezi kući” (Order Cedevita and take home a Vespa) – prize contest in Croatia and Slovenia, “Osvoji Fiću u kafiću” (Win a Fiat 500 in a café) – prize contest in Serbia) and the launch of a new product Chia Fresca by Cedevita in Croatia and Slovenia, where in the HoReCa channel Cedevita is launching a new category of snack drinks containing superfoods (chia seeds).

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SBU BEVERAGES GENERATED SALES REVENUES IN THE AMOUNT OF HRK

677.0

MILLION, WHICH IS A

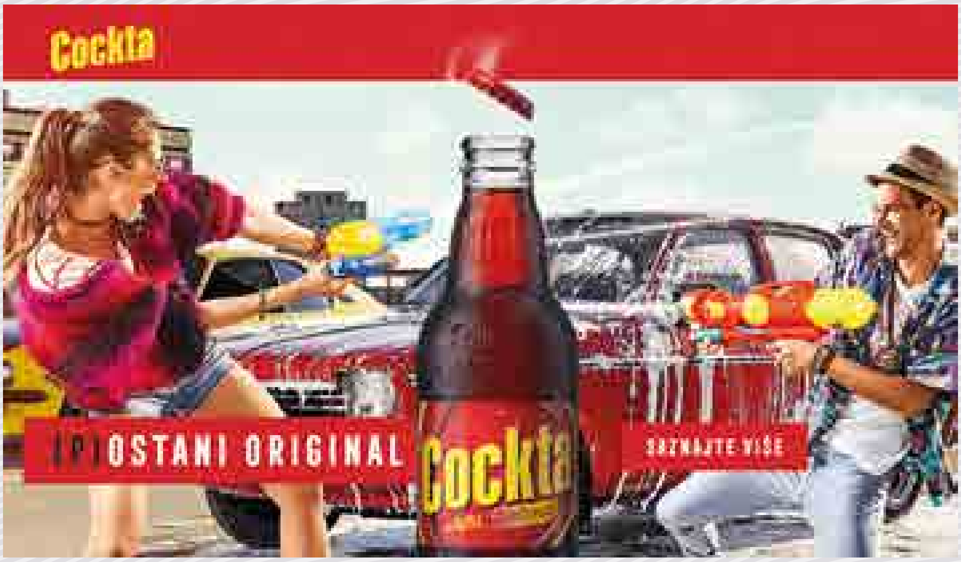
7.3%

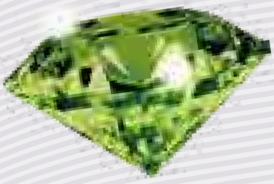
INCREASE COMPARED TO THE PREVIOUS YEAR

~

In 2017, SBU Beverages achieved a significant success by receiving grant funds from the tender for “Increasing the development of new products and services” arising from R&D activities under the Operational Programme Competitiveness and Cohesion 2014–2020 for its new project “Cedevita Healthy OTG”. The project partner is the renowned scientific research institute Ruđer Bošković.

In 2017, Cockta managed to maintain its market share in the extremely competitive category of carbonated “cola” drinks. The Cockta’s communication focus in 2017 was on the younger population, which was reflected in the marketing campaign “Postani original” (Become original), which included sponsorships of the best music festivals in the region, and in the very successful campaign on social networks. As a result of the social network campaign “Roadtrip”, under which young influential users created the contents, we achieved a 100% increase in Instagram and YouTube subscribers.

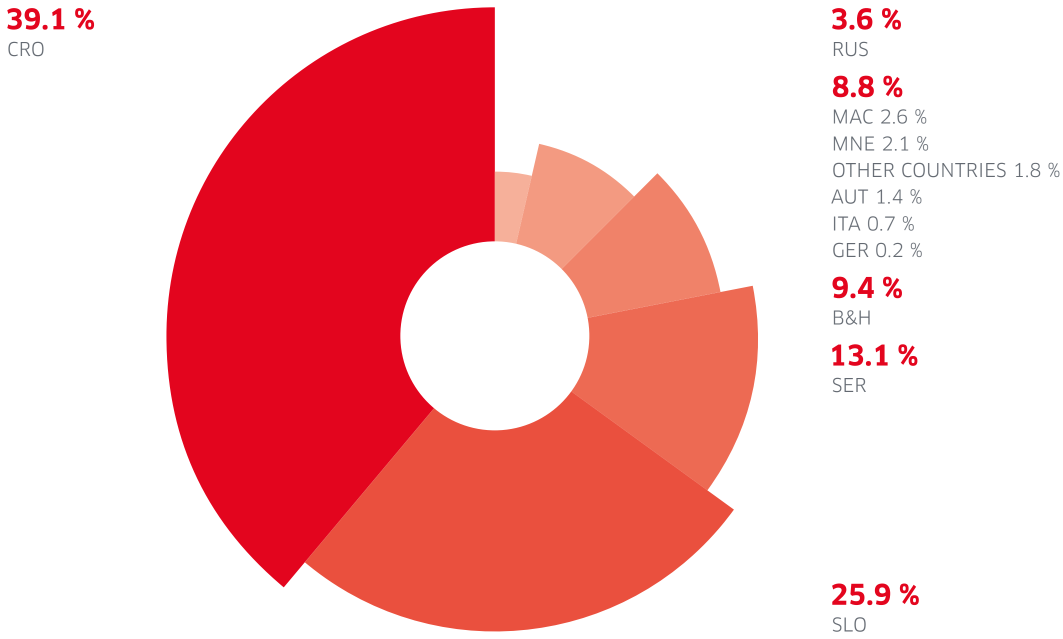




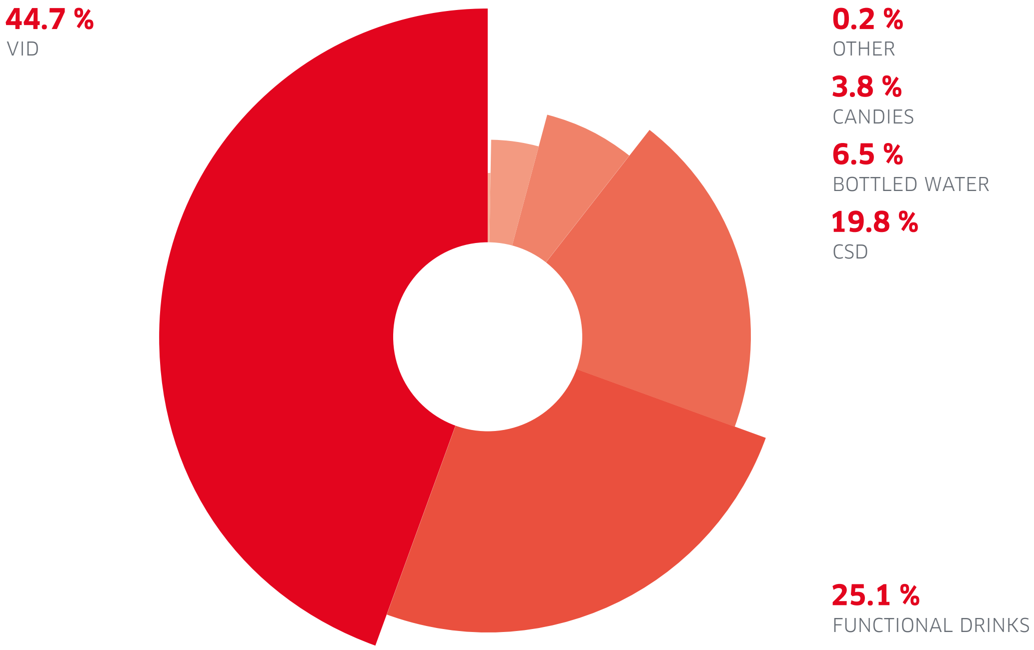
In 2017, Donat Mg recorded a 7.1% growth in sales compared to 2016. This growth was primarily generated by the markets of Russia, Slovenia, Croatia and Bosnia and Herzegovina. The main growth drivers in 2017 were the precisely defined strategy, innovative communication approach and uniqueness of the product exceptionally rich in magnesium, for which it has been scientifically proven that it stimulates digestion. The year 2017 was very creative for Donat Mg, which launched a new umbrella campaign “Tajna briljatne probave” (The secret of brilliant digestion). After the successful “royal” campaign, Donat Mg continued its mission of marketing differentiation and premiumisation with a new campaign based on finding the secret behind the stolen brilliant and the main solution, brilliant digestion. Only 16 days into the initial teasing stage of finding the “culprit”, this advertisement attracted attention and reached 10.5 million people in 4 countries (Croatia, Slovenia, Serbia and BiH). This year Donat Mg achieved great success in terms of going viral with its innovative, unique and interesting campaign Pizza Potizza. In only 4 days, the campaign reached 1.2 million people and had 0.5 million video viewings. An important factor which confirms the successful long-term development of this brand from the perspective of both sales and communications is the prestigious award Golden Effie. In November 2017, Donat Mg expanded into the HoReCa channel, where consumers may enjoy a glass of priceless water from the Stone Age in a new design, now offered in top cafés, hotels and restaurants.

The SBU Beverages’ quality and environmental management systems comply with the strict international standards (ISO 9001, 14001, HACCP, FSSC 22000), while sites in Croatia and Slovenia hold the most comprehensive food safety management system certificate FSSC 22000, which was expanded with the energy management system according to the international standard ISO 50001.

SALES BY COUNTRIES



SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic Business Unit **Snacks**

The Strategic Business Unit Snacks (SBU Snacks) consists of one of the leading companies in the area of candy products and salty snacks in the region – Soko Štark d.o.o., with approximately 1,150 employees. The production programme covers seven categories: chocolates, biscuits, wafers, bars, flips, sticks and chips. Apart from chips which are produced by our service partner, the production of all other categories takes place in own technological facilities at two production sites in Serbia (Belgrade and Ljubovija). The sales structure of the production programme is dominated by chocolates and flips, and these two categories generate over half of the sales of SBU Snacks. In 2017, Štark celebrated two important anniversaries: 95 years of producing chocolates and 45 years of the brand Smoki, which were marked by innovations and marketing communication through several campaigns.

In the previous year, we produced 439 different products, developed 14 new recipes and launched almost 40 discount products. The trend of attracting customers with price and other discounts was continued, which resulted in an all-time sales record of 29,000 tonnes of sold products, or one tonne more than in 2016. A double-digit growth was posted in the categories of wafers and sticks, while biscuits, flips and chocolates achieved the set targets.

Analysed by geography, Serbia remained dominant with a 65% sales share, while the remaining sales were generated on other markets in the region. We are gradually opening new markets, such as Romania, where Štark products were offered to consumers for the first time in 2017.

Although most of its sales are realised through distributors, SBU Snacks continues to develop its own retail network, in which it develops special consumer loyalty programmes and improves the company's image. Despite the fact that 12 points of sale in Belgrade make for only 3.0% of the total turnover, our retail network represents an important marketing tool and provide a special experience for our most loyal customers. The newly developed B2B channel, which is oriented towards the bakery and pastry industry, is in the initial stage of development where the start of cooperation with the company Frikom, the leading producer of frozen food and desserts in Serbia, should be noted.

Najljepše želje launched a new flavour, coconut, in two sizes (100g and 27.5g) and a noissette chocolate which, together with focus on the standard portfolio, resulted in over 1% market share growth, while Menaž launched an innovation Menaž glazura u čaši (glaze in a glass). Smoki's annual birthday year was marked by activities on confirming the brand strength and campaign "Svaki dan je rođendan!" (Everyday is a birthday). Mega Hrsker launched a new HOT flavour. As regards additional activities, we should mention the prize contest organised in the markets of Serbia, BiH and Montenegro with an attractive prize fund, launching of discount packaging with gratis contents, and launching of the sub-brand Smoki Fun. Along with the redesign, biscuits extended their portfolio with Keksići with double cocoa cream and caramel, while Integrino offered a sugar-free biscuit in two flavours and suitable packaging, concurrently with the new communication platform "Keks koji misli na tebe!" (Biscuit that thinks about you). In the previous year, the wafer category experienced multiple innovations and a slight redesign. The segment of wafers without frosting was enhanced by a new double-fill product structure in response to consumers' requests, and Nela Peanuts 175g was launched, marking the beginning of penetrating a higher wafer segment. Bananica, a favourite candy of all generations, and its variation Skroz Čoko Bananica (Full Choco Bananica) strengthened its market share despite the competition from strong multinational producers. The support for this chocolate version of Bananica, launched as a limited edition, was provided through digital activation, while the decision on keeping it as part of the regular portfolio was left to direct voting of consumers, which in one month generated 100,000 user votes in favour of Skroz Čoko Bananica. This made it a permanent member of our production programme which holds a 9% share in the overall Bananica portfolio.

29,000

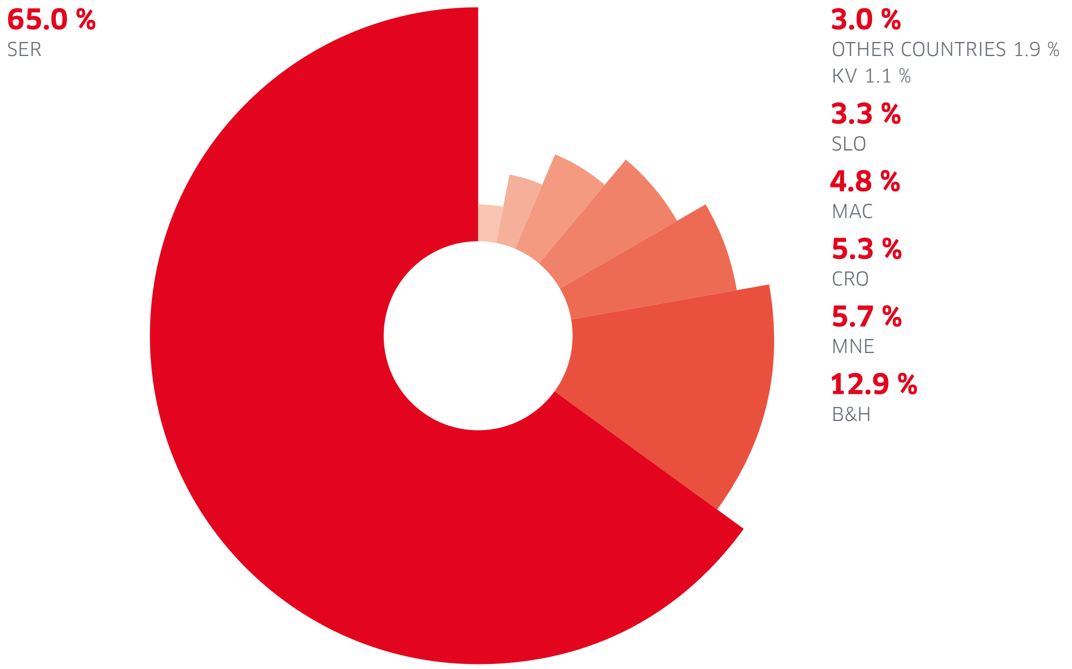
TONNES OF SOLD PRODUCTS IN 2017

As a reinforcement in the segment of energy bars Sweeet, we launched a product extension KikiriX (PeanutX) with a high peanut content, intended for young people in need of extra energy, which was supported by the relevant web page and prize contest for the best GIF image "Pokreni Gifix" (Start Gifix). The portfolio of Chipsos products was reconstructed and its design was renewed and refined.

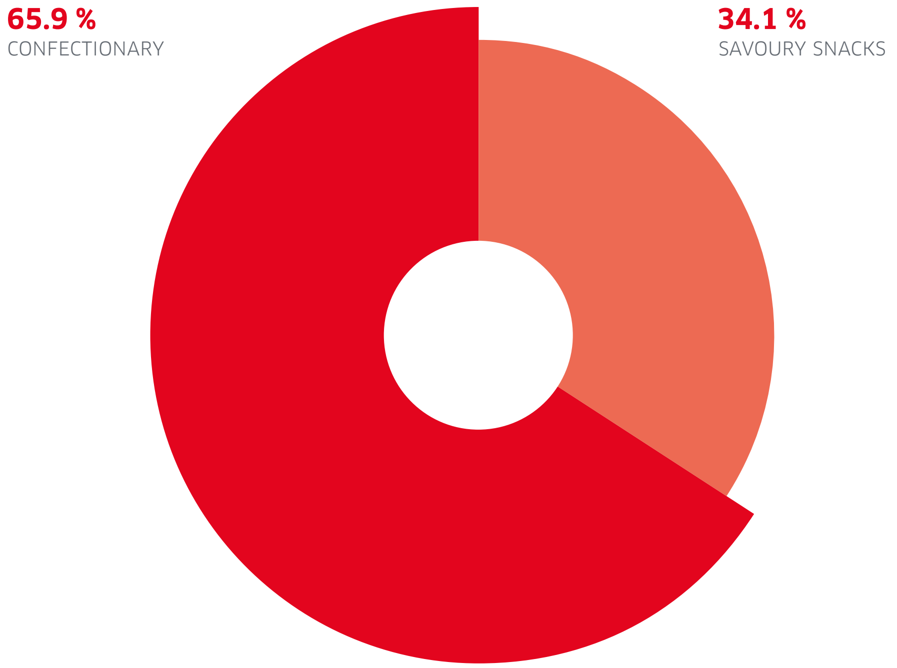
The increased sales volume leads to a more complex production process, which in turn requires more efficient management; to this effect, we should point out an investment in the flour (as one of strategically important raw materials) management and transport system, which reduced production losses and improved product safety. Lower costs are also the reason for investing in new energy consumption monitoring equipment installed on the main electricity consumer units. In order to increase the Bananica production line capacity, we reconstructed the section where the initial part of the production process takes place by replacing all equipment, thus reducing costs and improving product safety. Investments in production efficiency improvements were also implemented in the tea-biscuit factory Ljubovija by installing automatic packaging, which reduced labour costs and ensured a higher quality of the final product.

The company's environmental responsibility was confirmed by recertification of the CO2 emission reduction certificate (Sekopak), while waste management was improved by providing new containers for different types of waste. The efforts invested in production and sales were also recognised by the professional community. In this sense, Štark won awards for the best chocolate product in Serbia (Chamber of Commerce and Industry of Serbia), the most attractive brand PR action "Štark Deda Mraz" (Štark Santa Claus) (PR Association of Serbia) and the award "Beogradski pobednik" (Belgrade Winner) for outstanding business performance given by Chambers of Commerce of Serbia and the City of Belgrade. The continuous improvement of business operations is supported by applying a series of international quality standards.

SALES BY COUNTRIES



SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic Business Unit **Savoury Spreads**

The Strategic Business Unit Savoury Spreads (SBU Savoury Spreads) achieved excellent results in 2017 and recorded a 7.0% growth compared to the previous year. Both brands contributed to the growth, with sales of Argeta and Montana up 6.8% and 11.8% respectively in terms of value.

Argeta started the year of 2017 with an important product innovation: at the beginning of March Argeta transferred to the so called “free from” formula: formula without preservatives, colours, flavour enhancers and gluten, making Argeta additive free. Following Argeta's mission of providing “the best small meals made in the most honest way” this product innovation insures even more carefree enjoyment of Argeta's products. Besides the “free from” formula, Argeta is among the first pâté producers that made a step forward by using BPA – NI coatings (BPA non-intent – coatings without BPA). BPA is a special coating used for protecting the linings of canned food and drinks. Minute amounts of BPA can transfer from packaging into food and drinks and this is why Argeta made an important move towards absolute food safety with the use of BPA – NI coatings, meaning that BPA is not a part of Argeta's cans.

In addition to new product launches, the most important milestone for Argeta was the entry into vegetable-based spreads in Slovenia. In 2017, Argeta launched five trendy hummus-based vegetable spreads of interesting taste variations, without preservatives, artificial colours, flavour enhancers or gluten. All five variations are also appropriate for vegetarians and vegans. With vegetable-based spreads, Argeta once again proved to be the business leader, adaptable to the food related trends, and tapped into the growing popularity of hummus.

SBU SAVOURY SPREADS RECORDED A

7.0%

GROWTH COMPARED TO THE PREVIOUS YEAR

The production of Argeta in the USA started in cooperation with the American company Brother&Sister from Harrisburg, Pennsylvania in compliance with strict criteria relating to the quality, traceability and state-of-the-art technology, which are upheld by the production facilities in Izola, Slovenia, and Hadžići, Bosnia and Herzegovina. Argeta, made from only the finest cuts of meat and produced in accordance with the ISO 9001:2000, ISO 14001, HACCP, HALAL, MCS and FSSC 22000 standards, has started intensive distribution at two thousand points of sale in the U.S. and Canada initially, which will then be followed by a strong promotional campaign at points of sale and via the digital media.

Among novelties in the Argeta portfolio, the highest growth was definitively derived from local tastes, launched in 2016 in Croatia, Serbia, Slovenia and B&H (Slavonska, Vojvođanska and Sa suhim mesom pâté), as well as the ones launched in the last quarter of 2017, which were selected through the new co-creation campaigns in Kosovo and Macedonia, where people have voted for Prištinska and Šarplaninska pates. Outstanding extension of Argeta “Local tastes” campaigns was “How do you love your cities?” campaign in BIH, that has united the people in quest of the most beautiful places in their country and resulting in more than 1 million views of local video guides on YouTube channel, that Argeta has prepared based on photos and content provided by consumers. Argeta takes continuous care of consumer needs and adjusts to their habits by offering locally preferred tastes: in 2017, Argeta launched Hunters pâté in the markets of Macedonia and BIH, which was immediately picked-up by consumers. Last year was also a year of the Argeta Junior sub brand, which has grown respectably in most countries in the West Balkans region due to increased focus and support (TV and digital), especially in the "Back to School" period from September to November and through very successful Back to School promotions.

In 2017, Argeta also entered into the HoReCa channel with a product specially designed for hotels and their guests. This year Argeta also formed a successful cooperation with an acclaimed chef creating 2017's Special Edition of Argeta Exclusive. Janez Bratovž, Slovenia's first chef on the famous S. Pellegrino's Top 100 World's Best Restaurants list, created this year's Argeta Exclusive liver pâté with candied orange and cognac. As in previous years, the 2017 Argeta Special Edition a lá JB restaurant, was a sales hit and gourmet's darling in the festive Christmas and New Years' time. The taste was a big success and it was sold out in first 3 months.

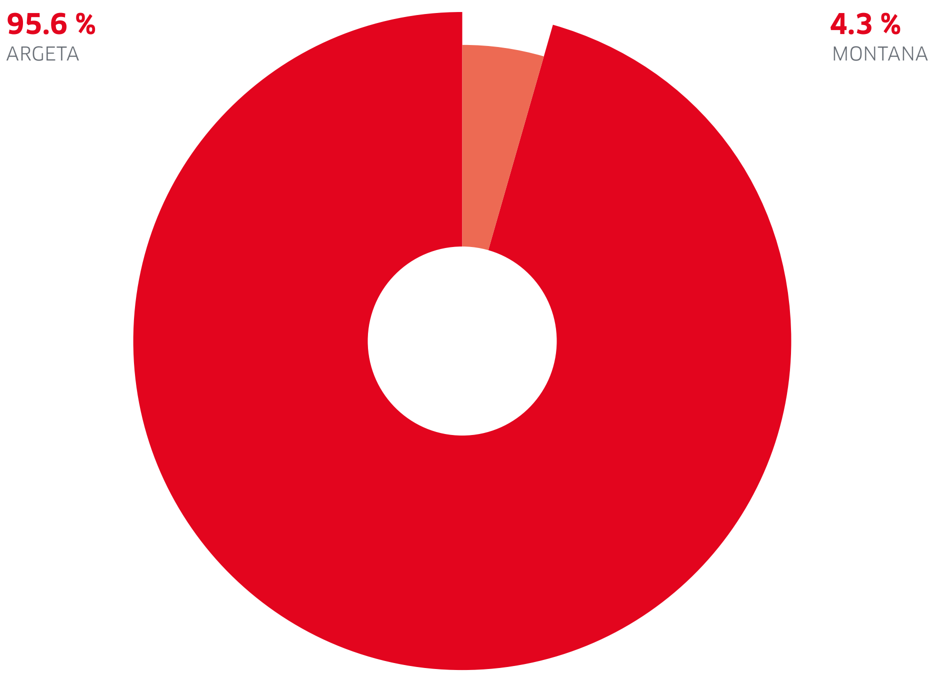
Among important awards that Argeta obtained in 2017, Slovenian Effie award stands out the most. Following excellent results in effective marketing communications, Argeta was awarded with the Golden Effie Award in 2017 for effectiveness in marketing communications in Slovenia for its achievements in 15 years of continuous "The good side of the bread" marketing communications. Argeta also became the most effective brand in the country and Atlantic Grupa the most effective company when it comes to marketing communications. Argeta also recently succeeded in protecting Argeta's unique pantone colour P 159C and joined an exclusive club of 0.03% companies that have its colour or pattern officially protected.

The strategy of "thinking globally, acting locally" and immense increase in the love mark status of Argeta brought outstanding business results another year in a row. Sales and market shares increased significantly in Croatia, where Argeta even tightened the gap versus the market leader and is on the path of taking over the leadership, and did so in Serbia, Slovenia, Bosnia and Herzegovina, Macedonia and Montenegro. Argeta also achieved high sales growth outside Adriatic region in Sweden, Switzerland, Austria, Russia and Baltics and entered a highly demanding French market thanks to a new improved BPA-NI packaging. With significant sales increase in 2017, Argeta became the market leader in terms of value market share in Switzerland and was the driver behind category growth. Argeta significantly improved value and volume market share mostly taking from Le Parfait and Fine Food. Argeta remained the category leader in Austria while further improving market share. In line with this, all of the top 5 products on the market now belong to Argeta with Chicken Pikant overtaking the domestic competitor. On the international floor, Argeta conquered a new European country, the Netherlands. In March, Argeta was listed in two biggest retailers Albert Heijn and Jumbo, followed by immediate tasting promotions for shoppers.

ATLANTIC GRUPA

SALES BY COUNTRIES

SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic Business Unit
Pharma and Personal Care

The Strategic Business Unit Pharma and Personal Care in 2017 continued its business strategy of strengthening own brands under the programmes Cosmetics and Dietary Products and Medicines, as well as its performance of agreements with principals in the wholesale pharmacy business. Our own vertical integration through the pharmacy chain Farmacia, as well as the remaining market composed of pharmacies and specialised stores, provide for stable business operations. The constant adjustments to new trends, continuous investments in marketing, sales skills training for employees and new positioning resulted in higher market shares in an increasingly demanding environment. The brands also recruited their consumers through digital channels, by engaging relevant social networks and web-platforms, which provided substantial brand recognisability. Digital contents were also used for educating consumers on oral hygiene and body care, while various counselling centres in Farmacia are educating consumers on raising their quality of life.

The company Fidifarm, as the market leader in dietary supplements in Croatia, is under its brand Dietpharm already present for many years in the region, while placing added focus on export markets in 2017. The brand Dietpharm, as a Superbrand and innovation leader in the market of dietary supplements, retained its leading position on the Croatian market of dietary supplements with a 22% market share. In the previous year, the rich product portfolio was enhanced with 5 more new products (Flexaktiv 9 tablets for normal joint function, Kondroin H rapid cream for alleviating joint and muscle pains, Veneton Duo Active gel for alleviating symptoms of vein circulation problems, Lizzy Centravit bears – gummy bear-shaped vitamins for kids and Magnesium 375 + B6 capsules, added to the already well-known Dietpharm's magnesium family). Magnesium Night capsules, which were the best-selling new product in the segment of dietary supplements in Croatia in 2016, became the second best-selling product in Serbia in the segment of dietary supplements for a good-night's sleep with a 14% market share. Dietpharm is present on 12 export markets, and in 2017 signed agreements with partners in the markets of Hungary and Kosovo. The Romanian market recorded a double-digit growth in sales.

IN THE PREVIOUS YEAR, THE PRODUCT PORTFOLIO WAS ENHANCED WITH

5

MORE NEW PRODUCTS

In Russia, which is a strategically important market with the potential for pharmacy business growth, the brand Multivita maintained its high market share in Vitamin C sales and, in addition to Makulin, in the previous year launched two new dietary supplements for the Russian market: Akulavit capsules for stronger immune system and Flexaktiv 9 capsules for normal joint function.

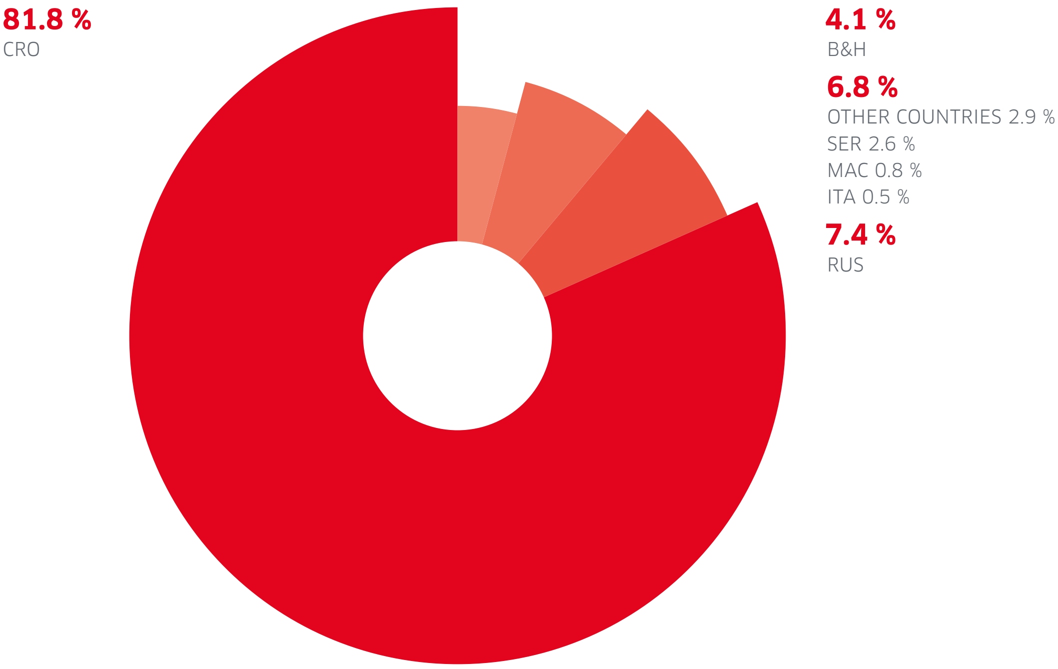
During 2017, the Cosmetics programme was focused on optimising business operations in all segments for the purpose of increasing profitability. The main drivers of sales growth in the region are brands Plidenta, Melem and Rosal Lip Balm, and in foreign markets private labels, which recorded a 52% growth in sales. In 2017, Plidenta retained its market status in the very competitive markets of Croatia and BiH, and launched the new professional whitening toothpaste Plidenta Healthcare FullWhite, thus strengthening the portfolio of this fastest growing segment of toothpastes.

In 2017, Melem posted a double-digit growth compared to the previous year, which is a result of development activities and portfolio expansion. The Mediterranean line of Melem with essential oils of lavender, sage and rosemary was launched as a result of cooperation with the Melem Club of Happy Users. The Club members contributed to another novelty, Melem shower gel with precious essential oils, which was launched at the end of the year. In 2017 we continued to work on the integration and strengthening of the brand Rosal and launched a new product line intended for all those who like simple, practical and affordable all-in-one products. The new Rosal Perfect You line in one stroke provides complete care for lips, face, body, hands and nails, due to premium ingredients, as well as practical and attractive packaging.

In 2017, Farmacia consisted of 85 units (49 pharmacies and 36 specialised stores) and continued its actions in several directions: raising the quality of relations with patients by organising public health actions, expert counselling centres, further employee training through its own education centre, and relations with the professional community. By presenting the results of its cardiology counselling centre at the 2nd Forum of Excellence in Pharmaceutical Care, Farmacia was in focus of the media and professional community due to providing a unique additional service in the Croatian pharmacy sector, which was published as an example of quality pharmacy practice in the publication for the International Pharmaceutical Federation (FIP). Farmacia continued to maintain its unique mix of products and services through continuous product portfolio development, advanced sales activities and systematic use of all relevant digital channels (web page, Facebook and e-bulletin), which resulted in their organic growth. During the year we continued cooperation with the Croatian Medical Chamber and the Croatian Pharmaceutical Society, where Farmacia is extremely active in presenting its professional work. At the session of the Faculty of Pharmacy and Biochemistry in Zagreb celebrating 135 years of pharmacy studies, Farmacia received a recognition for its successful long-standing cooperation in improving the quality of scientific-educational activities.

The SBU Pharma and Personal Care's quality management systems comply with the strict international standards (ISO 9001, ISO 14000, HACCP, GMP).

SALES BY COUNTRIES



SALES BY CATEGORIES

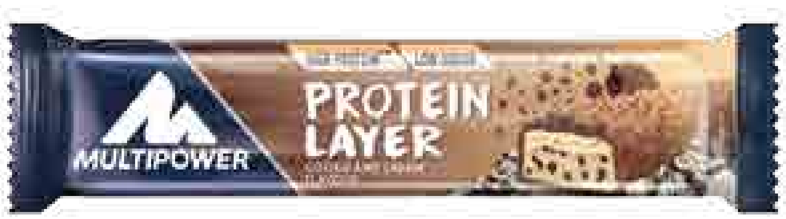
Source: Internal Atlantic Data

Strategic Business Unit
Sports and Functional Food

The Strategic Business Unit Sports and Functional Food (SBU Sports and Functional Food) specialises in the development and marketing of sports nutrition and weight-management products. Tradition and constant innovation in the sports food segment have resulted in being one the leading companies of sports and functional food in Germany. The headquarters of the SBU Sports and Functional Food is in Hamburg while the products are sold on the European market under the three brands: Multipower, Champ and Multaben.

The Strategic Business Unit Sports and Functional Food in 2017 successfully continued the process of restructuring and business simplification with focus on its core brands. Atlantic Grupa divested the production facilities in Germany (Bleckede) and Croatia (Nova Gradiška) as well as the associated private label business to a Belgium-based company Aminolabs Group. The transaction has been completed in November 2017. The Strategic Business Unit Sports and Functional Food will continue to develop Multipower brand moving it into the premium category, retaining its marketing, sales and innovations department. Production of the brands will continue in cooperation with Aminolabs and other co-packers. In line with the new strategy, SBU focused on the branded part of the business, strengthening the leading brand, Multipower.

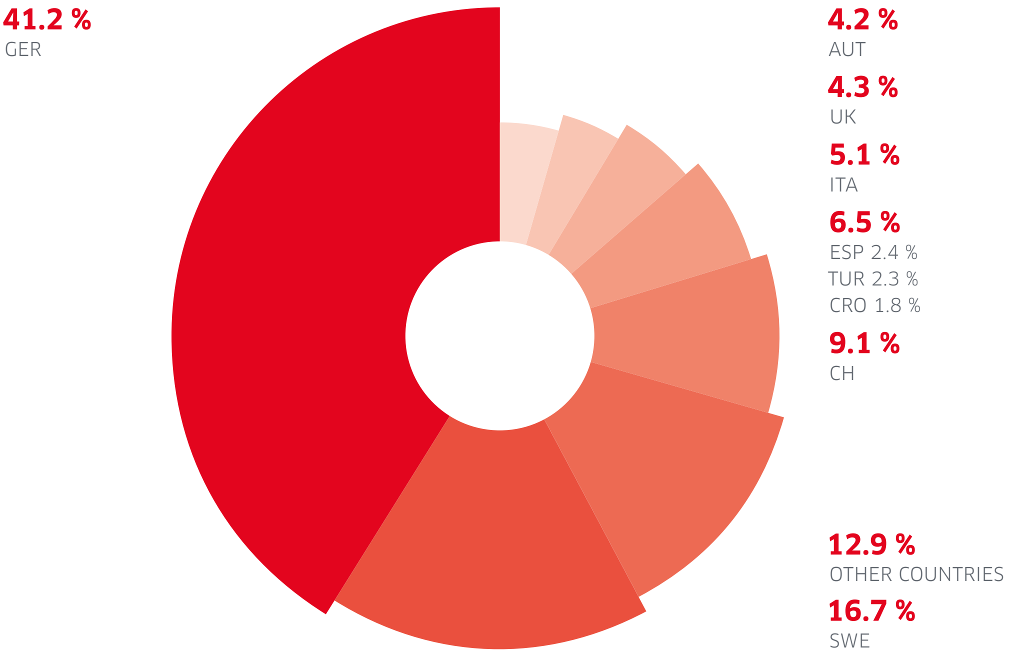
Historically, Multipower was positioned in the sport channel, now shifting focus to the two fastest growing channels in sports nutrition: mass market and online. Most of the Multipower portfolio was renovated, with clear focus on protein bars development to enter into more lifestyle category. The biggest success of 2017 was the introduction of 100% Whey to Mass Market and the launch of indulgent protein bars Protein Layer. Multipower was continuously supported through increased presence in social media with support of influencers.



Champ, the first brand ever present in the sports nutrition German mass market, continued its presence in the mass market as a value for money proposition, offering consumers good quality and tasty proteins for an affordable price. In the next three years the SFF plans to stay focused on the domestic German market and further develop prospective markets of Austria, Italy and Croatia. Mass market and online channel will be in focus, supported by stable sales in the Sports channel. In the year 2017, we started cooperation with the established German mass market distributor in order to further develop our presence on the shelves in German retail chains.

The SFF will keep investing in our three brands through innovation, brand building and sales support. Multipower will increase focus on sports nutrition as a top line sport food for active and professional sportsmen with the highest quality of ingredients and recipes within all major segments of the Sports Food category. Champ will remain as a mainstream entry level brand for active people and health-conscious individuals, offering easy intake of proteins every day, while Multaben is moving from weight loss to meal replacement space and healthy lifestyle categories, intended for women who would like to feel good in their body and enjoy tasty meal replacement products during their busy day.

SALES BY COUNTRIES



SALES BY CATEGORIES

Source: Internal Atlantic Data

Business Unit
Baby Food

The main macroeconomic indicators in Russia in 2017 further improved, including the GDP growth and a record low inflation, with strong and increasing prices of oil contributing to a quicker exit from the recession period and overall economic recovery. However, uncertainty around most of CIS countries will remain mainly driven by inflation pressures, as well as by strong activities of competitors with a full local presence. While most of the Russian market segments still struggle with reduced purchasing power and decrease in value and volume of consumption, Baby Food category shows positive dynamics in the cereals segment: 5% in value and +2% in volume. By the very definition, and reconfirmed by market researches, consumers are rarely cutting spending on their children.

For BU Bebi, 2017 was a hugely successful year with strong sales catch-up (21% in value in comparison to 2016) mostly driven by cereals, while the number four market share position in Russia was defended. Looking at particular channels, main dynamics came from special baby stores where the brand has 24% in value and 7% in volume market share.

In order to win new customers, and to create the image of Bebi as an innovative brand, we launched a unique category with two new products in the cereals segment, but intended for adults – Mom's cereals. By using the Bebi brand heritage, we are building awareness among new customers and creating a reputation of an expert in baby and young mom's nutrition. The new product launch is highly supported on the web site with the "Pregnancy Diary" – a special section with expert advice for future moms and product description. The regular process of product assortment review was successfully executed. The recommended and obligatory assortments for key channels were introduced in order to boost the profitability and phase out "tail end" products with suboptimal performance and profitability. As a result, six products with the highest profitability overachieved targets for 23% in volume. Special categories of highly profitable Bebi cereals were shown by Nielsen as a huge success: Poldniki cereals recorded a 20% growth and Goat milk-based cereals a 136% growth compared to the previous year.

We actively worked with main social media in the region: Vkontakte, Facebook, Odniklassniki, and Instagram, acquiring new followers and increased coverage, simultaneously with implementing the new visual code, which helped to increase brand recognition and engagement rate. The VK community page was connected with the online store and provided actual info for the followers regarding current prices and product availability. The online shelf was arranged in alignment with the new visual code and sorted by product category. The Instagram bloggers campaign covered more than 700,000 followers and built the brand perception as a safe and healthy product that babies like. The campaign was planned with special attention on Caucasian and Moscow regions in order to support the most important areas, strengthen the brand image, and support current market positions there. Also, the www.bebi.ru site improvement was done, as well as the web-site indexation that was increased in main search systems. The e-shopping service was implemented on the web-site (www.bebi.ru), together with the main Baby stores and key accounts. What is important to note – geo-targeting service is implemented to support e-shopping.

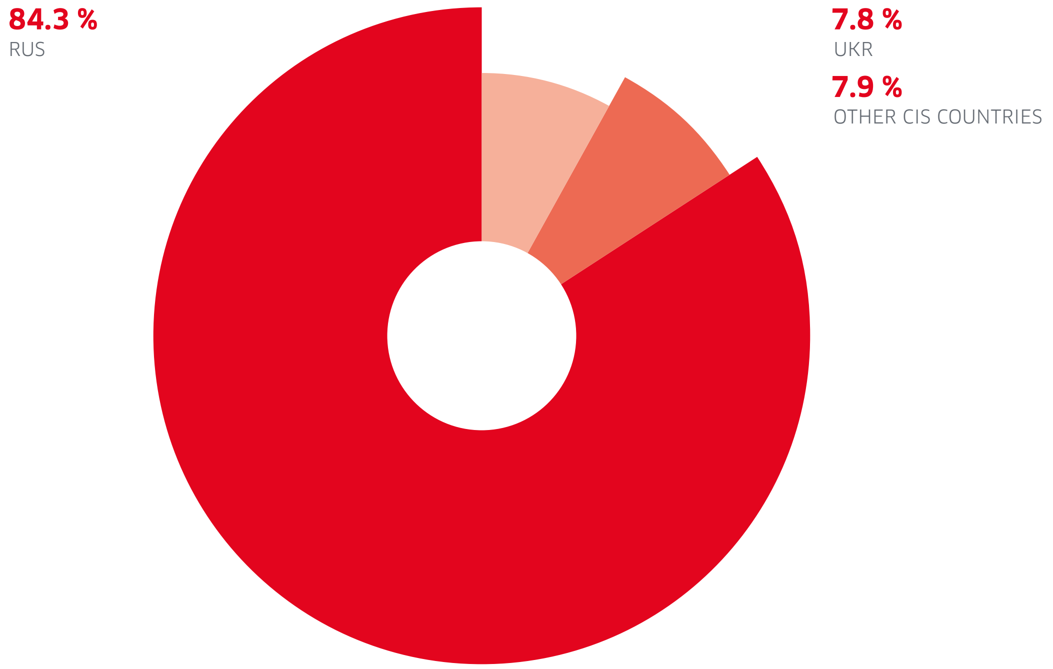
In 2017, the Bebi brand used a Specialized Print Press (for parents and paediatricians) with the total coverage of more than 2.5 million targeted users, where the top-8 most rated magazines about childhood and magazines intended for doctors were used to support the brand image.

BU BEBI RECORDED VALUE GROWTH OF

21%

IN COMPARISON TO 2016

SALES BY COUNTRIES



SALES BY CATEGORIES

Source: Internal Atlantic Data

Business Unit
Gourmet

In 2017, the Business Unit Gourmet generated sales in the amount of HRK 36.5 million and recorded an 11% growth compared to 2016. The brand Bakina Tajna (Granny's Secret) recorded a double-digit growth in all major markets: Croatia 21%, Serbia 20%, Montenegro 23%, Germany 56% and France 41%. Such sales results are in line with this business unit's strategy and the expected significant growth. In 2017, great focus was on educating consumers about Granny's Secret Ajvar, where a new sales channels strategy on the most important markets has been successfully revised and implemented. A special web page was also launched – www.ajvar.com – aimed at achieving growth in the category by extending ajvar consumption to the entire year, and not only in the summer season. The ajvar category recorded a significant growth on all the markets compared to 2016, and in Croatia Granny's Secret Ajvar was the driver behind this category's value growth.

A new product line, Fruit&Honey, was launched in the markets of Austria, France and Great Britain, which represents a complete innovation in line with global trends. These are unique premium fruit spreads with 60% first-rate fruit and 40% honey. A new visual identity of the brand was designed, with a clearer label and focus on recognisable brand symbols. Bakina Tajna is the proud winner of the "Great Taste Award" in Great Britain (in 2017 for Ajvar Hot relish and tomato and celery juice), while also being the winner of the "Superior Taste Award" for Classic Ajvar relish.

BU GOURMET GENERATED SALES IN THE AMOUNT OF HRK

36.5

MILLION AND RECORDED AN

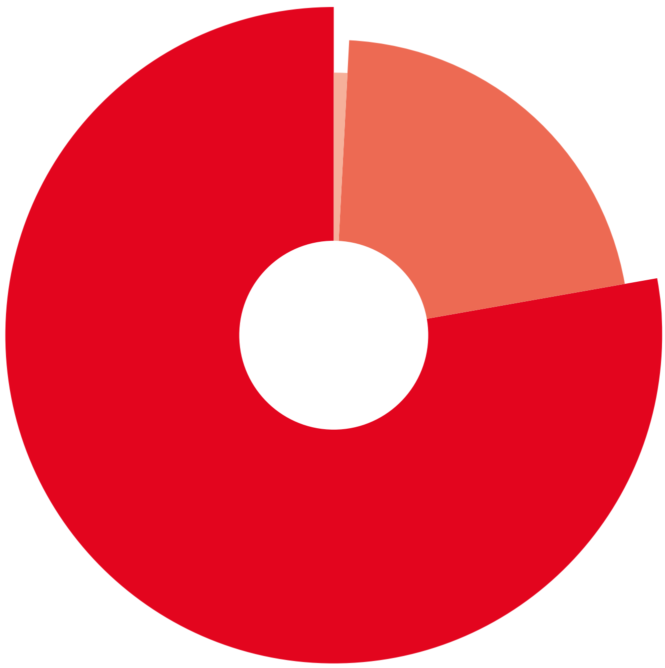
11%

GROWTH COMPARED TO 2016

As regards capital investments, we should mention the new packaging and labelling line that solved a production bottleneck and increased overall efficiency. The pepper roasting capacity was increased by one fifth through investments in equipment and improvements in efficiency. A new pasteurizator and metal detector were procured, thus providing continuous product quality conformity, and the plant's ventilation system was upgraded. At the same time, the supply chain was optimised, which increased the turnover of stores, and we successfully passed all audits and confirmed compliance with ISO standards.

SALES BY COUNTRIES

SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic Distribution Units, Strategic Distribution Regions and Distribution Units

The Strategic Distribution Units, Strategic Distribution Regions and Distribution Units have a highly developed know-how in the fields of distribution, key client management, product category management, supply chain management, trade marketing and sales improvement, which is continuously adapted to market trends. The primary activity of Strategic Distribution Units, Strategic Distribution Regions and Distribution Units is to distribute the entire product range from Atlantic's own production and the portfolio of external principals in two main zones, Zone East and Zone West, whereas Zone East is divided into seven regions: Croatia; Serbia; Slovenia; Macedonia; CIS & Baltic; HoReCa; and Kosovo, Bulgaria and Romania, while Zone West is divided into regions: Dach&Benelux; Mediterranean & Africa; Northwest Europe and Australia; and Central Europe and Overseas. Distribution in BiH and Montenegro is organised in cooperation with the partner company Ataco.

STRATEGIC DISTRIBUTION UNIT SERBIA

In 2017, the Strategic Distribution Unit Serbia (SDU Serbia) recorded a 3% growth compared to the previous year, despite the unstable market environment and limited cooperation with the largest customer. The business year 2017 was additionally marked by the beginning of cooperation with the national retail chain of news-stands "Štampa", as well as with two large regional retail chains "Gomex" and "Aroma", both with growing market shares.

Due to the excellent distribution, Štark chocolates increased their market share by 2% and with 41.3% took over the absolute leading position in competition with strong international brands. The leading position in the category of Turkish coffee was retained, whereas the product Black'n'Easy, instant Turkish coffee, has, only two years after the start of its distribution and in competition with international brands, surpassed a 16% market share in the Black Cup category. The highest sales growth of 17% was recorded by the Business Unit Gourmet, which strengthened the dominant position of Bakina Tajna in the premium category of ajvar, juices and jams. The sales of Argeta pâtés improved by 15%, thus ensuring the second position in the overall pâté category, as well as further strengthening of the first place in the fish segment.

In 2017, cooperation with external principals has significantly improved, which resulted in overall growth in sales, despite ending cooperation with the external principal L'Oreal. In terms of growth, the best results were recorded by Corny (33%), Alkaloid (17%) and Rauch (14%).

Furthermore, the agreement with the company Red Bull for distributing its well-known energy drink was signed, and we continue to expand our distribution portfolio in line with expectations and announcements. The value of this new agreement is around HRK 34 million per year, and the key factors that made it possible were a highly-developed distribution network, excellent coverage of distribution channels, particularly in retail and HoReCa, developed relations with key clients and the overall level of distribution service that Atlantic offers to its partners.

The change in shares of sales channels, that is, a 6% growth in the traditional trade channel (smaller points of sale) compared to the previous year additionally contributed to achieving the total numeric distribution. For example, the main brands in the Štark assortment: Smoki, Najlepše želje and Bananica reached a record numeric distribution of over 10,000 delivery points.

SDU SERBIA RECORDED A
3%
GROWTH COMPARED TO THE PREVIOUS YEAR

STRATEGIC DISTRIBUTION UNIT CROATIA

Higher revenue performance (growth of 67.1 million HRK or 6.9% compared to 2016) was achieved as a result of capturing summer season opportunities (volume boost and favourable customer mix), horizontal growth and widening categories portfolio, while assuring sustainable growth trend over the years.

At the same time, the 2017 performance was challenged by the overall critical situation with Agrokor starting from the second quarter of 2017 (the delayed payments and halting of deliveries) resulting in their continuous loss of market share, which we bypassed with our focus on the small and regional customers through boosted activity grids and marketing investments, all of the above mentioned resulting in growth of the traditional trade channel by 2% compared to the previous year. SDU Croatia recorded increased profitability as a result of the above mentioned captured season opportunities, focus on small/regional customers and category portfolio, together with optimisations of operating expenses as a result of process and efficiency improvements.

When key brands and categories are concerned, SDU Croatia achieved impressive results. In the savoury spreads category, Argeta achieved excellent growth of 17%, due to consecutive execution of trade marketing activities, further development of the discount channel and increased brand usage frequency during

6.9%
OF REVENUE GROWTH RECORDED SDU CROATIA COMPARED TO 2016

the strong summer season. The beverages category grew by 16% and this segment thrived during the strong summer season that was supported with the best ever distribution efforts. On top of that, Cedevita in the segment of instant vitamin drinks recorded an 8% growth, managing to grow further due to its efforts to develop the category, enriching point of sales and overcoming Agrokor sales gaps during the end of the first quarter and the beginning of the second quarter of 2017. Snacks recorded a 12% growth compared to 2016. The over-performance was achieved by focusing on biscuits category in addition to a stabile delivery of core brands. In the coffee segment, Barcaffè has grown by 9%. The price increase at the beginning of the 2017, which was necessary due to the increase in raw material prices, had no negative impact on the sales. When speaking about principal brands, Ferrero grew by 6% in 2017 as a result of the best ever execution in seasonal peaks (in terms of speed of preparation and pick-up results). In parallel with our focus on customers, strategically important brands delivered healthy results due to our efforts. The impulse nature of Wrigley's in the category of chewing gum is closely linked with visibility in the cashier zone, and the impact of Agrokor, due to its number of cashiers in the market, was a challenge to compensate. Despite this, we succeeded by creating more exposure points at points of sales, making more relevant activities, and achieving maximum distribution in the season, which led to a 2% growth in revenues. Owing to great efforts invested in adjusting marketing plans across customer grids to address the relevant offers for final consumers, we have managed to deliver a 1% growth of the Unilever assortment, despite the fact that the chain Kozmo was acquired by their competitor and that this assortment's exposure to Konzum is higher than in other distribution portfolios.

At the end of 2017, an agreement with the company Mars was signed, covering the distribution of the entire Mars portfolio in the Croatian market. Atlantic will start the distribution in February 2018, and the expected revenues are about HRK 100 million. This new product portfolio includes brands such as Twix, Mars, Bounty, Snickers, M&M's, Pedigree, Whiskas, Kitekat and Uncle Ben's. Atlantic Grupa has been distributing the Wrigley assortment from 1991, which became a part of the Mars company in 2008. Thanks to the excellent results and serive quality, this partnership was extended to the remaining Mars product portfolio.

Logistic optimisation was assured through continuous efficiency improvements, which are a result of applying delivery workflow in full scope, pre-load deliveries from production facilities towards key accounts, tour-retour deliveries for pallets from distribution centres to production facilities, pre-load deliveries from central warehouse towards Bionatura Bidon Vode warehouse, etc. In 2017 we were faced with additional challenges in terms of understanding customers and reasons behind changing the place where they do their shopping. In the face of market crisis that was caused by Agrokor situation, many brands were more aware, alert and agile to find an alternate channel, customer, activity or promotion to create opportunities for growth. This harsh awakening process set up a different pace for the FMCG market in Croatia that we believe is going to be beneficial for identifying new opportunities and methods for growth in 2018. Horizontal trade market growth was supported through continued capital investments primarily related to installation of new coffee to go and cooling equipment for beverages and maintenance of existing positions.

As a final note, we followed our strategic imperative of providing top physical availability through reinforced route-to-market. The implemented improvements and increased frequency of visits provided us with visibility and volume rotation of our represented brands in a direct way (the category of beverages recorded an 11.7% growth or HRK 18.1 million compared to the previous year). The portfolio of Atlantic Trade in majority of cases outperformed the targeted competition in terms of placement, ensuring the brands' relevant and contextual touchpoints. Also, the summer season distribution was extended to a higher level, creating new areas for brand penetration and enabling the product reach frequency.

The company Bionatura Bidon Vode operates within the SDU Croatia and realises most of its sales by selling the water Kala, which is delivered together with the highest-quality water coolers, thus offering natural spring water at the reach of your hand. In 2017, Bionatura's sales grew my 10%, led by Kala water containers and instant vitamin drinks under the brand Cedevita.

DISTRIBUTION UNIT SLOVENIA

The Distribution Unit Slovenia (DU Slovenia) in 2017 stabilised its operations and affirmed itself as the largest distributor of consumer goods in Slovenia. We recorded a 1.8% organic growth compared to 2016, coupled with this distribution unit's growth in profitability.

In terms of consumers, the Slovenian market posted a slight 2% growth, but still lags behind the first pre-crisis year, considering that the consumer goods index (FMCG – food, drink and tobacco products) is only at the level of 89 (2017 vs. 2010). This is a result of price pressures by the fast-growing "hard discount" retail channel, which represents 23% of the retail market, and the changed purchasing habits of end consumers.

In terms of physical availability, reflected in numeric and weighted distribution levels of brands in the DU Slovenia's portfolio, all results were better than planned and better than the targeted competition.

Despite the stagnating market, we achieved respectable growth in sales of the following brands, i.e. product groups:

- Donat Mg in the category of mineral waters +3%
- Argeta in the category of savoury spreads +7%
- Cedevita in the category of instant vitamin drinks +5%
- Ferrero in the category of chocolate products and pralines +4%
- BiC in the category of disposable razors +7%

The growth in sales achieved in these categories is organic growth, which is higher than the growth of markets in which particular brands are present, meaning stronger brands and higher market shares in their respective categories compared to the competition. All the brands above are leaders by market share in their respective categories.

Additional focus in 2017 was placed on the collection of receivables from clients, which resulted in an 8% shorter period of collection. This excellent result was achieved through continuous control of operating costs and the collection process, and constant use of sales opportunities on this extremely concentrated and competitive market of Slovenia.

1.8%

OF ORGANIC GROWTH RECORDED DU SLOVENIA COMPARED TO 2016

■ SDU CROATIA
■ SDU SERBIA
■ DU SLOVENIA

STRATEGIC DISTRIBUTION REGION ZONE WEST

DACH and Benelux

Sales in Germany in 2017 were 23% lower than in 2016, to the greatest extent caused by the drop in sales of sports and functional food category, which was to some extent compensated by the growth of coffee, gourmet and principal brands. The distribution operations in the Austrian market in 2017 recorded sales 1% higher than in 2016, as a result of growth in sales revenues from all categories, excluding the sport and functional food. The mass-market segment was growing due to increased focus and partnerships with new customers (Lidl, DM and other smaller outlets), while the sports channel experienced lower sales. Excellent results on the main shelves of supermarkets were achieved by Argeta and Granny's Secret, while Cockta, Grand kafa and Štark assortment recorded growth in the ethno segment of mass market.

The Swiss and Benelux markets are growing in close cooperation with selected external partners. Both markets achieved a healthy sales growth. In the Swiss market, Argeta took over the leading position ahead of the domestic brand and recorded an almost 30% market share.

Distribution Region Mediterranean, South America & UK

Due to unsatisfactory profitability, Sports and Functional Food implemented significant price increases in all markets, which resulted in lower sales revenues. Most of the products from other categories also recorded lower sales, with the most significant impact recorded in United Kingdom. The exceptions were the Gourmet segment with a 15% growth and a doubled income from the distribution of principal brands, mainly Nocco.

PDR Central Europe and Overseas

Growth in USA and Canada is driven by the new production of chicken pate and the higher focus on our brands by the current distributor. In Sweden, the sales recorded a 15% growth, due to the double-digit growth of Argeta, Grand kafa and Štark assortments, as well as the excellent results from in-and-out promotion of Cockta in Lidl supermarkets. The markets of Australia, Asia and other central European markets recorded the revenues at the level of 2016.

Due to the restructuring of the business operations of Sports and Functional Food undertaken in 2017, it was necessary to change the distribution approach of Atlantic Grupa in western European countries. Consequently, Atlantic Grupa will change route to the markets in United Kingdom, Spain, Italy and Germany, switching form own distribution companies to partnerships with external distributors. Following that decision, the Barcelona's office closed on 31 July 2017 and the goods were moved to an Italian warehouse, with the deliveries taking place from Italy since August 2017. The new sales representative has been recruited in September. In Italy and United Kingdom, we will employ the new route-to-market model from January 2018. In United Kingdom, the distribution will be organised through multi brand local sport nutrition distributor Body Temple.

In Germany, Sports and Functional Food has already in 2017 switched to a new mass market distributor Genuport, while other Strategic Business Units will switch to external distributors during 2018. The Austria-based business operations will become a standalone distribution unit and will continue to have full organisation setup to serve all Strategic Business Units in all sales channels in Austria.

In all other markets we will keep the existing distribution model, which implies cooperation with external distributors.

STRATEGIC DISTRIBUTION REGION HoReCa

13%

OF OVERALL GROWTH RECORDED SDR HoReCa COMPARED TO 2016

As in previous years, in 2017 the Strategic Distribution Region HoReCa (SDR HoReCa), which covers business operations in Croatia, Serbia, Slovenia and Macedonia, focused on achieving significant growth rates, together with controlling costs and maintaining profitability. A double-digit sales growth was achieved for a third year in a row, equally due to higher sales of own brands and higher sales of existing principals. The overall growth was 13%, and the largest effect came from improved sales of instant vitamin drinks Cedevita, as well as the the year-round sales effect of principals Beam Suntory in the markets of Serbia and Macedonia.

The loyalty of consumers towards the brand Cedevita (VIN 19g) contributed to a double-digit growth in sales (19%), thus keeping Cedevita as the forerunner of our business operations. In the segment of espresso coffee, we focused on the profitability of espresso machines, as well as on strengthening the market share by contracting cooperation with 610 new customers, which ensured a stable growth in sales of 11% in this segment.

The SDR HoReCa is still proactively considering new potentials for sales of the existing portfolio, but also seeks to strengthen the market position with new partners, in order to meet competitive market demands and increase business efficiency. Due to its focus on results, HoReCa also achieved a significant growth in profitability, which represents an excellent basis for future growth.

DISTRIBUTION UNIT MACEDONIA

2%

OF SALES REVENUES GROWTH RECORDED DU MACEDONIA COMPARED TO 2016

In 2017, the Distribution Unit Macedonia (DU Macedonia) recorded growth and increased the company`s income together with the corresponding rise in profit. The DU Macedonia remained one of the top distributor companies of consumer goods in Macedonia. With a wide-ranged and diversified portfolio, with high-quality products, our company satisfies a broad range of consumer needs. Besides the well known domestic brands, DU Macedonia offers goods from renowned international companies – with a high level of satisfaction for our consumers as an ultimate goal:

- Ferrero
- Bar Latte
- Beam Suntory

In comparison to 2016, the DU Macedonia has sales revenues growth of 2% and even higher profit growth, as a result of the excellent organization as well as the processes Atlantic Grupa uses to offer its products. Although we did not acquire new principals this year, we are strongly focused on developing the existing ones and strengthening their power on the domestic market. Best selling brand in 2017 year was Grand kafa (which amounts to 30% of total revenues), followed by Argeta (26% of total revenues) and third place is reserved for the external principal Ferrero (19% of total revenues) – which experiences the additional growth on the Macedonian market every year.

Our product are delivered in 3,027 points of sales from which 154 are hyper and supermarkets, 312 are large groceries, 1,485 are medium and small groceries, 213 petrol stations, 197 kiosks, 148 wholesalers, and other delivering places, with a cost of serve of 12%.

Organisationally, our 24 hour delivery, from two different warehouses, divided in Retail and Horeca/Pharma segment, is served with both our own and the outsourced logistic transportation. Every day, 131 employees are focused on the improvement and promotion of the products and the company, deployed in different departments by function, including the HoReCa segment. In the future we expect further growth of income and improvement of operational efficiency.

■ SDR HoReCa –
CROATIA, SERBIA, SLOVENIA
AND MACEDONIA

STRATEGIC DISTRIBUTION REGION CIS AND BALTICS

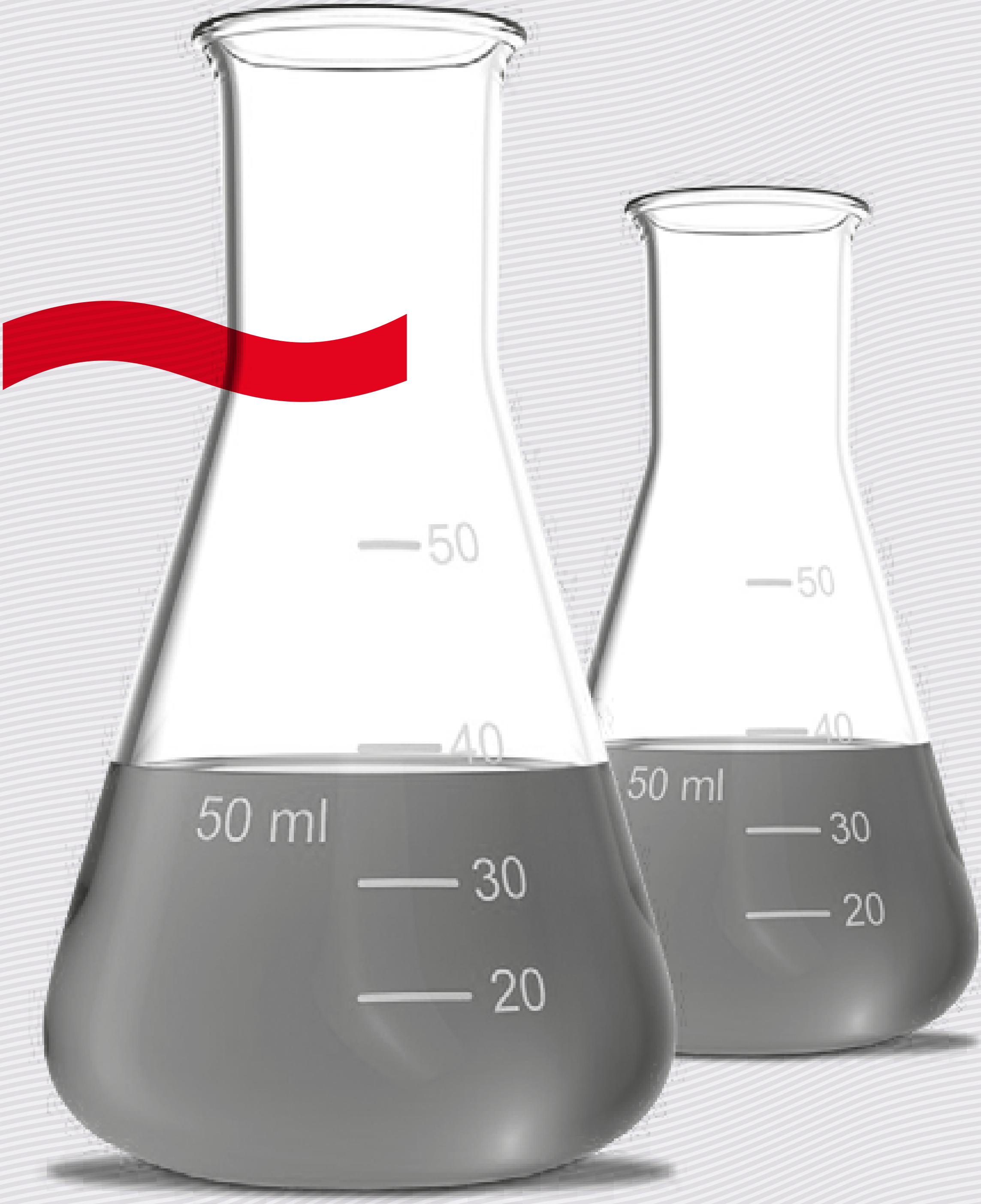
In the environment of relative stability and first signs of economic recovery, SDR CIS is focusing on building a platform for further steps towards sustainability and growth. Recourses were employed to reinforce the company's structure, adding expertise and consolidation of business best practices to be prepared for major market and business challenges, such as retail strengthening and expansion, distribution channel slowdown and economic uncertainty.

Our distribution capabilities are developed by focusing on essential business pillars: the people, the brands and the markets. We are establishing agile brands and channels-oriented team, improving execution of listing, trade marketing activities and in-store visibility. At the moment, we are focusing on the Russian market and, at the same time, increasing our presence in CIS markets.

While customer satisfaction is a hugely important criterion for a company success, the profitability is also valued. By repositioning the manner how we serve our customers, while further working on services excellence, we gained efficiency in cost-to-serve of the key individual customers. The clients' commercial terms and conditions were renegotiated to fuel the profit.

All of the above mentioned are outcomes of SDR CIS strategy – to use strong competences and know-how (knowledge of the market, relationship with market players, professional team) in providing tailor-made high-quality distribution services, brining value for partners and brands. This is reflected in a significant sales growth from all of our major brands: baby food under the Bebi brand, functional drinks under the Donat Mg brand and savoury spreads under the Argeta brand. The high birth rate and economic recovery provide new opportunities for further development of the company's activities on the market of the Commonwealth of Independent States (CIS), where the focus will continue to be on strengthening operations.

SDR CIS (ARMENIA, BELARUS, KAZAKHSTAN, KYRGYZSTAN, MOLDOVA, RUSSIA, TAJIKISTAN, TURKMENISTAN, UKRAINE, UZBEKISTAN)


50
40
50 ml
30
20
50
40
50 ml
30
20

Quality Control

The processes of quality control in Atlantic Grupa are organised through independent quality assurance departments within the company's operating structure, and directed according to balanced goals from the corporate level. Quality control departments exchange good practices between themselves, and are each year given realistic, but challenging goals, while their activities are optimised without increasing product-related risks.

Such organisational structure enables the following:

- coordinated monitoring of legislation,
- implementation of best practices,
- optimal improvement and use of expert knowledge in the field of microbiological, chemical and other hazards,
- centralised supplier management in view of the quality of input materials,
- good and coordinated cooperation with other business processes,
- specialisation of the quality assurance system according to specific issues of individual Strategic Business Units,
- traceability and maintenance of a high-quality level during all phases of transport, storage and distribution to customers.

The standard high quality of Atlantic Grupa's products, which is recognisable to customers, starts from the beginning of developing a new product or during the improvement of an existing one. In line with strategies of individual Strategic Business Units, the process of quality assurance regularly includes the analysis of new risks and implementation of measures aimed at facilitating the achievement of the set strategic targets.

The following factors have an important role in the production of health-safe products: selection of source materials (non-toxic, allergen-free, GMO-free, etc.), quality control of all input materials and ingredients, monitoring of all production and distribution phases, quality assurance of finished products and monitoring customer satisfaction.

There were two novelties introduced in all production facilities during 2017; the methodology for control of potential raw materials fraud was defined on the basis of guidelines issued by the British Retail Consortium. This methodology includes the identification of potential fraud, assessment of exposure and planning of additional measures for controlling that risk. In 2018 all production programmes will be tasked with implementing this methodology into their operations. Additionally, we are directly connected with our materials suppliers through a digital platform in the cloud "Ecratum". The first objective of this platform s to distribute documents and information important for quality risk management of input materials. We expect that this will significantly increase the transparency and speed of information management in 2018, thereby freeing time for managing new risks.

Further to the above, we implemented some additional specific improvements, such as the improvements:

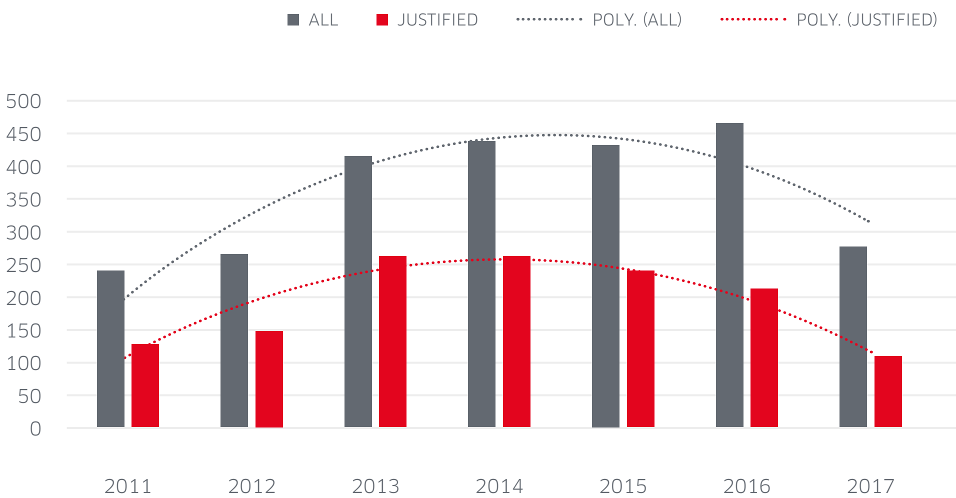
- in the Strategic Business Unit Coffee, where a new methodology for monitoring the safety and quality of vending machines and drinks from those machines was implemented in the Barcaffè2GO segment in the markets of Slovenia, Croatia and Serbia;
- in the Strategic Business Unit Savoury spreads, where monitoring of the contract manufacturing of spreads, which started in America, and of the contract manufacturing of vegetable spreads in Italy was implemented;
- in the Business Unit Baby Food, where control of allergens was further upgraded by collecting additional information from suppliers.

Within the internal programme for improving functional knowledge in the field of quality control initiated under the name “Functional Lab Quality”, we continued implementing the regular training plan, while at our regular annual conference on quality assurance we covered the following topics:

- new methodology and risks associated with food fraud,
- new microbiological risks and their control,
- new knowledge in the field of HMF control and use of stevia,
- new knowledge in the field of allergen identification and risks of food contact materials,
- service quality management, which directly affects the product quality (transport, hygiene services, etc.).

The efficiency of the quality assurance process is assessed on the basis of achieving target values for key indicators, such as the number of consumer complaints and the number of product recalls. In 2017, we invested great efforts in collecting and analysing feedback of our consumers received by our call-centre. The trend of monitoring market complaints is showing excellent results of continuous decrease in the total number of complaints in relation to previous years.

NUMBER OF COMPLAINTS 2011–2017



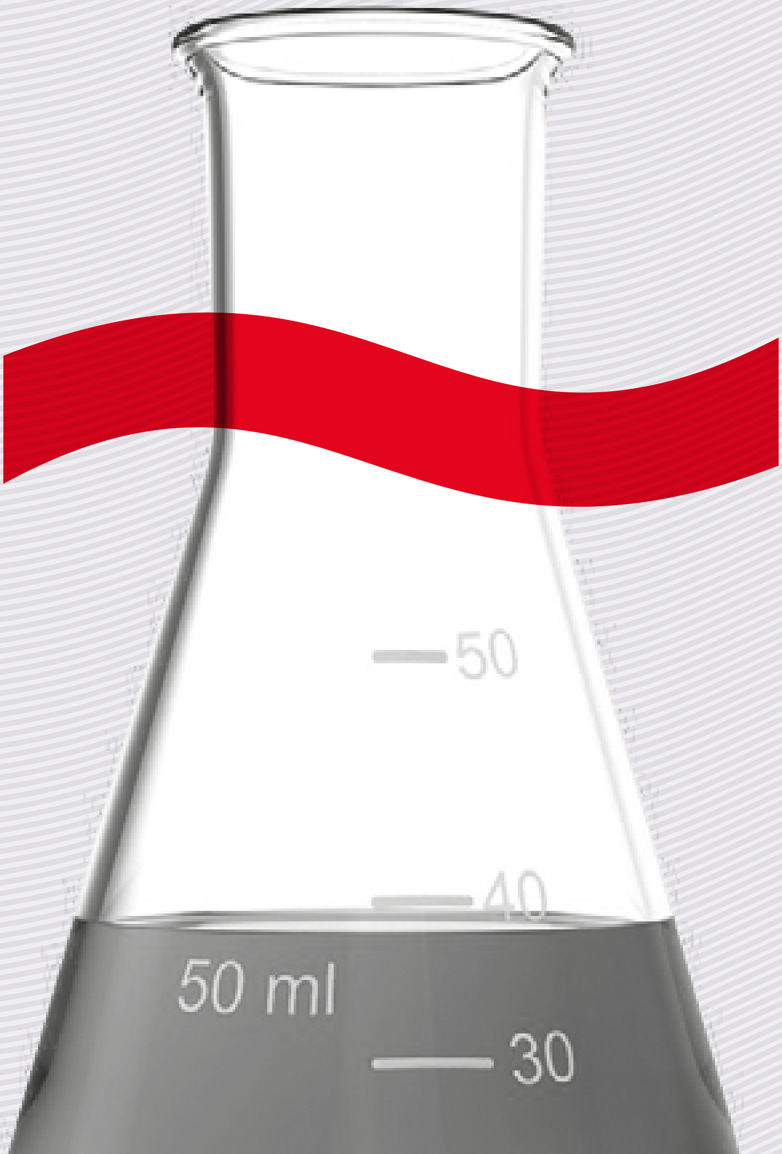
The prevention programme for health safety control implies the control of pesticide residues, heavy metals, allergens, microtoxins, acrylamide, alkaloids, PAHs and dioxins, nitrates, pharmacologically active substances, fatty acid ester content in high-fat products, and contamination by migration of substances from primary packaging. In 2017, we significantly reinforced control of the content of acrylamide in Soko Štark products in order to align the entire portfolio of different snacks with the strict requirements of the EU Regulation which recommended new guideline values for manufacturers.

Laboratory testing of input materials, semi-finished products and finished products are carried out in three central laboratories specialised for chemical, sensory and microbiological tests with state-of-the-art measurement equipment. The accuracy of measurement results is regularly verified by the method of international interlaboratory testing.

In 2017, additional steps forward were also made in the fields of safety management and product quality in the part of operations relating to the distribution of food products. In Slovenia and Croatia, we certified operating distribution companies for the distribution of BIO products. During 2017 we started to implement the good practices already present in the management of our own distribution chains in the region (such as the defined quality of storage services, transparent and strictly defined procedures for managing complaints and crisis situations, etc.) into business processes with our external contract distributors.

The activities in the field of quality assurance are supported by advanced IT solutions implemented in the Group's system. The SAP quality control module was implemented in our companies in the Slovenian market and in some companies in the Croatian market, while other Atlantic Grupa's locations use internal IT solutions operating on similar platforms.

Pleased with the results in 2017, in the next year we will continue with improvements and automation of control procedures, gaining further excellence and upgrading expert knowledge.



Financial Operations
of Atlantic Grupa

* **MONEY TREE**
Crassula ovata

ZORAN STANKOVIĆ

GROUP VICE PRESIDENT FOR FINANCE

Statement of the Group Vice President **for Finance**

In 2017, **ATLANTIC GRUPA** for the tenth year in a row continued a series of successful implementation of the set business plans. The publicly announced expectations were fully met, coupled with solid growth in revenues and significant growth in profitability. The revenue growth was generated in the same extent by the results of own and principal brands, while excellent results were achieved by most business and distribution units, that is, all major markets of Atlantic Grupa. The limitations in cooperation with a key customer, i.e. Agrokor's retail companies, presented a special challenge, which was successfully addressed through exceptional cooperation with other customers, and this translated into sales growth in the markets of Croatia, Slovenia and Serbia. Furthermore, as a result of consistent credit risk management, Atlantic Grupa kept its exposure to Agrokor's companies at an acceptable level and, when the Act on the Procedure for Extraordinary Administration in Companies of Systemic Importance for the Republic of Croatia entered into force, Atlantic Grupa had almost only the so called "borderline" receivables, which are expected to be fully collected in the process of settlement. The collection of receivables for goods delivered to Agrokor in Croatia performed after entry into force of the above Act, as well as for goods delivered in Serbia and Slovenia, was regular.

Atlantic Grupa continuously manages financial and business risks, fulfils its obligations in a timely manner and provides for the company's long term financial stability. The restructuring of the Strategic Business Unit Sports and Functional Food and the associated sale of two factories (Nova Gradiška and Bleckede) facilitated a further decrease in debt and, consequently, the debt ratio measured by the net debt to EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) was 2.3 at the end of 2017. The lower debt level allowed for more favourable interest rates on loans, thus reducing finance costs. The profitability growth, excellent liquidity management demonstrated by strong growth in cash flows from business activities and continuous decrease in debt provide us with an excellent basis for an even faster and stronger growth.

We continue to be an active participant in the capital market and the Atlantic Grupa's share holds the sixth place according to the total turnover of shares on the official market of the Zagreb Stock Exchange, which is a result of our transparent corporate management system, excellent business performance, stable ownership structure and the free float of 44%. The dividend was regularly distributed and in 2017 our shareholders received a total of HRK 45 million.

Sales Dynamics
in 2017

SALES PROFILE BY STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	FY 2017	FY 2016	FY 2017/ FY 2016
SBU Coffee	**1,098.4**	1,064.7	3.2%
SBU (Sweet and Salted) Snacks	**678.4**	651.3	4.2%
SBU Beverages	**677.0**	630.8	7.3%
SBU Pharma and Personal Care	**583.6**	545.2	7.0%
SBU Savoury Spreads	**581.0**	543.0	7.0%
SBU Sports and Functional Food	**384.6**	449.3	(14.4%)
* From which private label production	**194.3**	177.2	9.7%
SDU Serbia	**1,134.6**	1,101.1	3.0%
SDU Croatia	**1,035.9**	968.8	6.9%
DU Slovenia	**767.8**	754.4	1.8%
SDR Zone West	**419.4**	503.1	(16.6%)
Other segments*	**862.8**	763.0	13.1%
Reconciliation**	**(2,916.7)**	(2,868.5)	n/a
Sales	**5,306.8**	5,106.3	3.9%

IN 2017, ATLANTIC GRUPA RECORDED SALES OF HRK

5.3

BILLION, WHICH IS A

3.9%

INCREASE COMPARED TO 2016

In 2017, Atlantic Grupa recorded **sales of HRK 5.3 billion**, which is a 3.9% increase compared to 2016. The growth in revenues was recorded due to the increase in almost all own brands and the increase in revenue from the principal brands distribution, despite the decrease in sales in the Strategic Business Unit Sports and Functional Food.

Despite the significant negative impact of the loss of a portion of revenues realised through the major regional retail chain, Atlantic Grupa managed to compensate for the lost revenue and exceed the revenue recorded in 2016 by higher sales through other buyers. Thus, in 2017, a 5.1% growth compared to 2016 was recorded in the markets of Serbia, Croatia and Slovenia.

Atlantic Grupa records sales by business segments in a way that sales of individual Strategic Business Units and Business Units represent the total sales to third parties in the markets (either directly from a Strategic Business Unit or Business Unit, or through a Strategic Distribution Unit, Strategic Distribution Region or a Distribution Unit), while sales of Strategic Distribution Units, Strategic Distribution Regions and Distribution Units include both sales of external principals' products and sales of own products. Comparative period has been adjusted to reflect current period reporting.

* Other segments include SDR HoReCa, SDR CIS&Baltic, BU Baby Food, DU Macedonia, BU Gourmet and business activities not allocated to business and distribution units (headquarters and support functions in Serbia, Slovenia, Bosnia and Herzegovina and Macedonia) which are excluded from the reportable operating segments.

** Line item "Reconciliation" relates to the sale of own brands which is included in the appropriate SBU and BU and in SDUs, SDRs and DUs through which the products were distributed.

- The **STRATEGIC BUSINESS UNIT COFFEE** records a considerable increase in sales, primarily due to good sales results in the markets of Serbia, Bosnia and Herzegovina, Slovenia and Croatia and despite difficulties in cooperation with retail chains of the Agrokor concern. Analyzed by categories, the most significant value growth was recorded by Turkish coffee, while the largest percentage double-digit growth was recorded by espresso and instant Turkish coffee (Black'n'Easy) categories. The growth in these markets multiply exceeded the drop in the market of Macedonia, which was under the strong competitors' pressure in terms of prices during the entire year. SBU Coffee launched Barcaffè D.O.T. capsules for coffee machines, which made it possible to enjoy top quality espresso at home. It should be noted that in November in Serbia Grand kafa and Bonito achieved a value market share of as much as 54.2%, while in Croatia Barcaffè achieved a record-high value market share of 17.4%. In addition, Barcaffè espresso achieved double digit growth in HoReCa distribution channel.

- An increase in sales of the **STRATEGIC BUSINESS UNIT SNACKS** was primarily a result of great sales results in the markets of Serbia, Bosnia and Herzegovina and Montenegro, and a double-digit growth in the market of Croatia, which significantly exceeded the decrease in the market of Kosovo. Great results were recorded by both segments, led by flips under the Smoki brand, biscuits, wafers and waffles, chocolates under the Menaž and Najlepše želje brands, salty sticks under the Prima brand, and chocolates under the Bananica brand. In addition to great sales results of the existing products, numerous new and promotional products contributed to the growth.

- The **STRATEGIC BUSINESS UNIT BEVERAGES** recorded a significant increase in sales in almost all categories, due to excellent sales results in Croatia, Slovenia, Russia and Bosnia and Herzegovina. In Croatia, the most significant contribution was made by vitamin instant drinks under the Cedevita brand, which recorded growth in all segments (retail, HoReCa and on-the-go, due to the higher sales of the existing products and innovation such as Chia Fresca by Cedevita), excellent results of waters under Kala and Kalnička brands, and the increase in sales of the functional drink Donat Mg. Donat Mg recorded a significant growth in all markets where it is present, with the most prominent growth in the market of Russia. Among major markets, a slight decrease in sales was recorded only in the Serbian market, as a result of difficulties in cooperation with Mercator. At the end of the year, the 0.2 litre Donat Mg packaging was launched, designed for restaurants, hotels and wellness centres.

- The S**TRATEGIC BUSINESS UNIT PHARMA AND PERSONAL CARE** records an excellent increase in sales primarily due to the increase in sales of the pharmacy chain Farmacia and the increase in sales of Multivita (Vitamin C in Russia), Neva i Dietpharm products. Farmacia records growth due to the increase in sales of the existing locations, but also due to opening new specialised stores.

- The **STRATEGIC BUSINESS UNIT SAVOURY SPREADS** recorded a significant sales growth due to double-digit revenue growth in the majority of markets. Among regional markets, the most prominent are the markets of Croatia, Serbia, Slovenia, Macedonia, Bosnia and Herzegovina and Montenegro, while among other markets the most significant growth was recorded by the markets of the United States of America, Sweden, Switzerland and Canada. It should be noted that in 2017 Argeta, in addition to being the leader in the markets of Bosnia and Herzegovina, Slovenia, Macedonia and Austria, also became the market leader in Switzerland, ahead of the domestic brand. The record-high results in the above mentioned markets multiply exceeded lower sales in the markets of Germany, Kosovo and Australia. The increase was recorded by both meat and fish segments, while sandwiches under the Montana brand recorded a double-digit growth in the Croatian market. Among new products, we should mention the new segment of vegetable spreads and many new local flavours of savoury spreads.

- The **STRATEGIC BUSINESS UNIT SPORTS AND FUNCTIONAL FOOD** recorded an observable decrease in sales following the lower sales results of own brands Multipower, Multaben and Champ, as a consequence of the portfolio restructuring and also due to the terminated cooperation with the major buyer of the private label at the end of the first quarter of 2016. The most significant decrease was recorded in the German market, which generates approximately 41% of the sales of this business unit and in the markets of the United Kingdom, Spain and Italy.

- The increase in sales of the **STRATEGIC DISTRIBUTION UNIT SERBIA** is a consequence of great sales results of almost all product categories, with the sales growth of both own and principal brands. Among own brands, the best results were recorded by Menaž, Keksići, Napolitanke, Smoki, Bananica and Prima salty sticks from the snacks segment, Turkish coffee under the Bonito brand and instant Turkish coffee Black'n'Easy, Argeta from the savoury spreads segment and Granny's Secret from the gourmet segment. Good sales results were also recorded by brands from the beverages segment, Donat Mg and vitamin instant drink Cedevita. As for principal brands, the most significant growth was recorded by Rauch, Beam Suntory and Alkaloid. Difficulties in cooperation with Mercator resulting in lower sales through Mercator Serbia were exceeded by significantly higher sales of other key customers and smaller points of sale, as well as the beginning of cooperation with new retail partners.

- The exceptional sales growth of the **STRATEGIC DISTRIBUTION UNIT CROATIA** is a result of excellent sales results of both own and principal brands. Own brands recorded an increase in all product categories, led by Cedevita from the vitamin instant drinks segment, Kala and Kalnička in the waters segment, Argeta from the savoury spreads segment, Barcaffè from the coffee segment, functional drink Donat Mg and Montana sandwiches. Among principal brands, the biggest growth was recorded by Ferrero, Philips, SABMiller, Wrigley and Vitamin Well. Due to the above, SDU Croatia recorded an all-time high revenue, despite the negative impact of cooperation with Agrokor concern members.

- The **DISTRIBUTION UNIT SLOVENIA** recorded record-high sales primarily due to great results of own brands, with the most prominent growth recorded by coffee under the Barcaffè brand, savoury spreads under the Argeta brand, functional drinks under the Donat Mg brand and vitamin instant drink under the Cedevita brand. Among principal brands, Ferrero continues to record excellent results. The decrease in sales to the major customer, Mercator, was compensated by higher sales to other customers.

- The **STRATEGIC DISTRIBUTION REGION ZONE WEST** records a decrease in sales mainly in the German market, but also in the United Kingdom, Spain, Italy and Turkey. The decrease was partly mitigated by the increase in sales in the markets of the United States of America, Sweden, France, Switzerland, Austria and Canada. The largest portion of the decrease was recorded in the sports and functional food segment, while an increase in sales was recorded by savoury spreads under the Argeta brand, Cockta in the beverages segment, Granny's Secret from the gourmet segment, Grand kafa from the coffee segment, products from the Štark range and the principal Nocco.

- **OTHER SEGMENTS** recorded a double-digit increase in sales primarily due to the increase in sales of the Strategic Distribution Regions CIS and Baltic, and HoReCa, Business Units Baby Food and Gourmet and an increase in sales of the Distribution Unit Macedonia.

- The **BUSINESS UNIT BABY FOOD** and the **STRATEGIC DISTRIBUTION REGION CIS AND BALTIC** recorded a significant sales increase, as a result of more favourable commercial terms and improved distribution, accompanied with an additional positive effect of the economic recovery in Russia and stabilisation of the Russian ruble. A double-digit growth was recorded by sales of functional drinks under the Donat Mg brand, sales of baby food under the Bebi brand (primarily baby cereals) and sales of the Multivita range.

- The **DISTRIBUTION UNIT MACEDONIA** recorded record-high sales due to the growth of the principal brand Ferrero and own brand Argeta from the savoury spreads segment, which exceeded the decrease in sales in the coffee segment, caused by aggressive competitors in terms of prices.

- The double-digit sales growth of the **STRATEGIC DISTRIBUTION REGION HoReCa** is primarily a result of the increase in sales of own brands, but also due to good results of principal brands. Analysed by largest product categories, the double-digit growth was recorded by the beverages segment (vitamin instant drinks under the Cedevita brand, water under the Kala and Kalnička brands and functional drinks under the Donat Mg brand), the coffee segment (espresso coffee under the Barcaffè brand) and chocolate and Smoki from the snacks segment. Of principal brands, Nescafe and Beam Suntory record the most significant growth.

- The **BUSINESS UNIT GOURMET** recorded an increase in sales primarily due to the growth on the markets of Serbia, Austria, Croatia and Germany, which significantly exceeded the decrease in sales in the markets of Macedonia, Bosnia and Herzegovina, Russia and Slovenia. Analysed by brands, the growth was recorded by both Granny's Secret and Amfissa.

SALES PROFILE BY SEGMENTS

2017

PRINCIPAL BRANDS	21.6 %
COFFEE	20.7 %
BEVERAGES	12.8 %
SWEET AND SALTED SNACKS	12.8 %
SAVOURY SPREADS	11.0 %
PHARMA & PERSONAL CARE	10.6 %
SPORTS AND FUNCTIONAL FOOD – OWN BRANDS	3.6 %
SPORTS AND FUNCTIONAL FOOD – PRIVATE LABEL PRODUCTION	3.5 %
BABY FOOD	2.7 %
GOURMET	0.7 %

2016

PRINCIPAL BRANDS	21.4 %
COFFEE	20.8 %
SWEET AND SALTED SNACKS	12.8 %
BEVERAGES	12.4 %
SAVOURY SPREADS	10.6 %
PHARMA & PERSONAL CARE	10.3 %
SPORTS AND FUNCTIONAL FOOD – OWN BRANDS	5.3 %
SPORTS AND FUNCTIONAL FOOD – PRIVATE LABEL PRODUCTION	3.5 %
BABY FOOD	2.3 %
GOURMET	0.6 %

SALES PROFILE BY MARKETS

(in HRK millions)	FY 2017	% of sales	FY 2016	% of sales	FY 2017/ FY 2016
Croatia	**1,581.6**	29.8%	**1,471.0**	28.8%	7.5%
Serbia	**1,225.1**	23.1%	**1,183.7**	23.2%	3.5%
Slovenia	**883.6**	16.7%	**857.7**	16.8%	3.0%
Bosnia and Herzegovina	**416.4**	7.8%	**396.6**	7.8%	5.0%
Other regional markets*	**345.5**	6.5%	**343.4**	6.7%	0.6%
Key European markets**	**504.0**	9.5%	**514.0**	10.1%	(1.9%)
Russia and CIS	**229.6**	4.3%	**186.5**	3.6%	23.1%
Other markets	**120.9**	2.3%	**153.4**	3.0%	(21.2%)
Total sales	**5,306.8**	100.0%	**5,106.3**	100.0%	3.9%

* Other regional markets: Macedonia, Montenegro, Kosovo
** Key European markets: Germany, United Kingdom, Italy, Switzerland, Austria, Sweden, Spain
Comparative period has been adjusted to reflect current period reporting.

- The sales growth of as much as 7.5% in the **CROATIAN MARKET** is the result of the increase in sales of all product categories, especially: (i) the pharmacy chain Farmacia, (ii) own brands, primarily Cedevita in the vitamin instant drinks category, water under Kala and Kalnička brands, Argeta in the savoury spreads category, and coffee under the Barcaffè brand, and (iii) external principals, especially Ferrero, Philips, SABMiller, Wrigley and Vitamin Well.

- The **MARKET OF SERBIA** recorded a considerable increase in sales due to the increase in sales of own brands, led by: (i) Smoki, Bananica, Prima salty sticks and chocolates, biscuits and wafers from the snacks segment, (ii) coffee under the Bonito brand, espresso coffee under the Barcaffè brand, and instant Turkish coffee under the Black'n'Easy brand, (iii) savoury spreads under the Argeta brand, and (iv) products from the gourmet segment under the Granny's Secret and Amfissa brands. Among principal brands, the most significant sales growth was recorded by Rauch, Beam Suntory and Alkaloid.

- The increase in sales in the **SLOVENIAN MARKET** was recorded following: (i) the increase in sales of coffee under the Barcaffè brand, (ii) the increase in sales of Argeta in the Savoury Spreads category, and (III) the increase in sales of Donat Mg and Cedevita in the beverages category.

- Teh 5.0% sales growth in the **MARKET OF BOSNIA AND HERZEGOVINA** was recorded due to the increase in sales of: (i) the Grand kafa brand in the Turkish coffee category, instant turkish coffee Back'n'Easy and Barcaffè espresso coffee, (II) vitamin instant drinks under the Cedevita brand and functional drinks under the Donat Mg brand, (III) savoury spreads under the Argeta brand, and (IV) Chocolates under the Najlepše želje and Menaž brands, and wafers and biscuits.

- A mild sales increase in **OTHER REGIONAL MARKETS*** was recorded due to the increase in sales in the markets of Macedonia and Montenegro, while a decrease in sales was recorded in the market of Kosovo.

- A mild decrease in sales in the **KEY EUROPEAN MARKETS**** is a consequence of the decrease in sales in most markets, caused by the fall in revenues from the sport and function food segment. If we exclude the decrease in this segment, the key European markets record a 7.6% growth.

- A significant sales growth in the **MARKET OF RUSSIA AND THE CIS** was recorded as a result of more favourable commercial terms and improved distribution of all major product categories, the recovery of the economic situation in Russia and surrounding countries and appreciation of the Russian ruble. The most prominent growth was recorded by baby cereals Bebi, functional drink Donat Mg and Multivita's Vitamin C.

- **OTHER MARKETS** record a significant decrease in sales due to the drop in sales in the sports and functional food segment. If we exclude the decrease in this segment, Other markets record a 21.2% growth.

SALES PROFILE BY PRODUCT CATEGORY

2017

OWN BRANDS	67.2 %
PRINCIPAL BRANDS	21.6 %
FARMACIA	7.3 %
PRIVATE LABEL	3.9 %

2016

OWN BRANDS	67.6 %
PRINCIPAL BRANDS	21.4 %
FARMACIA	7.1 %
PRIVATE LABEL	3.9 %

In 2017, **OWN BRANDS** recorded 3.2% higher sales compared to the previous year, i.e. the sales amounted to HRK 3,563.8 million. The growth was recorded by almost all operating segments, and the greatest contribution was made by: (i) sales of Argeta in the savoury spreads segment, (ii) Bonito and Barcaffè in the coffee segment, (iii) sales of Donat Mg, Cedevita, Kala and Kalnička brands in the beverages segment, and (iv) sales of Smoki, Prima, Štark Keksići, Najlepše želje, Menaž, Bananica brands and wafers and waffles in the snacks segment. On the other hand, the decrease in sales was recorded by Multipower, Multaben and Champ brands from the sports and functional food segment. If the negative impact of the drop in sales of brands from the sports and functional food segment is excluded, other own brands record a 5.9% growth.

OWN BRANDS RECORDED

3.2%

HIGHER SALES COMPARED TO THE PREVIOUS YEAR

With HRK 1,145.0 million, **PRINCIPAL BRANDS** recorded an increase in sales of 5.0%. The growth is based on the increase in sales of principals Ferrero, SABMiller, Nocco, Philips, Beam Suntory, Rauch and Vitamin Well.

With sales of HRK 208.8 million, **PRIVATE LABELS** recorded a 5.3% growth, mainly due to new customers in the sports and functional food segment, despite the sale of service production in the sports and functional food segment realised at the end of October 2017.

The pharmacy chain **FARMACIA** recorded sales of HRK 389.1 million, which is a 6.9% growth compared to 2016, due to the increase in sales of the existing Farmacia locations and newly-opened specialised stores. In 2017, four new locations were opened and now Farmacia consists of 85 pharmacies and specialised stores.

Profitability Dynamics
in 2017

PROFITABILITY DYNAMICS

(in HRK millions)	FY 2017	FY 2016	FY 2017/ FY 2016
Sales	**5,306.8**	5,106.3	3.9%
EBITDA	**582.2**	474.4	22.7%
Normalised EBITDA	**517.4**	474.4	9.1%
EBIT	**406.5**	307.8	32.1%
Normalised EBIT	**341.7**	307.8	11.0%
Net profit/(loss)	**276.2**	163.2	69.2%
Normalised Net profit/(Loss)	**211.4**	163.2	29.5%
Profitability margins			
EBITDA margin	**11.0%**	9.3%	+168 bp
Normalised EBITDA margin	**9.7%**	9.3%	+46 bp
EBIT margin	**7.7%**	6.0%	+163 bp
Normalised EBIT margin	**6.4%**	6.0%	+41 bp
Net profit margin	**5.2%**	3.2%	+201 bp
Normalised Net profit margin	**4.0%**	3.2%	+79 bp

IN 2017, ATLANTIC GRUPA RECORDED EBITDA IN THE AMOUNT OF HRK

582.2

MILLION, WHICH IS A

22.7%

INCREASE COMPARED TO THE PREVIOUS YEAR

In 2017, Atlantic Grupa recorded EBITDA in the amount of HRK 582.2 million, which is a 22.7% increase. If the effect of one-off gain on sale of factories in Nova Gradiška and Bleckede in the amount of HRK 64.8 million is excluded, the normalised EBITDA amounts to HRK 517.4 million and is 9.1% higher than in the previous year. The increase in normalised EBITDA is mainly affected by the higher sales in almost all business units, coupled with the strict control of expenses and risks. The negative impact of higher cost of production materials, primarily the higher average price of raw coffee, was compensated by higher operating efficiency and higher prices of final products. An additional positive effect came from the appreciation of the Russian ruble and the Serbian dinar.

Despite the increase in amortisation and depreciation costs of 5.5%, normalised EBIT grew 11.0%. Normalised net profit before minorities recorded an increase of 29.5%, primarily under the impact of, in addition to the increase in normalised EBIT, lower finance costs and higher foreign exchange gains. Finance costs for 2017 include the fee for guaranties given to Atlantic Grupa related to syndicated loans in the amount of HRK 14.6 million.

OPERATING EXPENSES STRUCTURE

(in HRK millions)	FY 2017	% of sales	FY 2016	% of sales	FY 2017/ FY 2016.
Cost of goods sold	**1,327.8**	25.0%	**1,308.3**	25.6%	1.5%
Change in inventory	**6.6**	0.1%	**(14.0)**	(0.3%)	n/a
Production materials	**1,635.5**	30.8%	**1,581.0**	31.0%	3.4%
Energy	**57.8**	1.1%	**56.0**	1.1%	3.2%
Services	**409.5**	7.7%	**404.6**	7.9%	1.2%
Staff costs	**828.5**	15.6%	**800.9**	15.7%	3.5%
Marketing and selling expenses	**367.7**	6.9%	**355.3**	7.0%	3.5%
Other operating expenses	**221.2**	4.2%	**226.2**	4.4%	(2.2%)
Other (gains)/losses, net	**(64.9)**	(1.2%)	**(18.1)**	(0.4%)	257.6%
Depreciation and amortization	**175.8**	3.3%	**166.6**	3.3%	5.5%
Total operating expenses	**4,965.6**	93.6%	**4,866.7**	95.3%	2.0%

The increase in **cost of goods sold** of 1.5% is a consequence of higher sales, while the portion of cost of goods sold in sales revenue decreased.

Costs of production materials are 3.4% higher, mainly as a result of higher sales of own brands, but also of the increase in costs of raw materials, primarily raw coffee and sugar.

Costs of services and energy grew following the increase in production and sale volumes.

Staff costs grew by 3.5% due to a higher average number of employees and higher variable payments and provision for bonuses, following better business results. Despite the increase in the number of employees in most business and distribution units due to increased volumes of production and sale, as at 31 December 2017, Atlantic Grupa had 5,268 employees, i.e. 224 employees less than at the end of 2016, due to the sale of factories in Bleckede and Nova Gradiška, realised at the end of October 2017.

Marketing expenses are 3.5% higher, following the increased investments of the business units Snacks and Sports and Functional Food, despite savings in the business unit Coffee.

Other operating expenses are 2.2% lower, primarily due to lower impairments of inventories and savings in business travel expenses.

Other (gains)/losses – net: gain was realised primarily based on one-off gain on the sale of factories in Bleckede and Nova Gradiška.

COST OF PRODUCTION MATERIALS ARE

3.4%

HIGHER

OPERATING RESULT OF STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	2017	2016	2017/2016
SBU Coffee	**209.5**	227.8	(8.1%)
SBU (Sweet and Salted) Snacks	**121.0**	116.4	3.9%
SBU Beverages	**158.2**	162.1	(2.4%)
SBU Pharma and Personal Care	**55.2**	47.3	16.7%
SBU Savoury Spreads	**128.7**	119.1	8.1%
SBU Sports and Functional Food	**(7.5)**	(20.4)	63.4%
SDU Serbia	**28.1**	20.1	39.5%
SDU Croatia	**25.6**	12.9	99.4%
DU Slovenia	**45.9**	43.3	6.1%
SDR ZONE WEST	**(40.8)**	(52.0)	21.6%
Other segments*	**(141.9)**	(202.4)	29.9%
Group EBITDA	**582.2**	474.4	22.7%

Comparative period has been adjusted to reflect current period reporting.

* Other segments include SDR HoReCa, SDU CIS&Baltic, BU Baby Food, DU Macedonia, BU Gourmet and business activities not allocated to business and distribution units (headquarters and support functions in Serbia, Slovenia, Bosnia and Herzegovina and Macedonia) which are excluded from the reportable operating segments.

SBU COFFEE: despite the increase in sales, the decrease in profitability is a result of higher costs of raw coffee, largely compensated by increasing retail prices.

SBU SNACKS: the increase in profitability is a consequence of the increase in sales revenue coupled with a good control of costs.

SBU BEVERAGES: the decrease in profitability primarily arises from the absence of one-off items (return of expenses for the water concession in Slovenia in 2016), despite the increase in sales and a better sales mix.

SBU PHARMA AND PERSONAL CARE: the increase in profitability is a result of the sales revenue growth, coupled with a good control of costs of production materials, services, marketing and staff costs.

SBU SAVOURY SPREADS: a profitability growth was recorded following a significant revenue growth and lower marketing expenses, coupled with a strict control of other operating expenses.

SBU SPORTS AND FUNCTIONAL FOOD: loss reduction as a result of restructuring (mainly lower staff costs and costs of services as well as lower inventory and receivables write-offs) and a more favourable relative gross margin as a result of changed product mix.

SDU SERBIA: profitability growth as a consequence of sales growth, more favourable mix of customers and products (which led to a more favourable gross margin) and a favourable effect of the Serbian dinar exchange rate.

SDU CROATIA: profitability growth in line with volume and value growth in sales and a more favourable mix of customers, with optimum cost management.

DU SLOVENIA: profitability growth as a result of an increase in sales and a better customer mix.

SDR ZONE WEST: despite the decrease in sales, primarily caused by the decrease in revenue in the Sports and Functional Food segment, the improved profitability is a result of lower costs of services, staff costs, marketing expenses and lower impairment of receivables and inventories.

OTHER SEGMENTS: DU Macedonia recorded a considerable increase in profitability due to the increase in sales and higher gross margin. The significant growth in profitability of the SDR HoReCa is a result of the improved profitability in all four markets (Croatia, Slovenia, Serbia, Macedonia), following the increase in sales and the solid increase in gross margin. A mild decrease in loss of the BU Gourmet is a result of the increase in sales, increase in margin as a result of a more favourable mix of customers and significant savings in costs of raw materials and staff costs following the optimisation of procurement and production. The significant profitability growth in the BU Baby Food was achieved despite the increase in prices of raw materials and following the increase in sales and a favourable effect of exchange rates, which also impacted the profitability growth in the SDR CIS and Baltic. The costs attributable to support services are lower compared to 2016 despite the increase in staff costs and costs of services (as a result of increased IT investments), following the gain on the sale of factories in Bleckede and Nova Gradiška.

Financijski pokazatelji
u 2017. godini

FINANCIAL INDICATORS

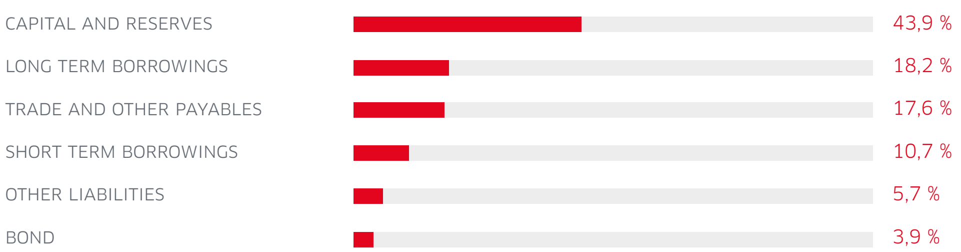
(in HRK millions)	FY 2017	FY 2016
Net debt	**1,185.4**	1,502.3
Total assets	**5,126.4**	5,395.8
Total Equity	**2,249.8**	2,016.5
Current ratio	**1.47**	1.42
Gearing ratio	**34.5%**	42.7%
Net debt/Normalised EBITDA	**2.29**	3.17
Interest coverage ratio	**8.85**	6.06
Capital expenditure	**129.2**	140.2
Cash flow from operating activities	**348.2**	292.0

Comparative period has been adjusted to reflect current period reporting.

Among key determinants of the Atlantic Grupa's financial position in 2017, the following should be pointed out:

- Due to the decrease in net debt of HRK 316.9 million at the end of 2017 compared to the end of 2016, the gearing ratio decreased by 819 basis points. The debt measured as the net debt to normalised EBITDA ratio compared to the end of 2016 decreased from 3.17 to 2.29 at the end of 2017. At the same time, the coverage of interest expense by normalised EBITDA increased from 6.06 to 8.85, and cash flow from operating activities increased to HRK 348.2 million.

THE ATLANTIC GRUPA'S EQUITY AND LIABILITIES STRUCTURE AS AT 31 DECEMBER 2017



OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENT

The increase in cash flow from operating activities in 2017 compared to the previous year is the result of improved profitability and better working capital management, following the normalisation of negative effects on the level of inventories and collection of receivables caused in 2016 by the launch of distribution operations in Germany and Austria and the implementation of the SAP solution, in these two countries as well as in Croatia. An additional favourable impact on cash flow came from the normalisation of operations and collection of receivables with retail chains from the Agrokor concern.

The positive effect on cash flow from investing activities came from the sale of two factories in the Strategic Business Unit Sports and Functional Food in the amount of HRK 129.3 million and from the receipts from the sale of tea business, while cash flow from financing activities decreased following the further deleveraging of Atlantic Grupa.

Capital expenditure in 2017 primarily relates to investments in the production equipment of business units for the purpose of increasing the efficiency of production processes, and in the development of new products and the development of IT infrastructure, business systems and applications.

Among significant investments, we should mention:

SBU BEVERAGES: investment in the new line for rigid packaging of Cedevita and investment in rebranding of Cockta;

SBU SAVOURY SPREADS: investment in a new line for the production of 95-gram savoury spreads, and the cooling system of the production site

SBU SNACKS: investment in the new line for the production of Bananica and Sweet chocolates, and the improved production efficiency

SBU COFFEE: purchase of espresso and Coffee2GO machines, investment in production equipment for the purpose of improving production efficiency, investment in new equipment for duty stamps;

BU GOURMET: investment in production equipment for the purpose of improving production efficiency;

SBU PHARMA AND PERSONAL CARE: investment in new pharmacy locations

IT: investment in infrastructure, digital technologies and implementation of business applications and the replacement of equipment.

Following the decision of the General Assembly held on 29th June 2017, the dividend distribution is approved in the amount of HRK 13.50 per share, i.e. a total of HRK 45 million, which was distributed in July 2017.

Outlook for 2018

MANAGEMENT'S VIEW ON MACROECONOMIC EXPECTATIONS

In 2017, for the third consecutive year the Croatian economy recorded a good economic growth, due to the successful tourist season, the increase in personal consumption and exports and the generally increasing optimism. Atlantic Grupa's management expects positive trends in the Croatian economy to continue in 2018, despite the risk posed by the Agrokor creditors' settlement.

In countries in the region, management also expects economic growth to continue in 2018. The Slovenian economy continues to grow due to the strong increase in exports and domestic demand and we expect that this will positively impact the decrease in unemployment, and the increase in salaries and consumption. The growth in the Serbian market is expected based on the growing domestic demand encouraged by the increase in salaries and decrease in unemployment, as well as the increased exports. Significant depreciation of the Serbian dinar is not expected. Further economic growth is expected in Bosnia and Herzegovina, due to the considerable increase in exports and inflows of international funds.

In 2017 the eurozone countries recorded positive growth rates, and Atlantic Grupa's management expects similar developments in 2018 as well, based on the improved labour market and strong global trade, as well as favourable monetary policy of the European Union.

The long-awaited recovery of the Russian economy in 2017 was a result of the increase in oil prices and the increased optimism, which positively affected the domestic demand growth. Accordingly, management expects further growth of the Russian economy in 2018 with moderate inflation and the stable ruble, and the increase in imports.

ATLANTIC GRUPA'S MANAGEMENT STRATEGIC GUIDANCE FOR 2018

In 2018, management will focus on (i) further strengthening the position of well-known regional brands, (ii) development of distribution operations by strengthening of the existing and acquisition of new principals, (iii) increasing of the regional HoReCa portfolio, and (iv) continued internationalisation of operations.

We continue the listing and positioning of our brands in the retail channel in Germany in cooperation with distribution partners with the aim to increase the efficiency of overall operations in this market.

In 2018, Atlantic Grupa's management expects lower average prices of raw coffee on global commodity markets in addition to a favourable effect of the EUR/USD exchange rate, which will consequently have a positive impact on the profitability of the Strategic Business Unit Coffee and Atlantic Grupa as a whole. Accordingly, management's expectations for 2018 are as follows:

(in HRK millions)	2018 Guidance	2017	2018/2017
Sales	**5,400**	5,307	1.8%
EBITDA	**550**	517*	6.3%
EBIT	**375**	342*	9.8%
Interest expense	**45**	58	(23.1%)

*Normalised

If the effect of revenue realised on the basis of service production (private label) in the sports and functional food segment that in 2017 amounted to approximately HRK 194 million is excluded, the expected revenue growth in 2018 compared to 2017 will be 5.6%. If we exclude operating profit realised on the basis of this service production, the increase in EBITDA will be 9.6% while the increase in EBIT will be 13.3%.

In 2018, we expect capital expenditure in the amount of approximately HRK 160 million.

The expected effective tax rate in 2018 will remain at the same level as in the previous year.

Risks of Atlantic Grupa

BUSINESS ENVIRONMENT RISK

Business environment risk includes political, macroeconomic and social risks with a direct impact on business activities in all markets in which the company operates, while the company cannot individually influence any of them. Political risk relates to all the risks associated with a potential political instability of an individual state. Taking into consideration the current internal and external political affairs, Croatia functions as a stable parliamentary democracy that successfully entered the European Union on 1 July 2013 and became its 28th member state. Considering that the political and general social risk is inherent to all parts of a society, it cannot be individually influenced by any single person.

In conclusion, it should be pointed out that the Atlantic Grupa's Pan-European strategy is reflected in the combination of recognisable European brands in the segment of sports and functional food with the leading brand Multipower, in the segment of savoury spreads with the brand Argeta and in the gourmet segment with the brand Bakina Tajna, in the segment of baby food with the brand Bebi and in the segment of beverages with the brand Donat Mg and regional brands in the segment of coffee with leading brands Barcaffè and Grand kafa, in the segment of beverages with leading brands Cedevita, Cockta and Donat Mg, in the segment of snacks with leading brands Najlepše Želje, Bananica, Štark and Smoki and, finally, in the segment pharma and personal care with leading brands Dietpharm, Plidenta, Melem and Rosal.

As previously stated, political and general social risk is inherent to all components of a society and therefore cannot be individually influenced by any single company. International companies that do business in more countries can diversify the listed risk, which primarily depends on individual risks of the states in which such companies operate. The companies that operate in regional markets i.e. the area of Middle and Eastern Europe should bear in mind the political and general social risk considering that those countries are still in the process of political transition. Therefore, each investor should be aware of the political and general social risk inherent to the markets in which the company operates.

Business transactions of any company are influenced by macroeconomic risks, but the extent of their impact depends primarily on the level of cyclicity of the industry in which a company operates. Despite its relatively diversified business model, Atlantic Grupa operates in a stable non-cyclical food industry. Considering that the revenues of Atlantic Grupa's production and distribution portfolio are influenced by macroeconomic variables like personal consumption, the level of disposable personal income and trends in retail trade, the company continuously monitors the aforementioned macroeconomic factors despite the expected positive macroeconomic developments in 2018.

INDUSTRY AND COMPETITION RISKS

CONSUMER GOODS INDUSTRY AND RETAIL (PHARMACIES)

When considering the development of the consumer goods industry, it is the market liberalisation and globalisation which opened the gates to global producers and retail chains, which in the end resulted in a stronger market competition, more diverse product offer, increase of product quality, establishment of global manufacturing standards and opening of new distribution channels. In such conditions, domestic manufactures can compete only through continuous investment in research and development of new production lines, technological development, marketing in order to improve the brand recognition, and human resources.

Macroeconomic conditions, GDP fluctuation dynamics, in particular personal consumption as a component of the GDP, fluctuation of the disposable personal income and the development of the living standard of consumers largely dictate the trends in the consumption goods industry. In addition to that, the development of the consumer goods industry is also largely influenced by the ability of companies to constantly adapt to consumer needs and market trends, which in turn requires investments in research and development, marketing and technology. Consequently, main risks of this industry include limited growth rates in line with macroeconomic conditions and the need for significant investments in order to achieve competitive advantages in relation to local and global producers.

The consumer goods industry is strictly regulated and at the same time supervised by regulatory authorities, primarily because it has direct influence on the health of consumers. At the same time, this industry is exposed to the risk of uncertainty from the introduction of new, stricter standards which may also require additional material costs.

Certain segments of the consumer goods industry, particularly the segment of food products, are influenced by the factors which companies cannot control, like volatile prices of commodities (coffee, sugar, cacao, etc.) on global markets, weather conditions or the tourist season efficacy. Considering that within the company raw coffee is the most significant individual commodity by value, special attention is given to planning procurement of raw coffee, following trends in global markets, stock level management and risk management concerning price changes of raw coffee in global markets. Atlantic Grupa manages the risk of price volatility of raw coffee in the global commodity markets by using available hedging instruments. A lower average price of raw coffee in the global commodity markets is expected in 2018 compared to 2017 in the global commodity markets, accompanied by an additional positive effects of the weaker dollar. Certain segments of this industry are of seasonal character, which makes quality management of working capital an extremely important component of ensuring regular business operations of companies. Additionally, a relatively low level of cyclicity of the consumer goods industry makes it attractive to a large number of companies, which in turn results in a larger number of competitors in the market. Furthermore, since there is no significant market leader in some categories, there is a risk of new competitors entering the market.

Atlantic Grupa operates in the consumer goods industry segment that includes food products with added value and, accordingly, it uses activities like investing in research and development, investing in technology and closely monitoring market trends and consumer preferences to maintain high market shares in the listed segment. The portfolio of Atlantic Grupa includes a wide range of brands with leading market positions in the region in the segments of coffee, savoury spreads, snacks and beverages. Considering that some of the listed segments are exposed to strong competitive pressures by local and multinational companies, Atlantic Grupa in 2017 continued to actively manage its own brands.

The segment of products dedicated to health and personal care largely depends on the purchasing power of consumers and, consequently, on GDP fluctuations. This segment is characterised by strong competition pressures from multinational companies which have a variety of resources at their disposal, including modern technology, aggressive pricing policy, aggressive and frequent marketing campaigns, research and considerable development investments and fast adaptability to changing market trends. All of the above presents a serious challenge for domestic producers in this segment that calls for significant financial investments in order to keep up with the competition.

Following its entry in the pharmacy business segment in 2008 and its further expansion of the pharmacy chain Farmacia in subsequent years, Atlantic Grupa now owns a pharmacy chain with a national distribution of its pharmacy units. Among the main risks in this business, three risks stand out. The first one refers to the risk of uncertainty from the introduction of new and potentially stricter regulations the pharmacy units must comply with since pharmacy as an industry is strictly regulated and supervised by regulatory authorities. The second pertains to fluctuations of prices on the principal and supplemental list of medicines which must be complied with by pharmacies as subjects contracted by the Croatian Institute for Health Insurance (HZZO). Thirdly, in addition to the volatility of price lists, a significant risk also arises from the risk of delayed payment of receivables by HZZO, which as a result aggravates quality and sensible working capital management. However, Atlantic Grupa uses particular activities aimed at decreasing the listed risks, such as the focus on increasing the share of over-the-counter medicines and food supplements in the product portfolio of pharmacy units, opening of specialised stores (with the portfolio of over-the-counter medicines and food supplements) which are regulated by the Agency for Medicinal Products and Medical Devices and, finally, exploring of synergies across the company's distribution and production portfolio. Moreover, the company views pharmacy units as a significant distribution channel for other products from Atlantic Grupa's production and distribution portfolio.

COMPETITION RISK

With Croatia's accession to the EU and the harmonisation of legislation with the acquis communautaire, new standards and norms are established and, at the same time, final obstacles to free competition are removed as a result of the accession to the internal market of the European Union. In line with the mentioned processes, on one hand local companies are becoming increasingly exposed to international competition and, on the other hand, are experiencing the opening of new business opportunities in foreign markets. In recent years, local companies have focused their efforts on business expansion in regional markets that are generally characterised by the increasing demand for consumer goods and, at the same time, the increasing recognisability of domestic brands. The acquisition of the regional food company Droga Kolinska in 2010 certainly reflects the efforts of Atlantic Grupa in expanding its business operations to regional markets.

Foreign food competitors have the advantage over local companies with regard to technological infrastructure, capacity to invest in research and development, financial power, marketing budget size and the global recognisability of their brands. However, the Croatian market and regional markets display a high level of loyalty to tradition as well as to the previously acquired purchasing habits, thus prompting the demand for domestic products. It is exactly the brand recognisability of the products Atlantic Grupa manufactures and/or distributes coupled with their high market shares that emerges as the main comparative advantage of Atlantic Grupa's production/distribution portfolio. With the strategic focus on the development of strong and market recognised brands, Atlantic Grupa aims to reduce the risks brought on by the competition.

Atlantic Grupa is facing strong foreign competition in the segment of health and personal care products, but the expansion of the product offer, quality retention, marketing support, brand recognisability and distribution support provided by the distribution units facilitate the consumption of products from this segment with well-known brands like Plidenta, Rosal, Melem and Dietpharm.

Competition in the pharmacy segment comes primarily from city and county pharmacies and small private pharmacies owned by natural persons, and in lesser extent also from wholesale pharmacy chains and generic pharmaceutical companies which also operate in the pharmacy segment. Atlantic Grupa aims to ensure its competitive advantage over the existing competitors by combining several key factors related to: continuous expansion of the pharmacy chain, national distribution of pharmacy units, opening of specialised stores which represent an upgrade and development of the pharmacy business, managing the pharmacy business in line with the best pharmacy practices and focusing on the education and competence development of pharmacy personnel with the goal of achieving high-quality pharmacy service.

ATLANTIC GRUPA

BUSINESS RISK

Business risk refers to the risks present in the company's day-to-day activities which in turn directly influence the keeping of the company's competitive positions as well as the stability of the company's regular business operations. The listed risk is determined by the business environment in which the company operates and its regular business policies and decisions.

IMPACT OF INDIVIDUAL PRODUCTS AND BUSINESS PARTNERS ON BUSINESS PERFORMANCE

In previous years Atlantic Grupa has given significant attention to the diversification and expansion of its production as well as distribution portfolio with the strategic objective of reducing its dependence on the sales of any individual product and thus also the volatility in the realisation of sales results, particularly during the changes of macroeconomic cycles. Considering the listed diversification in its production and distribution portfolios, changes in the business environment relating to either a specific production segment or a specific partner will not jeopardise the overall business operations of Atlantic Grupa.

PRODUCT DEPENDENCE

Resulting from the significant expansion and diversification of the production and distribution portfolio in previous years, today Atlantic Grupa's regular business operations do not depend significantly on any individual product. At the same time, the most prominent product categories are the segments of coffee, snacks and beverages. During the past years, Atlantic Grupa combined acquisition activities, innovative approach to new product development and conclusion of new distribution agreements in the diversification of both the production and distribution portfolio. These acquisition activities resulted in what is so far Atlantic Grupa's biggest acquisition – Droga Kolinska at the end of 2010, which has further reduced the company's dependence on one product.

BUSINESS PARTNERSHIP DEPENDENCE

In previous years Atlantic Grupa developed strong partnerships with both domestic and international producers of brands within the distribution portfolio of Atlantic Grupa. Although a loss of exclusive distribution rights to a particular product would have a certain impact on the business performance of Strategic Distribution Units, the risk of that has been greatly reduced in recent years due to the significant expansion of the distribution portfolio. Atlantic Grupa in 2017 continued to expand its distribution portfolio by adding new categories and expanding the existing ones to new markets or new distribution channels. Atlantic Grupa is continually monitoring developments in the brand market with the purpose of concluding new business partnerships. The continuous expansion of the distribution portfolio enables the company to quickly adjust to new conditions in the case of termination of cooperation with any of its present partners. Close business cooperation with leading domestic retail chains is at the very nature of distribution activities. However, a distributor's dependence on major retail chains may result in additional costs of retaining the partnership in the form of additional discounts, longer payment terms and similar activities. Although Atlantic Grupa has developed good business cooperation with a majority of domestic retail chains, which in turn are the company's major buyers, its dependence on any individual buyer is at an appropriate level. In the case of termination of partnership, or bankruptcy of one of the more important buyers, the impact on business results of Strategic Distribution Units could be significant. However, with the continuous monitoring of the buyers' risk level and payment process and the resulting limitation of exposure to risky buyers, the company aims to reduce the risk to its own operations in the case of termination of partnership or bankruptcy of one of its major buyers. Moreover, Atlantic Grupa strives to reduce the dependence of distribution on retail chains by developing the "alternative distribution channels" like the HoReCa channel (catering), outlets for sales of technical goods and the pharmacy channel.

FINANCIAL RISKS

The Group's business activities expose it to a variety of financial risks (currency risk, equity securities risk, interest rate risk, credit risk, liquidity risk and equity risks) that are described in detail in notes to the consolidated financial statements (Note 3 – Financial risk management).

Abbreviations

GDP	Gross domestic product
BPA – NI	Bisphenol A Non-Intent, coatings without Bisphenol A
B2B	Business to bussines
CEFTA	Central European Free Trade Agreement
DDD	Disinfection, Disinsectisation, Deratisation
DEG	German Investment and Development Corporation
DMS	Document Management System
EBRD	European Bank for Reconstruction and Development
EMS	Environmental Management System
ERP	Enterprise Resource Planning
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
F2	Fast Forward Program
FMCG	Fast moving consumer goods – food, drink and tobbacco products
FSSC	Food Safety System Certification
GHP	Good Hygienic Practices
GMO	Genetically Modified Organism
GMP	Good Manufacturing Practices
GRI	Global Reporting Initiative
HACCP	Hazard Analysis and Critical Control Point
HMF	Hydroxymethylfurfural, breakdown product of fructose
HoReCa	Hotel Restaurant Caffe
HRIS	Human Resources Information System
HZZO	Croatian Health Insurance Fund
IFS	International Food Standard
ITIL	Information Technology Infrastructure Library
KPI	Key Performance Indicators
KAM	Key Account Management
OTC	Over The Counter
PAH	Polycyclic Aromatic Hydrocarbons
PDCA	Plan Do Check Act (well-known process improvement methodology)
PET	Polyethylene Terephthalate
R-PET	Recycled Polyethylene Terephthalate
SDU	Strategic Distribution Unit
SMC	Strategic Management Council
SBU	Strategic Business Unit
UEPS	Serbian Marketing Communications Association
WMS	Warehouse Management System
CIS	Commonwealth of Independent States (ex-Soviet Union countries)
ZSE	Zagreb Stock Exchange

Auditor's Report and Consolidated Financial Statements

ATLANTIC GRUPA PLC.
31 DECEMBER 2017

Responsibility for the consolidated financial statements

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that consolidated financial statements, which are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") give a true and fair view of the financial position and results of Atlantic Grupa d.d. and its subsidiaries (the "Group") for that period.

The Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed; and
- the consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 29 March 2018.

Emil Tedeschi
President and Chief Executive Officer

Mladen Veber
Senior Group Vice President for Business Operations

Zoran Stanković
Group Vice President for Finance

Neven Vranković
Group Vice President for Corporate activities

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Independent auditor ' s report

To the Shareholders of Atlantic Grupa d.d.
Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Atlantic Grupa d.d. (the Company) and its subsidiaries (together – "the Group"), which comprise the consolidated balance sheet as at 31 December 2017, consolidated income statement and the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.
In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU (" IFRS as adopted by EU ").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor ' s responsibilities for the audit of the consolidated financial statements* section of our report.
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

Consolidated financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2017.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matter	How we addressed Key Audit Matter
Assessment of impairment of intangible assets with indefinite useful lives *See notes 2.7 and 4.b of the consolidated financial statements* The Group has goodwill and other intangible assets with indefinite useful lives (Brands & Licenses) with carrying amounts totaling HRK 1,566,472 thousand as at 31 December 2017. The carrying amount of the indefinite life intangible assets represents 31% of total assets and the assessment of the "fair value" and	Audit procedures included understanding of the assets impairment process and of the controls implemented within. We examined the methodology used by management to assess the carrying value of respective intangible assets, to determine its compliance with IFRS as adopted by EU and consistency of application. We evaluated the Group's future cash flow forecasts and the process by which they were prepared. We compared the budget inputs in the model to the approved budgets and forecast inputs in the model to management plans.

Key audit matters (continued)

"value in use" of the Group's cash generating units ("CGU") represents significant area of management's judgement regarding the future results of the business and the discount rates applied to future cash flow forecasts. Due to the range of judgements and assumptions used in the models and impairment assessments, as well as the significant carrying amount of the intangible assets, this is an area considered to be a key audit matter.	We compared current year (2017) actual results with the figures included in the prior year (2016) forecast to evaluate assumptions used. We also compared management's key assumption for long-term growth rate by comparing it to historical growth results. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis, and tested the appropriateness of discount rates and royalty rates used in the calculation with the assistance of the specialists. We also assessed the completeness of the impairment charges. We also assessed adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of IFRS as adopted by EU.
Assessment of indefinite useful lives of Brands and Licences *See note 4.b of the consolidated financial statements* The Group determined that several Brands and Licenses have indefinite useful lives. The carrying value of such assets amounts to HRK 731,720 thousand at 31 December 2017. The carrying amount of the indefinite life of Brands and Licenses represents 14% of total assets and the assessment of the indefinite life involves significant management's judgments about the strength of the brand and future cash flows generated from brands and licenses affected. The Group annually assesses the accounting estimates of indefinite useful life. The assessment is performed by reviewing external reports on brand strength, market share position of individual brands in each country and stability of the industry or, in case of licenses, local laws as licenses relate to the pharmaceutical retail business. If management notices that there is a foreseeable limit to the period over which the asset is expected to generate net cash flow, the Group changes its estimates according to IAS 8, from indefinite life asset to definite useful life. Due to the range of significant judgements used, this is an area considered to be a key audit matter.	Audit procedures included understanding of the useful lives of intangibles assets process and walk through of controls implemented within. We performed specific inquiry to the Management of the Group in respect of consistency of the applied methodology. We evaluated and assessed the Group's assumption on historical and projected cash flows and relevant judgements used within. We compared current year (2017) actual results per brand / license with the figures included in the prior year (2016) forecast to evaluate used assumption. We also compared management's key assumption for long-term growth rate by comparing it to historical growth results. Furthermore, we assessed and reviewed external reports related to market share of the individual brand and assessed changes in relevant local laws, if any, in respect of licensee of the pharmaceutical retail business. We also assessed the adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of IFRS as adopted by EU.

Independent auditor ' s report (continued)

Other information included in The Group ' s 2017 consolidated Annual Report
Management is responsible for the other information. Other information consists of the information included in the consolidated Annual Report which includes the Management report and Corporate Governance Statement, other than the consolidated financial statements and our auditor ' s report thereon. Our opinion on the consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.
With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2017 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;

2. the enclosed Management report for 2017 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Group's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed consolidated financial statements;

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

Responsibilities of management and Audit Committee for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group ' s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Group ' s financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group ' s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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Independent auditor ' s report (continued)

Report on Other Legal and Regulatory Requirements
In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement
We were appointed as the auditors of the Group by the General Meeting of Shareholders on 29 June 2017 and our uninterrupted engagement has lasted for 1 year.

Consistence with Additional Report to Audit Committee
We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Group, which we issued on 20 March 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company, to its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the consolidated financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Slaven Đuroković.

Slaven Đuroković, Board Member and certified auditor
Ernst & Young d.o.o.
Radnička cesta 50, Zagreb

29 March 2018

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts expressed in thousands of HRK)	**Note**	**2017**	**2016**
Revenues	5	5,372,074	5,174,539
Cost of trade goods sold		(1,327,839)	(1,308,331)
Change in inventories of finished goods and work in progress		(6,644)	13,984
Material and energy costs		(1,693,309)	(1,636,983)
Staff costs	6	(828,533)	(800,863)
Marketing and promotion costs	7	(367,686)	(355,339)
Depreciation, amortisation and impairment	2.24, 13, 13a, 14	(175,758)	(166,580)
Other operating costs	8	(630,696)	(630,774)
Other gains - net	9	64,859	18,135
Operating profit		**406,468**	**307,788**
Finance income	10	28,559	41,378
Finance costs	10	(78,118)	(145,021)
Finance costs - net	10	(49,559)	(103,643)
Profit before tax		**356,909**	**204,145**
Income tax expense	11	(80,685)	(40,910)
Profit for the year		**276,224**	**163,235**
Attributable to:			
Owners of the parent		275,529	162,800
Non-controlling interests		695	435
		276,224	163,235
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		82.69	48.83
- diluted		82.69	48.83

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts expressed in thousands of HRK)	**Note**	**2017**	**2016**
Profit for the year		**276,224**	**163,235**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) from defined benefit plan, net of tax	22	1,033	(826)
		1,033	**(826)**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences, net of tax	22	21,411	(47,577)
Cash flow hedges, net of tax	22	(15,466)	8,700
		5,945	**(38,877)**
Other comprehensive gain/ (loss) for the year, net of tax		**6,978**	**(39,703)**
Total comprehensive income for the year		**283,202**	**123,532**
Attributable to:			
Owners of the parent		282,520	123,109
Non-controlling interests		682	423
Total comprehensive income for the year		283,202	123,532

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

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

(all amounts expressed in thousands of HRK)	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	13	999,866	1,082,059
Investment property		1,209	1,259
Intangible assets	14	1,750,216	1,756,217
Deferred tax assets	25	32,165	47,293
Available-for-sale financial assets	17	948	915
Trade and other receivables	18	95,239	59,102
		2,879,643	2,946,845
Current assets			
Inventories	19	547,278	623,318
Trade and other receivables	18	1,191,042	1,300,795
Prepaid income tax		5,029	10,326
Derivative financial instruments	15	-	18,139
Cash and cash equivalents	20	497,079	490,730
		2,240,428	2,443,308
Non-current assets held for sale	13a	6,336	5,687
Total current assets		2,246,764	2,448,995
TOTAL ASSETS		**5,126,407**	**5,395,840**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	881,089	881,489
Treasury shares	21	(1,514)	(88)
Reserves	22	(52,428)	(80,964)
Retained earnings		1,285,668	1,079,698
		2,246,187	2,013,507
Non-controlling interests		3,663	2,981
Total equity		2,249,850	2,016,488
Non-current liabilities			
Borrowings	24	1,135,191	1,422,605
Deferred tax liabilities	25	162,652	171,811
Other non-current liabilities		3,017	6,673
Provisions	26	50,456	58,036
		1,351,316	1,659,125
Current liabilities			
Trade and other payables	23	903,144	1,073,996
Borrowings	24	546,060	588,539
Derivative financial instruments	15	1,226	-
Current income tax liabilities		21,341	9,231
Provisions	26	53,470	48,461
		1,525,241	1,720,227
Total liabilities		2,876,557	3,379,352
TOTAL EQUITY AND LIABILITIES		**5,126,407**	**5,395,840**

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

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of HRK)	**Attributable to owners of the Company**					
	Share Capital, Premium and Treasury shares	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2016	1,014,689	(26,264)	954,325	1,942,750	2,558	1,945,308
Comprehensive income:						
Net profit for the year	-	-	162,800	162,800	435	163,235
Other comprehensive (loss)/income	-	(38,865)	(826)	(39,691)	(12)	(39,703)
Total comprehensive income	-	(38,865)	161,974	123,109	423	123,532
Transaction with owners:						
Acquisition of non-controlling interests (Note 28)	-	-	(4,778)	(4,778)	-	(4,778)
Share based payment (Note 21)	1,160	-	-	1,160	-	1,160
Purchase of treasury shares (Note 21)	(1,076)	-	-	(1,076)	-	(1,076)
Transfer	-	(15,835)	15,835	-	-	-
Dividends relating to 2015 (Note 21)	-	-	(47,658)	(47,658)	-	(47,658)
Balance at 31 December 2016	**1,014,773**	**(80,964)**	**1,079,698**	**2,013,507**	**2,981**	**2,016,488**
Comprehensive income:						
Net profit for the year	-	-	275,529	275,529	695	276,224
Other comprehensive (loss)/income	-	5,958	1,033	6,991	(13)	6,978
Total comprehensive income	-	5,958	276,562	282,520	682	283,202
Transaction with owners:						
Acquisition of non-controlling interests (Note 28)	-	-	(1,126)	(1,126)	-	(1,126)
Share based payment (Note 21)	5,605	-	-	5,605	-	5,605
Purchase of treasury shares (Note 21)	(7,431)	-	-	(7,431)	-	(7,431)
Transfer	-	22,578	(22,578)	-	-	-
Dividends relating to 2016 (Note 21)	-	-	(46,888)	(46,888)	-	(46,888)
Balance at 31 December 2017	**1,012,947**	**(52,428)**	**1,285,668**	**2,246,187**	**3,663**	**2,249,850**

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts expressed in thousands of HRK)	Note	2017	2016
Cash flows from operating activities:			
Cash generated from operations	29	505,076	428,152
Interest paid		(100,391)	(82,290)
Income tax paid		(56,441)	(53,839)
		348,244	292,023
Cash flows from/ (used in) investing activities			
Purchase of property, plant and equipment and intangible assets	13,14	(129,193)	(140,172)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		8,799	49,260
Proceeds from sale of subsidiary – net of cash disposed	28	129,342	-
Proceeds from sale of tea business		18,750	-
Acquisition of subsidiary – net of cash acquired	28	(2,207)	(1,122)
Loans granted and deposits placed	18	(22,640)	(5,029)
Repayments of loan and deposits granted	18	22,002	4,162
Interest received		4,584	3,390
		29,437	(89,511)
Cash flows used in financing activities			
Purchase of treasury shares	21	(7,431)	(1,076)
Proceeds from borrowings, net of fees paid	24	120,394	434,386
Repayments of borrowings	24	(437,715)	(451,575)
Acquisition of interest in a subsidiary from non-controlling interests	28	(1,906)	(8,438)
Dividends paid to Company shareholders	21	(44,984)	(45,012)
Withholding tax paid on dividend distributed within the Group		(1,904)	(2,646)
		(373,546)	(74,361)
Net increase in cash and cash equivalents		**4,135**	**128,151**
Exchange gains/(losses) on cash and cash equivalents		2,214	(3,113)
Cash and cash equivalents at beginning of year		490,730	365,692
Cash and cash equivalents at end of year	20	**497,079**	**490,730**

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

NOTE 1 – GENERAL INFORMATION

Operating as a vertically integrated multinational company, Atlantic Grupa d.d. (the Company) and its subsidiaries (as disclosed in Note 32 “the Group”) have business activities that incorporate R&D, production and distribution of fast moving consumer goods in Southeast Europe, the European markets and Russia and CIS (Commonwealth of Independent States). With its modern production network, the Group stands out as one of the leading food & beverage producers in Southeast Europe with prominent coffee brands Grand Kafa and Barcaffe, a range of beverage brands Cockta, Donat Mg, Cedevita, a portfolio of sweet and salted snacks brands Smoki, Chipsos, Najlepše želje and Bananica, the savoury spread brand Argeta and gourmet brand Granny’s Secret. Additionally, the Group has a wide range of personal care product portfolio, owns the leading Croatian producer of vitamins, minerals, supplements and OTC drugs as well as the leading pharmacy chain in Croatia under the Farmacia brand. Furthermore, the Group manufactures and distributes one of the leading European brand in sports nutrition - Multipower and has a strong foothold on the Russian and CIS markets with its baby food portfolio under the Bebi brand. With its own distribution network in Croatia, Slovenia, Serbia, Austria and Macedonia, the Group also distributes a range of products from external partners (Unilever, Ferrero, Wrigley, Johnson & Johnson, Duracell and others). The Group has manufacturing plants in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Macedonia with firms and representative offices in 12 countries. The Group exports its products to more than 40 markets worldwide.

The Company is domiciled in Zagreb, Miramarska 23, Croatia.

The Company’s shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in Note 21.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) which were endorsed by the European Union (EU) under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) New and amended standards and interpretations adopted by the Group

The Group has adopted the following new and amended standards for annual reporting period commencing 1 January 2017 which were adopted by the European Union and which are relevant for the Group’s financial statements:

- *Amendments to IAS 7 Statements of Cash Flow: Disclosure Initiative*

The amendments resulted in additional disclosure of changes in financial liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses) and have no significant impact on the consolidated financial statements of the Group (Note 3.2).

- *Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The adoption of this amendments had no material impact on the consolidated financial statements of the Group.

- *Annual Improvements Cycle 2014-2016*
- *Amendments to IFRS 12 Disclosure of Interest in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The adoption of this amendments had no material impact on the consolidated financial statements of the Group.

(b) Standards, amendments and interpretations issued and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following standards, amendments and interpretations adopted by the EU were in issue but not yet effective:

- *IFRS 15, 'Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)*

  The IASB has issued a new standard for the recognition of revenue in May 2014 and amendment to IFRS 15 in April 2016. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customer. The new revenue standard will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

  Either a full retrospective application or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group will adopt the new standard on the required effective date using the full retrospective method.

  During 2017, the Group performed a preliminary assessment of IFRS 15 transition effects on the main types of commercial arrangements used with customers under this model and has concluded that the application of IFRS 15 will not have a material impact on its consolidated financial statements. The effects identified are as follows:

  - Payments for placements of refrigerated showcases currently treated as marketing and promotion costs would be reclassified to deductions from sales
  - Payments for placements on separate and specially positioned sales locations inside the retailer stores currently treated as marketing and promotion costs would be reclassified to deductions from sales
  - Listing fees for the new product and for new opened stores currently recognised as a sales deduction at point in time will be recognised based on the minimum covered period of listing
  - Marketing activities paid to customers agreed on ad-hoc basis currently recognised as marketing and promotion costs will be recognised as a sales deduction, taking into account the period of activities and related sales in that period
  - Payments for sales promotion and growth to customers in HoReCa channel that are made on annual basis upon the achievement of targeted realization currently recognised as marketing and promotion costs will be recognised as decrease of sales proportionately taking into account seasonality and expected probability of targets achieving during the year.

  The estimated overall impact on 2017 revenues and marketing and promotion costs is decrease for the amount between HRK 50 and HRK 85 million with no impact on operating profit. However, as this is only a high-level estimate, quantitative information disclosed in this note may be subject to further changes in 2018.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRS 9, Financial instruments (effective for annual periods beginning on or after 1 January 2018)*
  Issued in July 2014 the final version that replaced the IAS 39 Financial instruments: Recognition and Measurement, IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.
  The Group has performed an impact assessment and expects no significant impact from the new classification, measurement and de-recognition rules on its financial assets and liabilities:
  - The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in income statement during prior periods for these investments and their value is not significant. However, the Group will apply the option to present fair value changes in other comprehensive income and, therefore the application of IFRS 9 will not have significant impact.
  -The majority of Group's financial assets are trade receivables and the Group will apply simplified approach and record lifetime expected impairment losses on all trade receivables based on past experience of losses incurred due to customers default. This approach will result in earlier impairment loss recognition and higher amount of the provision of trade receivables.
  -The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. Furthermore, no impact on financial liabilities is expected.
  Changes in accounting policies resulting from applying IFRS 9 will be applied retrospectively as at 1 January 2018 but without restatement of comparative information for prior years. Any difference between the carrying amount of financial instruments measured under IFRS 9 and the carrying amount under IAS 39 will be recognised in the opening retained earnings. The total estimated adjustment to the opening retained earnings at the date of initial application is not material.

- *IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019, early adoption is permitted but not before IFRS 15 is applied)*
  Replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.
  The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.
  Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
  A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs
  In 2018 the Group will continue to assess the potential effect of IFRS 16 on its financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) Standards, amendments and interpretations issued but not yet adopted by the EU

At the date of authorization of these financial statements the following standards, amendments and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU:

- *IFRS 14 Regulatory Deferral Accounts*

Issued in January 2014 (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016). The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. This standard is not applicable to the Group.

- *IFRS 17 Insurance Contracts*

Issued in May 2017 as a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. This standard is not applicable to the Group.

- *Amendments to IAS 40 – Transfers of Investment Property*

Clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. The Management anticipates that the adoption will have no material impact on the consolidated financial statements of the Group.

- *Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions*

Address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

- *Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Management anticipates that the adoption will have no material impact on the consolidated financial statements of the Group.

- *Annual Improvements 2014-2016 Cycle (issued in December 2016)*

These improvements include:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards* - Deletion of short-term exemptions for first-time adopters
  The Group already applies IFRS. Therefore, this amendment is not applicable to the Group.
- *IAS 28 Investments in Associates and Joint Ventures* - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
  Group does not have associates or joint ventures. Therefore, these amendments are not applicable to the Group.
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - *Amendments to IFRS 4*. These amendments are not applicable to the Group.
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after

(i) The beginning of the reporting period in which the entity first applies the interpretation

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group’s current practice is in line with the Interpretation, the Group does not expect any effect on consolidated financial statements.

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

Addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Management anticipates that the adoption will have no material impact on the consolidated financial statements of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of identifiable acquiree's net assets.

Goodwill is initially measured as excess of the aggregate of the consideration transferred and the fair value of non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. If this is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiary

When the Group ceases to have control, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Strategic Management Council.

2.4 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian kuna (HRK), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses related to borrowings are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) – net'.

(c) Group companies

The results and financial position of all Group entities with a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates; and
(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken into other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are reclassified from other comprehensive income to the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, if required. Historical cost includes expenditure directly attributable to the acquisition of items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they incurred.

Land and assets not yet in use are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to residual values over their estimated useful lives, as follows:

Buildings	10 to 50 years
Plant and equipment	2 to 20 years

The residual value of an asset is an estimated amount that the Group would currently obtain from disposal of the asset less estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within other gains/(losses) - net in the income statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary and the amount recognised for non-controlling interests and fair value of any previous interest held at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are recognised immediately as an expense and not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from synergies of the business combination in which the goodwill arose. Goodwill is monitored at the operating segment level.

(b) Distribution rights

Separately acquired distribution rights are shown at historical cost. Distribution rights acquired in a business combination are recognised at fair value at the acquisition date. Product distribution rights have a finite useful life and are carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of rights over their estimated useful lives (from 1.5 to 5 years).

(c) Brands

Brands acquired in a business combination are carried at initially determined fair value (recognised at acquisition date) less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of brands over their estimated useful life (15 years).

Brands with indefinite useful lives are not amortised, but are tested annually for impairment at the cash generating unit level.

(d) Computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (up to 5 years).

(e) Licences

Licences acquired in a business combination are recognized at fair value at the acquisition date. Licences have indefinite useful lives and are not amortised, but are tested annually for impairment at the cash generating unit level.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life (such as brands, licences and goodwill) are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, available for sale and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'deposits' and 'cash and cash equivalents' in the balance sheet (Notes 2.11 and 2.12).

Loans and receivables are carried at amortised cost using the effective interest method.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value, except investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, consequently, these are carried at cost.

(c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are categorised as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Interest income and the translation differences are recognised in the income statement, whereas other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from other comprehensive income to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of receivables is described in Note 2.11.

2.9 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges in order to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.10 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Trade goods are carried at selling price less applicable taxes and margins.

Where necessary, a provision is made for damaged and expired inventories.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments (more than 180 days overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision and subsequent recoveries of amounts previously written off are recognised in the income statement within 'other operating expenses'.

If the collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less (excluding bills of exchange). Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium.

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

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of the loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised, using liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

The Group makes payments to mandatory pension funds on behalf of its employees in the ordinary course of business through salary deductions, as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group has no other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits except for the one-off retirement payment as prescribed by local legislation or internal rulebook. The liability recognised in the balance sheet in respect of one-off retirement payment is the present value of the defined benefit obligation at the end of the reporting period. This obligation is calculated annually by independent actuaries. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Interest costs/income arising from actuarial calculation are charged/credited to income statement within ‘interest expenses’.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged immediately or credited to the income statement within ‘staff costs’. Interest costs/income arising from actuarial calculation are charged/credited to income statement within ‘interest expense’.

(d) Share-based compensation

Key management of the Group receives remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

(e) Short-term employee benefits

The Group recognises a provision for bonuses and accumulating unused vacation entitlement days if contractually obliged or if there is a past practice that has created a constructive obligation.

2.17 Provisions

Provisions for termination benefits and long term employee benefits, restructuring costs, warranty claims and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

When there are number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, returns, rebates and discounts, expenses of listing the products and marketing activities that are an integral part of contracts with customers. All other marketing activities related to marketing campaigns that are not integral part of customer contract are presented within Marketing and promotion costs.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(a) Sales of products and trade goods – wholesale

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

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

(b) Sales of goods - retail

The Group operates a pharmacy and specialised stores.

Sale of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The Group operates a customer loyalty programme, allowing customers to accumulate points when they purchase products. The points can then be redeemed as discount on subsequent purchase, subject to a minimum number of points being obtained. Consideration received is allocated between the products sold and the points issued. Part of fair value of the points issued is deferred as liability in the balance sheet and recognised as revenue when the points are redeemed.

(c) Sales of services

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

(d) Interest income

Interest income arising from fixed-term bank deposits, loans granted and interest from customers is recognised on a time-proportion basis using the effective interest method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which dividends are approved by the Company's shareholders.

2.20 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where a provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.21 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell and no depreciation is charged to profit and loss statement.

2.22 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of cash flow hedge derivatives is disclosed in Note 15 and changes in cash flow hedge reserves are disclosed in Note 22.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges, is recognised in other comprehensive income. The gain or loss related to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) – net'.

Amounts accumulated in equity are reclassified from other comprehensive income to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs - net'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/(losses) – net'.

When a hedging instrument expires or is sold or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred from other comprehensive income to the income statement within 'other gains/(losses) – net'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Trade payables

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

2.24 Investment property

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Investment property is derecognized when it either has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Transfers are made to or from investment property only when there is a change in use. The carrying amount approximates fair value. Investment property is held for long term rental yields and is not occupied by the Group. Depreciation expense related to investment property amounted to HRK 41 thousand in 2017 (2016: HRK 43 thousand).

2.25 Operating profit

Operating profit comprise the difference between operating revenues (revenues from sale of products, trade goods and services, interest income and other income) and operating costs – all costs excluding finance costs and taxes.

2.26 Comparatives

In order to ensure comparability, operating results of segments for the year ended 31 December 2016 have been restated according reporting logic applied in 2017.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO, Serbian dinar (RSD), Russian Ruble (RUB) and to a lesser extent the British Pound (GBP) and US dollar (USD). The appreciation of the Serbian dinar against EURO in 2017 resulted in HRK 15,213 thousand foreign currency gains from financing activities (2016: negative impact of HRK 7,284 thousand) while the appreciation of Russian ruble had a direct positive impact on the Group's 2017 financial activities results of 4,015 thousand (2016: HRK 18,154 thousand).

Movements in exchange rates between the above mentioned currencies and Croatian kuna (HRK) may have an impact on the results of the Group's future operations and future cash flow. The amounts in the tables below represent the HRK amounts denominated in the stated currencies at the balance sheet date for major balance sheet monetary items.

31 December 2017 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	371,212	318,722	3,205	27,097
Cash and cash equivalents	223,819	99,249	776	3,273
Trade and other payables	(385,359)	(110,166)	(45,521)	(9,329)
Borrowings	(1,239,417)	(1,198)	(8,609)	-
Net balance sheet exposure	**(1,029,745)**	**306,607**	**(50,149)**	**21,041**

31 December 2016 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	420,754	344,634	23	32,964
Cash and cash equivalents	233,917	85,909	11,431	3,372
Trade and other payables	(391,923)	(127,084)	(60,749)	(16,473)
Borrowings	(1,518,783)	(105)	(9,464)	-
Net balance sheet exposure	**(1,256,035)**	**303,354**	**(58,759)**	**19,863**

Given that the Group also has subsidiaries outside of Croatia, its shareholders equity value is exposed to fluctuations in exchange rates. Equity changes caused by movements in foreign exchange rates are shown as translation differences in the Group's consolidated statement of comprehensive income.

In the event of a rise of 1% in the EUR against HRK and RSD, assuming all other variables remain constant, the profit after tax for the year would have been HRK 5,186 thousand lower (2016: HRK 7,261 thousand lower), mainly due to the EUR denominated borrowings, and other comprehensive income would be HRK 13,520 thousand higher (2016: HRK 14,614 thousand higher), due to the translation differences arising on consolidation of subsidiaries whose functional currency is EUR.

In the event of a rise of 1% in the RSD against HRK, assuming all other variables remain constant, the profit after tax for the year would have been HRK 223 thousand lower (2016: HRK 357 thousand lower) and other comprehensive income would be HRK 6,760 thousand higher (2016: HRK 5,412 thousand higher), assuming no change in other variables.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(ii) Equity securities risk

The Group is exposed to equity securities fair value and price risk with respect to investments held by the Group classified on the consolidated balance sheet as available for sale. Equity investments classified as available for sale are not listed. To manage its fair value and price risk arising from investments in equity securities, the Group monitors market transactions and performance of investment entities.

No reliable external information exists with respect to fair value. Management believes, based on internal information, that the fair value equals or exceeds carrying value. However, due to limited information available, management has not carried out a sensitivity analysis. At 31 December 2017, if the fair value of the available-for-sale investment would change, with all other variables held constant, other comprehensive income and revaluation reserves would also change by the same amount.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings and bonds issued. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable interest rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk although no borrowings are carried at fair value.

The Group analyses its interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. As at 31 December 2017, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2016: 100 basis points), the profit after tax would have been lower/higher by HRK 11,021 thousand (2016: HRK 10,872 thousand), mainly as a result of increased/decreased interest expense.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group's assets, potentially subjecting the Group to concentrations of credit risk, primarily include cash, deposits and trade and other receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. The Group's credit risk is low, since receivables are dispersed among a large group of customers. Additionally, the Group's key customers are large retail chains, whereas dependence on these customers is reduced by developing alternative distribution channels. The Group reduces credit risk by implementing strict policies for receivables collection and goods delivery, as well as securing receivables with standard security instruments (bills of exchange and promissory notes). No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. A detailed analysis and maximum exposure to credit risk is shown in Notes 15, 16 and 18.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities when needed. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

Surplus cash held over and above the balance required for working capital management is invested in interest bearing current accounts, time deposits and cash funds, i.e. instruments with appropriate maturities or sufficient liquidity.

At 31 December 2017, the Group held cash and cash equivalents in the amount of HRK 497,079 thousand (2016: HRK 490,730 thousand) and short-term deposits in the amount of HRK 252 thousand (2016: HRK 227 thousand). These are expected to readily generate cash inflows for managing liquidity risk.

Trade and other payables, as well as short-term borrowings are due within 12 months after the balance sheet date, while the long-term borrowings' maturity is disclosed in Note 24.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

The table below analyses financial liabilities of the Group according to contracted maturities. The amounts disclosed in the table below represent the contractual undiscounted cash flows.

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Total**
31 December 2017			
Trade and other payables	856,361	-	856,361
Borrowings (excluding finance lease)	656,016	1,199,898	1,855,914

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Total**
31 December 2016			
Trade and other payables	1,002,893	-	1,002,893
Borrowings (excluding finance lease)	608,462	1,527,780	2,136,242

3.2 Changes in liabilities arising from financial activities

(in thousands of HRK)	**1 January 2017**	**Cash flow**	**Foreign exchange movement**	**Current portion**	**Prepaid fee amortised**	**Other**	**31 December 2017**
Borrowings - current	588,539	(74,322)	(342)	32,185	-	-	546,060
Borrowings - non-current	1,422,605	(242,999)	(11,034)	(32,185)	3,052	(4,248)	1,135,191
Total liabilities	**2,011,144**	**(317,321)**	**(11,376)**	**-**	**3,052**	**(4,248)**	**1,681,251**

The other column includes the effect of unwinding discount related to provisions. The Group classifies interest paid as cash flows from operating activities.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including long-term and short-term borrowings, as shown in the consolidated balance sheet) plus derivative financial instruments less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Capital risk management (continued)

The gearing ratios were as follows:

	2017	2016
	(in thousands of HRK)	
Total borrowings (Note 24)	1,681,251	2,011,144
Derivative financial instruments (Note 15)	1,226	(18,139)
Less: Cash and cash equivalents (Note 20)	(497,079)	(490,730)
Net debt	1,185,398	1,502,275
Total equity	2,249,850	2,016,488
Total capital and net debt	**3,435,248**	**3,518,763**
Gearing ratio	**35%**	**43%**

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Comparing to previous year, gearing ratio decreased primarily as a result of decrease in total borrowings.

3.4 Fair value estimation

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value estimation (continued)

Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of derivative financial instruments and of available-for-sale financial instruments is determined based on specific valuation techniques (level 2).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Expected useful lives of brands

Expected useful lives of brands is considered to be indefinite unless there are circumstances that would indicate they should be limited to a certain period. The Group considers such indicators at each reporting period. In 2016, based on industry data analysis and historical experience, the Group has changed its accounting estimate related to Grand Kafa brand from indefinite to definite useful life and as a consequence, starting from 2016 this brand is amortised over a period of 15 years.

(b) Impairment of goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment as stated in Note 2.7. Intangible assets with indefinite useful lives are tested for impairment on an individual asset basis whereas goodwill is tested based on the operating segment to which it is allocated.

Goodwill and intangible assets with indefinite lives have been allocated to cash generating units within operating segments as follows:

(i) Licences

Operating segment *(in thousands of HRK)*	**2017**	**2016**
SBU Pharma and Personal Care	162,159	161,345
	162,159	**161,345**

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(b) Impairment test for goodwill and intangible assets with indefinite useful lives (continued)

(ii) Brands

Operating segment *(in thousands of HRK)*	**2017**	**2016**
SBU Beverages	57,463	66,032
SBU Coffee	102,253	102,854
SBU (Sweet and Salted) Snacks	139,205	137,278
SBU Savoury Spreads	241,383	242,801
BU Gourmet	803	3,131
BU Baby food	28,454	28,621
	569,561	**580,717**

(iii) Goodwill

Operating segment *(in thousands of HRK)*	**2017**	**2016**
SBU Beverages	89,894	90,121
SBU Coffee	63,310	61,103
SBU (Sweet and Salted) Snacks	217,824	206,304
SBU Savoury Spreads	126,181	126,908
SBU Pharma and Personal Care	196,155	196,155
BU Gourmet	-	7,978
BU Baby food	21,802	21,930
SDU Croatia	35,876	34,648
SDU Serbia	51,422	49,662
DU Slovenia	26,309	25,409
DU Macedonia	5,979	5,775
	834,752	**825,993**

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial forecasts approved by the management, covering a seven-year period.

Value in use calculations for goodwill were determined based on the following assumptions:

Operating segment	**After-tax discount rate 2017**	**After-tax discount rate 2016**
SBU Beverages	7.3%	7.2%
SBU Coffee	7.9%	8.0%
SBU (Sweet and Salted) Snacks	8.6%	9.1%
SBU Savoury Spreads	8.0%	8.2%
SBU Pharma and Personal Care	7.7%	7.3%
BU Baby food	7.6%	8.6%
SDU Croatia	6.9%	7.2%
SDU Serbia	8.2%	9.1%
DU Slovenia	5.5%	5.1%
DU Macedonia	8.5%	10.1%

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(b) Impairment test for goodwill and intangible assets with indefinite useful lives (continued)

The Growth rate assumptions were based on historical data and management's expectations for market development. Terminal growth rate is 2% for all Operating segments and individual asset impairment tests and it is based on management's expectations for market development (2016: 2%). Compared to 2016, after-tax discount rates in 2017 are mostly lower across segments, based on changed market conditions – combination of lower risk-free rates based on reduced sovereign yields across markets and pre-tax cost of debt based on reduced interest rates on loans to non-financial institutions.

The Royalty rate assumptions used for impairment tests of brands and licences are based on independent valuator's researches:

	2017	2016
Barcaffe	5.0%	5.0%
Najlepše želje	6.0%	6.0%
Bananica	5.0%	5.0%
Smoki	7.0%	7.0%
Argeta	8.0%	8.0%
Donat	8.0%	8.0%
Cockta	5.0%	5.0%
Bebi	3.0%	3.0%
Bakina tajna	3.0%	3.0%
Licences	4.5%	4.5%

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 20,153 thousand was recognised (2016: HRK 10,397 thousand) in respect of impairment of intangible assets with indefinite useful lives.

The sensitivity analysis of key assumptions used in the impairment testing showed that a discount rate increase by 100 basis points would result on average in a 15.4% decrease of the recoverable amount of cash generating units (2016: 15.0%). Despite the decrease, the net recoverable amount of cash generating units would still exceed the carrying value.

(c) Deferred tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (Note 25).

NOTE 5 – SEGMENT INFORMATION

The business model of the Group is organized through six strategic business units which have been joined by business unit Baby Food and business unit Gourmet.

The distribution business is organized in two main zones:
- Zone East covering markets of Croatia, Serbia, Slovenia, Macedonia, The Commonwealth of Independent States (CIS) and Baltic countries, Kosovo, Bulgaria and Romania and
- Zone West covering markets of DACH, Benelux, Mediterranean, Africa, Northwest Europe, Central Europe and overseas countries.

Based on such organizational model, following segments are established:

- SBU Beverages,
- SBU Coffee,
- SBU (Sweet and Salted) Snacks,
- SBU Savoury Spreads,
- SBU Sports and Functional Food,
- SBU Pharma and Personal Care
- BU Gourmet
- BU Baby Food
- SDU Croatia,
- SDU Serbia,
- DU Slovenia
- DU Macedonia
- SDR HoReCa,
- SDR CIS & Baltic,
- SDR Zone West,

SBU – Strategic business unit
BU – Business unit
SDU – Strategic distribution unit
DU – Distribution unit
SDR – Strategic distribution region
DR – Distribution region
DACH – Germany, Austria & Switzerland

The Strategic Management Council is responsible for strategic and operational issues. For more efficient management of individual strategic business and strategic distribution units, the organization unites similar business activities or products, shared markets or channels, together.

Due to the fact that SDR HoReCa, SDR CIS & Baltic, BU Baby Food, BU Gourmet and DU Macedonia do not meet quantitative thresholds required by IFRS 8 for reportable segments, they are reported within Other segments. The Other segments category comprises also of non-allocable business activities (headquarters and support functions in Serbia, Slovenia, Bosnia and Herzegovina and Macedonia) which are excluded from the reportable operating segments.

The Strategic Management Council 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 EBITDA (earnings before interest taxes, depreciation, amortisation and impairment) and operating profit or loss. Group financing and income taxes are managed on the Group level and are not allocated to operating segments.

Sales of individual SBUs represent in market sales made to third parties (either directly through SBUs and BUs or through SDUs and DUs). SDU and DU sales includes sales of own products also reported as SBU sales. This double presentation of own product sales is eliminated in the “Reconciliation” line. For the purpose of segmental profit calculation, sales between operating segments are carried out at arm's length.

NOTE 5 – SEGMENT INFORMATION (continued)

Sales revenues *(in thousands of HRK)*	**2017**	**2016**
SBU Coffee	1,098,389	1,064,733
SBU (Sweet and Salted) Snacks	678,417	651,268
SBU Beverages	676,999	630,816
SBU Pharma and Personal Care	583,581	545,228
SBU Savoury Spreads	580,959	543,031
SBU Sports and Functional Food	384,636	449,347
SDU Serbia	1,134,623	1,101,050
SDU Croatia	1,035,905	968,768
DU Slovenia	767,845	754,403
SDR Zone West	419,405	503,137
Other segments	862,786	762,976
Reconciliation	(2,916,728)	(2,868,491)
Total	**5,306,817**	**5,106,266**

Operating results	**For the year ended 31 December 2017**		
(in thousands of HRK)	**Operating profit before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating profit**
SBU Coffee	209,475	26,474	183,001
SBU (Sweet and Salted) Snacks	120,993	13,398	107,595
SBU Beverages	158,246	42,809	115,437
SBU Pharma and Personal Care	55,235	10,711	44,524
SBU Savoury Spreads	128,700	16,410	112,290
SBU Sports and Functional Food	(7,457)	8,082	(15,539)
SDU Serbia	28,107	1,911	26,196
SDU Croatia	25,644	8,723	16,921
DU Slovenia	45,902	3,864	42,038
SDR Zone West	(40,760)	769	(41,529)
Other segments	(141,859)	42,607	(184,466)
Total	**582,226**	**175,758**	**406,468**

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results	**For the year ended 31 December 2016**		
(in thousands of HRK)	**Operating profit before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating profit**
SBU Coffee	227,840	24,025	203,815
SBU (Sweet and Salted) Snacks	116,408	13,060	103,348
SBU Beverages	162,102	42,102	120,000
SBU Pharma and Personal Care	47,329	9,933	37,396
SBU Savoury Spreads	119,110	15,110	104,000
SBU Sports and Functional Food	(20,369)	9,629	(29,998)
SDU Serbia	20,144	2,304	17,840
SDU Croatia	12,859	8,484	4,375
DU Slovenia	43,270	4,028	39,242
SDR Zone West	(51,958)	919	(52,877)
Other segments	(202,367)	36,986	(239,353)
Total	**474,368**	**166,580**	**307,788**

Geographical information

The total of non-current assets other than financial instruments, deferred income tax assets and trade and other receivables is located as follows:

	2017	**2016**
	(in thousands of HRK)	
Slovenia	952,048	983,958
Serbia	944,573	931,450
Croatia	701,475	751,237
Other	153,195	172,890
Total geographically allocated non-current assets	**2,751,291**	**2,839,535**

NOTE 5 – SEGMENT INFORMATION (continued)

	2017		2016	
Sales by markets	*(in thousands of HRK)*	**%**	*(in thousands of HRK)*	%
Croatia	1,581,643	29.8	1,470,978	28.8
Serbia	1,225,065	23.1	1,183,684	23.2
Slovenia	883,641	16.7	857,671	16.8
Bosnia and Herzegovina	416,448	7.8	396,600	7.8
Other regional markets*	345,497	6.5	343,424	6.7
Key European Countries**	503,975	9.5	513,986	10.0
Russia and CIS countries	229,649	4.3	186,498	3.7
Other markets	120,899	2.3	153,425	3.0
Total sales by markets	**5,306,817**	**100.0**	**5,106,266**	**100.0**

*Other regional markets: Macedonia, Montenegro, Kosovo
**Key European markets: Germany, United Kingdom, Italy, Switzerland, Austria, Sweden, Spain

Sales by geographical segments is determined by geographical location of the customer.

	2017		2016	
Analysis of revenue by category	*(in thousands of HRK)*	**%**	*(in thousands of HRK)*	%
Sales by type of products				
Own brands	3,563,832	66.3	3,460,489	66.9
Principal brands	1,145,040	21.3	1,091,007	21.1
Pharmacy	389,129	7.3	363,937	7.0
Private label	208,816	3.9	190,833	3.7
Total sales by type of products	**5,306,817**	**98.8**	**5,106,266**	**98.7**
Other income /i/	65,257	1.2	68,273	1.3
Total revenues	**5,372,074**	**100.0**	**5,174,539**	**100.0**

/i/ Other income mainly comprise of interest income, rental income and income from the reversal of unused provisions.

NOTE 6 – STAFF COSTS

	2017	2016
	(in thousands of HRK)	
Gross salaries /i/	722,641	707,401
Public transport	17,286	17,002
Termination benefits	5,268	2,614
Share options granted (Note 21)	4,125	4,995
Other staff costs /ii/	79,213	68,851
	828,533	**800,863**

In 2017, the average employees number was 5,528 (2016: 5,439).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2017 amounted to HRK 118,205 thousand (2016: HRK 115,124 thousand).

/ii/ Other staff costs include bonuses, education expenses, accruals for unused vacation days and jubilee awards.

NOTE 7 – MARKETING AND PROMOTION COSTS

	2017	2016
	(in thousands of HRK)	
Marketing and promotion costs - external	295,137	301,563
Marketing and promotion costs - related parties (Note 30)	16,785	13,020
Sponsorships and donations	55,764	40,756
	367,686	**355,339**

NOTE 8 – OTHER OPERATING COSTS

	2017	2016
	(in thousands of HRK)	
Transportation costs	140,586	139,069
Maintenance	104,263	105,327
Rentals (Note 27)	111,690	111,634
Non-production material	28,114	28,600
Provision for impairment of inventories (Note 19)	25,831	27,851
Intellectual services	28,153	24,172
Travel expense and daily allowances	18,355	21,905
Entertainment	20,449	21,832
Fuel	17,996	17,450
Taxes and contributions not related to operating results	18,251	16,639
Non-production services	15,096	15,490
Telecommunication services	13,154	13,080
Bank charges	8,660	8,840
Provision for impairment of trade receivables (Note 18)	24,186	21,290
Provision for impairment of other receivables (Note 18)	6,832	588
Production services	5,562	6,030
Supervisory Board fees	1,270	1,371
Royalties	132	283
Collection of receivables previously provided for (Note 18)	(9,673)	(3,845)
Other – related parties (Note 30)	2,220	2,393
Other	49,569	50,775
	630,696	**630,774**

NOTE 9 – OTHER GAINS – NET

	2017	2016
	(in thousands of HRK)	
Gain on sale of property, plant and equipment	1,712	764
Gain on sale of available-for-sale financial assets	434	-
Gain on sale of subsidiary, net of transaction expenses	64,868	-
Fair value (losses)/gains on financial assets	(1,085)	12,124
Foreign exchange gains – net	2,255	4,306
Other (losses)/ gains – net	(3,325)	941
	64,859	**18,135**

NOTE 10 – FINANCE COSTS – NET

	2017	2016
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	28,559	41,378
	28,559	41,378
Finance costs		
Foreign exchange loss on borrowings	(5,001)	(21,760)
Interest expense on bank borrowings	(46,424)	(68,095)
Interest expense on bonds	(6,386)	(9,241)
Interest expense on provisions for employee benefits	(1,017)	(971)
Interest expense on borrowings – related parties (Note 30)	(14,629)	(44,954)
Other interest expense	(4,661)	-
	(78,118)	(145,021)
Finance costs - net	**(49,559)**	**(103,643)**

NOTE 11 – INCOME TAX

	2017	2016
	(in thousands of HRK)	
Current income tax	71,931	51,962
Deferred tax (Note 25)	8,754	(11,052)
	80,685	**40,910**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2017	2016
	(in thousands of HRK)	
Profit before taxation	**356,909**	**204,145**
Income tax calculated at Croatian statutory income tax rate of 18% (2016: 20%)	64,244	40,829
Tax effects of:		
Lower income tax rates overseas	(11,937)	(30,223)
Adjustments in respect of prior years	619	4
Income not subject to tax	(13,219)	(6,476)
Expenses not deductible for tax purposes	26,531	28,130
Effect of utilized tax incentives	(4,334)	(10,009)
Utilisation of previously unrecognized tax losses	(11,200)	(3,010)
Tax losses for which no deferred tax assets were recognised	16,605	15,973
Effect of utilized tax losses	13,376	1,990
Effect of tax rate change	-	3,702
Tax expense	**80,685**	**40,910**

The effective tax rate was 22.6% (2016: 20.0%). The increase compared to the previous year primarily arises from a different level of tax loss utilization.

The Tax Authority performed a tax inspection in one of the Group's subsidiaries in 2014 and the final results of this inspection are still pending. In February 2015, the Ministry of Finance, Tax Authority issued a tax resolution for the subsidiary. Currently, legal proceedings are under way in this case before the Administrative Court which decided to suspend the enforcement until the proceedings before the Administrative Court are finalised. Management is of the view that it has a strong case against the Tax Authority in this matter. The Management considers this event as contingent liability. The most likely outcome is that it will not result in outflows of economic benefits for the Group. However, based on the complexity of the litigation, there are uncertainties relating to the amount and timing. The maximum exposure that the Group could be expected to settle, if the outcome of the legal proceedings would be unfavourable, amounts to HRK 33,995 thousand.

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2017	**2016**
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	275,529	162,800
Weighted average number of ordinary shares in issue	3,332,250	3,334,105
Basic earnings per share *(in HRK)*	82.69	48.83

Diluted earnings per share

Diluted earnings per share are the same as basic earnings per share since there were no convertible potentially dilutive ordinary shares.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land**	**Buildings**	**Plant and equipment**	**Assets not yet in use**	**Total**
At 31 December 2015					
Cost	96,842	862,741	1,768,925	36,406	2,764,914
Accumulated depreciation	-	(393,683)	(1,287,665)	-	(1,681,348)
Net book amount	**96,842**	**469,058**	**481,260**	**36,406**	**1,083,566**
At 1 January 2016					
Opening net book amount	96,842	469,058	481,260	36,406	1,083,566
Additions	-	-	-	99,846	99,846
Transfer	61	15,771	77,490	(93,322)	-
Disposals	(420)	(12)	(3,071)	(135)	(3,638)
Depreciation	-	(21,939)	(100,270)	-	(122,209)
Impairment charge	-	(8,929)	-	(101)	(9,030)
Transfer from assets held for sale	13,294	31,819	-	617	45,730
Transfer from investment property	420	13	-	-	433
Foreign exchange differences	(784)	(5,429)	(6,556)	130	(12,639)
Closing net book amount	**109,413**	**480,352**	**448,853**	**43,441**	**1,082,059**
At 31 December 2016					
Cost	109,413	1,028,532	1,783,929	43,441	2,965,315
Accumulated depreciation	-	(548,180)	(1,335,076)	-	(1,883,256)
Net book amount	**109,413**	**480,352**	**448,853**	**43,441**	**1,082,059**
At 1 January 2017					
Opening net book amount	109,413	480,352	448,853	43,441	1,082,059
Additions	-	-	-	129,119	129,119
Transfer	-	9,505	87,159	(96,664)	-
Disposals	(856)	(4,065)	(1,983)	-	(6,904)
Depreciation	-	(25,188)	(101,492)	-	(126,680)
Impairment charge	-	-	-	(460)	(460)
Transfer to assets held for sale	-	(612)	-	-	(612)
Transfer to intangible assets	-	-	(938)	(51)	(989)
Divestment of subsidiary	(5,569)	(43,380)	(31,934)	(659)	(81,542)
Foreign exchange differences	(245)	2,498	3,274	348	5,875
Closing net book amount	**102,743**	**419,110**	**402,939**	**75,074**	**999,866**
At 31 December 2017					
Cost	102,743	949,638	1,739,704	75,074	2,867,159
Accumulated depreciation	-	(530,528)	(1,336,765)	-	(1,867,293)
Net book amount	**102,743**	**419,110**	**402,939**	**75,074**	**999,866**

Property, plant and equipment with a net book value of HRK 233,614 thousand as at 31 December 2017 (2016: HRK 260,632 thousand), have been pledged as collateral for borrowings (Note 24).

NOTE 13a – NON-CURRENT ASSETS HELD FOR SALE

	2017	2016
	(in thousands of HRK)	
Opening net book amount	5,687	99,196
Additions	726	192
Disposals	(302)	(45,825)
Classified as held for sale during the year	612	-
Transfer to property, plant and equipment during the year	-	(45,730)
Impairment charge	(409)	(1,518)
Foreign exchange differences	22	(628)
Closing net book amount	**6,336**	**5,687**

During 2016, the Group has sold part of non-current assets held for sale owned by Droga Kolinska d.d.. The remaining assets owned by Droga Kolinska were reclassified to property, plant and equipment, due to the non-fulfilment of criteria for recognition as non-current assets held for sale.

The outstanding balance of non-current assets held for sale on 31 December 2017 relate to the property of Atlantic Trade Zagreb d.o.o. An active program to complete the sale plan is in place.

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	**Goodwill**	**Licences**	**Brands**	**Rights**	**Software**	**Total**
At 31 December 2015						
Cost	846,835	204,725	811,655	16,851	144,391	2,024,457
Accumulated amortisation and impairment	-	(46,643)	(60,264)	(5,605)	(114,154)	(226,666)
Net book amount	**846,835**	**158,082**	**751,391**	**11,246**	**30,237**	**1,797,791**
At 1 January 2016						
Opening net book amount	846,835	158,082	751,391	11,246	30,237	1,797,791
Foreign exchange differences	(14,020)	-	(10,622)	(124)	(92)	(24,858)
Effect of tax rate change	(3,524)	-	-	-	-	(3,524)
Additions	-	-	244	49	15,686	15,979
Acquisition of subsidiary	768	3,841	-	-	-	4,609
Amortisation	-	-	(12,505)	(3,165)	(7,713)	(23,383)
Impairment charge	(4,066)	(578)	(5,753)	-	-	(10,397)
Closing net book amount	**825,993**	**161,345**	**722,755**	**8,006**	**38,118**	**1,756,217**
At 31 December 2016						
Cost	825,993	208,566	800,397	16,730	158,114	2,009,800
Accumulated amortisation and impairment	-	(47,221)	(77,642)	(8,724)	(119,996)	(253,583)
Net book amount	**825,993**	**161,345**	**722,755**	**8,006**	**38,118**	**1,756,217**
At 1 January 2017						
Opening net book amount	825,993	161,345	722,755	8,006	38,118	1,756,217
Foreign exchange differences	17,025	-	3,750	(69)	(15)	20,691
Additions	-	2,173	225	-	19,655	22,053
Transfer from property, plant and equipment	-	-	-	-	989	989
Divestment of subsidiary	-	-	-	-	(1,566)	(1,566)
Amortisation	-	-	(12,593)	(3,139)	(12,283)	(28,015)
Impairment charge	(8,266)	(1,359)	(10,528)	-	-	(20,153)
Closing net book amount	**834,752**	**162,159**	**703,609**	**4,798**	**44,898**	**1,750,216**
At 31 December 2017						
Cost	834,752	210,739	806,247	16,631	164,074	2,032,443
Accumulated amortisation and impairment	-	(48,580)	(102,638)	(11,833)	(119,176)	(282,227)
Net book amount	**834,752**	**162,159**	**703,609**	**4,798**	**44,898**	**1,750,216**

The disclosure on goodwill and intangible assets with indefinite useful lives impairment test and the basis for impairment charge are provided in Note 4 b).

Intangible assets with a net book value of HRK 623,799 thousand as at 31 December 2017 (2016: HRK 639,240 thousand) have been pledged as collateral for borrowings (Note 24).

NOTE 15 – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	2017	2016
	(in thousands of HRK)	
Loans and receivables		
Trade and other receivables	1,209,920	1,261,409
Short-term deposits	252	227
Cash and cash equivalents	497,079	490,730
	1,707,251	1,752,366
Available-for-sale financial assets		
Available-for-sale financial assets	948	915
Derivatives used for hedging		
Derivative financial instruments	-	18,139
Total financial assets	**1,708,199**	**1,771,420**
Total current	1,612,012	1,711,403
Total non-current	96,187	60,017
Other financial liabilities		
Borrowings	1,681,251	2,011,144
Trade and other payables	856,039	1,002,571
	2,537,290	3,013,715
Derivatives used for hedging		
Derivative financial instruments	1,226	-
Financial liabilities at fair value through profit or loss		
Contingent consideration	3,323	7,018
Total financial liabilities	**2,541,839**	**3,020,733**
Total current	1,403,647	1,591,432
Total non-current	1,138,192	1,429,301

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information on counterparty default rates.

As at 31 December 2017, financial assets classified as trade and other receivables and short-term deposits that are not past due amounted to HRK 1,026,282 thousand (2016: HRK 1,051,595 thousand). These receivables relate to existing customers with no defaults in the past.

External credit ratings about counterparty default rates for cash and cash equivalents are as follows:

Credit rating	**2017**	**2016**
	(in thousands of HRK)	
A/Positive (Standard &Poor's)	32,895	29,302
A/Stable/ (Standard &Poor’s)	1,382	1,419
BBB/Positive/ (Standard &Poor’s)	126,501	143,529
BBB/Stable (Standard & Poor's)	159,461	194,963
BB/Positive (Standard & Poor's)	3,381	2,188
BB/Negative (Standard & Poor's)	1,186	5,036
BA2 /Positive (Moody’s)	22,382	-
BA1 /Positive (Moody’s)	137,535	101,900
Petty cash and other banks	12,356	12,393
	497,079	**490,730**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2017	**2016**
	(in thousands of HRK)	
Trade receivables		
Counterparties without external credit rating*		
Group 1	27,236	68,930
Group 2	640,069	710,326
Group 3	219,156	165,551
Total unimpaired trade receivables non past due	**886,461**	**944,807**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2017	2016
	(in thousands of HRK)	
Other receivables		
Counterparties without external credit rating*		
Group 2	77,183	38,366
Total unimpaired other receivables	**77,183**	**38,366**

	2017	2016
	(in thousands of HRK)	
Loans and long-term deposits		
Counterparties without external credit rating*		
Group 1	268	5,163
Group 2	49,629	53,360
Group 3	12,489	9,672
	62,386	**68,195**

	2017	2016
	(in thousands of HRK)	
Short-term deposits		
BBB/Positive/ (Standard &Poor's)	143	105
Group 2	109	122
	252	**227**

***** Counterparties without external credit rating
- Group 1 – new customers/related parties (less than 12 months)
- Group 2 – existing customers/related parties (more than 12 months) with no defaults in the past
- Group 3 – existing customers/related parties (more than 12 months) with some defaults in the past. All defaults were fully recovered.

None of the financial assets that are fully performing has been renegotiated in the last year.

NOTE 17 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

Investments in available-for-sale financial assets relate to unlisted equity instruments and are carried at cost since they do not have a quoted market price and fair value cannot be reliably measured.
During 2017 and 2016, there were no impairment provisions on available-for-sale financial assets.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2017	2016
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	57,641	50,838
Other non-current receivables	37,598	8,264
	95,239	59,102
Current receivables		
Trade receivables /ii/	1,070,351	1,154,848
Loans receivable and deposits /i/	4,997	17,584
Other receivables /iii/	115,694	128,363
	1,191,042	1,300,795
	1,286,281	**1,359,897**

	2017	2016
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	62,638	68,422
Trade receivables	1,070,351	1,154,848
Other receivables	77,183	38,366
	1,210,172	**1,261,636**

/i/ Loans receivable and deposits are as follows:

	2017	2016
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	2,200	2,348
Loans	55,873	57,534
Current portion	(432)	(9,044)
	57,641	50,838
Current receivables		
Loans – related parties (Note 30)	1,764	1,350
Loans	2,549	6,963
Deposits	252	227
Current portion of non-current receivables	432	9,044
	4,997	17,584
	62,638	**68,422**

The fair value of loans and deposits approximates the carrying amounts.

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ Trade receivables are as follows:

	2017	2016
	(in thousands of HRK)	
Gross trade receivables	1,071,603	1,164,789
Trade receivables – related parties (Note 30)	103,300	95,804
Provision for trade receivables	(104,552)	(105,745)
	1,070,351	**1,154,848**

/iii/ Other receivables are as follows:

	2017	2016
	(in thousands of HRK)	
Receivables from government institutions	36,701	44,683
Outstanding advances	6,105	5,078
Prepaid expenses	11,180	12,844
Interest receivable	5,652	200
Receivables from the sale of tea business	-	24,700
Receivables from the sale of subsidiaries	29,793	-
Other receivables – related parties (Note 30)	25	1,168
Other	26,238	39,690
	115,694	**128,363**

Due to uncertainty in collection, other receivables of HRK 6,832 thousand were impaired (2016: HRK 588 thousand), (Note 8).

/iv/ Accrued interest up to the balance sheet date is recorded within other income.

As of 31 December 2017, trade receivables in the amount of HRK 104,552 thousand (2016: HRK 105,745 thousand) were impaired and provided for. The individually impaired receivables relate to customers that are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2017	2016
	(in thousands of HRK)	
Up to 3 months	4,287	4,584
3 to 6 months	1,853	6,828
Over 6 months	98,412	94,333
	104,552	**105,745**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2017, trade receivables in the amount of HRK 183,890 thousand (2016: HRK 210,041 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2017	2016
	(in thousands of HRK)	
Up to 3 months	124,012	173,526
3 to 6 months	10,552	32,644
Over 6 months	49,326	3,871
	183,890	**210,041**

The carrying amounts of the Group's financial assets are denominated in the following currencies:

	2017	2016
	(in thousands of HRK)	
EUR	371,212	420,754
HRK	410,896	386,968
RSD	318,722	344,634
Other	109,342	109,280
	1,210,172	**1,261,636**

Movements on the provision for impairment of trade receivables are as follows:

	2017	2016
	(in thousands of HRK)	
As at 1 January	105,745	96,748
Provision for receivables impairment (Note 8)	24,186	21,290
Collected amounts reversed (Note 8)	(9,673)	(3,845)
Receivables written off	(8,788)	(7,906)
Divestment of subsidiary	(5,936)	-
Exchange differences	(982)	(542)
As at 31 December	**104,552**	**105,745**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

NOTE 19 – INVENTORIES

	2017	2016
	(in thousands of HRK)	
Raw materials and supplies	132,875	169,559
Work in progress	18,666	22,008
Finished goods	205,287	234,376
Trade goods	190,450	197,375
	547,278	**623,318**

As of 31 December 2017, inventories of HRK 25,831 thousand (2016: HRK 27,851 thousand) were impaired and fully provided for, due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2017	2016
	(in thousands of HRK)	
Current account and cash on hand	136,718	139,909
Foreign currency account	290,547	326,290
Deposits up to three months /i/	69,814	24,531
	497,079	**490,730**

/i/ Accrued interest up to the balance sheet date is recorded within other income.

Cash and cash equivalents are denominated in the following currencies:

	2017	2016
	(in thousands of HRK)	
EUR	223,819	233,917
HRK	135,635	134,140
RSD	99,249	85,909
Other	38,376	36,764
	497,079	**490,730**

NOTE 21 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of shares	Share capital	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2016	**3,334,073**	**133,372**	**881,515**	**(198)**	**1,014,689**
Purchase of treasury shares	(1,300)	-	-	(1,076)	(1,076)
Share based payments	1,422	-	(26)	1,186	1,160
31 December 2016	**3,334,195**	**133,372**	**881,489**	**(88)**	**1,014,773**
Purchase of treasury shares	(8,583)	-	-	(7,431)	(7,431)
Share based payments	6,939	-	(400)	6,005	5,605
31 December 2017	**3,332,551**	**133,372**	**881,089**	**(1,514)**	**1,012,947**

All shares issued are ordinary shares, including all relevant rights. All shares have the right to vote at the Company's General Assembly, as well as the right to dividend payment.

The founder and majority owner of the Company is Mr Emil Tedeschi, President of the Management Board and Chief Executive Officer. Mr Tedeschi is the ultimate controlling party of the Group.

The ownership structure of the Company is as follows:

	31 December 2017		31 December 2016	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	322,729	9.68	322,729	9.68
AZ Obligatory pension fund	286,946	8.61	286,372	8.59
Erste Plavi Obligatory pension fund	202,328	6.07	202,328	6.07
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	38,860	1.16	38,753	1.16
Other shareholders	614,713	18.44	617,038	18.51
Treasury shares	1,749	0.05	105	0.00
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

Dividend distribution

According to the decision of the Company's General Assembly from 29 June 2017, the distribution of dividend in the amount of HRK 13.50 per share, or HRK 44,984 thousand in total was approved. Dividend was paid in July 2017.

In 2016 the distribution of dividend in the amount of HRK 13.50 per share, or HRK 45,012 thousand in total was approved. Dividend was paid in July 2016.

NOTE 21 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES (continued)

Share based payments

According to the Company's share award programme, shares are granted to Management Board members and to the top management.

One part of the share grant is subject to the Group achieving its operating profit target growth and subject to individual performance achievements. The other part is conditional on the employee completing two or more years of service (the vesting period). Furthermore, part of the programme is designated for the extraordinary performance on special projects.

Under the programme, 3,366 new shares have been granted in 2017 (2016: 4,294 shares) relating to the achievement of operating profit target growth, individual performance achievements and completing of necessary period of service.

The fair value of equity-settled share based payment transactions amounted to HRK 4,860 thousand (2016: HRK 5,791 thousand). Of that amount, HRK 4,125 thousand (2016: HRK 4,995 thousand) has been reported as staff costs (Note 6), relating to 3,017 shares for which vesting conditions were met in 2017 (2016: 3,818 shares) and HRK 735 thousand was deferred, relating to shares for which vesting conditions should be met in the next two years (349 shares, 2016: HRK 796 thousand, 476 shares).

The fair value of the shares granted is determined as of the grant date at the estimated market price of the share of HRK 979.94 (2016: HRK 937.89).

In 2017 Management Board members and top management have received 6,939 shares out of which 6,535 shares was related to shares granted in 2016 and 404 shares related to shares granted in 2015. In 2016 Management Board members and the top management have received 1,422 shares relating to shares granted in 2015.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves /i/**	**Translation reserves /ii/**	**Cash flow hedge reserve /ii/**	**Total**
At 1 January 2016	**9,165**	**(37,745)**	**2,316**	**(26,264)**
Foreign exchange differences	-	(47,565)	-	(47,565)
Transfer to retained earnings	(15,835)	-	-	(15,835)
Cash flow hedge	-	-	8,700	8,700
At 31 December 2016	**(6,670)**	**(85,310)**	**11,016**	**(80,964)**
Foreign exchange differences	-	21,424	-	21,424
Transfer from retained earnings	22,578	-	-	22,578
Cash flow hedge	-	-	(15,466)	(15,466)
At 31 December 2017	**15,908**	**(63,886)**	**(4,450)**	**(52,428)**

/i/ Reserves mainly comprise statutory reserves recorded in accordance with the Company's Articles of Association. These reserves are distributable.

/ii/ Movements represent amounts attributable to the owners of the Company only.

Components of Other comprehensive income:

	2017	**2016**
	(in thousands of HRK)	
Cash flow hedges:		
Currency forward contracts		
Reclassification during the year to profit or loss	(15,237)	(8,585)
Net gain/(loss) during the year (except not-yet matured contracts)	1,297	(553)
Net gain/(loss) during the year of not-yet matured contracts	(1,526)	12,902
Interest rate swaps		
Reclassification during the year to profit or loss	-	4,936
	(15,466)	**8,700**

NOTE 23 – TRADE AND OTHER PAYABLES

	2017	2016
	(in thousands of HRK)	
Trade payables	688,182	794,021
Trade payables – related parties (Note 30)	2,246	3,906
Other payables	212,716	276,069
	903,144	**1,073,996**

Other payables recorded as at 31 December are as follows:

	2017	2016
	(in thousands of HRK)	
Gross salaries payable	51,128	49,155
Liabilities to state institutions	(5,058)	21,559
Accrued expenses	107,890	101,038
Vacation accrual	17,340	17,887
Liabilities to related parties in relation to borrowings (Note 30)	14,629	44,954
Termination benefits payable	713	390
Deferred income	5,160	7,288
Dividend payable	227	185
Other	20,687	33,613
	212,716	**276,069**

Financial liabilities are denominated in the following currencies:

	2017	2016
	(in thousands of HRK)	
EUR	385,359	391,923
HRK	289,531	396,068
RSD	110,166	127,084
Other	71,305	87,818
	856,361	**1,002,893**

NOTE 24 – BORROWINGS

	2017	2016
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /i/	935,481	1,223,031
Bonds /ii/	199,710	199,574
Long-term debt	**1,135,191**	**1,422,605**
Short-term borrowings:		
Financial institutions /i/	545,936	588,415
Bonds /ii/	124	124
	546,060	**588,539**
	1,681,251	**2,011,144**

/i/ The loan package of EUR 307 million was granted in November 2012 by the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), Raiffeisenbank Austria Zagreb and Zagrebačka banka. The arrangement was structured as such that the EBRD arranged a loan of EUR 232 million, the IFC participated in the package with a loan of EUR 50 million, while the remaining EUR 25 million were ensured by local commercial banks. The funds from the contracted package were primarily used for restructuring of the Group's balance sheet (EUR 272 million), an additional uncommitted energy efficiency line (EUR 10 million, out of which EUR 5 million was used in 2014) and a working capital line (EUR 25 million).

In April 2016, the Group signed agreements with the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) related to the total credit package outstanding (EUR 191.5 million) and defined more favourable financial terms and prolonged the maturity of loans by two years, until 2021.

As at 31 December 2017, EUR 17.8 million of the committed line was unused (31 December 2016: EUR 4.8 million).

/ii/ In June 2016, Atlantic Grupa issued corporate Bonds in the amount of HRK 200 million at the price of 99.954% with a coupon of 3.125% per annum with semi-annual payment of interest and final redemption on 17 June 2021. The purpose of these Bonds is financing working capital and refinance of bonds issued in September 2011 which matured on 20 September 2016.

Borrowings from financial institutions are secured by pledges over property, plant and equipment (Note 13), intangible assets (Note 14) and shares of subsidiaries (Atlantic Trade d.o.o. Zagreb, Droga Kolinska d.d., Grand Prom d.o.o. Serbia and Soko Štark d.o.o.). Furthermore, issued bonds and part of borrowings from financial institutions are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators such as total net debt cover, interest cover, cash flow cover and maximum capital expenditures. At the balance sheet date, all covenant clauses were met.

NOTE 24 – BORROWINGS (continued)

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates at the balance sheet date are as follows:

	2017	2016
	(in thousands of HRK)	
Fixed interest rate	211,686	219,211
Up to 3 months	806,432	1,074,305
3 to 6 months	663,133	717,628
	1,681,251	**2,011,144**

The maturity of long-term borrowings is as follows:

	2017	2016
	(in thousands of HRK)	
Between 1 and 2 years	267,962	244,142
Between 2 and 5 years	867,229	1,178,463
	1,135,191	**1,422,605**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 2.26% (2016: 2.53%). The effective annual interest rate related to bonds at the balance sheet date was 3.19% (2016: 4.84%).

The carrying amounts and fair value of long-term borrowings as at 31 December 2017 were as follows:

	Carrying amounts	Fair value
	(in thousands of HRK)	
Long-term borrowings		
Financial institutions	935,481	935,481
Bonds	199,710	201,432
	1,135,191	**1,136,913**

The fair values of borrowings from banks and financial institutions were based on cash flows discounted using a rate of 2.26% (2016: 2.53%).

The fair value of long-term borrowings as at 31 December 2016 approximated the carrying amounts.

The carrying value of borrowings and bonds is translated from the following currencies:

	2017	2016
	(in thousands of HRK)	
HRK	432,027	482,792
EUR	1,239,417	1,518,783
USD	8,609	9,464
Other	1,198	105
	1,681,251	**2,011,144**

NOTE 25 – DEFERRED TAX

	2017	2016
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	19,222	32,227
- Deferred tax assets to be recovered within 12 months	12,943	15,066
	32,165	47,293
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(159,869)	(167,248)
- Deferred tax liabilities to be recovered within 12 months	(2,783)	(4,563)
	(162,652)	(171,811)
Deferred tax liabilities - net	**(130,487)**	**(124,518)**

Deferred tax assets are recognized for tax loss carry forwards and tax credits to the extent that realization of the related tax benefit through future taxable profits of the related Group entities is probable.

The Group did not recognize deferred tax assets of HRK 50,638 thousand (2016: HRK 62,875 thousand) in respect of losses that arose in its subsidiaries that can be carried forward against future taxable income. Deferred tax assets have not been recognized in respect of these losses as it is not probable that future taxable profit will be available for utilization of the temporary differences. Losses amounting to HRK 130,205 thousand (2016: HRK 252,142 thousand) expire over the next five years, while the losses in the amount of HRK 96,277 thousand (2016: HRK 60,727 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	Tax losses	Provisions	Other	Total
At 1 January 2016	**6,169**	**7,706**	**23,191**	**37,066**
(Charged)/credited to the income statement (Note 11)	8,715	483	347	9,545
(Charged)/credited to other comprehensive income	-	96	(593)	(497)
Exchange differences	948	(63)	294	1,179
At 31 December 2016	**15,832**	**8,222**	**23,239**	**47,293**
(Charged)/credited to the income statement (Note 11)	(13,376)	3,586	(4,825)	(14,615)
(Charged)/credited to other comprehensive income	-	(274)	327	53
Divestment of subsidiary	-	(81)	(162)	(243)
Exchange differences	(63)	84	(344)	(323)
At 31 December 2017	**2,393**	**11,537**	**18,235**	**32,165**

NOTE 25 – DEFERRED TAX (continued)

Deferred tax liabilities

(in thousands of HRK)	**Fair value gains**	**Fair value uplifts of assets acquired in business combinations**	**Other**	**Total**
At 1 January 2016	**2,171**	**172,532**	**1,974**	**176,677**
Charged/(credited) to the income statement (Note 11)	-	(418)	(1,089)	(1,507)
Charged/(credited) to other comprehensive income	1,196	-	-	1,196
Effect of tax rate change	-	(3,524)	-	(3,524)
Acquisition of subsidiary	-	768	-	768
Exchange differences	(19)	(1,713)	(67)	(1,799)
At 31 December 2016	**3,348**	**167,645**	**818**	**171,811**
Charged/(credited) to the income statement (Note 11)	-	(5,778)	(83)	(5,861)
Charged/(credited) to other comprehensive income	(3,341)	-	-	(3,341)
Divestment of subsidiary	-	(250)	250	-
Exchange differences	(7)	3	47	43
At 31 December 2017	**-**	**161,620**	**1,032**	**162,652**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal proceedings**	**Warranties**	**Other provisions**	**Total**
At 31 December 2016	71,117	31,544	1,242	2,594	106,497
Analysis of total provisions:					
Non-current	33,982	22,598	-	1,456	58,036
Current	37,135	8,946	1,242	1,138	48,461
At 1 January 2017	**71,117**	**31,544**	**1,242**	**2,594**	**106,497**
Additions	45,741	1,705	30	19	47,495
Used during year	(32,504)	(250)	-	(3)	(32,757)
Divestment of subsidiary	(1,622)	-	(470)	(829)	(2,921)
Unused amounts reversed	(4,757)	(10,128)	-	-	(14,885)
Interest expense	261	-	-	-	261
Exchange differences	327	(85)	(5)	(1)	236
At 31 December 2017	**78,563**	**22,786**	**797**	**1,780**	**103,926**
Analysis of total provisions:					
Non-current	35,291	13,805	-	1,360	50,456
Current	43,272	8,981	797	420	53,470

NOTE 26 – PROVISIONS (continued)

Legal proceedings

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

Employee benefits

This provision comprises estimated long-term employee benefits relating to one-off retirement benefits and jubilee awards, as defined by the collective bargaining agreement and bonuses to employees. The non-current portion of the provision relates to estimated acquired rights to termination benefits and jubilee awards that will be paid after 31 December 2018. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 2,710 thousand that will be paid out within the following year from the balance sheet date.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2017 but not yet incurred amounted to HRK 15,189 thousand (2016: HRK 14,867 thousand) for property, plant and equipment and HRK 2,397 thousand for intangible assets (2016: HRK 1,058 thousand).

The Group leases various outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between three and ten years and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various property, plant and equipment under cancellable operating lease agreements. The Group is required to give three to six months' notice for the termination of these agreements.

The lease rentals charged to the income statement during the year is disclosed in Note 8.

The future aggregate minimum lease payments under non-cancellable operating leases for equipment, vehicles and business premises are as follows:

	2017	**2016**
	(in thousands of HRK)	
Not later than 1 year	49,152	47,091
Later than 1 year and not later than 5 years	113,463	105,794
Over 5 years	4,682	1,721
	167,297	**154,606**

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES

/i/ In an effort to restructure and simplify its Sports and Functional Food business and focus on its core brands, Atlantic Grupa has decided to sell its production facilities in Germany (Bleckede) and Croatia (Nova Gradiška) as well as private label business to a Belgium based company Aminolabs Group, while the strategic brands Multipower, Champ and Multaben are spinned off in a special business unit and remain in full ownership of Atlantic.
The transaction and the payoff of part of the sales price were realised on October 31st 2017, while the rest will be paid in full in the next two years. The gain that Group realized from this transaction amounts HRK 64,868 thousands.

Cash received and receivables from sale of subsidiaries *(in thousands of HRK)*	
Cash	150,031
Receivables	59,587
Total sales consideration	**209,618**
Carrying value of net asset disposed	(142,749)
Transaction costs	(2,001)
Gain from sale of subsidiaries	**64,868**

Carrying value of net asset disposed as at 31 October 2017 *(in thousands of HRK)*	
Property, plant and equipment	81,542
Intangible assets	1,566
Deferred tax assets	243
Inventories	64,456
Trade and other receivables	57,901
Cash and cash equivalents	20,689
Provisions	(2,921)
Trade and other payables	(80,727)
	142,749

Cash flow from sale of subsidiaries *(in thousands of HRK)*	
Cash received	150,031
Cash in subsidiaries sold	(20,689)
Proceeds from sale of subsidiaries – net of cash disposed	**129,342**

Additionally, as part of the sales agreement, a contingent consideration has been agreed and Group may earn additional gain from sale of up to HRK 36,065 thousand (EUR 4,800 thousand) if certain profit targets are achieved in following two years.

Disposed subsidiaries contributed HRK 184,797 thousand of revenues and HRK 14,922 thousand of gain to the Group in period from 1 January to 31 October 2017.

/ii/ In 2017 the amount of HRK 2,207 thousand was paid to previous owner of Foodland d.o.o. based on achieving sales targets stated in acquisition agreement (2016: HRK 1,122 thousand). The remaining surplus amount of contingent consideration of HRK 1,194 thousand was written off to other gains-net.

NOTE 28 – BUSINESS COMBINATIONS (continued)

/iii/ During the year ended 31 December 2017, the Group has paid an additional amount of HRK 1,906 thousand (2016: HRK 8,438 thousand) to the non-controlling interest of the subsidiary Soko Štark d.o.o. in accordance with the resolution of the Supreme Cassation Court in Belgrade. The nominal value of HRK 1,126 thousand (2016: HRK 4,778 thousand) was recorded as a transaction with the non-controlling interest within equity attributable to the owners, while the rest of the amount, that related to penalty interest and, in 2016 to court expenses, was charged to the income statement.

/iv/ In March 2016, the Group acquired 100% interest and obtained control over the company Nalet Medicus d.o.o., Zagreb, Croatia. Upon acquisition, the acquired company was merged to the subsidiary Farmacia - specijalizirana prodavaonica d.o.o..

The fair value of the identifiable assets and liabilities as at the date of acquisition were:

(in thousands of HRK)	Fair value recognised on acquisition
Licences (Note 14)	3,841
Deferred tax liability (Note 25)	(768)
Total identifiable net assets acquired	**3,073**
Add: goodwill (Note 14)	768
Net assets acquired	**3,841**

Purchase consideration:

(in thousands of HRK)	
Contingent consideration	3,841
Cash paid	-
Net cash flow on acquisition	**3,841**

There would have been no effect on the consolidated financial statements had the acquisition taken place at the beginning of 2016, since the company acquired had no operations and was acquired solely for the purpose of obtaining the licence to open the specialized shop.

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2017	2016
Net profit		**276,224**	**163,235**
Income tax	11	80,685	40,910
Depreciation, amortisation and impairment	13, 13a, 14, 2.24	175,758	166,580
Gain on sale of property, plant and equipment	9	(1,712)	(764)
Gain on sale of available-for-sale financial assets	9	(434)	-
Gain on sale of subsidiary, net of transaction expenses	9	(64,868)	-
Provision for current assets		56,849	49,730
Foreign exchange differences - net		(12,256)	(16,051)
Decrease in provision for risks and charges	26	(976)	(264)
Fair value losses/ (gains) on financial assets	9	1,085	(12,124)
Share based payment	21	5,605	1,160
Interest income		(4,916)	(4,188)
Interest expense	10	73,117	123,261
Other non-cash items, net		(2,452)	1,454
Changes in working capital:			
Increase in inventories		(14,247)	(47,678)
Decrease/ (Increase) in current receivables		23,601	(111,668)
(Decrease)/Increase in current payables		(85,987)	74,559
Cash generated from operations		**505,076**	**428,152**

NOTE 30 – RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties – significant shareholders and entities owned or controlled by the ultimate controlling party ('other entities').

Related party transactions that relate to balances as at 31 December 2017 and as at 31 December 2016 and transactions recognized for the years then ended, are as follows:

(all amounts expressed in thousands of HRK)	**Note**	**2017**	**2016**
RECEIVABLES			
Current receivables			
Other entities	18	105,089	98,322
LIABILITIES			
Trade and other payables			
Shareholders	23	14,629	44,954
Other entities	23	2,246	3,906
		16,875	48,860
REVENUES			
Sales revenues			
Other entities		494,620	471,724
Other revenues			
Other entities		1,296	733
EXPENSES			
Marketing and promotion costs	7		
Other entities		16,785	13,020
Other operating costs	8		
Other entities		2,220	2,393
Finance cost - net	10		
Shareholders		14,629	44,954
Purchases of property, plant and equipment			
Other entities		-	140

Management board compensation

In 2017 members of the Management Board received total gross amount of HRK 18,813 thousand relating to salaries, bonuses and Supervisory board compensation in respect of operating companies (2016: HRK 17,778 thousand).

NOTE 31 – AUDITORS' FEES

Statutory audit services fees to the auditor of the Group's financial statements amounted to HRK 2,238 thousand (2016: HRK 2,737 thousand), while fees related to other services amounted to HRK 135 thousand (2016: 1,726 thousand). Other services relate to consultancy services, education trainings and agreed upon procedures in relation to financial covenants calculation.

NOTE 32 – SUBSIDIARIES

The Group is comprised of the Company and the following subsidiaries in which the Company has an ownership interest above 50% and exercises control:

	2017	2016
Cedevita d.o.o., Croatia	100%	100%
Neva d.o.o., Croatia	100%	100%
Atlantic Trade d.o.o., Croatia	100%	100%
- Droga Kolinska d.d.,Slovenia	100%	100%
- Soko Štark d.o.o., Serbia	100%	100%
- Foodland d.o.o., Serbia	100%	100%
- Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- o.o.o. Atlantic Brands, Russia	100%	100%
- Grand Prom d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Grand Prom d.o.o., Bosnia and Herzegovina	100%	100%
- Droga Kolinska d.o.o.e.l., Macedonia	100%	100%
- Atlantic Brands d.o.o., Serbia	100%	100%
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., Macedonia	75%	75%
- Bionatura bidon vode d.o.o., Croatia	100%	100%
- Atlantic Multipower d.o.o., Croatia (disposed in 2017)	-	100%
Fidifarm d.o.o., Croatia	100%	100%
- Atlantic Pharmacentar d.o.o., Croatia	100%	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	100%
Montana Plus d.o.o., Croatia	100%	100%
Hopen Investments, BV, Netherlands	100%	100%
- Tripoint GmbH, (former AKTIVKOST Handelsgesellschaft mbH), Germany	100%	100%
- Atlantic Multipower Iberica, Spain (liquidation proceedings)	100%	100%
- Atlantic Management GmbH, Germany	100%	100%
- Atlantic Multipower GmbH & CO OHG, Germany (disposed in 2017)	-	100%
Atlantic Multipower UK Ltd, Great Britain (liquidation proceedings)	100%	100%
- Sport Direct Ltd, Great Britain (liquidation proceedings)	100%	100%
Atlantic Multipower Srl, Italy	100%	100%
Atlantic Brands GmbH, Germany	100%	100%
Atlantic Brands GmbH, Austria	100%	100%

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