ATLANTIC GRUPA
ANNUAL REPORT
2016

BEVERAGES

- Cedevita
- Cockta
- Donat Mg
- Kala

COFFEE

- barcaffé
- grand kafa
- Bonito prava kafa

SNACKS

- Najlepše želje
- Smoki
- Bananica
- Integrino
- Chipsos

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

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SUMMARY OF KEY FINANCIAL INDICATORS

(in HRK millions)	2016	2015	2016/2015
REVENUES	**5,174.5**	5,451.0	**-5.1%**
SALES	**5,106.3**	5,405.3	**-5.5%**
EBITDA	**474.4**	567.3	**-16.4%**
EBITDA MARGIN	**9.3%**	10.5%	**-11.5%**
EBIT	**307.8**	404.0	**-23.8%**
EBIT MARGIN	**6.0%**	7.5%	**-19.3%**
NET PROFIT	**163.2**	242.5	**-32.7%**
NET PROFIT MARGIN	**3.2%**	4.5%	**-28.8%**
NET DEBT	**1,502.0**	1,678.1	**-10.5%**
NET DEBT/EBITDA	**3.2**	3.0	**7.0%**
CASH FLOW FROM OPERATING ACTIVITIES	**267.9**	470.7	**-43.1%**
CAPITAL EXPENDITURE	**116.0**	115.5	**0.4%**
MARKET CAPITALIZATION AS AT 31 DEC	**2,940.9**	2,777.1	**5.9%**
EV	**4,445.9**	4,457.7	**-0.3%**
EPS (IN HRK)	**48.8**	72.7	**-32.8%**
PPS AS AT 31 DEC (IN HRK)	**882.0**	832.9	**5.9%**
DPS (IN HRK)	**13.5**	12.0	**12.5%**

LETTER OF PRESIDENT OF THE MANAGEMENT BOARD TO SHAREHOLDERS

EMIL TEDESCHI

PRESIDENT OF THE MANAGEMENT BOARD OF ATLANTIC GRUPA

ATLANTIC GRUPA in 2016 continued its announced strategy of intensive internationalisation of operations, investing in brands that were, according to their potential, defined as the forerunners in this strategy (Bakina Tajna (Granny's Secret), Argeta, Donat Mg, Multipower, Cedevita) as well as investing in the development of own distribution capacities and strengthening distribution partnerships, primarily in West and East European countries. In the domicile region of South-East Europe, we have continued the intensive and successful development of our own portfolio and expansion of distribution activities through organic growth and new distribution partnerships.

Among key business developments in 2016, we should point out the establishment of our own distribution companies in Germany and Austria, expansion of the distribution portfolio in the wider regional market and continuation of restructuring the business unit Sports and Functional Food. Despite many challenges in the business environment, particularly in Eastern markets where we operate, we are continuously successful in generating progress. In addition to the strong support of our own distribution system and cooperation with renowned distribution partners in the markets where we do not have own companies, smooth implementation of internationalisation as the dominant strategic direction is also facilitated by highly efficient production capacity allocation.

As a responsible company, we have realised the announced results for 36 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 and developing capacities. At the same time, the company is continually dedicated to risk management, liquidity maintenance and debt management. Therefore, the awards that the company received in the last year are not surprising: In 2016, Atlantic won the award for the best corporate governance in Croatia as well as the award for transparent relations with investors not only by the Zagreb Stock Exchange on which the company's share is listed, but also by the neighbouring Belgrade Stock Exchange. We were also recognised as the best employer in Slovenia in the category of large enterprises which, together with special awards the company received in the last three years as an employer, signifies the quality of integration processes after the acquisition of Droga Kolinska in 2010. Finally, we should mention that last year we have celebrated 25 years since the company's formation, so I will use this opportunity to thank everyone whose contribution has left a permanent mark on the development of Atlantic Grupa.


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 that culminated with the company's largest acquisition ever – acquisition of Droga Kolinska in 2010.

Today, Atlantic Grupa is a company with: (i) HRK 5.1 billion in sales revenues, (ii) modern production network (in Croatia, Slovenia, Germany, 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 83.3% of total sales, while 16.7% 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 allocated to two main zones: Zone East and Zone West. Such an organisation model was further adjusted in 2015 and 2016, and today it allows the company to efficiently manage its sales and distribution operations on all its markets.

Atlantic Grupa stands out today as 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 (Granny's Secret) 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 as well as the leading pharmacy chain in Croatia under Farmacia brand. Furthermore, Atlantic Grupa manufactures and distributes the leading European brand in the 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, Macedonia, Austria and Germany, 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, 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 (Granny's Secret) 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 the newly established distribution region Zone West.

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 Bosnia & Herzegovina

1998 Launch of Montana, the first Croatian ready-made sandwich for broad distribution

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 in Nova Gradiška

2016 Establishing distribution companies in Austria and Germany

REPRESENTATIVE OFFICES AND COMPANIES IN

12

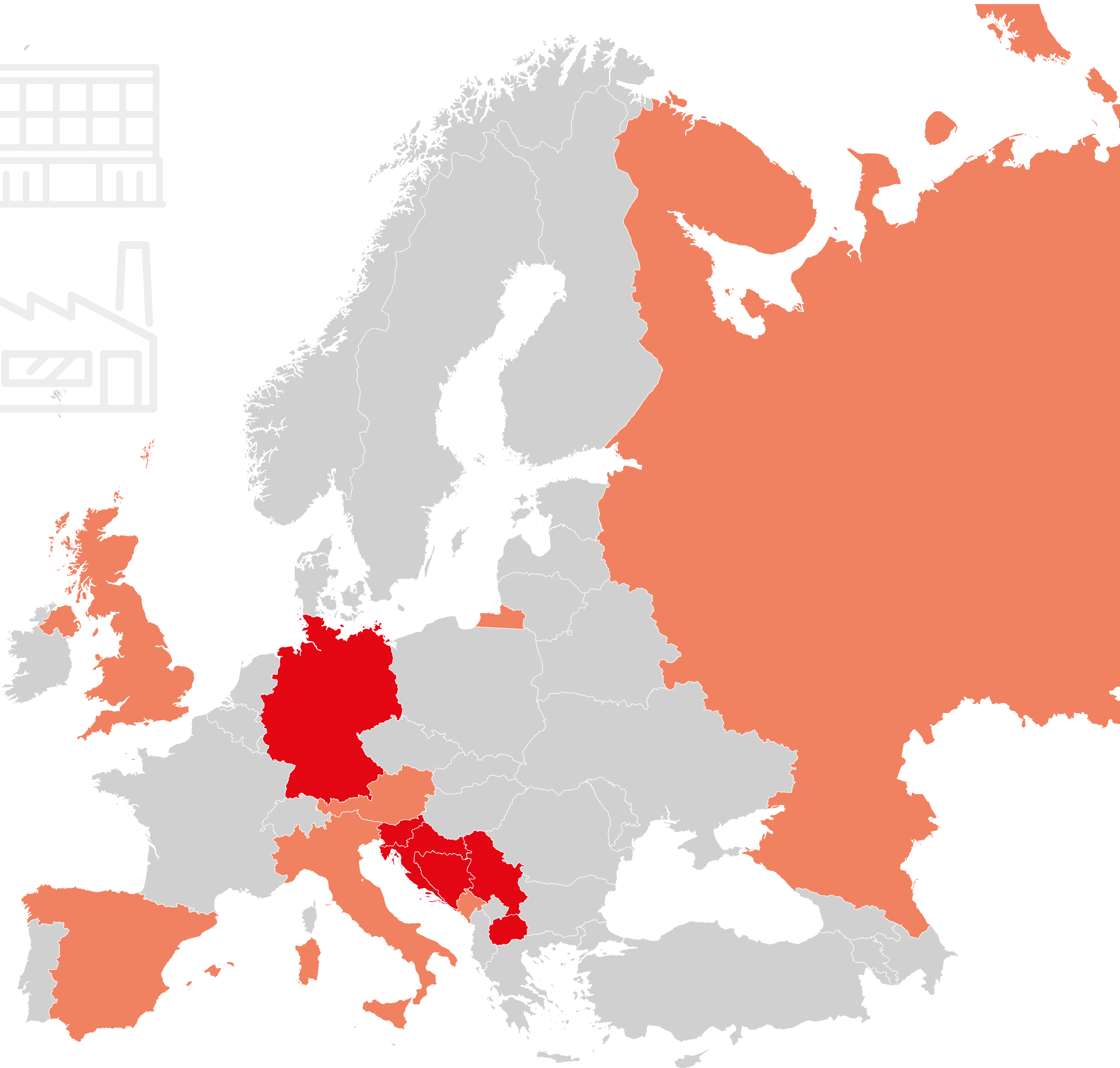
COUNTRIES

OFFICE + FACTORY

Croatia
Bosnia & Herzegovina
Germany
Macedonia
Serbia
Slovenia

OFFICE

Austria
Great Britain
Italy
Montenegro
Russia
Spain



ORGANISATIONAL STRUCTURE

The business organisation of Atlantic Grupa comprises two basic segments:

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

Business operations of Atlantic Grupa in 2016 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 2016 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 & Baltic, and the Zone West covers Central and South-West Europe, the Nordic countries and all overseas markets.

SBU STRATEGIC BUSINESS UNIT, **BU** BUSINESS UNIT, **SDU** STRATEGIC DISTRIBUTION UNIT, **DU** DISTRIBUTION UNIT, **SDR** STRATEGIC DISTRIBUTION REGION, **PDR** PARTNER DISTRIBUTION REGION, **DR** DISTRIBUTION REGION, **DACH** GERMANY, AUSTRIA, SWITZERLAND

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

BU BABY FOOD

DISTRIBUTION UNITS

ZONE EAST

SDU CROATIA

SDU SERBIA

DU SLOVENIA

DU MACEDONIA

SDR HORECA

SDR CIS & BALTIC

PDR KOSOVO, BULGARIA, ROMANIA

ZONE WEST

SDR DACH & BENELUX

DR MEDITERRANEAN & AFRICA

DR NORTHWEST EUROPE & AUSTRALIA

PDR CENTRAL EUROPE AND OVERSEAS

ORGANISATIONAL STRUCTURE

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 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: **Human Resources, Corporate Communications, Legal Affairs, Investments and Asset Management**, and **Corporate Security**.

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

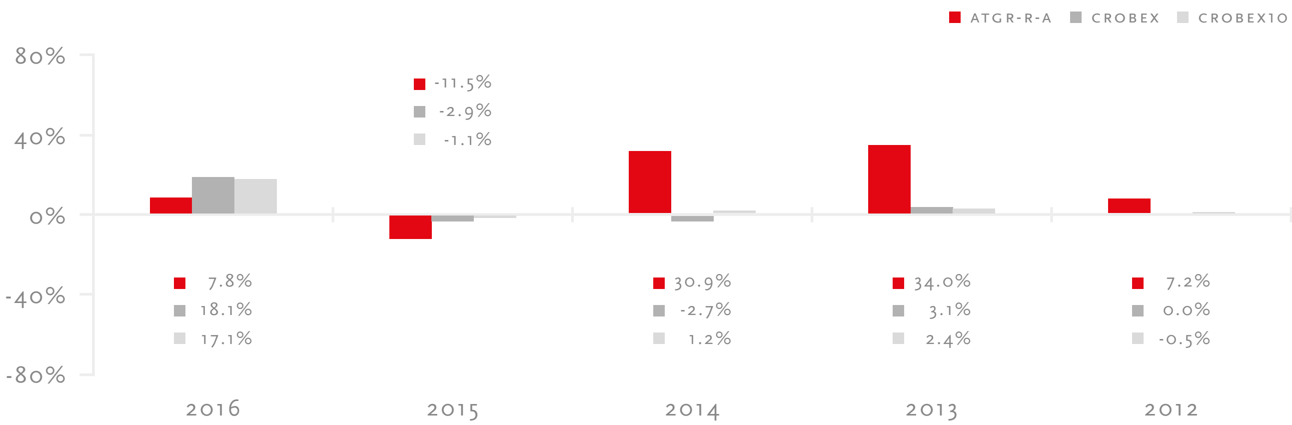
The organisational structure includes the **Department for Business Development, Strategy and Information Technology** responsible for providing support to the Company's Management Board in the segment of identifying strategic initiatives, implementing the long-term development strategy and business development activities with a focus on M&A and strategic partnerships, and 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.

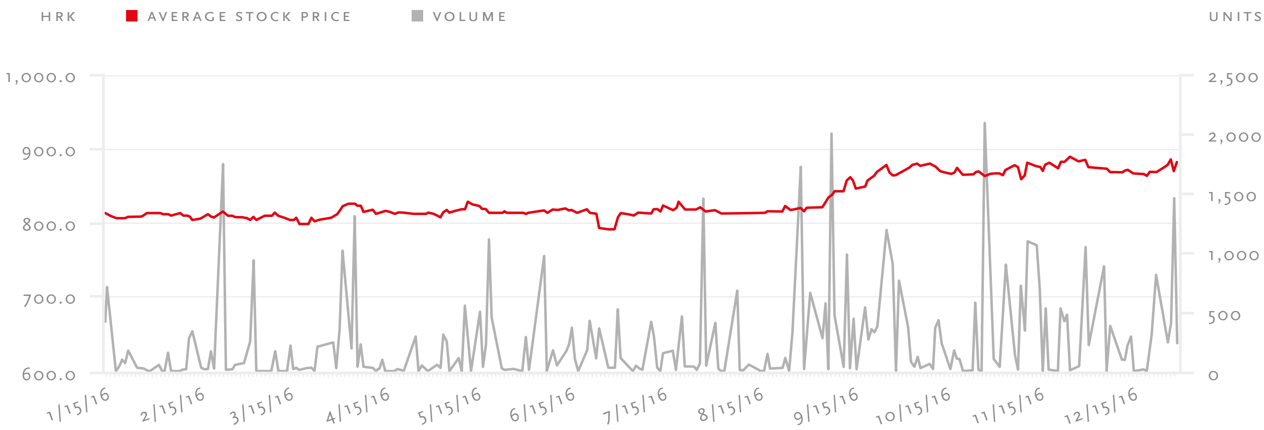
On the Zagreb Stock Exchange in 2016 the CROBEX stock index rose 18.1%, while the CROBEX10 rose 17.1%. The Atlantic Grupa's share recorded a growth of 7.8%.

STOCK MARKET PERFORMANCE

The average price of an Atlantic Grupa's share in 2016 was HRK 832.5, while the average daily turnover amounted to HRK 717.8 thousand. With the average market capitalisation of HRK 3,783.0 million, Atlantic Grupa holds fourth place among the components of the CROBEX10 stock index. Also, according to the total turnover in 2016, the Atlantic Grupa's share holds ninth place compared to all the shares quoted on the Zagreb Stock Exchange.

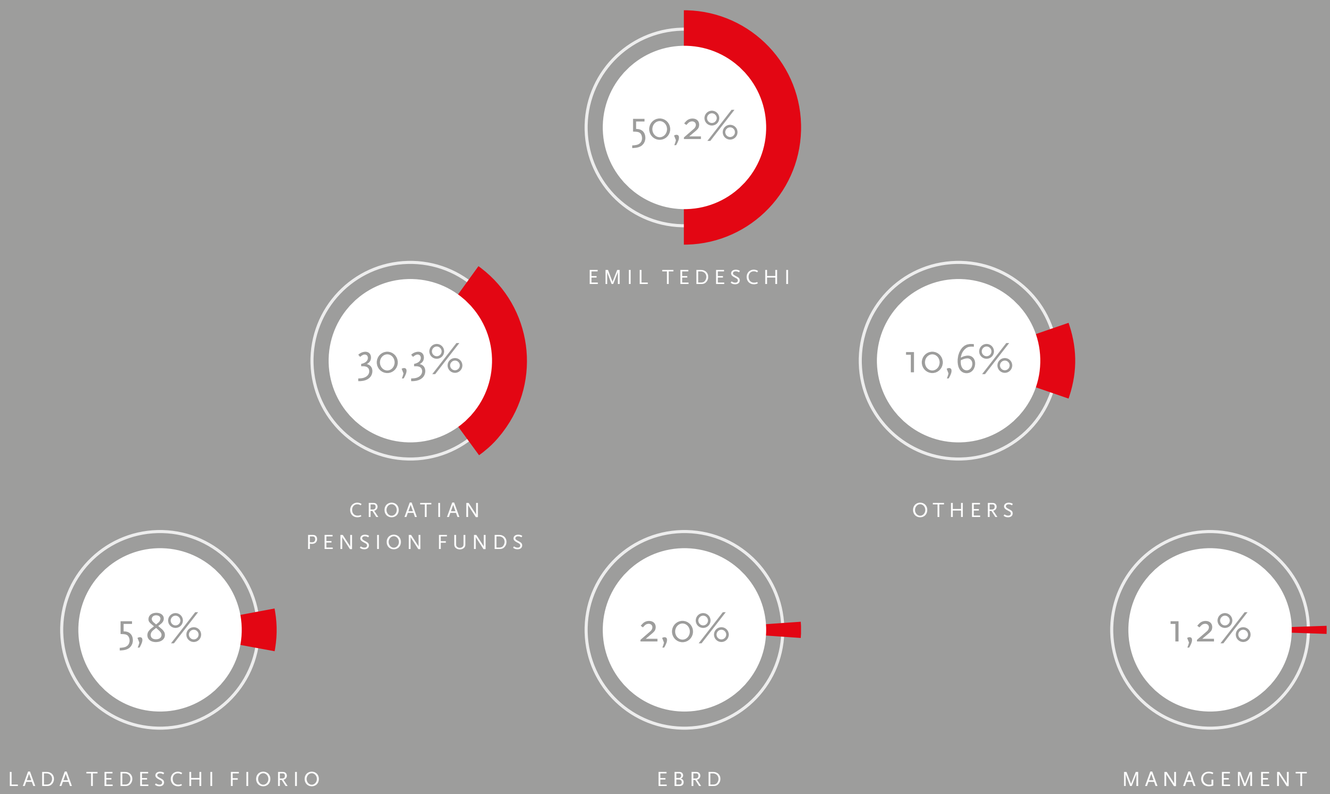


MOVEMENTS IN THE AVERAGE PRICE AND VOLUME OF THE ATLANTIC GRUPA'S SHARE IN 2016

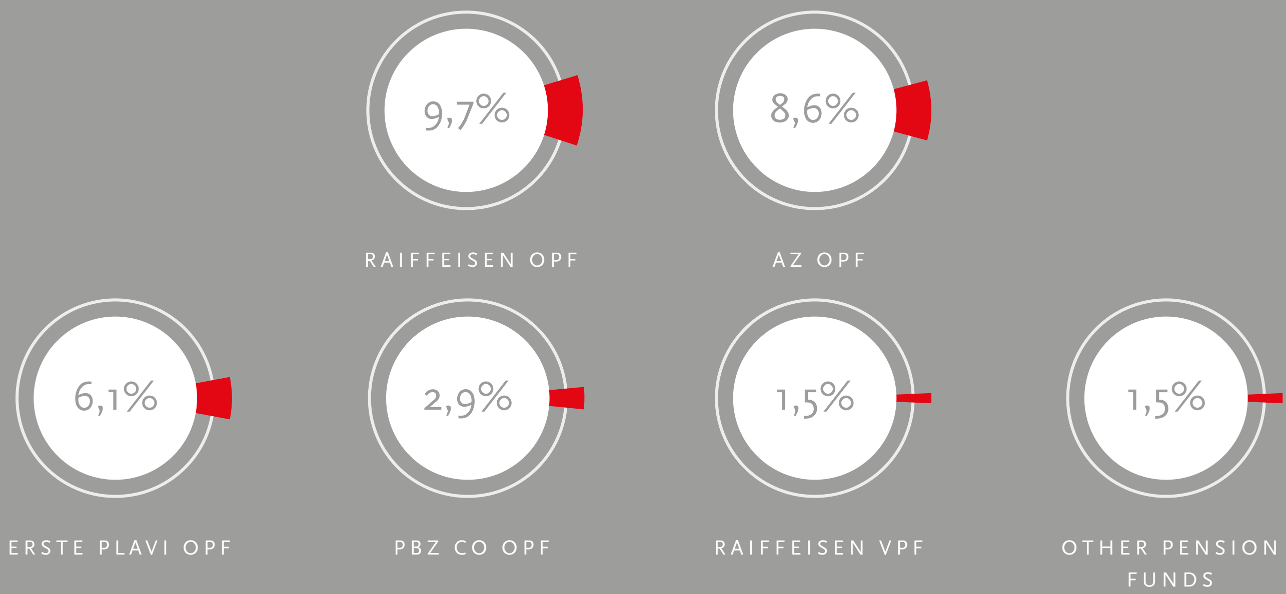


OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2016

Atlantic Grupa has a stable ownership structure: 50.2% of the company is owned by Emil Tedeschi and 5.8% by Lada Tedeschi Fiorio, while 30.3% of Atlantic Grupa is owned by pension funds. At the end of 2016, the free-float was 44.0% which put the Atlantic Grupa's share in ninth place according to the free float market capitalisation of HRK 1.294 million.



SHARE OF THE CROATIAN PENSION FUNDS



OVERVIEW OF TOP 10 SHAREHOLDERS OF ATLANTIC GRUPA D.D. ON 31 DEC 2016

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	286,372	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%
RAIFFEISEN VOLUNTARY PENSION FUND	49,549	1.5%
ZAGREBAČKA BANKA D.D./JOINT CUSTODIAL ACCOUNT FOR UNICREDIT BA	34,225	1.0%
KAPITALNI FOND D.D.	24,830	0.7%

According to the decision of the Company's General Assembly held on 16 June 2016, the dividend distribution was approved in the amount of HRK 13.5 per share, i.e. a total of HRK 45 million. The dividend was distributed in July 2016.

PERFORMANCE ON THE BOND MARKET

In June 2016, Atlantic Grupa successfully issued corporate bonds in the amount of HRK 200 million, denominated in HRK, at a fixed annual interest rate of 3.125% with a semi-annual payment of interest and maturity as at 17 June 2021. The bonds were issued on the domestic capital market and listed in the first quotation of the Zagreb Stock Exchange, whereby Atlantic Grupa continued its practice of continuous improvement of own sources of financing, as well as fostering the development of the domestic capital market.

INVESTOR RELATIONS IN 2016

In 2016, at the annual conference of the Zagreb Stock Exchange, Atlantic Grupa has for the fourth time in a row won the first prize for best relations with investors, an award given by Poslovni dnevnik as the investment community's recognition of companies who have fair and transparent relations with investors. The award has been given for seven years in a row now, out of which Atlantic Grupa has six times been the winner of one of the top three awards. At the conference of the Belgrade Stock Exchange, Atlantic Grupa was awarded a silver plaque for investor relations in a regional competition.

Moreover, in 2016 Atlantic Grupa participated in various investor conferences in Europe and the United States of America and held numerous meetings with domestic and foreign investors.

STATEMENT OF THE GROUP VICE PRESIDENT FOR CORPORATE ACTIVITIES

NEVEN VRANKOVIĆ

GROUP VICE PRESIDENT
FOR CORPORATE ACTIVITIES

ATLANTIC GRUPA is the leading regional distributor and one of the leading producers of consumer goods in South-East Europe and, together with its companies and brands, an equally successful business system in both West and East Europe. Responsibility is an integral part of the company's business and development strategy with an actual awareness about the need to exert its own influence on improving the general conditions in the social environment. Special attention is paid to building a unique and recognisable corporate culture that respects individual diversity and fosters co-operation between the different business segments – production, innovations, marketing and sales and corporate support functions. Atlantic offers an ocean of growth and development opportunities to its present and new colleagues, partners and investors. Together we wish to create a vision and provide long term well-being, always keeping our fundamental corporate values in mind: CREATIVITY, symbolized by a wave, PASSION, symbolized by the sun, and GROWTH, symbolised by a mountain. Since its foundation Atlantic Grupa based its business activities on the Code of Corporate Governance with which, particularly after the listing on the stock market in 2007, the standards of business transparency in line with EU 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. By promoting the concept of sustainable development as the future cornerstone and by taking proactive measures, we strive to make a significant step forward in this area. The corporate EMS (Energy Management System) allows for continuous improvement of our environmental impact and for integration of environmental values by increasing the level of knowledge, awareness and responsibility of all employees. The successful implementation of environmental management systems has resulted in the reduction of adverse environmental impacts, while we are striving to improve the community where we live and work by undertaking numerous activities. The international ISO 14001 environmental management system certificate shows that our processes are among the best global practices, while sustainability reports prepared according to the standards of the Global Reporting Initiative (GRI) confirm the company's dedication to a higher degree of responsibility and transparency towards all interest groups. 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. Not neglecting investments in socially beneficial activities with a focus on culture, we are also systematically supporting a number of organisations involved in protecting and helping vulnerable social groups.

THE STATEMENT OF APPLICATION OF THE CODE OF CORPORATE GOVERNANCE

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. The Code of Corporate Governance of Atlantic Grupa has been published on the Company's website (www.atlanticgrupa.com).

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 Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange. In accordance with relevant regulations, Atlantic Grupa in 2016 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 official website of the Zagreb Stock Exchange (www.zse.hr) whereas exceptions are as follows:

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	Currently, the Company negotiates about the engagement of the service to provide the members of the General Assembly with participation and voting by means of 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 is set as a fixed amount, providing the members of the Supervisory Board with independence from the Company and those who represent the object of their supervision.

Information on the significant shareholders is provided within the overview of the ownership structure (pages 16 and 17 of this Annual Report). The overview of main elements of the internal control and risk management system in reference to the financial reporting of the Company is provided as follows, within the description of work of the Audit Committee and Internal Audit of the Company.

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 on Corporate Governance in Croatia held in September 2016, Atlantic Grupa won the award for the best corporate governance in Croatia. 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 16 June 2016. 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, amendments of Atlantic Grupa's Articles of Association, appointment of a member of the Supervisory Board, and appointment of an independent Auditor of the Company for the year 2016. 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. After the end of term for Vedrana Jelušić Kašić, under the decision of the General Assembly dated 16 June 2016, Jean-Louis Gourbin was appointed as a new member of the Supervisory Board, with his term beginning on the date of adopting the said decision. In 2016, 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). 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. Since 2008 until today he is a member of the Executive Board of the Croatian Employers Association, while in the period 2004 – 2013 he was 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 is an internationally recognized expert. He obtained a "Diplom –Wirtschaftsingenieur" (industrial engineer) degree at the Technische Hochschule Darmstadt in 1973. He had spent most of his working life, since 1975, in the DEG-Deutsche Investitions und Entwicklungsgesellschaft mbH. DEG is a subsidiary of the German KFW – Bankengruppe, Frankfurt, since 2001. Mr Flosbach has been assigned a number of executive tasks – Management Audit (responsibility for the investments in Asia, the Arab countries, South East Europe, English speaking Africa), Business Planning and Controlling, (successful implementation of the SAP System), Business Development and Portfolio Management Subsahara Africa, Consultancy activities – "Deutsche Mittelstand", Programmes of the European Community, Foreign Promotion Agencies, Stability Pact for South East Europe. At last 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 investment, about 110 portfolio companies, 200 – 500 million new Commitments per year). Prior to his career in DEG, he worked as a Senior Consultant at the 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; advisory service; risk management. He has a profound country and sector know-how. Mr Flosbach has retired in early 2013 and currently serves as a Supervisory Board Member in four 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, Inter Peace Sweden and the Advisory Board of Stena Long Term Equity. 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 which is appropriate for the tasks performed as well as the Company's situation and business performance. In 2016, members of the Supervisory Board of Atlantic Grupa d.d. on the said grounds received compensation in the total gross amount of HRK 1,370,904.39.

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, Nina Tepeš was appointed as a member from the ranks of external experts, while Vedrana Jelušić Kašić, until expiry of her term in the Company's Supervisory Board, i.e. 15 June 2016, acted as the member appointed from the ranks of the Supervisory Board.

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 is 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 2016 in the total gross amount of HRK 71,936.19.

MANAGEMENT BOARD OF ATLANTIC GRUPA

The Management Board of Atlantic Grupa consists of the President and Group Vice Presidents. Nineteen sessions of the Management Board were held in 2016. 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 EBIT 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. 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 8,250.00,
- **personal accident insurance policy** with the annual premium of HRK 8,300.00,
- **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 six 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 2016, 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 17,778,162. 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 2016 received a gross amount of HRK 5,157,683.00.

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 Presidents for Zone West and Zone East, Managing Directors of Strategic Business Units, Strategic Distribution Units, Strategic Distribution Regions, Executive Director of the Business Unit Gourmet, Senior Executive Director of Corporate Legal Affairs, Investments and Asset Management, Senior Executive Director of Business Development, Strategy and Information Technology, Senior Executive Director of Corporate Key Accounts Management, Secretary General, Executive Directors of Central Purchasing, Corporate Human Resources, Corporate Controlling, and the Head of the Investment Committee.

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 Management Board Advisor, 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 2016

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 2016, fourteen audits were performed in the following areas: information systems, distribution, logistics and non-current assets, detecting no significant irregularities.


13
CEDEVIT
2
KRKA
triglav
12
KRKA

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**
- **BASKET TOUR (STREET BASKETBALL)**
- **BC CEDEVITA**
- **BC BOSNA**
- **BC MZT SKOPJE**
- **B2B RACE**
- **EUROPEAN UNIVERSITIES GAMES**
- **WTA BOL**
- **HELLA HALBMARATHON**
- **OSTSEEMAN TRIATHLON**

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 basketball clubs Bosna and MZT Skopje, while the flagship of all Atlantic's sponsorships continues to be the basketball club Cedevita, which this year revealed the club's new visual identity, i.e. new colour, logo and jerseys that are now more closely related to the brand Cedevita. 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 1000 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 which is also successful in Euroleague, primarily by entering the TOP 16.

1,000

CHILDREN IN CLUB'S BASKETBALL ACADEMY

24

BASKETBALL SCHOOLS ARE ORGANISED IN ZAGREB'S ELEMENTARY SCHOOLS

OTHER SPORTS (CYCLING, SKIING, EXTREME SPORTS, WAKEBOARDING)

Atlantic Grupa practices socially responsible action in all the countries in which it is present with its business entities. To that end, Atlantic is a major sponsor through its sports food brand Multipower, as well as many others. In 2016, Multipower sponsored sports such as cycling, triathlon, running, as well as adrenaline sports. In cycling, we are proud sponsors of Gran Fondo and 9 Fossi races, the cycling team Moviestar and the well-known Italian cyclist Fabio Aru. In triathlon, an extremely challenging discipline and sports adventure, we support the brave triathlete Jan Froden. 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 Peter Prevc, Robert Kranjec and many others. 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. The brands Kala, Cedevita and Cockta are official beverages of the women's tennis tournament (WTA) in Bol, Croatia, in running we supported the business race B2B as well as the European Universities Games, the largest university sport event in Europe.

VALUE DAY

ATLANTIC VALUE DAY
Opportunity to make a better world

The fifth 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. This time the special feature was as much as 28, "green" activities within the project Atlantic Green – Opportunity to grow in harmony with nature, with which Atlantic Grupa entered the new era of responsible growth in harmony with nature and environmental protection. This traditional gathering of Atlantic Grupa's employees reminds us how little efforts can result in many valuable accomplishments and make our community a better place.

CULTURE AND KNOWLEDGE

- **22ND SARAJEVO FILM FESTIVAL**
- **INNOVATION INSTITUTE**
- **ŠPANCIRFEST**
- **ROATIAN CHAMBER OF DENTAL MEDICINE**
- **TRIPLE BRIDGE**
- **SEMPL**
- **GOLDEN DRUM**
- **LEAP SUMMIT**
- **FOOD FILM FESTIVAL ZAGREB**
- **BELGRADE MANIFEST**

Atlantic Grupa has again in 2016 supported the 22nd Sarajevo Film Festival (SFF) as a central cultural manifestation in the region, once more 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, visitors had a unique opportunity to experience a simultaneous screening of the film that was staged at the same time in cities across the region. In the last year Atlantic also signed a golden partnership agreement with Croatian Innovation Institute for 2016. In addition to supporting the Institute's work, the cooperation also includes a series of trainings for Atlantic employees. With the brand Plidenta, Atlantic also supported the work of the Croatian Chamber of Dental Medicine; with the education project Zubomobil (Teethmobile), we visited over 50 schools and gave a smile to more than 17,000 children. Furthermore, we participated in sponsoring the largest media trends conference SEMPL and the festival of creativity Golden Drum, aiming to encourage young experts across the region to create new trends and novelties.

Sarajevo Film Festival

TRIPLE BRIDGE

With regard to culture, cooperation with the European Career Centre for Artists – Triple Bridge holds a special place among our sponsorships. It is a centre for the career training of classical musicians coming from 40 European countries. Triple Bridge is a unique organisation founded on the idea to merge artists and audiences, the traditional and digital age, and business and culture. The slogan "We support great music with good taste" also marks the prospective cooperation with this talented orchestra which plays many concerts in European cities.

YOUTH EDUCATION - VISITING ATLANTIC PRODUCTION FACILITIES - OPPORTUNITY FOR YOUTH TO TASTE THE FUTURE

In 2010, we have started organised tours of Cedevita in Zagreb for preschoolers, pupils and students, spreading this good practice all the way to Belgrade. After touring the factory and its laboratory, children have the opportunity to learn first-hand how products are made and to test new potential flavours, thus making this educational visit even sweeter. Since 2013, Soko Štark, our chocolate and sweets production plant in Serbia, hosts regular weekly tours of school children that arrive from all parts of the country. So far more than 7,500 little explorers discovered the secrets of producing their favourite brands in our facilities. These young visitors do not just come to take a tour, but also to roll up their sleeves and get to work – from pouring chocolate in Štark's development team to pressing candies in Cedevita's laboratory – each child here has an opportunity to taste what the future brings.

EDUCATION - SUCCESSFUL COMPLETION OF THE 2ND INTERNATIONAL ARGETA BUSINESS HACKATHON

International Business Hackathon is an international business marathon, a two-day competition of business individuals and young managers in solving business challenges. In cooperation with the Business Intelligence Centre, Argeta encouraged participants, assorted into groups, to look for creative and innovative business solutions. The winning team won a Cotrugli MBA Entrepreneurship module and a 2000 € cash prize, and the winner of Argeta International Business Hackathon, Matteo Mozetič, won a Harvard Business School modular education, HBX Disruptive Strategy programme.

SOCIALLY VULNERABLE GROUPS

- **REHABILITATION CENTRE ZAGREB (PAUNOVAC)**
- **SERBIAN CLINICAL CENTRE**
- **FOUNDATION SOS CHILDREN'S VILLAGES SERBIA**

Atlantic Grupa has in 2016 made a donation to the Children's Home Zagreb in Nazorova Street, which was used to purchase furniture for its little beneficiaries. Atlantic Grupa also continued to donate the Rehabilitation Centre Zagreb in Paunovac and, after several years of joint cooperation, a roof over the botanic garden was built where protégés will learn to plant seeds and grow plants. Furthermore, Cockta organised a humanitarian action Be Human aimed to provide help and collect funds for socially vulnerable children in elementary schools in Vukovar. Care for others knows no bounds, so we are involved in significant humanitarian activities across the region, trying to adjust our actions to the current local needs and to respond as quickly as possible to social problems of the countries in which we operate. Likewise, Atlantic supported the Serbian Clinical Centre by reconstructing some of the rooms in the chemotherapy ward. Additionally, after a catastrophic storm and floods in Macedonia, we donated the much needed food products to the population in the area that suffered the most damage. Finally, Argeta designed a special packaging of Junior Original 3x95g, produced 100,000 items and then donated 0.10 KM for every item sold to the fund for supporting the association The Heart for Kids with Cancer in the Federation of Bosnia and Herzegovina in Sarajevo and the Association of Parents of Children with Cancer Iskra in Banja Luka.

PLASTIC BOTTLE CAPS FOR EXPENSIVE MEDICINES

Atlantic Grupa's employees in Croatia continue to eagerly collect plastic bottle caps in order to support a humanitarian action of the Association of Leukaemia and Lymphoma Patients – "Plastic Bottle Caps for Expensive Medicines" which aims to use the funds collected by recycling bottle caps for co-financing expensive medicines for the treatment of the Association's members.

2700

KILOS OF PLASTIC BOTTLE CAPS WERE COLLECTED IN THE HUMANITARIAN ACTION "PLASTIC BOTTLE CAPS FOR EXPENSIVE MEDICINES"

ATLANTIC GRUPA AS THE OCEAN OF OPPORTUNITIES FOR EMPLOYMENT OF PERSONS WITH DISABILITIES

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.

The principles of sustainable development in Atlantic Grupa are present in every step of business operations. As regards environmental protection, activities in 2016 were focused on strengthening the energy management system for the purpose of reducing energy consumption, energy costs and the carbon footprint. The next step in implementing the energy management system is the certification planned for early 2017, which will confirm our focus on continuous improvements in the area of energy efficiency and environmental protection.

RAISING THE ENVIRONMENTAL AWARENESS OF EMPLOYEES

Raising the environmental awareness of employees continues within the framework of traditional projects and activities:

- **VALUE DAY** is already a tradition that joins together Atlantic employees in performing different activities, including those aimed at preserving the environment, such as planting trees and flowers, cleaning coasts, rivers and public areas;

- **GREENINOWAVE** – upgrading the internal programme for promoting creativity and innovative ideas Innowave is still a place for collecting ideas on environmental protection, green innovations and economic use of natural resources;

- **WALK AND RIDE** – the Atlantic's project Walk and Ride, aimed at promoting a healthy lifestyle and protecting the environment, has shown that Atlantic employees are fit, active, sociable and competitive. They have covered 10,000 kilometres by cycling or walking;

- **INTERNAL TRAININGS** to raise awareness about waste separation, reducing the carbon footprint, increasing energy efficiency and **EXCHANGE OF GOOD PRACTICES** in the area of environmental protection.

ATLANTIC GREEN
Opportunity to grow in harmony with nature

ENERGY AND WATER CONSUMPTION

The Energy Management System (EnMS), which was introduced in 2015, represents the framework for optimising the company's energy efficiency. In Atlantic Grupa, EnMS is integrated into quality management systems of all production facilities. The system takes account of guidelines and requirements of the international standard ISO 50001. It is based on the energy policy, which is a part of the company's corporate quality policy, and on the PDCA model which consists of four management phases aimed at continuous process improvement. Among good practices in the area of energy efficient improvements, we can point out cooling at the site Izola in Slovenia. It concerns the use of cold water from coolers and increasing the productivity of the manufacturing process. The investment resulted in electricity savings of 10%. The existing lighting fittings were replaced with a new generation in Cedevita's production plants in Zagreb and Apatovac, in order to reduce the electricity consumption in production facilities and reduce CO_2 emissions. This is a significant investment co-financed from EU funds. The production plant in Nova Gradiška invested in a washroom for washing pasta moulds, which directly reduces water consumption during production. The installation of sensor faucets in all "clean" production rooms at the production plant of Fidifarm contributed to significant water consumption savings.

WASTE AND WASTEWATERS

For the purpose of improving separate waste collection in production plant sites of Grand Prom and Soko Štark, special attention was given to establishing a recycling yard for non-hazardous waste. Additionally, we have found a solution for multi-layered composite packaging, the so called aluminium foil, at the Soko Štark's facility. Further contribution to successful waste management is the recognition that Grand Prom and Soko Štark received for their results in reducing CO_2 emissions based on sold and recycled quantities of packaging waste in 2016. As regards the Cedevita's production plant in Zagreb, a concrete bund wall was constructed and attested for temporary storage of hazardous waste within the registered temporary waste storage; as regards the Cedevita's plant in Apatovac, additional investments into laboratory equipment were made for the purpose of improving wastewater control and management on a daily basis.

ENVIRONMENTALLY FRIENDLY PRODUCTS

By following the trends in environmentally friendly products and criteria for sustainable packaging, Barcaffè Black'n'Easy made another step towards reducing adverse environmental impacts. One of the main project goals, other than practical and attractive design, was to reduce the weight of the packaging. Annually, this means 2 tonnes less of flexible packaging that would burden the environment. The nomination, that is, entering the final round for the Slovenian Packaging Oscar confirms that we are on the right track.

REPORTING ACCORDING TO GRI PRINCIPLES

Aware of our responsibility regarding sustainable development and importance of transparent reporting on the company's performance, in 2016 we have continued our practice of reporting according to GRI principles, by presenting the results and achievements of our company in its constant efforts to find the best solutions for economic, social and environmental sustainability.

Our key objectives in 2016 were:

1

IMPROVING THE SYSTEM IN ACCORDANCE WITH THE REQUIREMENTS OF ISO 9001 &14001:2015 STANDARDS

Based on the GAP analysis of compliance with new requirements of ISO 9001:2015, we were focused on certain system elements that directly affect the efficiency of business processes. The identification of risks and opportunities for improving the system was recognised as an important tool in improving and developing business processes. In 2016, special attention was given to implementing the corporate risk management methodology and connecting the different risk management levels and methodologies in Atlantic Grupa.

Risk management levels in Atlantic Grupa	
CORPORATE LEVEL	SBU / SDU LEVEL
PROCESS / OPERATIONAL LEVEL	PROJECT LEVEL

The identification of risks and potential opportunities became an integral part of the process performance analysis, and it is included in annual reports on process efficiency. In parallel with activities at the corporate level and activities in the Group's specific strategic business and distribution units, we carried out a series of trainings aimed at promoting the decision-making model based on risk analysis as the basis for a proactive approach to risk management in all processes. At the same time, we analysed and tested the corporate model for risk management in crisis situations (basis for a reactive approach to risk management).

2

IMPROVING THE NON-CONFORMITY MANAGEMENT SYSTEM

The common platform for managing non-conformities was implemented in all the key markets by the end of 2016. The implementation of this new tool allowed for easier reporting of non-conformities, process standardisation, transparent monitoring of every non-conformity during the life-cycle, communication during the solving process, monitoring costs related to non-conformities, traceability through tool-based records, real-time analytics and reporting, management of tasks and activities resulting from corrective measures, quality management of follow-up activities and establishing a knowledge base. In addition to the new tool, the process of non-conformity management was reconstructed by focusing on key non-conformities (status of deviation/non-conformity), introducing the new improved classification of non-conformities, linking each non-conformity to one primary process, clear system of responsibilities and authorisations, and raising knowledge and awareness about the importance of non-conformity management on all our markets. In addition, one of the important objectives in 2016 was to interconnect the different forms of reporting on the system efficiency in order to improve transparency and clarity of information for review by the management.

3

IMPROVING THE CONTROL OF EFFICIENCY PROCESSES AT THE SBU LEVEL

In 2015 we introduced a new monitoring model that includes management reviews at the level of each site, with the aim of focusing on individual goals and risks specific for that site. In 2016, our focus was on monitoring levels, i.e. SBU management review. The achieved specific objectives were to put more focus on meeting the key performance indicators (KPI), focus on risk management and clearer, shorter presentation and improved communication within the department.

4

ANALYSING THE POTENTIAL BENEFITS OF ISO 50001 STANDARD (ENERGY EFFICIENCY) CERTIFICATION

The analysis of the existing system confirmed that, within environmental management, there is already a whole series of activities aimed at efficient energy management. As the company's next step towards sustainable development, a decision was made to implement the ISO 50001 standard in all key sites in the next three years. The first 5 sites operating under Droga Kolinska (Izola, Rogaški Vrelci and Mirna) and Cedevita (Planinska, Apatovac) will be included in Atlantic Grupa's integrated certification supervision scheme in early 2017. The large family of certified systems was in 2016 joined by a food safety management certificate FSSC 22000 for the company Foodland.

All the above activities were followed by continuous work on improving knowledge and skills related to the process approach through planned activities under the Function Lab Quality module intended for development of specific knowledge related to the process approach and quality systems, of which we should mention the following conferences: Process Management, Quality Assurance, Environmental Management, Distribution Quality, Conference of Atlantic Grupa's Internal Auditors, as well as workshops of all quality control departments and the production process workshop.

Our certificates in 2016:

Legal entity (location)	Market	Quality Management Standard	Food Safety System Certification	Food Safety Standard	Environmental Management Standard	Good Manufacturing Practice
Atlantic Grupa	CRO	ISO 9001			ISO 14001	
Cedevita (Planinska)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	GMP (CL)
Cedevita (Apatovec)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	
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	
Bionatura	CRO			HACCP		
Droga Kolinska (Ljubljana)	SLO	ISO 9001			ISO 14001	
Droga Kolinska (Izola)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	
Droga Kolinska (Mirna)	SLO	ISO 9001		HACCP	ISO 14001	
Droga Kolinska (Rogaška)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	
Argeta	BIH	ISO 9001	FSSC 22000	HACCP	ISO 14001	
Kofikom Product	BIH	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		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 (Skoplje)	MAC	ISO 9001		HACCP	ISO 14001	
Atlantic Trade (Skoplje)	MAC	ISO 9001		HACCP	ISO 14001	

* NEW STANDARDS IMPLEMENTED IN THE LAST THREE YEARS ARE HIGHLIGHTED IN RED

HUMAN RESOURCES
IN 2016

THE YEAR 2016 ENDED WITH

5,492

EMPLOYEES IN

12

MARKETS

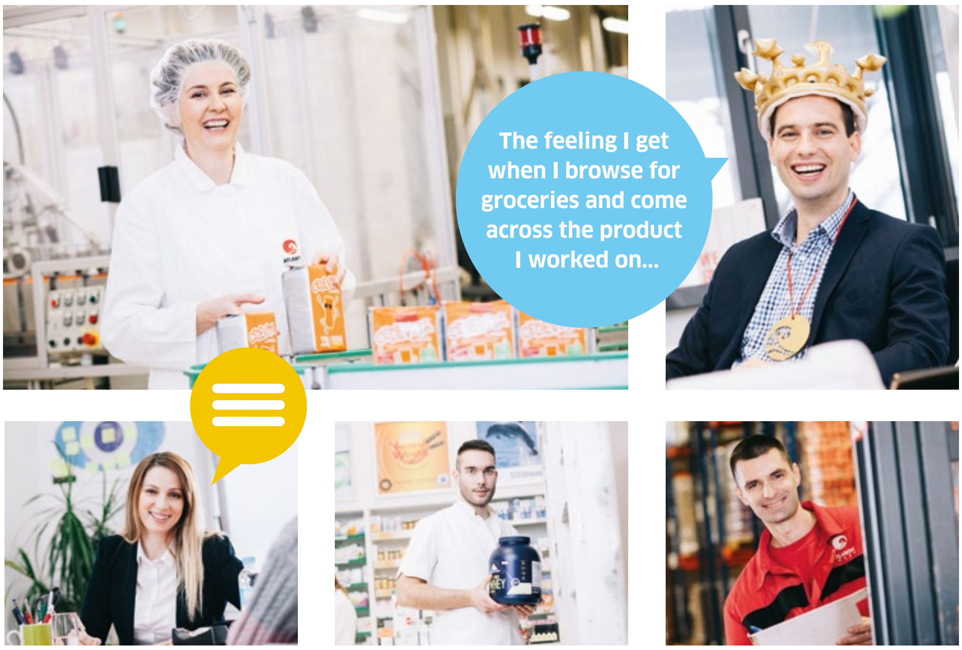
In human resources management, we are guided by the idea that our activities and competencies should contribute to creating added values for the company. In order to improve ourselves, we are regularly monitoring indicators with which we can create a highly efficient, entrepreneurially-oriented company. Basic measures used as guidelines are performance management results, desired fluctuation rate, assessment of management competences and monitoring of employee engagement. The highest value of our activities for the company operations is reflected through programmes related to strengthening the corporate culture, talent development and management, and support provided in performance management processes.

We recognise our purpose in supporting employees to make a difference, which is important for them, the company and society as a whole. We want to be the key driver in creating the corporate culture, with engaged employees and strong leaders. It is our view that successful human resources management is realised within the role of a strategic partner who understands the company's operations and strategy, and who adjusts its actions accordingly, giving the employee perspective to all business decisions, who foresees trends and acts proactively. By timely offering quality, innovative and integrated solutions in the field of human resource management, we are gaining the trust of our internal clients. We have concluded the year 2016 with 5,492 employees in 12 markets.

As internationalisation is one of the company's strategic determinants, the Human Resources Department also adjusts its programmes to new business models and in 2016 it organised the first international StartA – a corporate job orientation programme for new employees.

We continue to adopt good practices, and corporate culture projects are well-recognised among the employees. The programme "Value a Colleague" was implemented this year as well, in which all employees may nominate a colleague and/or team for whom they think that he/she best represents the company's corporate values.

Every company is a reflection of its employees and their individual stories. In order to be reminded of this important fact, Atlantic in 2015 launched a comprehensive programme "Atlantic's Reflections – Opportunity to share your story". The project was initiated in order to collect photos and stories of our employees for the purpose of employment ads, so that individual stories of participants can reflect the company, through LinkedIn communication and new employment ads.



We are proud of the project Employment of Persons with Disabilities, which was launched in 2016 and by which Atlantic Grupa, as one of the first in its business environment, joined the process of reviewing the status and adaptability of work positions for potential employment of persons with disabilities. The project is for now focused only on Croatia and includes two approaches; one is to review the possibilities for persons with disabilities to work in Atlantic, and the other is the possibility of employment of such persons. The project manager is Damir Živković in cooperation with the Human Resources Department. This cooperation includes assistance from external partners that participate in assessing the adaptability through questionnaires-forms, analysing work positions with different forms of tasks so that the results of analyses would be applicable to a wide range of work positions within Atlantic Grupa. Based on the analyses of work positions, assessments were made for each work position with regard to its capacity to be adapted to different types of disabilities, which contain information on proposed adaptations with a tentative cost estimate and level of feasibility.

THE PROJECT BODY AND MIND GATHERED

114

TEAMS,

144

INDIVIDUAL RUNNERS AND

110

WALKERS

The project Body and Mind – Opportunity to be fit, successfully initiated in 2015, this year developed into an event that gathered 114 teams, 144 individual runners and 110 walkers. This year we had many novelties; in addition to a new sport – darts, there was a digital dimension of the Sports Weekend – all participants had the opportunity to watch news and posts on social networks in real-time via the application on their mobile devices. The project's vision is to, by engaging employees in different programme activities, develop a good feeling – both physically and mentally – as a result of physical activity, improved mental relaxation and awareness that the company looks out for them.

In addition to the above, within the 13th annual Slovenian conference "Human Resources Management", best practices in the field of human resources management were selected. A three-member expert panel evaluated a total of 14 applied projects, among which Atlantic's Body and Mind won an excellent second place.

Atlantic Grupa lives its values daily, and once a year it organises Value Day, where employees can, with their positive energy, humanitarian efforts and great will, leave a positive trace and live their corporate values. In 2016, more than 1,300 of our colleagues used the opportunity to help their local communities and each other. In Hamburg we organised an animal farm for children, in Vienna we cooked for the homeless and spent time with teenagers under the programme "Learning after School". Youth education was supported by our colleagues in Frankfurt by decorating the local school's premises. In Russia, we visited a home for children without parents, in Macedonia children with special needs, in Bosnia and Herzegovina we spent time with elderly people in their home, while Atlantic's employees in Slovenia were joined by their Italian colleagues in activities aimed at protecting the environment.

1.300

ATLANTIC EMPLOYEES PARTICIPATED IN VALUE DAY

We continue to encourage innovative thinking and to recognise an award the best ideas through the programme INNOWAVE, merging the words "innovation" and "wave" in its title, symbolising one of our core corporate values – creativity. In order to promote innovative, entrepreneurial thinking, the project itself will be redesigned during the next year.

Wishing to continuously confirm the successfulness of our practices and further improve them, we want to compare our human resources management practices with other practices on the market. After the successful certification with high scores in all evaluation segments and confirming the status Employer Partner two years in a row, we are continuing the recertification process, which we would also like to expand to Western European markets.

With regard to the performance management process (U3), which is used to measure employee performance, after the successful introduction of measuring manager performance by monitoring the rate of desired fluctuation and realisation of the successors' development plans, in 2016 we have added the function of providing a quick feedback by using the option Real-Time Feedback. In doing so, we wanted to strengthen the culture of dialogue, objectivity and transparency of feedbacks and achieve a quality assessment of the performance of employees on projects within interdisciplinary teams, with the primary goal of improving employee performance, motivation and development.

In order to improve efficiency and centralise operational processes, in 2016 we continued to improve functionalities within the HRIS system (HRnet), which is used to manage most of the personnel administration processes (annual leave management, travelling, personnel planning via the employment module, as well as the modules related to planning and reporting, employee performance and development management).

LEARN DEVELOPMENT@AG

Development in Atlantic Grupa is defined and realised in four development LABs: **LEADER LAB, FUNCTION LAB, TALENT LAB, MY LAB.**

The primary task of **LEADER LAB** is to develop LEARN leadership competencies for all Atlantic Grupa leaders. By concept, it consists of two parts: Basic Leadership Skills and Leadership in Action. The Basic Leadership Skills programme is designed for newly hired or newly promoted leaders and it is realised through a set of development activities intended to develop basic leadership skills, while the Leadership in Action is a concept that supports active involvement of leaders in rethinking and maintaining the desired leadership culture. The programme Leadership in Action, initiated in 2015, with 30 teams composed of over 200 leaders who have proposed 30 projects/proposals for improvement related to business processes, continued its activities in 2016, during which 8 projects were selected that will be presented to the company's Strategic Management Council in 2017 for the purpose of making decisions on their implementation.

In 2016, we implemented the first module **CUTTING EDGE**, which included a visit of our top leaders to the European headquarters of the company LinkedIn.

Functional competences of employees are developed through the programmes under **FUNCTION LAB**. The key areas covered by the programme are Quality, Safety, Pharma, Marketing and KAM. The areas of Quality, Safety and Pharma are under the organisation and control of the business units that manage them, while Marketing and KAM are realised as the joint project of Central Marketing, that is, KAM/Sales Department and the Corporate Talent&Development Team. The year 2016 saw the continuation and, in some segments, expansion of the areas of Quality, Safety and Pharma, while the areas of Marketing and KAM were realised with some of the best consultants in the world.

TALENT LAB covers programmes defined on the corporate level, corresponding to the development needs resulting from the talent management process, while MY LAB covers all forms of individual development. Under TALENT LAB, a special focus in 2016 was on recognising young talents, thus successfully completing the second cycle of the Adventure programme. At the beginning of April 2016, the teams presented their projects in order to receive approval for their implementation, which after ten months of intensive work and development marked the successful completion of their educational adventure through this programme. In this second cycle, the Atlantic's development programme for young professionals gathered 5 international teams that, through dedicated projects, explored different business opportunities for Atlantic Grupa. In order to be able to successfully develop their business ideas, Adventurers were in parallel gaining new knowledge and skills through trainings at the Business School Cotrugli and, in addition to mentors from the ranks of the Strategic Management Council, received support from an external business trainer who helped them in their personal and professional development. Thus, Adventure has helped the second generation of young professionals to stand on their own feet and they are now ready to dive into serious business adventures.

We are also proud of the pilot programme organised in cooperation with Delta Holding Serbia (AG & DELTA HOLDING SERBIA EXCHANGE PROGRAMME) for the purpose of exchanging ideas and best practices between young employees of both companies.

In order to monitor best practices in the field of human resources management, we have started the Graduate Trainee programme which aims to attract young talented people with high potentials. After passing a specifically prepared selection process, they were included in a structured one-year development programme where they will have the opportunity to prove themselves and be permanently employed in one of our business units. In addition to the above, every employee of Atlantic Grupa, through his/her individual development plan provided by the information system, had access to the catalogue of development activities according to defined competencies as well as to options related to applying for and realising required activities which are not a part of the standard catalogue of trainings.

TALENT MANAGEMENT

Through the project “Organization & people” we are continuing with focused management of internal talents. The general aim of this project is to introduce a structured process of identification, selection, development and retention of talents/successors for present and future needs of Atlantic Grupa. After the mode is established at the level of all employees, we expect that it will ensure a highly flexible and agile organisation through the creation of a sustainable succession of management personnel at all levels. In 2016, we included additional levels of employees in the Talent Management process in order to raise awareness about the knowledge and potentials available within the company.

A strategic corporate project under a working title Fast Forward covers thirteen projects that will focus on people, culture, our clients, consumers, value system optimisation, digital technology and analytics. Project teams, consisting of around 80 Atlantic employees, will work on its development by the end of 2017. The project goal is to develop Atlantic Grupa into a company with a unique culture and the status of an important participant in international markets where clients or consumers are at the centre of attention. Within the project area related to people, behaviour and culture, two project teams will concentrate on finding and keeping talents and key employees, further leadership development, improvement of the remuneration policy and overall care for employees.

EMPLOYEE ENGAGEMENT

The engagement of employees, which is monitored through a survey offering employees a chance to express their opinion on what motivates them, makes them happy or dissatisfied, provided very good results so far. Atlantic began to measure employee engagement in 2012 by using Gallup’s methodology which provides the so called engagement ratio. In 2015, this ratio increased from 3.18:1 to 3.47:1, meaning that there are 3.47 engaged employees to one non-engaged employee. In order to improve the quality of measuring and monitoring employee engagement in comparison with the industry in which Atlantic operates and with European standards, since last year we are using AON Hewitt’s methodology under which it was established that Atlantic Grupa has 70 percent of engaged employees, placing it among the companies with the highest engagement ratio in Europe. Employees expressed the highest satisfaction level in the areas of diversity and job inclusion, organisation in general and cooperation, while they see room for improvement in remuneration programmes and career opportunities.

70%

ENGAGED EMPLOYEES

EMPLOYER BRANDING

Employer Branding is a project initiated in mid 2014, dedicated to the targeted and structured building of Atlantic Grupa’s image as an employer. It extends beyond that as well, as a business entity in countries we are active in since, by its nature, it extends to other similar corporate areas. According to the results of research and our aspirations, Atlantic Grupa is defined as an inspirational company (society) of people who operate and love to work in an inspirational environment. Open, inquisitive and motivated, Atlantic offers present and new colleagues, partners and investors an endless ocean of growth and development opportunities. Together we wish to create a vision and provide long term well-being, always keeping our fundamental corporate values in mind: CREATIVITY, symbolized by a wave, PASSION, symbolized by the sun, and GROWTH, symbolised by a mountain. In 2016, we started to build the company’s image via LinkedIn, where we regularly publish initiatives and projects aimed at presenting the company as an attractive employer for potential future employees.

INFORMATION SYSTEMS
IN 2016

With regard to information technologies, the year behind us was marked by a number of significant projects that grew from the technological domain into the beginning of digital transformation of the entire organisation. Atlantic Grupa decided to apply an approach according to which technological development is ensured through a comprehensive programme that includes all required and initiated activities. The programme "Transformation Engine" includes: basic assumptions – the organisation's capacity for digital transformation, transformation of the Group's information systems, and initiated activities whose approach to the end user follows the latest trends in this sector. When it comes to the organisation's basic capacities for digital transformation, the IT Department was reorganised, significant investments were made into the core infrastructure and a new process management approach was introduced. As a result, the IT Department was organised as a corporate support function which facilitates synergies, balanced development of technology and adequate processes, and equalises the quality of IT support provided to all employees of Atlantic Grupa. At the same time, this created preconditions for the use of human resources at the Group level, which raises the general level of knowledge and expertise and also provides additional opportunities for career development. Numerous investments into the core infrastructure are used to build the group information network with fast and reliable links that connect all the Group sites, data centres are being concentrated in a smaller number of sites with their higher reliability and capacity, the project of establishing the Group IT support centre is underway and will provide better support to internal users, and a number of measures are taken in view of increasing information security. At the same time, attention is paid to increasing the cost excellence, particularly in the area of the Group's telecommunication costs. A special focus was placed on introducing new processes and optimising the existing ones in order to provide support to users at any time, to structure work with requirements for changes and to formalise the method of introducing new functions. When information systems are concerned, activities can be generally divided into two groups: consolidation and development, with focus on reporting and analytics. Consolidation projects are aimed at introducing new IT systems integrated at the level of the entire Group for the purpose of increasing operational efficiency and reducing complexity, i.e. minimising the total number of systems of the same type at the Group level. This group includes one of the largest IT projects in Atlantic's history, the introduction of a new ERP system in the distribution company Atlantic Trade Zagreb. This successfully executed implementation of the SAP system has, by quality risk management, set a new group standard for ERP in distribution companies. At the same time, the Group is also implementing a SAP ERP solution for its new offices in Frankfurt and Vienna. By successful risk management, this new tool was introduced into operations of all companies without losing a single day for the delivery of products to customers. As an example of the group approach to introducing new systems or functionalities for internal users, we should mentioned DMS (Document Management System – a system for electronic document management), a project initiated in the fourth quarter. This centrally managed project will, in the next 18 months, introduce document management into all companies of Atlantic Grupa, a solution that will, depending on regulations, either entirely eliminate or minimise the need for paper documents in office operations, together with all synergies generated by a single group process solution and software tool. The development activities in the area of reporting were focused on introducing a group standard, report generation automation and quicker and more precise reporting. The introduction of advanced analytics in real time, predictive analytics and cognitive analytics (as one of the first companies in CEE) means that, in practice, there are better foundations for quick decision-making based on facts. In this regard, the Group is relying on IBM solutions with the support of local integrators. In Atlantic Grupa, activities aimed at using information technologies for marketing analyses and direct work with end users are considered to be very important. In this area, analytics of unstructured data archives (big data), listening to social networks, mobile applications and the internet-of-things open new possibilities for targeted contacts with users and for developing products and offers adjusted to their needs. In this way, the Group's strategic determinant that the user is at the centre of corporate activities receives its technological base.

MLADEN VEBER

SENIOR GROUP VICE PRESIDENT
FOR BUSINESS OPERATIONS

ATLANTIC GRUPA in 2016 continued to strengthen its position of the leading regional distributor and, at the same time, implemented ambitious plans for expanding the distribution business to Western European countries, primarily Austria and Germany. Other than as a major distributor, Atlantic Grupa is present in South-East Europe as one of the leading producers of consumer goods. Business operations in 2016 were marked by the growth in sales of own brands in all business segments except sports food, as well as by concluding new distribution agreements. With the aim to develop a high quality own distribution support to the overall Atlantic Grupa's portfolio in all key international markets, Atlantic Grupa continued its significant investments in local sales teams on the markets of Austria and Germany, where in 2016 it established fully functional distribution companies. With Multipower as the leading European brand of sports food and the group of strong Atlantic's regional brands with outstanding positions in South-East Europe, which are also present in the Western markets and have a strong international potential (Argeta, Bakina Tajna (Granny's Secret), Donat Mg, Cedevita), Atlantic Grupa plans to significantly increase its presence in Western European markets. Atlantic Grupa continued to expand its distribution in the segment of spirits by taking over the distribution of premium spirits of the company Beam Suntory for the markets of Serbia, Macedonia, Montenegro, Kosovo and Albania. Beam Suntory is the third largest global company in the production of premium spirits and the main categories we started to distribute are whisky and tequila, sold under famous brands such as Jim Beam, Teachers, Canadian, Courvoisier and Sauza. On Western European markets, Atlantic Grupa signed the agreement with the principal Nocco, a Swedish manufacturer of functional beverages focused on health and fitness, whose products started to earn substantial revenues. The restructuring of the Strategic Business Unit Sports and Functional Food was continued in 2016, resulting in a simplified business model, lower costs and fewer employees coupled with sustainable business growth. This included improvements in the production process, divesting of low-profitability products, and reducing the number of product ingredients by inventing new and advanced recipes, thus allowing for significant savings in the production process. At the beginning of March 2016, the cooperation with the major buyer of the private label was terminated, causing a significant decrease in sales. The Sports and Functional Food's R&D department is working on the development of new products and negotiations with new potential partners for the production of private labels are underway. In addition to many prizes and awards, 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. We enter the year 2017 as a strong consolidated company with great expectations.

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.

STRATEGIC BUSINESS UNIT
BEVERAGES

As a prominent regional producer, Atlantic Grupa is continuously developing the activities of the Strategic Business Unit Beverages (SBU Beverages) with the aim of better utilisation and stronger recognisability of its brands which are market leaders in their respective categories: Cedevita and Multivita in the category of instant vitamin drinks, Multivita in the category of effervescent tablets, Cockta and Jupi in the exceptionally strong and sizeable category of refreshing soft drinks, Donat Mg in the category of mineral waters rich in magnesium and the brands Kala, Kalnička, Tempel and Karađorđe in the category of non-carbonated and carbonated mineral and spring waters.

In 2016, the SBU Beverages generated sales in the amount of HRK 637.2 million, focusing on actively managing the sales portfolio with the aim of increasing the share of more profitable product groups with strong competitive advantages.

Sales in the region are at the level of the record-high 2015, while sales in the markets where Atlantic Grupa opened its own distribution companies recorded high growth (104% sales growth in Germany and 11% in Austria). Compared to 2015, a growth in sales was achieved on the markets of Sweden, Australia, Poland and Great Britain. Sales in the market of Russia recorded a 9% drop compared to the previous year, as a result of the continuing decrease in purchasing power caused by the depreciation of the national currency. However, the end of 2016 showed signs of recovery and stabilisation on this market. Compared to 2015, a significant growth in sales was recorded in the markets of Ukraine, the Baltic states and CIS countries (19% sales growth).

In the period between Q4 2015 and Q4 2016, the price of white sugar on the global market went up from 380 USD/t to 610 USD/t, or 60%. The SBU Beverages uses long-term contracting methods in order to mitigate annual purchase value fluctuations of this key raw material in the industry of soft drinks and instant vitamin drinks.

After the extensive redesign of Cedevita's "At Home" segment in 2015, consumers recognised Cedevita's new identity and in 2016, according to the survey on the brand strength performed by an independent Slovenian market research agency Valicon, Cedevita is the third strongest regional brand. The brand strength index was higher on all the markets compared to 2015 (4% in BiH). The latest research show a market share growth on the main markets in the retail segment compared to the same period in 2015.

QUENCHING YOUR THIRST WHEREVER YOU ARE

637.2

MILLION HRK
OF SALES
REVENUE
IN 2016

104%

SALES GROWTH
IN GERMANY

11%

SALES GROWTH
IN AUSTRIA

THE GROWTH IN
VALUE IN THE
CEDEVITA'S "ON-
THE-GO" SEGMENT
AMOUNTED TO

9%

COMPARED
TO 2015

In the Cedevita's "On-The-Go" segment, the 345 ml packaging recorded excellent results in its second year after the redesign. The growth in value on the main regional markets amounted to 9% compared to 2015. The success in the "Kids" segment of products intended for children was facilitated by the new flavour Tropic and the packaging redesign, which contributed to a double-digit growth in the "Kids" segment compared to 2015. Cedevita "On-The-Go" is the segment that leads Cedevita's expansion to Western European markets, and Cedevita is, since 2016, available in the largest retail chains in Austria and Germany, such as the largest German retail chain Edeka. In the HoReCa segment, Cedevita achieved a double-digit growth compared to the previous period. Growth was recorded on all markets, amounting to 12% compared to 2015. As regards marketing activities, the campaign "Osvoji Fiću u kafiću" (Win a Fiat 500 in a café) in the markets of Croatia and BiH attracted a lot of attention, ending with the total of 75,485 players with 1,070,755 codes, which we consider to be one of the most successful prize contests in this business segment – during the prize contest, sales in Croatia grew by 10% and in BiH as much as 22%.

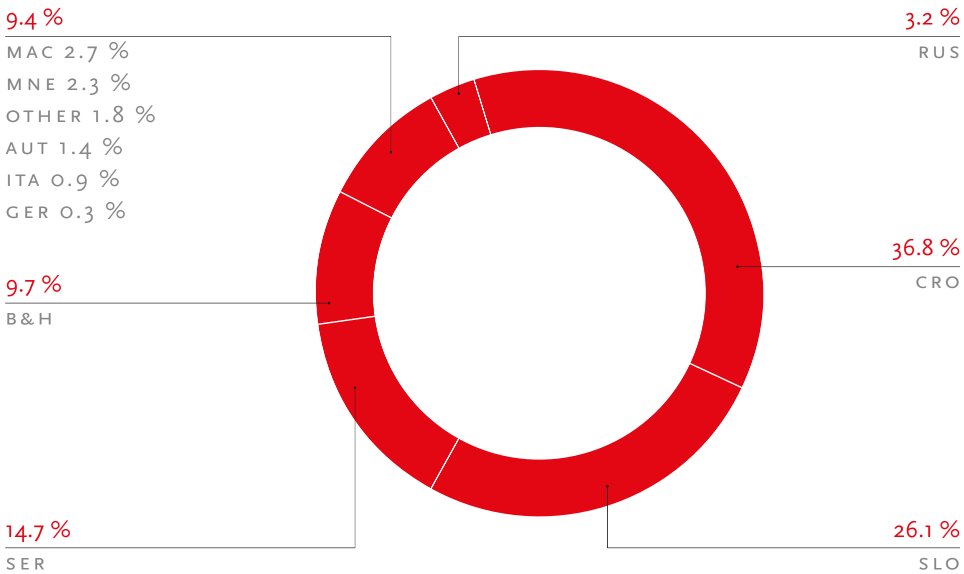
Cockta in 2016 retained its position of a different "cola" drink on the extremely competitive key regional markets of carbonated soft drinks. This is also reflected on respective market shares, which remained the same as in 2015. In 2016, Cockta defended its position of the strongest brand in Slovenia according to the brand strength index measured in the category of carbonated soft drinks and, according to the same index, achieved growth in Serbia, the largest market of carbonated drinks in the region. In 2014, Financial Times also recognised that Cockta is a top product even in global terms by ranking Cockta Original among the best 4 cola drinks in the world.

In 2016, Donat Mg continued its journey towards the vision of being a successful solution for healthy digestion, after its effectiveness in regulating digestion was demonstrated in a clinical trial performed in 2015 by the Analyze&Realize institute from Berlin. The fact that 2016 was a very successful year for the brand Donat Mg was confirmed by 8 major communication awards that Donat Mg received for advertising. Donat Mg made a significant step forward in retail sales and presented a unique user experience with an interactive shelf that became a personal assistant for solving different health problems. A total of four shelves were set-up, two in Slovenia and two in Germany. The motto of our marketing is innovative ideas with a little humour, which was confirmed in 2016 with a viral campaign "Donat Trump", which was shared more than 8,000 times on social networks. Further, in 2016 Donat Mg strengthened medical evidence in the area of detoxification and carried out the observation study Detox Mg in cooperation with the Medical Centre Rogaška.

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.

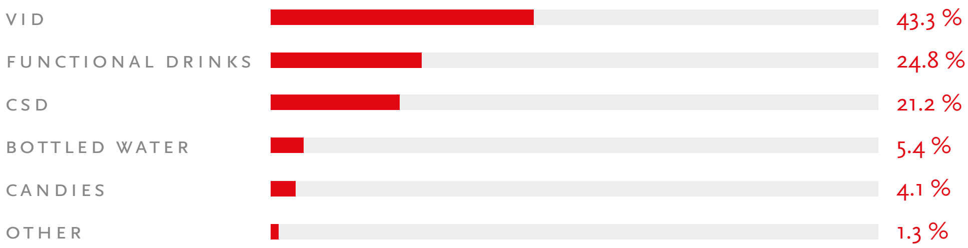
STRATEGIC BUSINESS UNIT
BEVERAGES

SALES BY COUNTRIES



SOURCE: INTERNAL ATLANTIC DATA

SALES BY CATEGORIES



IN 2014
FINANCIAL TIMES
RANKED COCKTA
ORIGINAL
AMONG THE
BEST

4

COLA DRINKS
IN THE WORLD

STRATEGIC BUSINESS UNIT
COFFEE

With its Strategic Business Unit Coffee (SBU Coffee), Atlantic Grupa's coffee brands successfully compete in all coffee segments and have impressive market leading position in the Adria region. This means that Atlantic Grupa is the leading coffee producer in the region known for consumption of traditional or Turkish coffee. Key business strengths are strong brand portfolio, product and regional know/how, flexible business operations and high quality product portfolio in the categories of Turkish, instant and espresso coffee. The most important brands are Barcaffè, Grand Kafa and Bonito. As a market leader in the category of Turkish coffee in Slovenia, Serbia, Bosnia & Herzegovina and Macedonia, SBU Coffee stands out as Atlantic Grupa's leading business unit by generating sales in the amount of HRK 1.06 billion in 2016, which represents 21% of total AG turnover with the total of 23,956 tonnes of coffee sold in 2016. Key markets in 2016 are Serbia and Slovenia, accounting for 46.7% and 28.3% of sales, respectively, followed by BiH (8.8%), Croatia (8.0%) and Macedonia (6.2%). Exports to other markets recorded a 34% value growth compared to the previous year. Sales in coffee categories are dominated by Turkish coffee with 89% of total sales, followed by espresso 7%, instant coffee 3% and other coffee 1%.

In late 2016, the market of raw coffee recorded a 30-percent increase in price caused by 50% lower yields of the Brazilian robusta coffee Conilon. The resulting compensation of Conilon with Rio Minas directly affected the price of Rio Minas raw coffee, which was in some cases 50% higher than in previous periods. Moreover, global raw coffee reserves ended the year at minimum levels due to low yields in Vietnam and Indonesia, which had a direct effect of carrying the trend of increasing prices and low global reserves from 2016 into 2017, while forecasts indicate that this trend will continue until 2019; all of the above reflects the challenging and dynamic conditions in which the SBU Coffee operates.

Despite the complex market situation, the leading market shares in all regional markets were successfully maintained and increased. The upward trend in traditional coffee in Slovenia, present from the beginning of the year, is primarily led by the upward trend of the leader in this category, the brand Barcaffè. At the end of the year, Barcaffè recorded the highest value share in the last two years of 81%. After a downward trend at the beginning of the year, the market of traditional coffee in Croatia has stabilised and Barcaffè recorded a 1.1 % increase in value share compared to the last year. In Bosnia and Herzegovina, Grand Gold improved its volume and value shares and remained the absolute leader with 18.5% of the market in the last measurement period, while Grand Aroma maintained its stable market share. As in the previous year, the segment of traditional coffee in Serbia recorded lower sales. Despite the category's declining trend, on its largest market the SBU Coffee ended the year 2016 with a 52.9% value market share in this category. Grand Gold remains the highest-selling product, while Bonito successfully retained its second position in Serbia, continuing the trend of highest growth in the entire segment of traditional coffee from the previous year.

THE REGION WAKES UP WITH US

1.06

BILLION HRK OF SALES REVENUE IN 2016 WHICH REPRESENTS

21%

OF TOTAL AG TURNOVER

23,956

TONNES OF COFFEE SOLD IN 2016

KEY MARKETS IN 2016 ARE SERBIA WITH

46.7%

OF SALES REVENUE AND SLOVENIA WITH

28.3%

OF SALES REVENUE

As regards the development of new products, in 2016 we launched Black'n'Easy sugar coffee. This new category represents a revolution in traditional coffee – now for everyone who loves coffee with sugar. Under this innovative brand, last year we have successfully launched the concept of traditional coffee offer in the HoReCa channel, B'n'E Make it yourself, offering the possibility to make an always fresh cup of B'n'E coffee in your favourite café, which is a strong trend among young people. Sales in the region show that B'n'E products continue to successfully build their market position with great development potentials. The year 2016 also saw the entry into the market of Montenegro by creating a new product, Grand Kafa Dark Gold, additionally roasted special coffee blend with strong aroma. In the "White cup" category, Barcaffè launched a new product line Fantasy Cappuccino, consisting of four new flavours – Cherry Vanilla, Spicy Cake, Choco Nougat and Irish Vanilla. The Grand Kafa's instant coffee assortment was also expanded with a new flavour of strong coffee – Grand Student in the segment 3in1, as well as a new ice coffee flavour Grand Freeze Irish Cream.

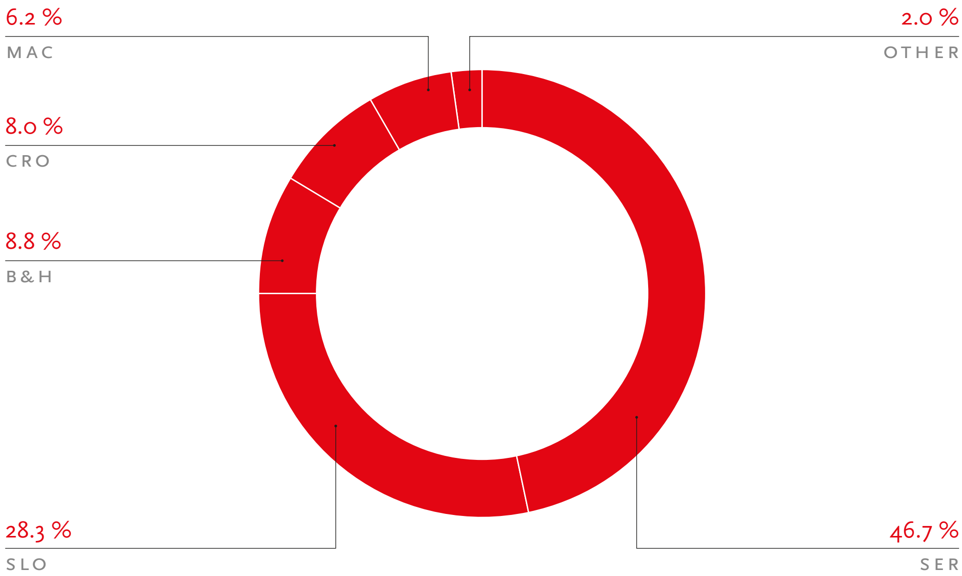
The SBU Coffee is strongly developing Barcaffè&Go segment, a modern and trendy concept that provides freedom of movement together with excellent quality of Barcaffè espresso coffee. In 2016, Barcaffè&Go sales in Croatia increased to 1.4 million beverages, while in Slovenia this number reached 9 million, which represents a 34% growth in sales compared to the previous year. In parallel, the SBU Coffee in 2016 continued to work on developing products that will meet the contemporary needs – developing coffee machines and coffee in capsules, both for in-home consumption and in the HoReCa channel, building its future strategic positions.

The year 2016 was also significant for communication platforms of all brands under the SBU Coffee. In Croatia, Barcaffè continued its communication on the platform "For a beautiful day" with targeted activities of distributing free product samples across the country. In Slovenia, Barcaffè launched a successful marketing campaign 360 degrees and a prize contest called "Okus, ki nagrajuje!" (An awarding taste). In Serbia, coffee Grand Aroma organised the Night of Aroma, a loyalty programme whose unique and innovative concept gathered 18,000 faithful consumers, as well as many other prize actions. The SBU Coffee fosters a two-way communication with consumers and invests in developing consumer relations through new digital media and campaigns, online contests, YouTube magazine and Facebook and Viber applications. The modern communication strategy of Grand Kafa brands resulted in numerous awards, of which we should in 2016 point out 7 awards of the Serbian Association of Market Communication Professionals (UEPS), and many other prizes and awards.

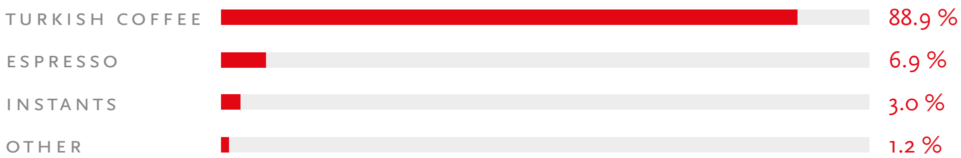
The SBU Coffee's production facilities increased their operational efficiency and enabled the packaging of 24,000 tonnes of coffee in four production sites.

STRATEGIC BUSINESS UNIT
COFFEE

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 regional candy companies – Soko Štark d.o.o. Production facilities with 870 employees are located in Serbia (Belgrade and Ljubovija). A majority of product categories (chocolate, cookies, tea biscuits, wafers, flips, and sticks) are manufactured under own technical and technological conditions in the above mentioned facilities, while a smaller share of products are manufactured by service partners. A new sales record was set in 2016 – over 28,000 tonnes of sold products, revenue in the amount of HRK 651.3 million, which represents a 3% growth in sales compared to 2015. As regards the sales structure, the dominating categories are chocolates and flips with around 60% share. In general, the year 2016 was marked by above-average growth in the sweets segment, particularly the categories of chocolates and chocolate bars. The category of sticks is the most important in the salty segment.

As regards the geographical sales structure, no significant changes were recorded. Serbia remains the primary market with around 65% share, with a growing share of export markets, mostly in the region. Markets outside the region posted a noticeable 8% growth compared to the last year, but their contribution to the business results still remains below 2%. We started cooperation with almost 20 new buyers, and our products had their début in stores across Bulgaria, Moldova, Cyprus and the Netherlands. The SBU Snacks is focusing more attention on developing its own retail network, building direct consumer relations and developing a respectable corporate image. At present, the network consists of 12 stores in Belgrade. A novelty in the SBU Snacks' operations is the development of the B2B sales channel. In line with the available product range, B2B is oriented towards the bakery and pastry industry, and cooperation was established with several partners.

Smoki, rightfully called the "favourite snack", retained its leading positions in all markets in the region other than Macedonia, where it is for years competing with a strong local brand. Mega Hrsker, a product with a higher share of peanuts in its composition, earned a permanent place in the portfolio with its quality. In addition to the brand Menaž, chocolates under the brand Najlepše Želje ensure the Štark's position of the leading chocolate producer in the market of Serbia, in front of the regional leader Milka. The development of this brand over the last years resulted in a significant move from an exclusively traditional, somewhat conservative image to the brand whose subvariants appeal to a wide consumer base. In 2016, emphasis was placed on developing the latest brands PLUS and LOL by launching extensions with new flavours (apricot and wheat crispy). Bananica, as one of the oldest Štark brands, reached almost a third of the market share on an exceptionally diverse bars market. The year 2016 will be marked in Bananica's history as the year of the first product innovation – Skroz Čoko Bananica. Sweeet, as a modern brand in the category of chocolate sticks, retained its stable market position, while a lime flavour was added to its fruit extensions. The redesign, new flavour extensions (lemon-ginger in 2016) and marketing support have brought Integrino to the position of a prominent member of the Štark's biscuit family. In the segment of integral cookies in Serbia, it holds a significant position with a 12.8% volume market share.

SALTY OR SWEET – A PERFECT SNACK FOR EVERYBODY

651.3

MILLION HRK OF SALES REVENUE IN 2016

3%

GROWTH IN SALES COMPARED TO 2015

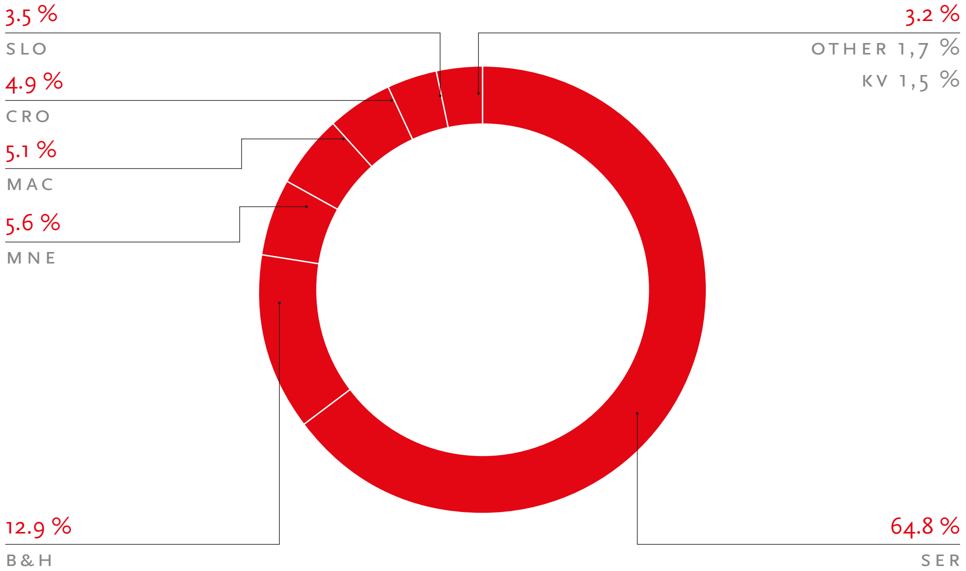
Innovations in the production programme are followed by innovative marketing communication. There is a growing trend of direct inclusion of consumers by developing a two-way relationship that strengthens brand association. The campaign PRANKS, which followed the portfolio expansion of the latest Najlepše Želje sub-brand LOL, with its contest for the best video, is an example of creative consumer animation. The professional public gave a special award to the action "Najlepše Želje – say it with chocolate". This action was awarded as the BEST BRAND PR PROJECT by the PR association of Serbia, while UEPS (Serbian Marketing Communications Association) ranked it highly in the categories of promotion at the point-of-sale, customer relations and direct marketing. This action was implemented in Štark shops for Valentine's Day and Women's Day, offering customers an opportunity to give their loved one a chocolate with a personal message engraved in beautiful letters written by a calligrapher.

Record-high sales are followed by record-high production. By continuous efforts we increased the utilisation rate of chocolate and Bananica production lines. The investment into pneumatic sugar transport is particularly significant as sugar is strategically a very important raw material. The new procedure of handling this raw material on five production lines not only improved operating efficiency, but also had positive effects on the quality and safety of final products. In respect of other investments, we should mention the start of Smoki's packaging optimisation and automation.

As recognition for the company's environmental responsibility, Štark again received a certificate for reducing CO_2 emission given by the company Sekopak. In this regard, the investment in a separate waste collection system played a significant role. The preparation of the wastewater treatment facility action plan is also an indicator of our permanent focus on operations coupled with environmental protection. The company's attitude towards responsible business conduct was officially confirmed by a number of certificates of compliance with international quality standards.

STRATEGIC BUSINESS UNIT
SNACKS

SALES BY COUNTRIES



SALES BY CATEGORIES

SOURCE: INTERNAL ATLANTIC DATA

The SBU Savoury Spreads reached outstanding results in 2016 and recorded a 9% growth relative to the previous year. Both brands contributed to that growth, with sales of Argeta and Montana up 12% and 1% respectively in terms of value.

Among novelties in Argeta's portfolio that contributed to the largest extent to the brand's growth, definitely are the new tastes adapted locally and for particular occasions. First, in a warmly received campaign Argeta offered consumers in Slovenia, Croatia, Bosnia and Herzegovina and in Serbia to vote and choose their favourite among three local tastes in each country, where each taste with its ingredients represented the country and its regions to the fullest. In an exciting vox popoli voting the winning taste in each country was recognised and Argeta proceeded with the production of the winning local tastes. The campaign left an amazing emotional mark with consumers immensely appreciating Argeta's efforts to bring forward local ingredients and tastes which also reflected in outstanding sales results of those products. Second, the new Argeta Ramadan pâté, a milder and less salty variation, presented a warmly welcomed meal component for fasting time. Also, this thoughtful consideration of consumer's needs, habits and preferences brought plenty of positive feedback. Third, the immensely successful adaptation to local preferences preformed extraordinary also among Austrian and German consumers. The Jagd-Aufstrich or the Hunters Pâté in English resonated extremely well with Austrian and German consumers used to strong and specific taste of similar pates. A locally adapted approach therefore proved to be vastly benefiting to Argeta.

Due to the success of Argeta Exclusive sub-brand in previous years when it was present on the shelves only during the end of the year festive season, Argeta Exclusive with truffles and Argeta Exclusive venison with rosemary were launched as all year present tastes in 2016. Additionally, following the tradition of the past years, a special Chef's Selection Argeta Exclusive was launched in October of 2016. This time, an amazing recipe combining smoked sea bass, honey and pear was developed in cooperation with renowned Istrian restaurant Stari Kaštel.

THE GOOD SIDE OF BREAD

9%

GROWTH IN SALES COMPARED TO 2015

12%

GROWTH IN SALES OF ARGETA

1%

GROWTH IN SALES OF MONTANE

Following an outstanding consumer insight indicating that a considerable amount of consumers mixes cheese bread spreads and pâté, a new taste Creamy Tuna was launched under the Argeta Junior sub-brand, containing 20% of cheese bread spread. The Creamy Tuna was immediately warmly received by both children and parents alike and became instantly one of the most beloved Argeta Junior tastes.

In 2016 Argeta celebrated 15 years of the slogan "Good side of bread", proving that outstanding amount of people in our region – but also far beyond it – really consider Argeta as being their favourite bread topping. The emotional connection with Argeta brand was highlighted in brand's marketing communication featuring a new emotional communication platform "How do you love yours?". Reminding people why they love Argeta, the campaign brought immense amount of goodwill to Argeta brand and confirmed its robust position among the top 10 strongest brands in the Adriatic region (source: Valicon research, 2016).

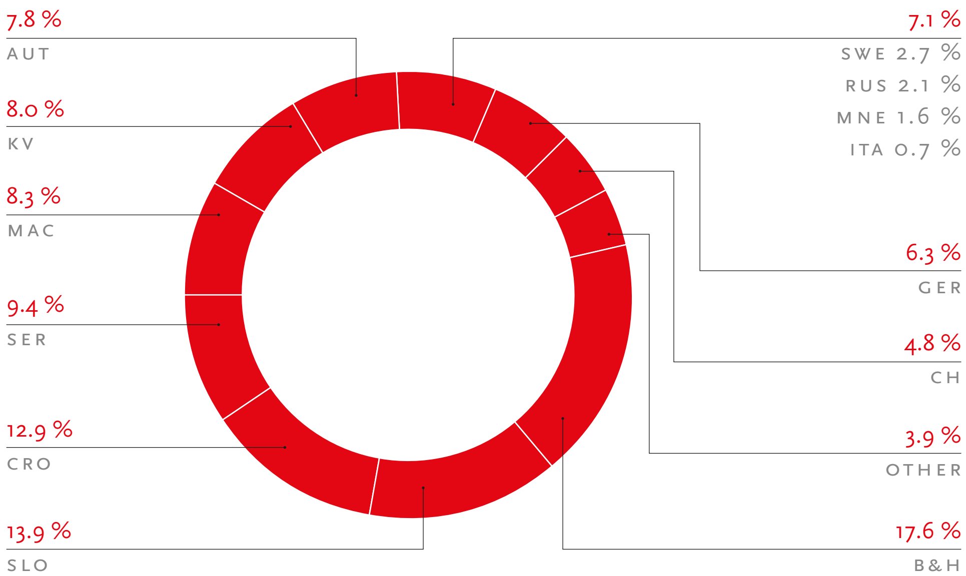
The strategy of "thinking globally, acting locally" and strong increase in the Lovemark status of Argeta brought outstanding business results. Sales in terms of value increased significantly in Croatia, where Argeta closed the gap in market share towards market leader considerably, also in Serbia, Slovenia, Bosnia and Herzegovina, Montenegro and Kosovo.

Argeta was again very successful on the markets outside the region: Argeta is the best-selling pâté on the Austrian market, has achieved its highest market share to date in Switzerland, where it has gained considerably on the market leader. Argeta also achieved high growth in sales outside the region in United Kingdom, Canada and Australia.

Despite the decreasing trend in the sandwich category in Slovenia and Croatia, and strong price increases that were implemented at the end of 2015 in Croatia and in mid-2016 in Slovenia, ranging from 20% to 40%, Montana has still managed to slightly grow in value in 2016. Aggressive price increase and exit from the Serbian market has reflected in a 12% volume decrease, but having in mind the 1% growth in value, we have managed to substantially grow our profitability. The growing trend in Snacking and Grab'n'Go categories rolling from Western Europe to the Balkan region is visible in intensive Grab'n'Go corners growth in the Retail and Petrol Channel. In line with our strategy we have successfully launched new Grab'n'Go categories: Pancakes (two flavours, with chocolate-nut and apricot marmalade filling) and Ready-to-Eat salads in 3 versions in Petrol channel. New products have contributed to our growth in value, but to a lesser extent in volume, being limited to Petrol channel distribution. With learnings from 2016 we have developed new strategy for Montana, which will expand Brand's footprint in other Sales channels, especially in Retail by introducing new Grab'n'Go categories that will fit new consumers' needs in regards to snacking and convenient meal solutions out of home. In Slovenia we have already moved the Brand in new direction with current Sandwich portfolio, that was successfully introduced to Mercator and Tuš hyper and supermarkets. Our Triangle sandwich portfolio was refreshed with two new sandwich recipes, Hummus for more health oriented consumers, and Piko intended for children that adore Piko salami.

As planned we have successfully introduced new Savoury Spreads Brand, ŠEF, targeting heavy pork liver pate consumers buying explicitly mainstream liver pates, which still represent more than 48% of the biggest pate market in Zone East, Serbia, and cannot be converted to Argeta due to Argeta's premium pricing and no pork meat policy.

SALES BY COUNTRIES



SOURCE: INTERNAL ATLANTIC DATA

SALES BY BRANDS

The Strategic Business Unit Pharma and Personal Care, as a quality example of vertical integration (production – distribution – retail), has for years been recognised in Croatia and the region as a successful business model that follows its own brands (Dietpharm, Melem, Plidenta, Lip Balm, etc.) from production to their final consumers. The production of dietary supplements, over-the-counter (OTC) medicines and cosmetics, other than the usual retail distribution through the wholesale pharmacy, was also implemented in the pharmacy market, both in own and other pharmacies and specialised stores.

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, with a special focus on export markets. The brand Dietpharm in 2016 retained its leading position on the Croatian market of dietary supplements with a 22% market share. The brand that included 92 products has been additionally strengthened with two new dietary supplements: Magnesium Night for insomnia and the probiotic Biotic Baby. A new medicine was launched in the growing segment of flu and cold – Acekal C. In 2016, Dietpharm put even more focus on developing its loyalty programme Health Club that has over 80,000 members who are collecting points in contracted pharmacies across Croatia. Dietpharm is present on 10 export markets, of which Russia is one of the most important ones, and which is still experiencing negative economic impacts. Nevertheless, Multivita maintained its high market share in Vitamin C sales on that market. At the conference organised by the Pharmaceutical Organisation of Saint Petersburg and Russia's North-western region, Multivita Vitamin C was selected as the "Product of the Year 2016".

Neva, which established itself on the domestic market with the brands Plidenta, Melem and Rosal Lip Balm, outside Croatia continued to strengthen its focus on the segment of production of private labels. Plidenta stands out as a major brand in the product portfolio with a 25% share in the total sales of Neva, and in 2016 two new products were launched – Plidenta Fresh & White, and Plidenta Extra Smile White.

WE TAKE CARE OF YOUR BEAUTY AND HEALTH

Under the brand Rosal, the highest share in sales is held by Lip Balm products, where in 2016 we redesigned the entire Lip Balm assortment and launched new products – RLB Magic Pink – the first black balm that colours your lips pink, and RLB Sun Protect – balm with the SPF factor 30 for protection from the Sun. In 2016, Rosal Lip Balm Magic Pink won the Cosmopolitan Beauty award for the most innovative product given by the magazine's female readers, i.e. our consumers.

At the year's end, we successfully launched Rosal Lip Balm Macarons, lip balms in innovative packaging similar to French macaron cookies, with increased aroma, which protect and give lips a special glow.

Melem shows improved brand strength and consumer loyalty, which is reflected in a double-digit growth in sales (+12%) for a second year in a row. A new product was launched, Melem 25 ml in a tube, which also started the implementation of a more feminine packaging design of the entire product line. Melem continues to put special focus on the Melem Club users by giving out numerous prizes and by organising social events between users.

Other than distributing own brands, the wholesale pharmacy Atlantic Pharmacentar each year expands its distribution portfolio with new exclusive agreements with cosmetics and other OTC brands. As regards the sales assortment, the share of principal brands, particularly in the segment of cosmetics, is growing, while Dietpharm has a 41% share in the wholesale pharmacy's total sales.

The chain of pharmacies and specialised stores Farmacia by further acquisitions and opening of new stores continues to strengthen its position as the leading private pharmacy chain, offering additional services, specialised counselling centres and following global trends in this sector. Farmacia has a total of 81 units (48 pharmacies and 33 specialised stores). In 2016, it continued its actions in three directions: relations with patients through expert recommendations and the counselling centre, further employee training through its own education centre, and relations with the professional community. At the Ministry of Health, Farmacia is participating in the work of a newly established Committee for preparing the pharmacy sector strategy, a very important document that will set the future development of the pharmacy sector in Croatia. In 2016 we continued cooperation with the Croatian Medical Chamber as well as with the Croatian Pharmaceutical Society, where Farmacia supported several public health actions. At the session of the Faculty of Pharmacy and Biochemistry held for the purpose of celebrating 134 years since the establishment of this faculty in Zagreb, Farmacia received a certificate of gratitude for its support and successful cooperation in improving scientific-educational activities and the student standard. A new webpage farmacia.hr was launched, and Farmacia is also present on social networks Facebook and Instagram.

81

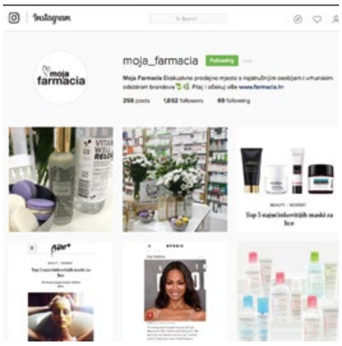
VENUES OF PHARMACIES AND SPECIALISED STORES FARMACIA ACROSS THE REPUBLIC OF CROATIA

33

SPECIALISED STORES

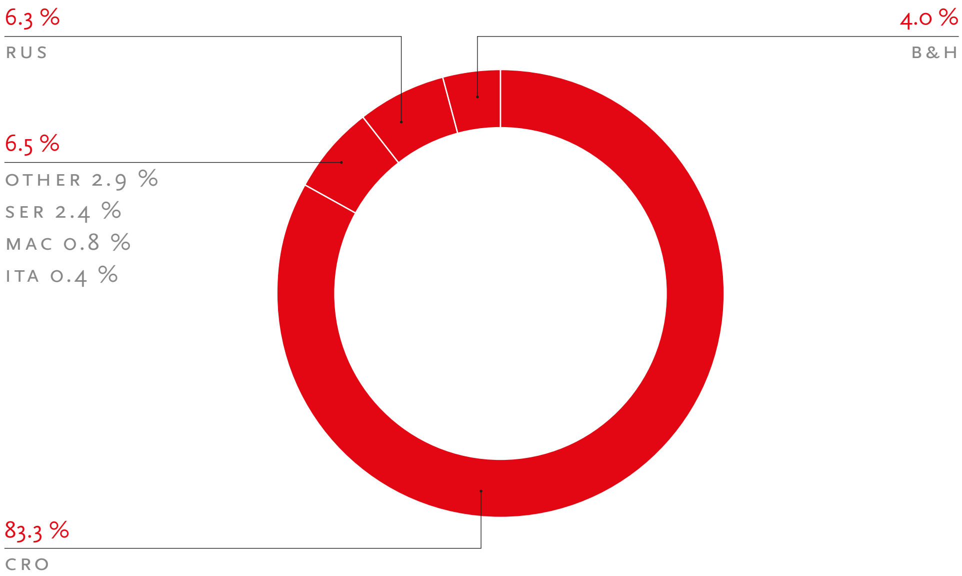
48

PHARMACIES



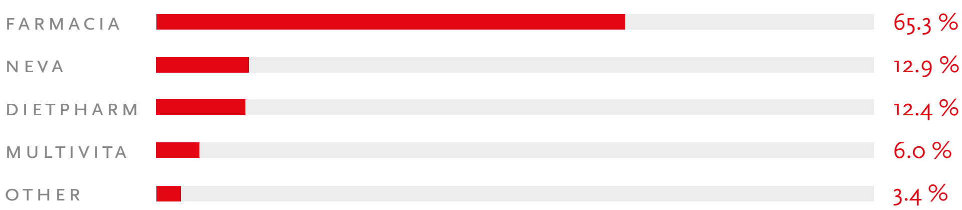
As the quality and safety of products are key factors in acquiring and maintaining consumer trust, high product quality is ensured by systematic investments in knowledge, equipment, technical skills, marketing and consumer communication. The SBU Pharma and Personal Care's quality management systems comply with the strict international standards (ISO 9001, ISO 14000, HACCP, GMP).

SALES BY COUNTRIES - PHARMA



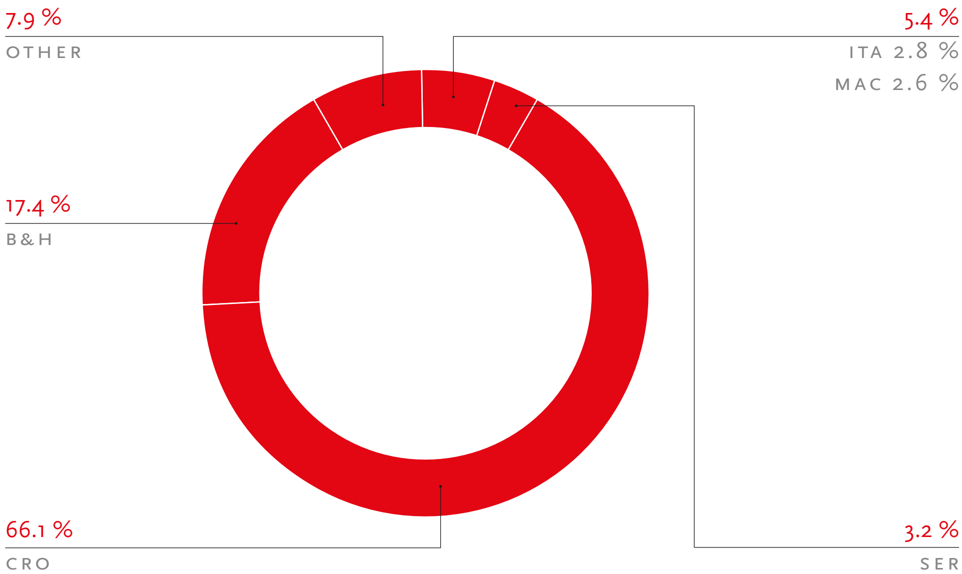
SOURCE: INTERNAL ATLANTIC DATA

SALES BY CATEGORIES - PHARMA

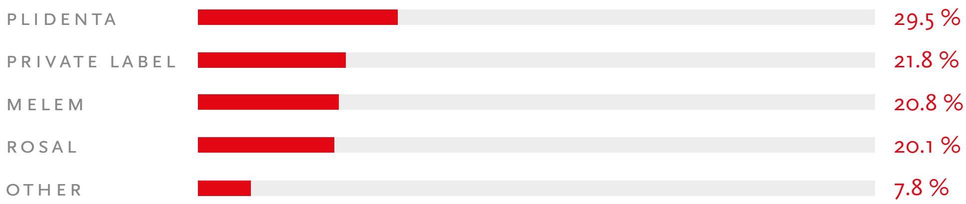


STRATEGIC BUSINESS UNIT
PHARMA AND PERSONAL CARE

SALES BY COUNTRIES - PERSONAL CARE



SALES BY CATEGORIES - PERSONAL CARE



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, production and marketing of sports nutrition and weight-management products. In 2017, it will celebrate forty years. Tradition and constant innovation in the sports food segment have resulted in being one the leading producers of sports and functional food in Germany. The headquarters of the SBU Sports and Functional Food are in Hamburg and the products are sold on the European market under the three brands, Multipower, Champ and Multaben.

The SBU Sports and Functional Food's production processes are certified by ISO 9001:2000 and IFS. The production plant for powder products and supplements is located in Bleckede near Hamburg, where some of the first protein powders in Europe were produced. The plant is employing 70 people, producing protein powders and meal replacement products for three of our own brands as well as for private label customers. In 2016, the production facility was certified with Environmental certificate ISO 14000 and can produce Halal certified products. The plant for production of protein and variety of other bars opened in 2015 in Nova Gradiška, Croatia. The facility is equipped with the top technology capable of producing around 100 million protein bars a year. This new plant enabled the SBU Sports and Functional Food to transfer the production of this segment from external producers to its' own manufacturing. Following constant innovation on the market, additional technological investments were performed during 2016 in order to improve the production efficiency and product safety: production equipment for protein bars sprinkling and automatic transport and sieving system of dry premixes. The plant in Nova Gradiška at the end of 2016 employed a team of 87 people.

The SBU Sports and Functional Food in 2016 continued its restructuring process with focus on business simplification, cost reduction and preparation for sustainable business growth. Within the restructuring process, product portfolio was optimized and simplified, and the number of raw ingredients was significantly reduced. Focus sales markets were defined and new sales policy for all other markets was implemented. Key processes in the supply chain, such as the planning process and production cycles, were reset, including inventory management. This led to the reduction of raw materials and finished goods inventory, improved operational efficiency and reduced out of stock situations. Overall costs were levelled to the size of the business, most of it coming from the headcount reduction in company headquarters and production plant Bleckede.

In line with the new strategy, the SBU focused on the branded part of the business, strengthening both major brands, Multipower and Champ. Historically, Multipower was positioned in the sports channel, now shifting focus to the two most growing channels in sports nutrition: mass market and online. Most of the Multipower portfolio was renovated in 2016, with a clear focus on protein bars development and entering the mass market. The biggest success of 2016 was the launch of Multipower 53% protein bars with the highest protein content on the market. Multipower premium powder range was supported by all year engaging online campaign "Join the power", which reached more than 14 million impressions via online media.

FEED YOUR INNER CHAMPION

40
YEARS OF TRADITION

The endurance line was redesigned and enriched by the launch of the new endurance gel, developed together with world leading triathlon athlete, Jan Frodeno.

Champ, the first brand ever present in the sports nutrition German mass market, was renovated and re-launched in order to regain his former strong position and profitability. The re-launch was supported with a marketing campaign “Gratis testen”, which invited consumers to try the new and better Champ.

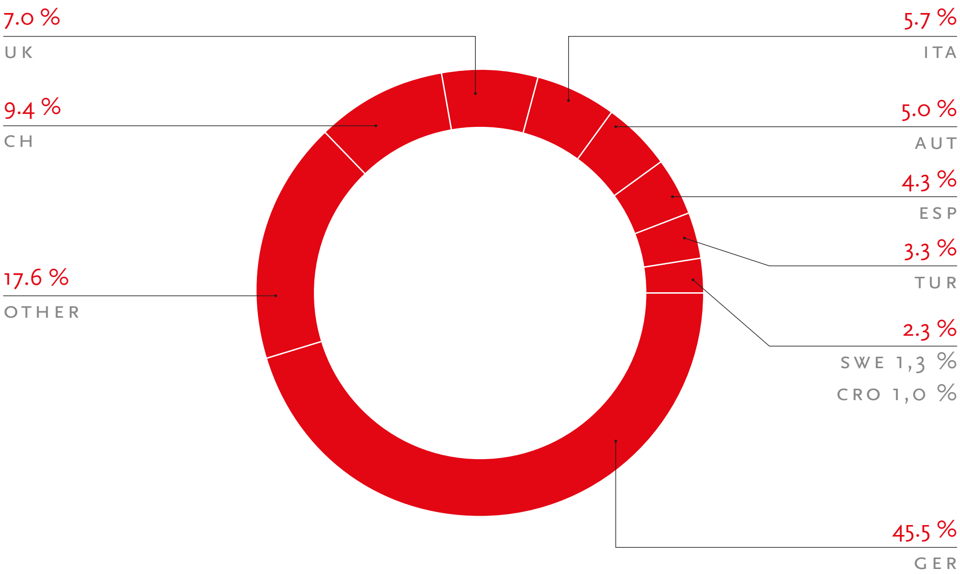
Private label business is historically an important pillar of Sports and Functional Food. In order to improve its profitability and bring volumes to both of our plants, strategic approach of the business moved from small and complex customers to high volume and profitable ones. This resulted with the first successful contract in 2016 for bars manufacturing and opening of more than 20 new projects for 2017. Termination of the contract with the largest private label customer in the bars segment in early 2016 caused a big drop in private label sales, affecting the overall business situation. Private label will continue its aggressive growth in powders and bars to support SFF branded business on its way to quick return to profitability.

During 2016, Multipower as the focus brand kept its highest sales share within the SBU’s portfolio, with stable sales on the domestic market. Highest growth was achieved on the Austrian market. The United Kingdom’s exit from the European Union and the pound-to-euro exchange rate had a negative effect on the UK market, which experienced a decline compared to 2015. In the next three years, the SFF plans to stay focused on the domestic German market and further develop opportunity markets of Austria, UK, Italy and Croatia. Mass market and online channels will be in focus, supported by stable sales in the Sports channel. SFF will keep investing in our three brands through innovation, brand building and sales support:

- Multipower: 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: a mainstream entry-level brand for active people and health conscious individuals, offering easy intake of proteins every day;
- Multaben: moving from weight loss to meal replacement and healthy lifestyle categories, targeting women who would like to feel good in their body and enjoy tasty meal replacement products during their busy day.

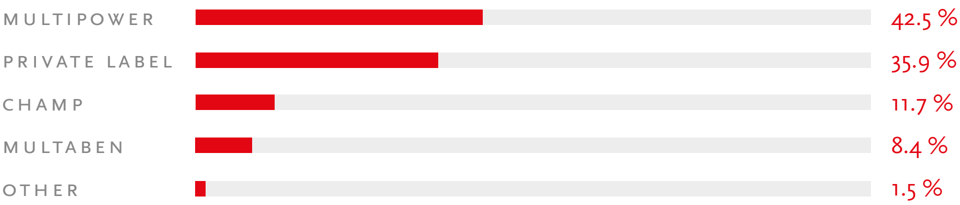
STRATEGIC BUSINESS UNIT
SPORTS AND FUNCTIONAL FOOD

SALES BY COUNTRIES



SOURCE: INTERNAL ATLANTIC DATA

SALES BY BRANDS




Granny's Secret
Ajvar Classic
Balkan Specialty
200g
Net

In 2016, the BU Gourmet generated sales in the amount of HRK 33 million. The decrease in sales compared to 2015 was mostly caused by the implementation of a new commercial policy, with the largest impact on the Serbian market. Additionally, the business unit's strategic decision to cease the production of private labels had further adversely affected the sales performance. It is worth noting that the brand Bakina Tajna (Granny's Secret) recorded a double-digit growth in relation to the last year, namely in the most significant markets like Croatia, Slovenia, United Kingdom and France, which indicates the viability of the business unit's strategy.

A significant focus in 2016 was on optimising the portfolio in line with Atlantic Grupa's market segmentation into Zone East and Zone West. After reviewing commercial terms and negotiating with the key clients in Serbia, we found a mutually satisfying solution for the current profitability challenges. At the same time, we designed a portfolio for Zone West with 41 products that are presented on international markets.

We established cooperation with many new clients in the markets of Germany, Austria, France, United Kingdom, Croatia and Slovenia. In the HoReCa channel, our orange juice was launched in the markets of United Kingdom and France. We have also promoted a new brand identity with a more readable label, new cap colour and a new design of samples.

Concurrently with designing and implementing the sales strategy, significant efforts were invested in optimising production processes and thus the costs. In this part of operations we managed to create preconditions for purchasing a majority of raw materials for production in the season and we are able to process them using our own capacities, which has a positive impact on our profitability. A review of all components and standards for all semi-finished products and finished products was carried out and the complexity of labelling was reduced by forming language groups in German, English, French, Russian, Croatian and Serbian languages. The prices and assortment of Bakina Tajna (Granny's Secret) were revised in the markets of Austria and Germany. The strategy for market approach and support was harmonised in all markets in accordance with their classification and we successfully passed all internal and external audits in line with ISO standards.

In Croatia, we implemented a campaign aimed at increasing recognisability of the brand Bakina Tajna (Granny's Secret) and communicating that Ajvar relish can be enjoyed on many occasions. We are proud winners of the "Site of the Day" award for the best designed webpage in the world, and for a fifth time in a row we won the "Great Taste Award" in United Kingdom for our blackcurrant juice.

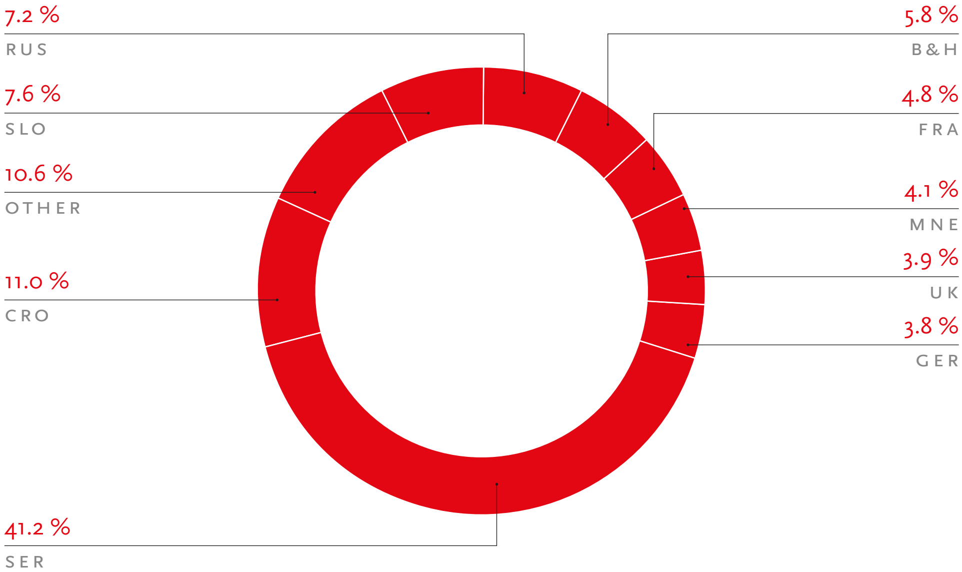
As regards capital investments in 2016, the most significant one is the pepper roasting line and the system for automatic washing of equipment (the so called CIP system). In addition to increasing the capacities, the new roasting line provides an option of processing fresh peppers in the season, with further positive effects on profitability, while the procurement of the CIP system represents an additional investment in raising the quality of our products.

33

MILLION HRK
OF SALES
REVENUE
IN 2016

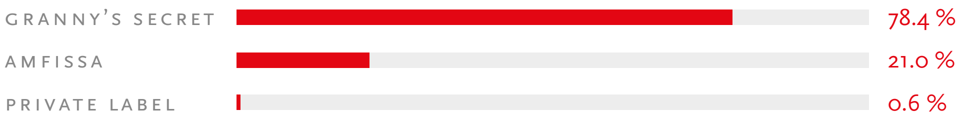
FOOD FOR
THE SOUL

SALES BY COUNTRIES



SOURCE: INTERNAL ATLANTIC DATA

SALES BY BRANDS




Granny's Secret
This juice contains an average of
112
Black Currant berries
great taste
2016
Granny's Secret
Black Currant and White Grape
100% Fruit Content

BUSINESS UNIT
BABY FOOD

While most of the Russian market segments struggle with macroeconomic environment, depreciation of the Russian rouble, reduced purchasing power and decrease in value and volume, the Baby Food category shows significant growth in the cereals segment: +10% in value and + 8% in volume. Parents did not cut expenses for babies' needs and, in addition, the positive birth rate dynamic provides the market with new opportunities for development. The Business Unit Baby Food shows the same positive dynamics in rouble terms, especially in the baby cereals category, keeping the fourth market share position. The main progress deliverer are Baby Special Stores, where the brand has +24% of value and +7% of volume growth.

In order to win new customers, we launched four new products in the Baby cereals segment: two products in the goat milk products sub-category and two new products in the milk cereals category. The products reached 4.5% of cereals portfolio volume and 6.1% value with sales starting from July 2016. Adaptation of the top seven products' packaging for Baltic region with product description in Latvian, Estonian, Lithuanian language instead of a sticker over Russian packaging increased brand locality and recognition in the Region.

The process of core range assortment review was held. As a result, the recommended assortments for key channels were proposed and assortment mix for top clients was approved, in order to present more categories of our assortment and discontinue unpopular and non profitable products.

We actively worked with all main social media in the region: Vkontakte, Facebook, Odniklassniki and Instagram, with admirable results: +750 new followers in social networks VKontakte, Facebook, Odnoclassniki, Instagram, 1,640,830 people covered (two times more than the previous time) and doubled the engagement rate on social networks. Simultaneously, web site bebi.ru was improved and a new visual code for posts and communities was implemented, which helped to increase brand recognition and engagement rate.

FROM THE FIRST DAY OF LIFE

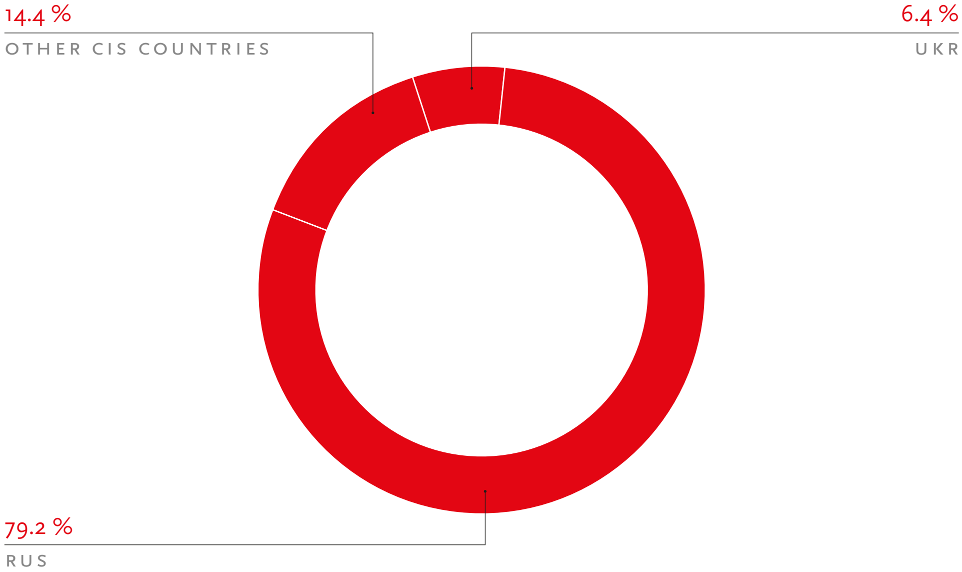
10%

VALUE GROWTH IN THE CEREALS SEGMENT ON THE RUSSIAN MARKET

8%

VOLUME GROWTH IN THE CEREALS SEGMENT ON THE RUSSIAN MARKET

SALES BY COUNTRIES



SALES BY CATEGORIES

SOURCE: INTERNAL ATLANTIC DATA

The **STRATEGIC DISTRIBUTION UNITS AND DISTRIBUTION UNITS** have a highly developed know-how in the fields of 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 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.

SDU CROATIA

The SDU Croatia improved its revenue performance (growth of HRK 20.7 million or +2.2% compared to 2015) as a result of capturing season opportunities, horizontal growth and widening of the category portfolio, thus assuring a sustainable volume growth trend over the years. At the same time, in 2016 revenue performance was challenged by the continuation of market concentration (Konzum, dm, Plodine, Lidl, Kaufland) resulting in overall higher pressure on terms and conditions, which were higher by 0.6% compared to 2015.

2.2%
OF REVENUE GROWTH COMPARED TO 2015

20.7
MILLION HRK OF REVENUE GROWTH COMPARED TO 2015

Speaking of key brands and categories, the SDU Croatia achieved impressive results. Argeta in the category of savoury spreads grew by 18% in comparison to 2015, due to the successful execution of brand initiatives while focusing on visibility and excellence in overall market placement. Snacks category (comprised of Smoki, Chipsos and Keksići) grew by 15%, with the growth assured through securing physical availability and promotional wheels to stimulate rotation, which proved to be especially effective in traditional trade and discounters. The coffee segment was also very successful and grew by 7%, as a result of balancing promotional tactics and synchronising implementation rhythms contributed to the stable growth, still having to capture opportunities even in the biggest formats such as hypermarkets, and Konzum out of the top key accounts. Vitamin instant drink Cedevita in the beverages segment maintained its market share within the stable category, while only challengers were private labels through extra price promotional cuts. Category development initiatives were also put in place for long term growth. Speaking of principals, Ferrero and Unilever showed strong growth, by 7% and 6% respectively, Ferrero due to visibility improvements, key portfolio activations and stronger support during the key seasonal drives, while Unilever by managing to balance investments for new category player vs level of marketing mix. On the other hand, Wrigley achieved 4% lower performance due to overall underperformance of the whole chewing gum category (AT Nielsen MAT -7%) and due to the reduced number of impulse outlets in the market.

Logistic optimisation (cost per pallet -4.7% vs 2015) assured through continuous efficiency improvements as a result of applying the delivery workflow in its full scope, double decker utilisation, tour-retour deliveries for pallets from distribution centres to SBUs, preload deliveries from Central towards Bionatura Bidon Vode warehouse, etc. As overall non-food categories are highly competitive and volume delivery is under bigger promotional pressure, with careful adjusting and monitoring we have managed to deliver substantial growth towards our customers through brands that deliver actual category growth. The complexity of nurturing food categories overall was dependent on their respective category's maturity stage and brand penetration levels that dictated the dynamics of support. Horizontal trade market growth is supported through continued capital investments primarily related to installation of new coffee-to-go and cold drink equipment and maintenance of its existing positions.

As a final note, we have followed our strategic intent of being the distributor that outperforms the competitors, providing top physical availability throughout the year and maximising it in the summer season through reinforcing sales force organisational model in Dalmatia and Istria. The achieved improvement and frequency of visits helped the visibility and volume rotation of our represented brands in an immediate way (beverages category by +12% or +11.6 million HRK vs PY). The SDU Croatia's portfolio in a majority of cases outperformed the targeted competition in terms of placement and visibility in major and secondary placements, ensuring the brands' relevant and contextual touchpoints, allowing them to close their 360 degrees strategies.

The company Bionatura Bidon Vode, operating under the SDU Croatia, realises most of its sales from water Kala, which it delivers in containers (bidons) together with water coolers of the highest quality, thus offering natural spring water at your reach. In 2016, the sales of Bionatura grew by 10%, whereas growth was led by additional assortment products.

SDU SERBIA

54.7%

MARKET SHARE OF TURKISH COFFEE IN SERBIA

22%

MARKET SHARE OF CHOCOLATES IN SERBIA

In 2016, the SDU Serbia recorded a mild decrease in sales compared to 2015, primarily due to terminating cooperation with one principal, devalvation of the Serbian dinar, and partly due to challenging economic conditions in Serbia. On the other hand, by applying careful cost management and achieving significant savings under different items, as well as a significant growth in sales of individual product groups, the listed drop in sales was partially compensated. With the market share growing to 54.7%, the unit managed to retain its leading position as a supplier of Turkish coffee. In the segment of chocolates, Najlepše Želje reached a record-high market share of 22.0% as did Argeta with 18.6% in the segment of meat savoury spreads, while the fish segment continues to set records, reaching a 56% market share. In 2016, we continued our successful cooperation with international principals, such as L'Oreal, Rauch, Schwartau, Del Castello and Alkaloid, all of which recorded significant annual growth (e.g. Rauch 25%, Corny 26%), as a direct consequence of the divisional organisation implemented during 2015. In mid-2016, the distribution portfolio of the SDU Serbia welcomed a new principal, the producer of premium spirits Beam Suntory. Their product assortment includes the most famous brands of premium spirits, such as the prestigious cognac Courvoisier, Jim Beam and Teachers whiskey, which will complement the drinks portfolio offered in Serbia by Atlantic Brands.

DU SLOVENIA

8%

EBITDA GROWTH AND AN EQUAL PERCENTAGE OF EBIT GROWTH IN 2016

The Distribution Unit Slovenia (DU Slovenia) in 2016 stabilised its operations and affirmed itself as the largest distributor of consumer goods in Slovenia. Compared with the last year, in 2016 it recorded a 8% EBITDA growth and an equal percentage of EBIT growth. In terms of consumers, the market of Slovenia is still stagnating (the annual index of food, drink and tobacco consumption is at the level of 87 compared to 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 the targeted competition.

Despite the stagnating market, we achieved respectable sales growth for the following brands:

- Barcaffè in the category of instant coffee **+ 9%**
- Argeta in the category of savoury spreads **+8%**
- Smoki in the category of salty snacks **+15%**
- Montana in the category of ready-made sandwiches **+8%**
- Ferrero in the category of chocolate products and pralines **+5%**
- BiC in the category of disposable razors **+37%**

The growth in sales achieved in these categories is organic growth, 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. In particular, this includes the brand Barcaffè and its Turkish coffee assortment with 77%, Argeta with 43.8%, Smoki with 46.2%, Ferrero with 22.6% and BiC with 30,2% in the category of disposable women's razors.
Such excellent results were 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.

STRATEGIC DISTRIBUTION UNITS
AND DISTRIBUTION UNITS

SDU CROATIA

SDU SERBIA

DU SLOVENIA

DU MACEDONIA

6%

OF REVENUE GROWTH COMPARED TO 2015

This year the Distribution Unit Macedonia (DU Macedonia) recorded growth and increased the company`s sales coupled with the associated rise in profit. The DU Macedonia remained one of the top distribution companies of consumer goods in Macedonia. With a wide-ranged and diversified portfolio, and with high-quality products, our company satisfies a broad range of consumer needs. In addition to the familiar and famous domestic brands, the DU Macedonia offers goods from well-known international companies – with a high level of satisfaction of our consumers as an ultimate goal:

- Ferrero
- BarLatte
- Beam Suntory

In comparison with the year 2015, the DU Macedonia recorded a 6% growth in sales and even higher profit growth, which is a result of the excellent organisation as well as the method Atlantic Grupa uses to offer its products. A new brand for this year is Beam Suntory, with a wide spectrum of alcoholic beverages that are distributed both in retail and HoReCa segment. The best selling brand in 2016 is Grand Kafa, followed by Argeta, while the third place is shared by Štark and the external principal Ferrero – both of which experience a new expansion on the Macedonian market every year. Our products are offered in 2,146 retail outlets, 203 wholesale outlets, 206 petrol stations, 198 kiosks, 254 pharmacies and other places of delivery, with a lower cost of service than in the previous year by 0.5%. Organisationally, our 24-hour delivery is carried out from two warehouses on different locations, i.e. the retail warehouse and the HoReCa/pharma warehouse, is served by own and outsourced logistic transport services. Every day, 130 employees are focused on the improvement and promotion of our products and our company, deployed in different departments by function, including the HoReCa segment. In the future, we expect further sales growth and improvement of operational efficiency.

SDR HORECA

12%

OF REVENUE GROWTH COMPARED TO 2015

In 2016, 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. Our result-oriented approach lead to a double-digit growth (12%), achieved due to both higher sales of own brands and higher sales of the existing principals, while new agreements with principals provided an additional contribution. Special emphasis was placed on branding the so called "image" of the venues located in the most attractive parts of the city, in order to raise consumer awareness and ensure their loyalty. As regards espresso coffee sales, an increased coffee consumption per machine was taken into account when making investments by installing espresso machines, i.e. it was invested in venues with higher consumption. Owing to such an approach, we established cooperation with 780 new buyers, achieved a 19% volume growth and a 11% growth in average consumption per machine. In 2016, a new distribution agreement with the company Beam Suntory was signed, thus further strengthening the Atlantic Grupa's presence in the HoReCa channel. Beam Suntory is the third largest global producer of premium spirits, such as the globally best-selling bourbon Jim Beam, Japanese whiskey Yamazaki, whiskey Canadian Club, Teachers and many other brands. The distribution agreement covers the markets of Serbia, Macedonia, Montenegro, Kosovo and Albania. The SDR HoReCa proactively considers new potentials in terms of principal partners, as well as sales opportunities for own products in the HoReCa channel to meet competitive market demands and increase business efficiency.

STRATEGIC DISTRIBUTION UNITS
AND DISTRIBUTION UNITS

SDR HORECA – CROATIA, SERBIA, SLOVENIA AND MACEDONIA

SDR CIS & BALTIC

The ongoing crisis and further deterioration of the economic situation forced the SDR CIS & Baltic team to put even more efforts in order to preserve and develop existing distribution and secure sustainable development in a profitable direction for all of its brands.

Constant work on increasing of the awareness of Bebi brand helped the SDR CIS & Baltic team to execute two successful launches and achieve excellent sales results for two new cereals' products based on goat milk. With tremendous efforts, the sales team of Atlantic Brands Moscow managed to execute several successive price increases, which have driven Argeta to better profitability both in retail and distributors channel.

A huge step was made in further development of Donat Mg, with introduction of a new distributor and creating a competitive environment vs. monopoly, giving Atlantic Grupa more possibilities to leverage the brand success. With 70% of shelf price increase, caused by unfavourable currency movement, the SDR CIS & Baltic team managed to keep sales on the level of the previous year under conditions of constant decrease in purchasing power, which indicates strong brand recognition on the Russian market. After three years of attempts, in 2016 Atlantic Brands Moscow team succeeded to enter #5 retail chain in Russia – Lenta. In addition, the introduction of the base price list gave possibility for better control over commercial policy and made it more transparent.

The high birth rate and growing economics 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 ZONE WEST

SDR DACH&Benelux

On 1 January 2016, the wholly owned sales companies started operations in Austria and Germany. Atlantic Brands Germany GmbH (ABGE) is now the sole distribution company for all Atlantic Grupa brands in the German market. All modern trade customers and all customers in the sport channel are serviced directly by the ABGE sales team, whereas the specialised retail channel is served through a dedicated partner. During 2016, ABGE also added the first non-AG brands to its portfolio.

Atlantic Brands Austria GmbH (ABAT) operates a similar concept as its German sister company. All retail customers and sport channel customers are direct customers of ABAT, whereas also here the specialised retail channel is serviced through a dedicated partner. In Austria we expanded the modern trade footprint to include hard discount customers now as well. Both companies offer the full range of sales, trade marketing and logistics services for internal and external brand owners.

The Swiss and Benelux markets are activated in close cooperation with selected external partners. In both markets we experienced healthy growth, driven by higher sales with existing customers and increased distribution with new customers. This will help to strengthen both top line sales and bottom line profit in these markets.

ATLANTIC GRUPA

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

25%

OF REVENUE GROWTH OF AG BRANDS (EXCEPT MULTIPOWER)

THE BRANDS CEDEVITA, NATURAVITA, DONAT MG, GRAND AND ŠTARK RECORDED GROWTH RANGING FROM

21-68%

DR Mediterranean & Africa, DR Northwest Europe and Australia, PDR Central Europe and Overseas

In 2016, the performance in the UK market has been heavily impacted by the unfavourable FX effect. During the course of the year, the price increases across all of the Atlantic Grupa brands have been implemented in the attempt to counterbalance, at least partially, the negative impact of the rampant devaluation of the sterling vs. euro. The Multipower brand suffered the increased competition from new sport nutrition suppliers entering in the independent gym channel and the lower than expected sales in the key accounts. Despite the FX effect, the AG brands other than Multipower registered a 25% growth. During 2016, Atlantic Multipower UK also added the first principal brands to its portfolio.

In Italy and Spain, the Sport Channel registered a double-digit increase in numerical distribution. A delay in the start of the endurance season and a decline in sales in key accounts have significantly impacted the overall Multipower sales performance. During 2016, Atlantic Multipower Italy also added two principal brands to its portfolio. In France, the Granny's Secret brand has significantly increased its presence in high-end modern trade retailers and specialised gourmet shops. During 2016, the majority of countries of Central Europe and Overseas changed the operational model, which resulted in a strong double-digit growth in sales of almost all brands. Consequently, the brands Cedevita, Naturavita, Donat Mg, Grand and Štark recorded growth ranging from 21% to 68%, while Cockta and Multipower recorded growth of 7% and 9%, respectively. The brands Argeta and Bakina Tajna (Granny's Secret) recorded lower sales than in 2015 due to changing the strategy, distribution channels and distributors, but these changes created strong preconditions for stronger growth in the coming years.

Sweden is the most important market in the region Scandinavia and Africa. The conclusion of distribution agreements with new distributors in Sweden and Norway with a double-digit growth of most brands did not compensate for Argeta's lower sales compared to 2015, so this region records a slight decline in sales compared to the previous year. The region USA, Canada and Middle East posted almost a 30% growth, while Canada and Turkey are countries with the highest growth (over 50%). The United States of America posted a lower, but still double-digit growth. In America and Canada, the highest sales and growth are recorded by the brands Argeta, Štark, Grand, Cockta and Jupi, while the strong growth in Turkey is a result of optimising the portfolio and improving support to the Turkish distributor of Multipower. In the region Australia, Asia and Central Europe, the most important market in view of sales is Australia, which is a cornerstone of this region. The focus on the market of Australia, preparing a new strategy and selecting two exclusive importers and distributors resulted in growth above 30%. Although the scope of operations in China, Japan and Singapore is somewhat smaller, those markets also recorded growth rates above 50%, primarily the brand Bakina Tajna (Granny's Secret).

QUALITY CONTROL

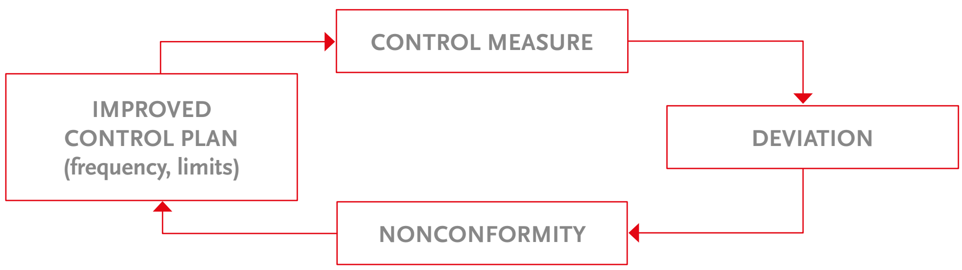
The processes of quality control in Atlantic Grupa are organised through independent quality assurance departments within the company's operating structure, and directed according to balanced goals from the corporate level. Quality control departments exchange good practices between themselves, and are 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 in the product segments of beverages, savoury spreads, sweet and salty snacks, children's and sports food, cosmetics and medicines,
- traceability and maintenance of a high quality level in transport, storage and distribution to customers.

From the very beginning of developing a new product or during the improvement of an existing one, we endeavour to achieve a standard high quality of Atlantic Grupa's products recognisable to customers. The achievement of complex goals in the field of quality control requires a proactive and coordinated involvement of experts from the processes of new product development, procurement, legal affairs and quality assurance. 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. In 2016, our experts shared their experiences within the regular annual internal professional conference. They covered the following topics:

- risks related to foreign material management,
- allergens – new and more structured approach to allergen control,
- more efficient handling of complaints through the reorganised "Call center",
- new microbiological risks (viruses) and their control,
- new knowledge in the field of microtoxins,
- argument-based risk assessment and control measures,
- service quality management, which directly affects the product quality (transport, hygiene services, etc.),
- use of control cards for monitoring the process.

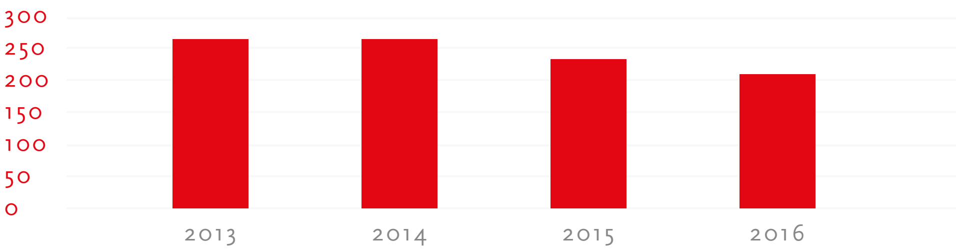
In addition, several courses within the internal programme for improving functional knowledge in the field of quality and product safety management system were organised, with a primary focus on service quality management, and in all nineteen production facilities we held workshops with quality assurance teams for the purpose of confirming the efficiency of control plans.



This year, special attention was given to preventing physical contamination and identifying potential additional control measures. 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, while significant efforts are invested in collecting reactions and comments of our consumers through the call centre.

The number of justified complaints at the Group level shows a better result in relation to 2015 (by more than 10%), while taking into account the higher number of products compared to the previous year, since the data processing for the first time included the Foodland's product assortment.

NO. OF JUSTIFIED COMPLAINTS (2013–2016)



In 2016, we continued to raise the competence of local teams by regular targeted trainings, using knowledge and experience of corporate experts. Significant support for these excellent results was provided by the prevention programme for control of food hazards, which is managed at the Group level in order to summarize all experiences of the company's expert teams. Monitoring is focused on input materials and adjusted to the supplier's risk assessment. It implies the control of pesticide residues, heavy metals, allergens, microtoxins, 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. As a novelty, in 2016 we tested the content of mineral oils in sports bars and baby food, analysed cyclo-di-badge residues in cans and initiated search for specific pesticide fosetil-Al in raw materials and products. In 2016, we tested about 50% more samples than in 2015, for the purpose of preparing products for new target markets.

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. Depending on the type of contaminants, such tests are outsourced to accredited and specialised laboratories.

The activities in the field of quality assurance are supported by advanced IT solutions: the SAP QM module was implemented in the Slovenian market and in some legal entities in Croatia, while other locations use internal IT solutions on similar platforms according to the same model. In 2016, additional steps forward were also made in the fields of safety management and product quality in food-related distribution operations. During 2016 we started to implement the good practices already present in our established markets within the Zone East, such as the defined quality of storage services, transparent and strictly defined procedures for managing complaints and crisis situations, etc. into business processes in new markets and distribution centres within the Zone West. Pleased with the results, in 2017 we will continue improvements and investments into control equipment, gaining further excellence and expert knowledge in this field.

ZORAN STANKOVIĆ

GROUP VICE PRESIDENT FOR FINANCE

ATLANTIC GRUPA ended the year 2016 in line with its business plans, and for the ninth year in a row achieved the announced expectations. Although the termination of cooperation with the major buyer in the segment of private labels could not be fully compensated, sales of own brands increased in almost all Strategic Business Units, coupled with the market share growth in nearly all categories of both own and principal brands in the markets of South-East Europe. In addition to the above, the 2016 financial results were significantly affected by investments related to establishing own distribution companies in Germany and Austria, continuation of the restructuring of the SBU Sports and Functional Food, the continuing economic crisis in Russia, and the related depreciation of the Russian rouble.

In 2016, Atlantic Grupa has taken two important steps in consolidation of its financial obligations – refinancing of long-term loans and refinancing of five-year bonds, which, in addition to increased flexibility, also lead to significant savings in interest costs. Atlantic Grupa signed agreements with the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) on amendments to the loan conditions related to the total credit package of EUR 191.5 million, which defined more favourable financial terms and prolonged the maturity of loans by two years, until 2021. This new arrangement confirms the confidence of the financial community in Croatia and abroad. In May, we have also successfully issued five-year corporate bonds in the amount of HRK 200 million, at a fixed annual interest rate of 3.125%. The bonds were issued on the domestic capital market and listed in the first quotation of the Zagreb Stock Exchange. We used the funds collected by this issue for refinancing the existing bonds with maturity in September 2016, while the remaining portion of the funds will be used for financing the working capital. In addition to continued improvement of own sources of financing, by issuing bonds Atlantic Grupa continued its practice of fostering the development of the domestic capital market.

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. We continue to be an active participant in the capital market and the Atlantic Grupa's share holds the ninth place according to the total turnover of shares at the Zagreb Stock Exchange, which is a result of its transparent corporate management system, excellent business results, stable ownership structure and the free float of 44%. We continue to regularly distribute the dividend, and in 2016 our shareholders received a total of HRK 45 million.


July
Juillet
Monday | Lundi
Tuesday

SALES PROFILE BY STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

5.1

BILLION HRK OF SALES REVENUE IN 2016

5.5%

DECREASE COMPARED TO 2015

(HRK million)	2016	2015 (reclassified)	2016/2015
SBU Coffee	**1,063.9**	1,073.5	(0.9%)
SBU Beverages	**637.2**	642.2	(0.8%)
SBU (Sweet and Salted) Snacks	**651.3**	631.6	3.1%
SBU Savoury Spreads	**543.0**	496.6	9.4%
SBU Pharma and Personal Care	**538.9**	511.3	5.4%
SBU Sports and Functional Food	**449.3**	768.5	(41.5%)
SDU Serbia	**1,101.1**	1,175.1	(6.3%)
SDU Croatia	**969.6**	948.9	2.2%
DU Slovenia	**754.4**	761.9	(1.0%)
SDR Zone West	**504.5**	522.1	(3.4%)
Other segments*	**763.0**	821.7	(7.1%)
Reconciliation**	**(2,869.9)**	(2,947.9)	n/a
Sales	**5,106.3**	5,405.3	(5.5%)

In 2016, Atlantic Grupa **recorded sales of HRK 5.1 billion**, which is a 5.5% decrease compared to the same period of the previous year. The decrease is largely a consequence of the decrease in sales of the Strategic Business Unit Sports and Functional Food, caused mainly by the terminated cooperation with the major buyer of the private label. If the effect of the sales revenue of this buyer is excluded, sales are 0.6% lower, and if the effects of the average depreciation of the Russian ruble of 9.6% and the average depreciation of the Serbian dinar of 2.9% compared to the same period of the previous year are also excluded, sales grew by 0.3%.

A positive impact on sales results was made by the majority of other business and distribution units, with the most significant effect from the Strategic Business Units Savoury Spreads, Pharma and Personal Care, Snacks and the Strategic Distribution Unit Croatia and the Strategic Distribution Region HoReCa.

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 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 slight decrease in sales, primarily due to the sales results in the market of Serbia and Slovenia, caused by the inventory optimisation by a key customer. This decrease was mainly compensated for by the great sales results in the markets of Macedonia, Croatia, Kosovo and Bosnia and Herzegovina. The decrease in the Serbian market was also caused by the average depreciation of the Serbian dinar (2.9% compared to the same period of the previous year) and volume and value drops of the overall market category of Turkish coffee (volume drop of 2.6%, and value drop of 5.4%*), despite the further growth of the market share that enabled retaining the convincingly leading market position with a record-high market share (value share of 52.9%*).

- The decrease in sales of the **STRATEGIC BUSINESS UNIT BEVERAGES** was recorded in the Serbian and Slovenian markets, despite a strong sales growth in the HoReCa channel and on-the-go segment. In all regional markets (Croatia, Slovenia, B&H, Macedonia, Serbia) Cedevita remains the absolute market leader in the vitamin instant drinks category with value market shares ranging from 72.5%** to 86.0%*. The growth of the above mentioned categories significantly exceeded the decrease in sales of soft carbonated drinks category under the Cockta brand and the decrease in sales caused by withdrawing a part of the Multivita's product range (Multivita granules) from the market of Serbia. The increase in sales of vitamin instant drinks under the Cedevita brand is also recorded by the markets of Germany and Austria, mainly in the on-the-go segment.

- The **STRATEGIC BUSINESS UNIT SNACKS** reached the record-high level of production, where the sales growth was recorded due to the increase in revenues of the overall range in all regional markets, led by the markets of Bosnia and Herzegovina, Croatia and Serbia, followed by the markets of Slovenia and Montenegro. The greatest contribution to the growth was made by chocolates under the Najlepše želje brand, chocolate bars under the Bananica brand and salty sticks under the Prima brand, while great results were also recorded by biscuits and wafers. Najlepše želje and Menaž with 25.4% of the market retain the leading position in the Serbian market, while Bananica holds a third of the market of individually packaged wafers with 33.2% market share.*** The markets of Croatia and Slovenia recorded a double-digit sales growth, which in Slovenia is a result of the increase in sales of flips under the Smoki brand, while the Croatian market records increase in sales of all categories (biscuits, flips and chips).

- An exceptional sales growth of the **STRATEGIC BUSINESS UNIT SAVOURY SPREADS** is based on a strong organic growth in sales on the regional markets (Croatia, Bosnia and Herzegovina, Serbia, Kosovo and Slovenia). Great results in international markets (primarily Austria, Switzerland and Germany) are recorded due to well-accepted local flavours. Argeta savoury spreads keep increasing their market shares in the markets of Croatia (where they hold a quarter of the market) and Serbia, where, with an increase in value market shares of 3.7% and 3.2%, respectively* compared to the last-year's period, Argeta seriously catches up with market leaders. In the Austrian market, Argeta remains the absolute market leader, as proven by the fact that among 5 top-selling products, 4 are Argeta's savoury spreads.

- The **STRATEGIC BUSINESS UNIT PHARMA AND PERSONAL CARE** records a significant increase in sales due to the increase in sales of the pharmacy chain Farmacia following the opening of five new specialised stores in 2016, better results of the existing locations and the increase in sales of products from the Multivita range.

- The **STRATEGIC BUSINESS UNIT SPORTS AND FUNCTIONAL FOOD** recorded a decrease in sales primarily due to the terminated cooperation with the major buyer of the private label, but also due to the targeted restructuring of the overall strategic business unit, which, aimed at simplifying the product range, led to a decrease in sales of own brands Champ, Multaben and Multipower. It should be noted that this is a termination of sale of low-profitability products.

* AC Nielsen Retail Panel, October 2016 – November 2016 (% annual changes)
** AC Nielsen Retail Panel, June 2016 – July 2016 (% annual changes)
*** AC Nielsen Brand Performance Monitor, October 2016 – November 2016 (% annual changes)

- The decrease in sales of the **STRATEGIC DISTRIBUTION UNIT SERBIA** is primarily a consequence of the decrease in sales of Turkish coffee caused by the decrease in the overall category and of the inventory optimisation by the key buyer, the terminated cooperation with two principals and the negative effect of the dinar exchange rate. The decrease in sales was partly compensated by the increase in sales of Argeta and chocolate and biscuits from the Štark portfolio, as well as the increase in sales of the principal Rauch. If the unfavourable effect of the dinar exchange rate and discontinued principals are excluded, the sales of the Strategic Distribution Unit Serbia dropped by 1.1%.

- The **STRATEGIC DISTRIBUTION UNIT CROATIA** recorded a sales growth due to (i) an increase in sales from the distribution of own brands, primarily Argeta, Barcaffè, Cockta and products from the Štark range, (ii) an increase in sales of principal brands Ferrero, Unilever and Rauch, and (iii) the distribution of new principals Philips and SABMiler.

- The **DISTRIBUTION UNIT SLOVENIA** recorded a slight decrease in sales due to lower sales results of Turkish coffee under the Barcaffè brand, caused by inventory optimisation by the key customer. This decrease was largely compensated for by the increase in sales of the majority of own brands, led by Argeta in the savoury spreads category, Donat, Cockta, flips under the Smoki brand, chips under the Chipsos brand and products from the Bakina Tajna (Granny's Secret) portfolio. Great sales results among principal brands are recorded by Ferrero and Rauch.

- The **STRATEGIC DISTRIBUTION REGION ZONE WEST** records a decrease in sales mainly in the German market, as a result of restructuring the Strategic Business Unit Sports and Functional Food, which was partly compensated by the increase in sales in the markets of Switzerland, Austria, Turkey, Australia and Canada. In this, savoury spreads under the Argeta brand, coffee and new principal Nocco have the most prominent growth among segments.

- **OTHER SEGMENTS** recorded a decrease in sales primarily due to the decrease in sales of the Business Unit Baby Food, the Strategic Distribution Regions the CIS & Baltic and the Business Unit Gourmet, which was partly compensated by the double-digit increase in sales of the Strategic Distribution Region HoReCa and the Distribution Unit Macedonia.

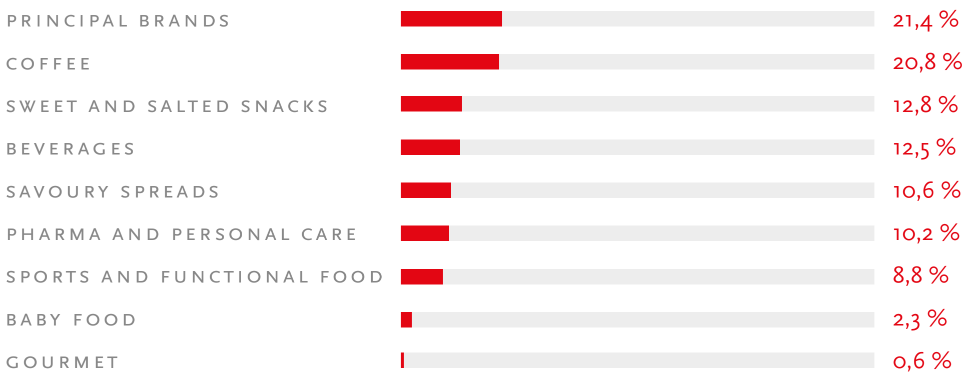
- Business Units **BABY FOOD** and the **STRATEGIC DISTRIBUTION REGIONS CIS & BALTIC** recorded a decrease in sales as a consequence of the difficult economic situation in Russia (high inflation rate and depreciation of the ruble). The negative effect of the ruble exchange rate was partly mitigated due to the active pricing policy.

- A significant increase in sales of the **DISTRIBUTION UNIT MACEDONIA** is a consequence of the excellent increase in sales of the Turkish coffee segment, good results of savoury spreads and chocolate, as well as good sales results of the external principal Ferrero.

- The **STRATEGIC DISTRIBUTION REGION HORECA** continues to record a double-digit increase in sales, where all markets (Croatia, Serbia, Slovenia and Macedonia) record growth, led by the Slovenian and Croatian markets, which are also the two largest markets of this distribution region. The most significant growth is recorded by the sales of espresso coffee under the Barcaffè brand, the sales of vitamin instant drinks under the Cedevita brand and external principals.

- **BUSINESS UNIT GOURMET** recorded a decrease in sales due to terminating the non-profitable production of a private label and restructuring the product portfolio that led to the decrease in sales of the Amfissa brand, while products under the Bakina Tajna (Granny's Secret) brand record sales growth. The decrease in sales was recorded primarily in the Serbian market, while a large number of markets (e.g. Slovenia, Croatia, Russia, France, the United Kingdom, etc.) record a double-digit growth.

SALES PROFILE BY SEGMENTS



SALES PROFILE BY MARKETS

(in HRK millions)	2016	% of sales	2015	% of sales	2016/2015
Croatia	**1,471.0**	28.8%	**1,409.0**	26.1%	4.4%
Serbia	**1,183.7**	23.2%	**1,256.3**	23.2%	(5.8%)
Slovenia	**857.7**	16.8%	**855.0**	15.8%	0.3%
Bosnia and Herzegovina	**396.6**	7.8%	**381.7**	7.1%	3.9%
Other regional markets*	**343.4**	6.7%	**325.2**	6.0%	5.6%
Key European markets**	**514.0**	10.1%	**603.4**	11.2%	(14.8%)
Russia and CIS	**186.5**	3.7%	**237.1**	4.4%	(21.3%)
Other markets	**153.4**	3.0%	**337.6**	6.2%	(54.6%)
Total sales	**5,106.3**	100.0%	**5,405.3**	100.0%	(5.5%)

* Other regional markets: Macedonia, Montenegro, Kosovo

** Key European markets: Germany, United Kingdom, Italy, Switzerland, Austria, Sweden, Spain

- The sales growth of 4.4% in the **CROATIAN MARKET** is the result of: (i) an increase in sales of own brands, primarily Argeta in the savoury spreads category and Barcaffè in the coffee category (on-the-go and Turkish coffee), the Cedevita brand in the vitamin instant drinks category in the HoReCa and on-the-go segments, and Smoki in the flips segment, (ii) an increase in sales of the pharmacy chain Farmacia, (iii) an increase in sales of the existing principals, especially Unilever, Ferrero and Rauch, and (iv) the distribution of new principals Philips and SABMiler.

4.4%

SALES GROWTH FOR CROATIAN MARKET

- The **MARKET OF SERBIA** recorded a decrease in sales due to: (i) the decrease in sales of coffee under the Grand kafa brand (the decrease in sales of Turkish coffee was primarily caused by the drop in the overall category and the additional negative impact of the inventory optimisation by the key customer, while the increase in sales of Black'n'Easy instant Turkish coffee and espresso coffee are encouraging), (ii) the decrease in sales of products from the gourmet portfolio (terminated production of private labels due to unsatisfactory profitability and lower sales of Amfissa products after restructuring of the product portfolio), (iii) the decrease in sales of the beverages segment due to the decrease in sales of Multivitia granules after the terminated production, and (iv) the decrease in sales of principal brands due to the terminated cooperation with two principals. If the effects of the dinar exchange rate and discontinued principals are excluded, the sales in the Serbian market dropped by 0.5%.

- The **SLOVENIAN MARKET** recorded a slight sales growth due to the increase in sales of most categories, especially: (i) Argeta in the savoury spreads segment, (ii) Smoki in the snacks segment, (iii) products from the Bakina Tajna (Granny's Secret) portfolio from the gourmet segment, and (iv) the principal Ferrero.

- The growth in sales in the **MARKET OF BOSNIA AND HERZEGOVINA** was recorded due to the growth in sales of: (i) savoury spreads under the Argeta brand, (ii) the Grand Kafa brand in the Turkish coffee category and Black'n'Easy instant Turkish coffee, and (iii) chocolates under the Najlepše želje and Bananica brands, flips under the Smoki brand and chips under the Chipsos brand.

- **OTHER REGIONAL MARKETS*** recorded a significant sales growth due to the increase in sales on all markets (Macedonia, Montenegro and Kosovo). Analysed by categories, in all three countries the most significant growth was recorded by products from the coffee, savoury spreads and chocolate portfolios.

- The decrease in sales in the **KEY EUROPEAN MARKETS** is a consequence of the decrease in sales of products from the sports and functional food portfolio, largely caused by the previously mentioned terminated cooperation with the major buyer of the private label. Other categories record growth, led by savoury spreads under the Argeta brand (due to expanded distribution and further adjustment of products to local preferences) and functional waters under the Donat Mg brand, coffee under the Grand kafa brand and the new principal Nocco.

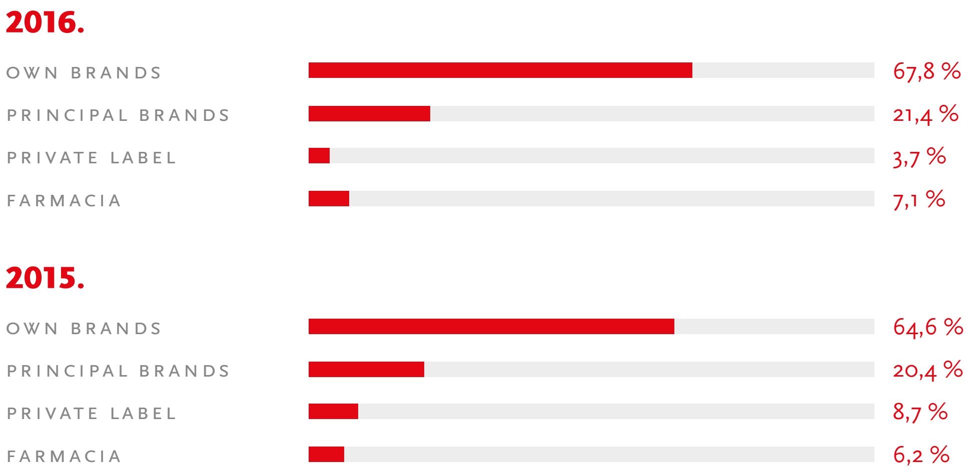
- Sales in the **MARKET OF RUSSIA AND THE COMMONWEALTH OF INDEPENDENT STATES** are negatively affected by the decrease in purchasing power caused by the depreciation of the ruble and high inflation rate. The most significant drop was recorded by baby cereals under the Bebi brand and Multipower from the sports and functional food segment.

- **OTHER MARKETS** record a significant decrease in sales due to the drop in sales in the sports and functional food segment caused by the decrease in sales of private labels, following the terminated cooperation with the major buyer. If the decrease caused by the mentioned terminated cooperation is excluded, other markets record a 13.3% growth.

* Other regional markets: Macedonia, Montenegro, Kosovo

** Key European markets: Germany, United Kingdom, Italy, Switzerland, Austria, Sweden, Spain

SALES PROFILE BY PRODUCT CATEGORY



Compared to the previous year, in 2016 **OWN BRANDS** recorded a mild decrease in sales of 0.9% to HRK 3.5 billion. The drop in sales was recorded by Champ, Multipower and Multaben brands from the sports and functional food segment, baby cereals under the Bebi brand and products from the Amfissa portfolio in the gourmet segment. On the other hand, the most prominent growth was recorded by: (i) Argeta in the savoury spreads segment, (ii) Najlepše želje, Bananica and Prima in the snacks segment, and (iii) vitamin instant drinks under the Cedevita brand in the beverages segment. If the effects of the drop in Sports and function food and negative impact coming from Russia and CIS markets are excluded, the sales of own brands would have increased by 3.7%.

8.2%

SALES GROWTH BY PHARMACY CHAIN FARMACIA COMPARED TO 2015

With HRK 1.1 billion, **PRINCIPAL BRANDS** record a decrease in sales of 1.0%, due to the terminated cooperation with two principals in the Serbian market, that did not meet the set profitability standards. The decrease in sales was partly compensated for by good results of other principals, primarily Ferrero, Rauch, Unilever, and the beginning of the distribution of new principals such as Beam Suntory in the markets of Serbia, Macedonia, Montenegro, Kosovo and Albania and the principal Nocco in the markets of Germany, the United Kingdom and Austria.

With sales of HRK 190.8 million, **PRIVATE LABELS** record a 59.6% drop compared to 2015 due to the decrease in sales in the sports and functional food segment.

The pharmacy chain **FARMACIA** recorded sales of HRK 364.0 million, which is an 8.2% growth compared to 2015, due to the 5 percent increase in sales of the existing Farmacia locations and newly-opened specialised stores. In 2016, five new specialised stores were opened and two were closed, so as at 31 December 2016, the pharmacy chain Farmacia consisted of 48 pharmacies and 33 specialised stores.

PROFITABILITY DYNAMICS

(in HRK millions)	2016	2015	2016/2015
Sales	**5,106.3**	5,405.3	(5.5%)
EBITDA	**474.4**	567.3	(16.4%)
EBIT	**307.8**	404.0	(23.8%)
Net profit/(loss)	**163.2**	242.5	(32.7%)
Profitability margins			
EBITDA margin	**9.3%**	10.5%	-120 bp
EBIT margin	**6.0%**	7.5%	-145 bp
Net profit margin	**3.2%**	4.5%	-129 bp

In 2016, Atlantic Grupa recorded EBITDA in the amount of HRK 474.4 million, which is a 16.4% decrease compared to the previous year. The decrease in EBITDA is mainly affected by the decrease in revenues caused by the terminated cooperation with the major buyer of the private label in Sports and Functional Food, and the restructuring of this business unit, higher staff costs, marketing expenses and cost of services, following the targeted investments in the internationalisation of operations and the unfavourable exchange rate of the Serbian dinar and the Russian ruble. These negative impacts were partly compensated by the increase in operating profit of the majority of other business segments and additional favourable movements such as the decrease in cost of production materials (primarily due to lower prices of raw coffee) and energy.

Additional positive effect on EBITDA came from the increase in other income of HRK 22.6 million following the return of overpaid concession fee for water in Slovenia (due to the amended legislation) and reversal of provisions from previous years.

Following the decrease in EBITDA and the increase in depreciation and amortisation of 2 percent, the recorded EBIT is 23.8% lower, which, despite lower finance costs and lower income tax, reflected on the net profit before minority interests, which recorded a 32.7% drop. Finance costs in 2016 include the fee for guarantees given to Atlantic Grupa in relation to syndicated loans in the amount of HRK 45 million, of which HRK 30.7 million relates to previous years.

OPERATING EXPENSES STRUCTURE

(in HRK millions)	2016	% of sales	2015	% of sales	2016/2015
Cost of goods sold	**1,308.3**	25.6%	**1,483.8**	27.5%	(11.8%)
Change in inventory	**(14.0)**	(0.3%)	**1.2**	0.0%	n/a
Production materials	**1,581.0**	31.0%	**1,729.2**	32.0%	(8.6%)
Energy	**56.0**	1.1%	**62.3**	1.2%	(10.1%)
Services	**404.6**	7.9%	**374.1**	6.9%	8.2%
Staff costs	**800.9**	15.7%	**767.8**	14.2%	4.3%
Marketing and selling expenses	**355.3**	7.0%	**332.8**	6.2%	6.8%
Other operating expenses	**226.2**	4.4%	**196.6**	3.6%	15.0%
Other gains/(losses), net	**(18.1)**	(0.4%)	**(64.0)**	(1.2%)	n/a
Depreciation and amortisation	**166.6**	3.3%	**163.3**	3.0%	2.0%
Total operating expenses	**4,866.7**	95.3%	**5,047.0**	93.4%	(3.6%)

The decrease in **cost of goods sold** of 11.8% is a consequence of lower sales as a result of the terminated cooperation with the buyer of the private label, impacting the decrease in the share of cost of goods sold in sales revenues.

Costs of production materials are 8.6% lower, primarily due to lower prices of raw coffee and lower production in the sports and functional food segment, following the terminated cooperation with the major buyer of the private label.

Costs of services increased due to costs of logistics services related to the beginning of own distribution in Germany and Austria, increased logistics costs in Russia and higher IT investments (lease of licences, maintenance).

Staff costs grew by 4.3% due to a higher number of employees, partly as a result of employment related to the opening of the distribution companies in Austria and Germany, despite significant savings from the restructuring of the sports and functional food. As at 31 December 2016, Atlantic Grupa had 5,492 employees (2015: 5,387 employees).

Marketing expenses increased by 6.8%, primarily due to the increase in marketing expenses in the coffee, beverages and savoury spreads segments.

Other operating expenses are higher by 15.0%, primarily due to a higher inventory write-off, mainly related with restructuring in the Strategic Business Unit Sports and Functional Food and one-off expenses related to the establishment of own distribution in Germany and Austria.

Other (gains)/losses – net: Gains were realised primarily on financial (forward) instruments in the coffee segment.

OPERATING RESULT OF STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	2016	2015 (reclassified)	2016/2015
SBU Coffee	**227.9**	211.2	7.9%
SBU Beverages	**161.8**	151.8	6.6%
SBU (Sweet and Salted) Snacks	**116.4**	99.7	16.8%
SBU Savoury Spreads	**119.8**	121.8	(1.6%)
SBU Pharma and Personal Care	**45.7**	43.5	5.2%
SBU Sports and Functional Food	**(20.7)**	(32.8)	(36.9%)
SDU Serbia	**19.8**	30.1	(34.4%)
SDU Croatia	**10.3**	21.1	(51.0%)
DU Slovenia	**42.7**	41.9	2.0%
SDR Zone West	**(55.3)**	10.6	n/a
Other segments*	**(194.1)**	(131.5)	47.6%
Group EBITDA	**474.4**	567.3	(16.4%)

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 and Macedonia) which are excluded from the reportable operating segments.

SBU Coffee The increase in profitability is a result of lower costs of raw material (lower price of raw coffee compared to 2015 and active hedging), and despite the increase in marketing expenses.

SBU Beverages The growth in profitability is primarily a result of a better sales mix (increase in sales of vitamin instant drinks in profitable channels and HoReCa), the effect of one-off items (concession for water in Slovenia) and control of other costs.

SBU Snacks The increase in profitability is a consequence of the increase in sales revenue coupled with a good cost control.

SBU Savoury Spreads A slight decrease in profitability is recorded despite the significant increase in revenue, as a consequence of increased investments on most markets.

SBU Pharma and Personal Care The increase in profitability is a result of the increase in sales revenue, coupled with a good control of costs of production materials and staff costs and the positive effect of foreign exchange differences.

SBU Sports and Functional Food The loss decrease caused by the absence of one-off restructuring costs from 2015 and the decrease in costs as a result of reorganisation.

SDU Serbia The decrease in profitability as a consequence of the decrease in sales.

SDU Croatia The decrease in profitability, despite the increase in sales, is a consequence of the stronger concentration of customers, intensive investments in seasonal activities, the increase in costs related to the improved organisation and the implementation of the SAP solution and higher marketing expenses.

DU Slovenia The growth in profitability is a result of a better customer mix.

SDR Zone West The decrease in profitability is caused by the development of own selling infrastructure in Germany and Austria, the related one-off expenses, the decrease in revenues of the sports and functional food segment and the depreciation of the British pound.

Other segments The DU Macedonia recorded a significant increase in profitability due to the increase in sales and good cost control. The growth in profitability of the SDR HoReCa is a result of the improved profitability in the markets of Serbia and Croatia following the increase in sales. The decrease in profitability of the BU Gourmet is a result of the decrease in sales and the increase in staff costs and marketing expenses, despite a better control of production costs. The decrease in profitability of the BU Baby Food is a result of the continued adverse economic situation in Russia and the further strong depreciation of the ruble. The costs attributable to support services are higher compared to 2015 due to the increase in staff costs and costs of services (as a result of increased IT investments), and in 2015 they were also partly compensated by the income from the sale of tea business.

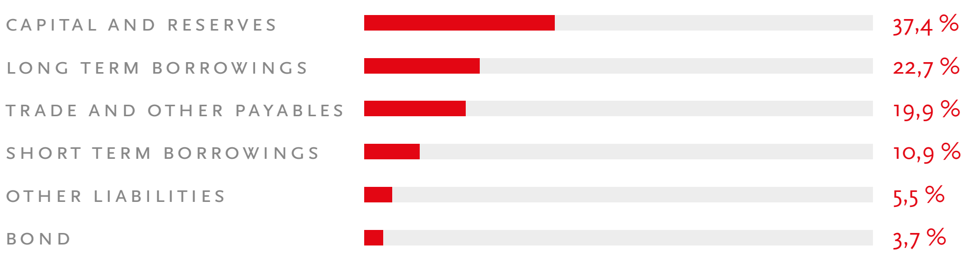
FINANCIAL INDICATORS IN 2016

(in HRK millions)	2016	2015
Net debt	**1,502.0**	1,678.1
Total assets	**5,395.8**	5,294.6
Total Equity	**2,016.5**	1,945.3
Current ratio	**1.4**	1.3
Gearing ratio	**42.7%**	46.3%
Net debt/EBITDA	**3.2**	3.0
Interest coverage ratio	**6.1**	5.4
Capital expenditure	**116.0**	115.5
Cash flow from operating activities	**267.9**	470.8

Among key determinants of the Atlantic Grupa's financial position in 2016, the following should be pointed out:

- Due to the decrease in net debt of HRK 176.1 million, i.e. by 10.5% at the end of 2016, the gearing ratio decreased by 362 basis points. Despite the decrease in net debt, the debt measured as the net debt to EBITDA ratio increased from 3.0 to 3.2, due to the decrease in EBITDA. At the same time, the coverage of interest expense by EBITDA increased from 5.4 to 6.1.

THE ATLANTIC GRUPA'S EQUITY AND LIABILITIES STRUCTURE AS AT 31 DECEMBER 2016



OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENT

The decrease in cash flow from operating activities is primarily the result of the previously explained decrease in EBITDA. Difficulties related to the implementation of the SAP solution also caused the slow-down of payments to suppliers at the end of 2015, and the increased dynamics of repayment of these payables additionally negatively impacted cash flow from operating activities in 2016.

The positive effect on the cash flow from investing activities came from the sale of the building in Ljubljana and amounted to HRK 42 million. In cash flow from financing activities, the bond refinancing is shown (repayment of HRK 115 million, and issuance of the new bond in the amount of HRK 200 million), and also HRK 45 million of dividend paid to the shareholders.

Capital expenditure in 2016 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 IT infrastructure, business systems and applications.

Among significant investments, we should mention:

- **SBU SAVOURY SPREADS**: investment in a new line for the production of 95-gram pâté, the upgrade of the cooling system of the production site;
- **SBU BEVERAGES**: purchase of a new line for rigid containers packaging of Cedevita, purchase of modern refrigerated display cabinets, investment in the improved production efficiency, infrastructure and energy efficiency;
- **SBU COFFEE**: purchase of espresso and Coffee2GO machines, investment in the improved production efficiency;
- **SBU SNACKS**: automatisation of sugar transport, investment in the improved production efficiency, expansion and reconstruction of business premises and investment in the cooling system;
- **SBU GOURMET**: investment in equipment for roasting and improved production efficiency and the CIP* system;
- **SBU SPORTS AND FUNCTIONAL FOOD**: investment in improved production efficiency and raw materials handling;
- **IT**: implementation of the SAP system and business applications.

* CIP system is a closed system for washing and cleaning the production equipment.

MANAGEMENT'S VIEW ON MACROECONOMIC EXPECTATIONS

After a long decline in economic activity and personal consumption, in 2016 the Croatian economy showed a solid growth, primarily due to the recovery of domestic demand. Atlantic Grupa's management expects positive trends in the Croatian economy to continue in 2017.

In countries in the region, in 2017 management also expects economic growth to continue. The Slovenian economy continues to grow due to the strong increase in domestic demand and we expect that this will have a positive impact on the decrease in unemployment and the increase in consumption. The growth in the Serbian market will also be encouraged by the increase in domestic demand, but it will also be somewhat limited by the slow-down of the fiscal consolidation, while significant depreciation of the Serbian dinar is not expected. A growth is also expected in Bosnia and Herzegovina, due to the expected significant decrease in unemployment.

After positive indicators of eurozone countries in 2016, Atlantic Grupa's management expects the positive growth trend to continue. The main driver of the eurozone growth in 2017 will be a strong increase in domestic demand encouraged by the decrease in unemployment.

After negative 2016, management expects the Russian economy to slightly recover despite the challenges Russia faces due to the prolongation of international sanctions.

ATLANTIC GRUPA'S MANAGEMENT STRATEGIC GUIDANCE FOR 2017

In 2017, management will focus on (i) continued internationalisation of operations (Multipower, Argeta, Donat Mg, Bebi, Cedevita, Bakina Tajna (Granny's Secret)), (ii) strengthening the position of regional brands (Cockta, Cedevita, Smoki, Grand Kafa, Barcaffè, Najlepše želje, Chipsos), (iii) active development of the regional HoReCa portfolio, and (iv) completion of restructuring the Sports and Functional Food business unit.

Special focus will be on continued investments in listing and positioning of our brands in the retail channel in Germany and Austria and intensive marketing activities on these markets.

In addition, Atlantic Grupa's management in 2017 expects significantly higher average prices of raw coffee on global commodity markets in addition to the unfavourable effect of the EUR/USD exchange rate, which will have a significant impact on the profitability of the Strategic Business Unit Coffee. A portion of this negative impact will be compensated by increasing the selling price of coffee, and the remainder by increasing the profitability of all other business units.

Accordingly, management's expectations for 2017 are as follows:

(in HRK millions)	2017 Guidance	2016	2017/2016
Sales	**5,300**	5,106	3.8%
EBITDA	**475**	474	0.1%
EBIT	**310**	308	0.7%
Interest expense	**65**	78	(17.0%)

In 2017, we expect capital expenditure in the amount of approximately HRK 150 million.

The expected effective tax rate in 2017 should be at the same level as in the previous year.

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 (Granny's Secret), 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 former Yugoslavia 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 sales 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 trends in 2017.

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 only compete 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 higher average price of raw coffee in the global commodity markets is expected in 2017 compared to 2016, as well as negative effects of the stronger dollar, which the management plans to largely compensate by active hedging, continuous cost management and optimisation of business processes. 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 2016 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 development investments and fast adaptability to changing market trends. All of the above presents a significant 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.

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 category is the segment of coffee, followed by the segment of 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 and continues to realise good collaboration with principals of the new brands in the company's distribution portfolio. 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. Moreover, in 2016 Atlantic Grupa 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

B2B	Business to bussines
CEFTA	Central European Free Trade Agreement
CIS	Commonwealth of Independent States (ex-Soviet Union countries)
DDD	Disinfection, Disinfection, Deratisation
DEG	German Investment and Development Corporation
EBRD	European Bank for Reconstruction and Development
EMS	Environmental Management System
ERP	Enterprise Resource Planning
FSSC	Food Safety System Certification
GDP	Gross domestic product
GHP	Good Hygienic Practices
GMO	Genetically Modified Organism
GMP	Good Manufacturing Practices
GRI	Global Reporting Initiative
HACCP	Hazard Analysis and Critical Control Point
HoReCa	Hotel Restaurant Caffe
HRIS	Human Resources Information System
HZZO	Croatian Health Insurance Fund
IFS	International Food Standard
KAM	Key Account Management
KPI	Key Performance Indicators
OTC	Over The Counter
PAH	Polycyclic Aromatic Hydrocarbons
PDCA	Plan Do Check Act
PET	Polyethylene Terephthalate
SBU	Strategic Business Unit
SDU	Strategic Distribution Unit
UEPS	Serbian Marketing Communications Association
ZSE	Zagreb Stock Exchange

AUDITOR'S REPORT
AND CONSOLIDATED
FINANCIAL STATEMENTS

ATLANTIC GRUPA d.d.
31 DECEMBER 2016

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 those 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 30 March 2017.

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

Independent auditor's report

To the Shareholders and Management Board of Atlantic Grupa d.d.:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Atlantic Grupa d.d. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS")

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Our audit approach

Overview

- Overall Group materiality: Croatian Kuna (HRK) 35,500 thousand, which represents 0.7% of total revenue for the year ending 31 December 2016.

- We conducted audit work at 22 legal entities in 8 countries.
- Our audit scope addressed 91% of the Group's revenues and 93% of the Group's total assets.

- Impairment test for intangible assets with indefinite useful life
- Indefinite useful life of Brands and Licenses

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the geographical and management structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Considering our ultimate responsibility for the opinion on the Group's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In establishing the scope of our audit work, we have determined the nature and extent of the audit procedures to be performed at the reporting units to ensure sufficient evidence has been obtained to support our opinion on the consolidated financial statements as a whole.

In establishing our overall approach to audit the Group, we considered the significance of the components to the Group financial statements, our assessment of risk within each component, the overall coverage across the Group achieved by our procedures, as well as the risk associated with less significant components not brought into the full scope of our audit.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed directly by us, as the Group engagement team or component auditors represented by us and other network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion as a whole. As a result, we conducted full scope audit work (directly by us or jointly in cooperation with other network firms) covering 70% of the Group's revenue, statutory audit scope covering 18% of revenue and review scope covering 3% of revenue. The remaining 9% of revenue was subject to analytical review performed by the Group engagement team.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	HRK 35,500 thousand (2015: HRK 36,000 thousand)
How we determined it	0.7% of total operating revenues
Rationale for the materiality benchmark applied	We chose total operating revenue as the materiality benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

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.

Key audit matter	How our audit addressed the Key audit matter
Impairment test for intangible assets with indefinite useful lives *See notes 2.7 and 4.c) of the financial statements* The Group has goodwill and other intangible assets with indefinite useful lives (Brands & Licenses) with carrying amounts totaling HRK 1,568,055 thousand at 31 December 2016. We focused on the impairment testing of these assets because the carrying amount of the indefinite life intangible assets represents 29% of total assets and because management's assessment of the "fair value" and "value in use" of the Group's cash generating units ("CGU") involves significant judgments about the future results of the business and the discount rates applied to future cash flow forecasts. The risk that we focused on in the audit is that the carrying values of goodwill and other intangible assets with indefinite useful lives may be overstated and that an impairment charge may be required.	We have evaluated and challenged the Group's future cash flow forecasts and the process by which they were prepared, and tested the mathematical accuracy of the underlying value in use and fair value calculations. We have compared the budget inputs in the model to the approved budgets and forecast inputs in the model to management plans. Overall we found the future cash flows reasonable, and that the key assumptions were subject to oversight by the management. We have compared current year (2016) actual results with the figures included in the prior year (2015) forecast to consider whether any forecasts included assumptions that are unreasonable. We have compared management's key assumption for long-term growth rate by comparing it to historical growth results. In addition we analyzed and challenged other key estimates including weighted average cost of capital (WACC) and royalty

Key audit matter	How our audit addressed the Key audit matter
For the year ended 31 December 2016 management has performed an impairment assessment over the indefinite life intangible assets by: 1. Calculating the value in use for each CGU using a discounted cash flow model and/or fair value for each individual Brand or License using the relief from royalty (“RfR”) method which applies projected sales revenue and applies a market based royalty rate (profit margin). These cash flows were then discounted to net present value using the Company’s weighted average cost of capital (WACC). 2. Comparing the resulting value in use to their respective book values.	rates used by comparing them to market data and industry research. We found that the discount rate and royalty rate used by management was consistent with market data and industry research. We performed a sensitivity analysis around the WACC and terminal growth rate to ascertain the extent of change in those assumptions which would trigger a further material impairment. Based on our sensitivity analysis we found that no new material impairment would be triggered.
Key assumptions used in the test include estimated future cash flows, terminal growth rate, WACC and royalty rates. CGU’s for goodwill impairment test are determined on an operating segment level and for Licenses on a pharmaceutical retail store level. Management also performed a sensitivity analysis over the value in use and fair value calculations by varying the assumed WACC and terminal growth rates to assess the impact on the valuations. The impairment charge for the year related to Goodwill, Brands and Licenses amounts to HRK 10,397 thousand.	No material exceptions were noted from our procedures.
Indefinite useful lives of Brands and Licences *See note 4.b) of the financial statements* The Group has determined that several Brands and Licenses have indefinite useful lives. The carrying value of such assets amounts to HRK 742,062 thousand at 31 December 2016. We focused on the indefinite useful life test, because the carrying amount of the indefinite life intangible assets represents 14% of total assets and because management assessment of the indefinite life involves significant judgments about the strength of the brand and future cash flows. The risk that we focused on in the audit is that these assets should be classified as definite life assets subject to amortisation and therefore the assets balance may be overstated. 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	We have evaluated and challenged the Group’s assumptions on historical and projected sales revenues. In addition we have analyzed external market reports related to market share of the brands. Based on the management review, the Group revised its accounting estimates in respect of Grand Kafa and determined that the brand will have a definite useful life of 15 years. This estimated useful life is supported by historical facts and industry data. We found that the change in the accounting estimate of the useful life of the Grand Kafa brand and the manner in which it is accounted for in the consolidated financial statements is appropriate. No material exceptions were noted from our procedures.

Key audit matter	How our audit addressed the Key audit matter
the industry or, in case of licenses, local laws and expiry dates as licenses relate to the pharmaceutical retail business. In addition, the Group reviews expected generation of net cash flow from the Brands, obsolescence of the Brand, and any plan to discontinue use of the Brand. If there are no legal, contractual obligations or economic factors that could limit the life, an intangible asset can be considered to have an indefinite life. This also means that the asset can contribute to an entity's cash flows beyond the foreseeable time horizon. 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. As a result of the assessment in the current period, management concluded there is no change of events for licenses, however for the Grand Kafa Brand, the estimate has been changed from indefinite useful life to definite useful life and depreciation was charged in 2016. For more details refer to Note 4.b).	

Other information

Management is responsible for the other information. The other information comprises the Consolidated Annual Report of the Group, which includes the Management Report and Corporate Governance Statement but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

The engagement partner on the audit resulting in this independent auditor's report is Siniša Dušić.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Ulica kneza Ljudevita Posavskog 31, Zagreb
Zagreb, 31 March 2017

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts expressed in thousands of HRK)	**Note**	**2016**	**2015**
Revenues	5	5,174,539	5,450,955
Cost of trade goods sold		(1,308,331)	(1,483,783)
Change in inventories of finished goods and work in progress		13,984	(1,166)
Material and energy costs		(1,636,983)	(1,791,442)
Staff costs	6	(800,863)	(767,779)
Marketing and promotion costs	7	(355,339)	(332,773)
Depreciation, amortisation and impairment	2.24, 13, 13a, 14	(166,580)	(163,297)
Other operating costs	8	(630,774)	(570,722)
Other gains/(losses) - net	9	18,135	63,986
Operating profit		**307,788**	**403,979**
Finance income	10	41,378	84,287
Finance costs	10	(145,021)	(199,170)
Finance costs - net	10	(103,643)	(114,883)
Profit before tax		**204,145**	**289,096**
Income tax expense	11	(40,910)	(46,573)
Profit for the year		**163,235**	**242,523**
Attributable to:			
Owners of the parent		162,800	242,291
Non-controlling interests		435	232
		163,235	242,523
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		48.83	72.67
- diluted		48.83	72.67

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts expressed in thousands of HRK)	Note	2016	2015
Profit for the year		**163,235**	**242,523**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial losses from defined benefit plan		(826)	(1,260)
		(826)	**(1,260)**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences	22	(47,577)	(7,777)
Cash flow hedges	22	8,700	(2,052)
		(38,877)	**(9,829)**
Other comprehensive loss for the year, net of tax		**(39,703)**	**(11,089)**
Total comprehensive income for the year		**123,532**	**231,434**
Attributable to:			
Owners of the parent		123,109	231,208
Non-controlling interests		423	226
Total comprehensive income for the year		123,532	231,434

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

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

(all amounts expressed in thousands of HRK)	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,082,059	1,083,566
Investment property		1,259	1,748
Intangible assets	14	1,756,217	1,797,791
Deferred income tax assets	25	47,293	37,066
Available-for-sale financial assets	17	915	959
Trade and other receivables	18	59,102	83,695
		2,946,845	3,004,825
Current assets			
Inventories	19	623,318	603,491
Trade and other receivables	18	1,300,568	1,192,314
Prepaid income tax		10,326	16,018
Derivative financial instruments	15	18,139	12,728
Deposits	18	227	305
Cash and cash equivalents	20	490,730	365,692
		2,443,308	2,190,548
Non-current assets held for sale	13a	5,687	99,196
Total current assets		2,448,995	2,289,744
TOTAL ASSETS		**5,395,840**	**5,294,569**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	881,489	881,515
Treasury shares	21	(88)	(198)
Reserves	22	(80,964)	(26,264)
Retained earnings		1,079,698	954,325
		2,013,507	1,942,750
Non-controlling interests		2,981	2,558
Total equity		2,016,488	1,945,308
Non-current liabilities			
Borrowings	24	1,422,605	1,309,180
Deferred income tax liabilities	25	171,811	176,677
Derivative financial instruments	15	-	472
Other non-current liabilities		6,673	3,460
Provisions	26	58,036	54,475
		1,659,125	1,544,264
Current liabilities			
Trade and other payables	23	1,073,996	988,554
Borrowings	24	588,539	742,032
Derivative financial instruments	15	-	5,091
Current income tax liabilities		9,231	17,034
Provisions	26	48,461	52,286
		1,720,227	1,804,997
Total liabilities		3,379,352	3,349,261
TOTAL EQUITY AND LIABILITIES		**5,395,840**	**5,294,569**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2015	1,015,870	(19,635)	756,497	1,752,732	2,332	1,755,064
Comprehensive income:						
Net profit for the year	-	-	242,291	242,291	232	242,523
Other comprehensive (loss)/income	-	(9,823)	(1,260)	(11,083)	(6)	(11,089)
Total comprehensive income	-	(9,823)	241,031	231,208	226	231,434
Transaction with owners:						
Share based payment (Note 21)	3,123	-	-	3,123	-	3,123
Purchase of treasury shares (Note 21)	(4,304)	-	-	(4,304)	-	(4,304)
Transfer	-	3,194	(3,194)	-	-	-
Dividends relating to 2014 (Note 21)	-	-	(40,009)	(40,009)	-	(40,009)
Balance at 31 December 2015	**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**

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

ATLANTIC GRUPA d.d.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts expressed in thousands of HRK)	**Note**	**2016**	**2015**
Cash flows from operating activities:			
Cash generated from operations	29	403,997	616,475
Interest paid		(82,290)	(102,705)
Income tax paid		(53,839)	(42,949)
		267,868	470,821
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets		(116,017)	(115,534)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		49,260	4,470
Proceeds from sale of available-for-sale financial assets		-	3,785
Acquisition of subsidiary – net of cash acquired	28	(1,122)	(5,295)
Loans granted and deposits placed		(5,029)	(37,629)
Repayments of loan and deposits granted		4,162	6,161
Interest received		3,390	4,637
		(65,356)	(139,405)
Cash flows used in financing activities			
Purchase of treasury shares	21	(1,076)	(4,304)
Proceeds from borrowings, net of fees paid		434,386	125,532
Repayments of borrowings		(451,575)	(462,186)
Acquisition of interest in a subsidiary from non-controlling interests	28	(8,438)	-
Dividends paid to Company shareholders	21	(45,012)	(40,009)
Withholding tax paid on dividend distributed within the Group		(2,646)	-
		(74,361)	(380,967)
Net increase/(decrease) in cash and cash equivalents		**128,151**	**(49,551)**
Exchange losses on cash and cash equivalents		(3,113)	(2,345)
Cash and cash equivalents at beginning of year		365,692	417,588
Cash and cash equivalents at end of year	20	**490,730**	**365,692**

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 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 and Macedonia, the Group also distributes a range of products from external partners (Unilever, Ferrero, Wrigley, Johnson & Johnson, Duracell and others). At the beginning of 2016, the Group has started its own distribution in Germany and Austria. The Group has manufacturing plants in Croatia, Slovenia, Serbia, Bosnia and Herzegovina, Macedonia and Germany 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 adopted by the Group

The Group has adopted the following new and amended standards for annual reporting period commencing 1 January 2016 which were endorsed by the European Union and which are relevant for the Group's financial statements:

- *Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38*
- *Disclosure Initiative - Amendments to IAS 1*
- *Annual Improvements to IFRSs 2012-2014 Cycle comprising changes to four standards (IFRS 5, IFRS 7, IFRS 19, IAS 34)*

The adoption of the improvements did not have any impact on the current period or any prior period and it is not likely to affect future periods.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations issued but not yet effective

Certain new standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Group. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for the standards stated below. The Group plans to adopt new standards on their effective date as of and when endorsed by the EU.

- *IFRS 9, Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*
  IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.
  The Group has performed high-level impact assessment and expects no impact from the new classification, measurement and de-recognition rules on its financial assets and liabilities. The Group expects to apply simplified approach and record lifetime expected impairment losses on all 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.

- *IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019, early adoption is permitted only if IFRS 15 is adopted at the same time)*
  IFRS 16 will affect primarily lessee accounting and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exist for short-term and low-value assets.
  The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expenses will be replaced with interest and depreciation, so key metrics like EBITDA will change.
  Operating cash flows will be higher as a cash payments for the principal portion of the lease liability are classified within financial activities. Only the part of the payment that reflects interest will continue to be presented as operating cash flows.
  Lessor accounting will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. In accordance with IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
  The Group is currently making detailed assessment of the impact of the new standard on its financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRS 15, 'Revenue from contracts with customers and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*
  The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.
  The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.
  Key changes to current practice are:
  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements;
  - Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.) – minimum amounts must be recognised if they are not at significant risk of reversal;
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa;
  - There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few; and
  - As with any new standard, there are also increased disclosures.

  Entities will have a choice of full retrospective application, or prospective application with additional disclosures.
  At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. More detailed assessments of the impact will be made during 2017.

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) Mergers

The predecessor method of accounting is used to account for the merger of related companies under common control. The carrying value of assets and liabilities of the predecessor entity are transferred as balances in the merged entity. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated, recognizing the carrying value of net assets merged within equity.

(c) 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.

(d) Disposal of subsidiary

When the Group ceases to have control, 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 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 amortization and impairment, if any. Amortization 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 amortization. Amortization 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 amortized, 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 amortized 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 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 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 income 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 income 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 income 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 income 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 income 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 income 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 income tax asset is realised or the deferred income tax liability is settled. Deferred income 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. 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.

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 43 thousand in 2016 (2015: HRK 52 thousand).

2.25 Comparatives

In order to ensure comparability, operating results of segments for the year ended 31 December 2015 have been restated according reporting logic applied in 2016.

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 depreciation of the Serbian dinar against EURO in 2016 resulted in HRK 7,284 thousand foreign currency losses from financing activities (2015: HRK 3,226 thousand) while the apreciation of Russian ruble had a direct positive impact on the Group's 2016 financial activities results of HRK 18,154 thousand (2015: negative impact of HRK 10,050 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 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**

31 December 2015 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	411,234	342,703	56	40,787
Cash and cash equivalents	130,711	87,382	7,449	6,204
Trade and other payables	(420,658)	(134,645)	(59,789)	(5,473)
Borrowings	(1,773,869)	(34)	(8,872)	-
Net balance sheet exposure	**(1,652,582)**	**295,406**	**(61,156)**	**41,518**

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 7,261 thousand lower (2015: HRK 9,067 thousand lower), mainly due to the EUR denominated borrowings, and other comprehensive income would be HRK 14,614 thousand higher (2015: HRK 14,521 thousand higher), due to the translation differences arising on consolidation of subsidiaries whose local 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 357 thousand lower (2015: HRK 185 thousand lower) and other comprehensive income would be HRK 5,412 thousand higher (2015: HRK 4,928 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 2016, 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 2016, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2015: 100 basis points), the profit after tax would have been lower/higher by HRK 10,872 thousand (2015: HRK 8,643 thousand), mainly as a result of increased/decreased interest expense.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings with floating rates to fixed rates. The Group raised long-term borrowings at floating rates and swapped them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (quarterly and semi-annually), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

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 2016, the Group held cash and cash equivalents in the amount of HRK 490,730 thousand (2015: HRK 365,692 thousand) and short-term deposits in the amount of HRK 227 thousand (2015: HRK 305 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 2016			
Trade and other payables	1,002,893	-	1,002,893
Borrowings (excluding finance lease)	608,462	1,527,780	2,136,242

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Total**
31 December 2015			
Trade and other payables	928,651	-	928,651
Borrowings (excluding finance lease)	799,461	1,410,337	2,209,798
Finance lease liabilities	417	-	417
Derivative financial instruments	5,091	472	5,563

3.2 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 short-term deposits and 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)

3.2 Capital risk management (continued)

The gearing ratios were as follows:

	2016	2015
	(in thousands of HRK)	
Total borrowings (Note 24)	2,011,144	2,051,212
Derivative financial instruments (Note 15)	(18,139)	(7,165)
Less: Short-term deposits and Cash and cash equivalents (Note 18 and 20)	(490,957)	(365,997)
Net debt	1,502,048	1,678,050
Total equity	2,016,488	1,945,308
Total capital	**3,518,536**	**3,623,358**
Gearing ratio	**43%**	**46%**

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.

3.3 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)

3.3 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 3).

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) Deferred income 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 income 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).

(b) 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 amortized over a period of 15 years. Change in accounting estimate resulted in additional HRK 8,859 thousand amortization expense recorded in income statement for the period ended 31 December 2016.

(c) 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)*	**2016**	**2015**
SBU Pharma and Personal Care	161,345	158,082
	161,345	**158,082**

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

(ii) Brands

Operating segment *(in thousands of HRK)*	**2016**	**2015**
SBU Beverages	66,032	72,510
SBU Coffee	102,854	239,599
SBU Snacks	137,278	139,678
SBU Savoury Spreads	242,801	245,284
BU Gourmet	3,131	3,211
BU Baby food	28,621	28,915
	580,717	**729,197**

(iii) Goodwill

Operating segment *(in thousands of HRK)*	**2016**	**2015**
SBU Beverages	90,121	91,119
SBU Coffee	61,103	62,665
SBU Snacks	206,304	213,066
SBU Savoury Spreads	126,908	128,244
SBU Pharma and Personal Care	196,155	198,848
BU Gourmet	7,978	12,352
BU Baby food	21,930	22,154
SDU Croatia	34,648	35,516
SDU Serbia	49,662	50,907
DU Slovenia	25,409	26,045
DU Macedonia	5,775	5,919
	825,993	**846,835**

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 2016**	**After-tax discount rate 2015**
SBU Beverages	7.2%	7.5%
SBU Coffee	8.0%	8.0%
SBU Snacks	9.1%	8.9%
SBU Savoury Spreads	8.2%	8.4%
SBU Pharma and Personal Care	7.3%	8.0%
BU Baby food	8.6%	9.5%
SDU Croatia	7.2%	7.7%
SDU Serbia	9.1%	9.2%
DU Slovenia	5.1%	5.7%
DU Macedonia	10.1%	10.3%

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(c) 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 (2015: 2%). Compared to 2015, after-tax discount rates in 2016 are lower across segments, based on changed market conditions - primarily lower risk-free rates based on reduced sovereign yields across markets.

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

	2016	**2015**
Barcaffe	5.0%	5.0%
Grand Kafa	-	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 10,397 thousand was recognised (2015: HRK 13,795 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 15.0% decrease of the recoverable amount of cash generating units (2015: 15.2%). Despite the decrease, the net recoverable amount of cash generating units would still exceed the carrying value.

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 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 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)*	**2016**	**2015**
SBU Beverages	637,185	642,236
SBU Coffee	1,063,927	1,073,474
SBU Snacks	651,275	631,553
SBU Savoury Spreads	543,031	496,560
SBU Sports and Functional Food	449,347	768,463
SBU Pharma and Personal Care	538,853	511,277
SDU Croatia	969,611	948,906
SDR Zone West	504,540	522,055
SDU Serbia	1,101,050	1,175,100
DU Slovenia	754,403	761,868
Other segments	762,982	821,707
Reconciliation	(2,869,938)	(2,947,887)
Total	**5,106,266**	**5,405,312**

Operating results	**For the year ending 31 December 2016**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	161,834	(42,182)	119,652
SBU Coffee	227,934	(24,026)	203,908
SBU Snacks	116,425	(13,060)	103,365
SBU Savoury Spreads	119,751	(15,110)	104,641
SBU Sports and Functional Food	(20,696)	(9,636)	(30,332)
SBU Pharma and Personal Care	45,699	(9,847)	35,852
SDU Croatia	10,316	(8,485)	1,831
SDR Zone West	(55,314)	(917)	(56,231)
SDU Serbia	19,759	(2,304)	17,455
DU Slovenia	42,715	(4,029)	38,686
Other segments	(194,055)	(36,984)	(231,039)
Total	**474,368**	**(166,580)**	**307,788**

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results	**For the year ending 31 December 2015**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	151,802	(39,077)	112,725
SBU Coffee	211,236	(22,520)	188,716
SBU Snacks	99,703	(22,250)	77,453
SBU Savoury Spreads	121,752	(16,052)	105,700
SBU Sports and Functional Food	(32,816)	(9,333)	(42,149)
SBU Pharma and Personal Care	43,460	(12,690)	30,770
SDU Croatia	21,073	(6,275)	14,798
SDR Zone West	10,582	(593)	9,989
SDU Serbia	30,104	(2,734)	27,370
DU Slovenia	41,879	(4,157)	37,722
Other segments	(131,499)	(27,616)	(159,115)
Total	**567,276**	**(163,297)**	**403,979**

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:

	2016	**2015**
	(in thousands of HRK)	
Serbia	931,450	969,944
Slovenia	983,958	962,849
Croatia	751,237	764,432
Other	172,890	185,880
Total geographically allocated non-current assets	**2,839,535**	**2,883,105**

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2016 *(in thousands of HRK)*	2016 %	2015 *(in thousands of HRK)*	2015 %
Croatia	1,470,978	28.8	1,408,968	26.1
Serbia	1,183,684	23.2	1,256,268	23.2
Slovenia	857,671	16.8	855,040	15.8
Bosnia and Herzegovina	396,600	7.8	381,733	7.1
Macedonia, Montenegro, Kosovo	343,424	6.7	325,165	6.0
Germany, Italy, United Kingdom	308,329	6.0	396,752	7.3
Russia and CIS countries	186,498	3.7	237,115	4.4
Other markets	359,082	7.0	544,271	10.1
Total sales by markets	**5,106,266**	**100.0**	**5,405,312**	**100.0**

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

Analysis of revenue by category	2016 *(in thousands of HRK)*	2016 %	2015 *(in thousands of HRK)*	2015 %
Sales by type of products				
Own brands	3,460,489	66.9	3,493,571	64.1
Principal brands	1,091,007	21.1	1,102,538	20.2
Pharmacy	363,937	7.0	336,424	6.2
Private label	190,833	3.7	472,779	8.7
Total sales by type of products	**5,106,266**	**98.7**	**5,405,312**	**99.2**
Other income /i/	68,273	1.3	45,643	0.8
Total revenues	**5,174,539**	**100.0**	**5,450,955**	**100.0**

/i/ Other income mainly comprise of interest income, rental income and income from the reversal of unused provisions. Additionally, in 2016 the amount of HRK 13,987 thousand relate to income from refund of concessions overpaid in years 2005-2015.

NOTE 6 – STAFF COSTS

	2016	2015
	(in thousands of HRK)	
Gross salaries /i/	707,401	682,950
Public transport	17,002	17,031
Termination benefits	2,614	3,394
Share options granted (Note 21)	4,995	1,498
Other staff costs /ii/	68,851	62,906
	800,863	**767,779**

At 31 December 2016, the average employees number was 5,439 (2015: 5,285).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2016 amounted to HRK 115,124 thousand (2015: HRK 104,516 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2016	2015
	(in thousands of HRK)	
Marketing and promotion costs - external	301,563	282,541
Marketing and promotion costs - related parties (Note 30)	13,020	13,966
Sponsorships and donations	40,756	36,266
	355,339	**332,773**

NOTE 8 – OTHER OPERATING COSTS

	2016	2015
	(in thousands of HRK)	
Transportation costs	139,069	132,688
Maintenance	105,327	97,474
Rentals (Note 27)	111,634	96,572
Non-production material	28,600	27,772
Provision for impairment of inventories (Note 19)	27,851	27,571
Intellectual services	24,172	21,186
Travel expense and daily allowances	21,905	18,675
Entertainment	21,832	17,106
Fuel	17,450	18,360
Taxes and contributions not related to operating results	16,639	17,218
Non-production services	15,490	14,390
Telecommunication services	13,080	12,353
Bank charges	8,840	9,770
Provision for impairment of trade receivables (Note 18)	21,290	20,603
Provision for impairment of other receivables (Note 18)	588	381
Production services	6,030	8,362
Supervisory Board fees	1,624	1,513
Royalties	283	1,520
Collection of receivables previously provided for (Note 18)	(3,845)	(12,589)
Other – related parties (Note 30)	2,393	2,532
Other	50,522	37,265
	630,774	**570,722**

NOTE 9 – OTHER GAINS/(LOSSES) – NET

	2016	2015
	(in thousands of HRK)	
Gain on sale of property, plant and equipment	764	1,005
Gain on sale of available-for-sale financial assets	-	7,523
Fair value gains on financial assets	12,124	42,257
Gain on sale of tea business	-	23,782
Foreign exchange gains/(losses) – net	4,306	(5,418)
Other gains/(losses) – net	941	(5,163)
	18,135	**63,986**

NOTE 10 – FINANCE COSTS – NET

	2016	2015
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	41,378	84,287
	41,378	84,287
Finance costs		
Foreign exchange loss on borrowings	(21,760)	(93,506)
Interest expense on bank borrowings	(68,095)	(39,038)
Interest expense on bonds	(9,241)	(8,373)
Interest expense on provisions for employee benefits	(971)	(1,218)
Interest expense on borrowings – related parties (Note 30)	(44,954)	(57,035)
	(145,021)	(199,170)
Finance costs - net	**(103,643)**	**(114,883)**

NOTE 11 – INCOME TAX

	2016	2015
	(in thousands of HRK)	
Current income tax	51,962	47,947
Deferred tax (Note 25)	(11,052)	(1,374)
	40,910	**46,573**

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:

	2016	2015
	(in thousands of HRK)	
Profit before taxation	**204,145**	**289,096**
Income tax calculated at domestic tax rates applicable to profits in the respective countries	27,126	54,099
Tax effects of:		
Adjustments in respect of prior years	4	(32)
Income not subject to tax	(6,476)	(10,171)
Expenses not deductible for tax purposes	33,781	24,485
Effect of utilized tax incentives	(10,009)	(9,391)
Utilisation of previously unrecognized tax losses	(2,967)	(12,809)
Tax losses for which no deferred tax assets were recognised	10,504	1,766
Effect of utilized tax losses	4,011	2,933
Effect of recognized tax losses	(10,705)	-
Effect of tax rate change	3,702	21
Origination and reversal of temporary tax differences	(8,061)	(4,328)
Tax expense	**40,910**	**46,573**

The weighted average effective tax rate was 20.0% (2015: 16.1%). The increase compared to the previous year primarily arises from a different level of tax loss utilization.

The Tax Authority performed two tax inspections in the Group’s subsidiaries. In February 2015, the Ministry of Finance, Tax Authority issued a tax resolution for one of the subsidiaries. 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. In January 2016, the Ministry of Finance, Tax Authorities issued a tax resolution for the second subsidiary. Currently, a tax appeal has been submitted to the second-instance body of the Ministry of Finance. At this moment, it is uncertain whether any liability will be imposed on the Group.

In both cases described above, the Management considers these events as contingent liabilities. The most likely outcome is that they 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 legal proceedings would be unfavourable, amounts to HRK 32,600 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.

	2016	**2015**
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	162,800	242,291
Weighted average number of ordinary shares in issue	3,334,105	3,334,053
Basic earnings per share *(in HRK)*	48.83	72.67

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 2014					
Cost	93,448	790,011	1,700,614	114,608	2,698,681
Accumulated depreciation	-	(379,883)	(1,219,509)	-	(1,599,392)
Net book amount	**93,448**	**410,128**	**481,105**	**114,608**	**1,099,289**
At 1 January 2015					
Opening net book amount	93,448	410,128	481,105	114,608	1,099,289
Additions	-	-	-	92,212	92,212
Transfer	731	61,898	106,983	(169,612)	-
Disposals	-	(1,785)	(1,660)	-	(3,445)
Depreciation	-	(23,673)	(107,474)	-	(131,147)
Transfer to assets held for sale	-	(1,406)	-	-	(1,406)
Transfer to investment property	(420)	(13)	-	-	(433)
Acquisition of subsidiary	3,412	25,731	4,914	-	34,057
Foreign exchange differences	(329)	(1,822)	(2,608)	(802)	(5,561)
Closing net book amount	**96,842**	**469,058**	**481,260**	**36,406**	**1,083,566**
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**

Property, plant and equipment with a net book value of HRK 260,632 thousand as at 31 December 2016 (2015: HRK 248,952 thousand), have been pledged as collateral for borrowings (Note 24).

NOTE 13a – NON-CURRENT ASSETS HELD FOR SALE

	2016	2015
	(in thousands of HRK)	
Opening net book amount	99,196	99,874
Additions	192	-
Disposals	(45,825)	-
Classified as held for sale during the year	-	1,406
Transfer to property, plant and equipment during the year	(45,730)	-
Impairment charge	(1,518)	(1,770)
Foreign exchange differences	(628)	(314)
Closing net book amount	**5,687**	**99,196**

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 2016 relate to the property of Atlantic Trade Zagreb d.o.o. An active program to complete the sale plan is in place.

As at 31 December 2016, the Group has no non-current assets held for sale pledged as collateral for borrowings (2015: HRK 87,733), (Note 24).

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brands	Rights	Software	Total
At 31 December 2014						
Cost	839,412	204,437	812,466	16,066	134,848	2,007,229
Accumulated amortisation and impairment	-	(44,014)	(45,632)	(2,410)	(110,655)	(202,711)
Net book amount	**839,412**	**160,423**	**766,834**	**13,656**	**24,193**	**1,804,518**
At 1 January 2015						
Opening net book amount	839,412	160,423	766,834	13,656	24,193	1,804,518
Foreign exchange differences	(4,929)	-	(3,813)	(55)	545	(8,252)
Additions	-	-	-	837	14,850	15,687
Acquisition of subsidiary	12,352	288	3,224	-	302	16,166
Amortisation	-	-	(3,688)	(3,192)	(9,653)	(16,533)
Impairment charge /i/	-	(2,629)	(11,166)	-	-	(13,795)
Closing net book amount	**846,835**	**158,082**	**751,391**	**11,246**	**30,237**	**1,797,791**
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 /i/	(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**

The disclosure on goodwill and intangible assets with indefinite useful lives impairment test is provided in Note 4 c).

/i/ The basis for impairment charge is explained in Note 4 c).

Intangible assets with a net book value of HRK 639,240 thousand as at 31 December 2016 (2015: HRK 665,732 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:

	2016	2015
	(in thousands of HRK)	
Loans and receivables		
Trade and other receivables	1,261,409	1,212,288
Short-term deposits	227	305
Cash and cash equivalents	490,730	365,692
	1,752,366	1,578,285
Available-for-sale financial assets		
Available-for-sale financial assets	915	959
Derivatives used for hedging		
Derivative financial instruments	18,139	12,728
Total financial assets	**1,771,420**	**1,591,972**
Total current	1,711,403	1,507,318
Total non-current	60,017	84,654
Other financial liabilities		
Borrowings	2,011,144	2,050,795
Trade and other payables	1,002,571	927,506
	3,013,715	2,978,301
Finance leases		
Finance leases	-	417
Derivatives used for hedging		
Derivative financial instruments	-	5,563
Financial liabilities at fair value through profit or loss		
Contingent consideration	7,018	4,581
Total financial liabilities	**3,020,733**	**2,988,862**
Total current	1,591,432	1,675,774
Total non-current	1,429,301	1,313,088

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 2016, financial assets classified as trade and other receivables and short-term deposits that are not past due amounted to HRK 1,051,595 thousand (2015: HRK 1,054,087 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	**2016**	**2015**
	(in thousands of HRK)	
A-1/Stable (Standard &Poor's)	1,419	2,213
A-1/Negative (Standard &Poor's)	4,535	5,557
A-2/Stable (Standard &Poor's)	24,767	10,162
A-2/Negative (Standard &Poor's)	143,529	143,881
A-3/Stable (Standard &Poor's)	194,963	161,377
B/Positive (Standard &Poor's)	5,036	6,468
B/Stable (Standard &Poor's)	2,188	5,365
BA2 /Negative (Moody's)	101,900	23,724
Petty cash and other banks	12,393	6,945
	490,730	**365,692**

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:

	2016	**2015**
	(in thousands of HRK)	
Trade receivables		
Counterparties with external credit rating (Moody's)		
B2	271,730	254,260
	271,730	254,260
Counterparties without external credit rating*		
Group 1	68,930	19,632
Group 2	438,596	479,683
Group 3	165,551	170,975
	673,077	670,290
Total unimpaired trade receivables	**944,807**	**924,550**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2016	2015
	(in thousands of HRK)	
Other receivables		
Counterparties without external credit rating*		
Group 2	38,366	52,638
Total unimpaired other receivables	**38,366**	**52,638**

	2016	2015
	(in thousands of HRK)	
Loans and long-term deposits		
Counterparties without external credit rating*		
Group 1	5,163	3,591
Group 2	53,360	55,441
Group 3	9,672	17,562
	68,195	**76,594**

	2016	2015
	(in thousands of HRK)	
Short-term deposits		
A-3/Stable	105	171
Group 2	122	134
	227	**305**

***** 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 2016 and 2015, there were no impairment provisions on available-for-sale financial assets.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2016	2015
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	50,838	59,513
Other non-current receivables	8,264	24,182
	59,102	83,695
Current receivables		
Trade receivables /ii/	1,154,848	1,083,056
Loans receivable and deposits /i/	17,357	17,081
Other receivables /iii/	128,363	92,177
	1,300,568	1,192,314
Short-term deposits /iv/	227	305
	1,359,897	**1,276,314**

	2016	2015
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	68,195	76,594
Trade receivables	1,154,848	1,083,056
Other receivables	38,366	52,638
Short-term deposits	227	305
	1,261,636	**1,212,593**

/i/ Loans receivable and deposits are as follows:

	2016	2015
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	2,348	2,323
Loans	57,534	69,272
Current portion	(9,044)	(12,082)
	50,838	59,513
Current receivables		
Loans – related parties (Note 30)	1,350	1,210
Loans	6,963	3,789
Current portion of non-current receivables	9,044	12,082
	17,357	17,081
	68,195	**76,594**

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

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ Trade receivables are as follows:

	2016	2015
	(in thousands of HRK)	
Gross trade receivables	1,164,789	1,089,043
Trade receivables – related parties (Note 30)	95,804	90,761
Provision for trade receivables	(105,745)	(96,748)
	1,154,848	**1,083,056**

/iii/ Other receivables are as follows:

	2016	2015
	(in thousands of HRK)	
Receivables from government institutions	44,683	37,716
Outstanding advances	5,078	2,603
Factoring receivables	-	9,001
Prepaid expenses	12,844	9,879
Interest receivable	200	137
Receivables from sale of tea business	24,700	-
Receivables from the sale of available-for-sale financial assets	-	3,800
Other receivables – related parties (Note 30)	1,168	86
Other	39,690	28,955
	128,363	**92,177**

Due to uncertainty in collection, other receivables of HRK 588 thousand were impaired (2015: HRK 381 thousand), (Note 8).

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

As of 31 December 2016, trade receivables in the amount of HRK 105,745 thousand (2015: HRK 96,748 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:

	2016	2015
	(in thousands of HRK)	
Up to 3 months	4,584	4,321
3 to 6 months	6,828	766
Over 6 months	94,333	91,661
	105,745	**96,748**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2016, trade receivables in the amount of HRK 210,041 thousand (2015: HRK 158,506 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2016	2015
	(in thousands of HRK)	
Up to 3 months	173,526	133,584
3 to 6 months	32,644	14,288
Over 6 months	3,871	10,634
	210,041	**158,506**

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

	2016	2015
	(in thousands of HRK)	
EUR	420,754	411,234
HRK	386,968	343,649
RSD	344,634	342,703
Other	109,280	115,007
	1,261,636	**1,212,593**

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

	2016	2015
	(in thousands of HRK)	
As at 1 January	96,748	140,472
Acquisition of subsidiary	-	2,667
Provision for receivables impairment (Note 8)	21,290	20,603
Collected amounts reversed (Note 8)	(3,845)	(12,589)
Receivables written off	(7,906)	(53,790)
Exchange differences	(542)	(615)
As at 31 December	**105,745**	**96,748**

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

NOTE 19 – INVENTORIES

	2016	2015
	(in thousands of HRK)	
Raw materials and supplies	169,559	179,544
Work in progress	22,008	18,472
Finished goods	234,376	219,013
Trade goods	197,375	186,462
	623,318	**603,491**

As of 31 December 2016, inventories of HRK 27,851 thousand (2015: HRK 27,571 thousand) were impaired and fully provided for, due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2016	2015
	(in thousands of HRK)	
Current account and cash on hand	139,909	97,569
Foreign currency account	326,290	219,457
Deposits up to three months /i/	24,531	48,666
	490,730	**365,692**

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

Cash and cash equivalents are denominated in the following currencies:

	2016	2015
	(in thousands of HRK)	
EUR	233,917	130,711
HRK	134,140	97,689
RSD	85,909	87,382
Other	36,764	49,910
	490,730	**365,692**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2015	**3,334,223**	**133,372**	**882,576**	**(78)**	**1,015,870**
Purchase of treasury shares	(4,743)	-	-	(4,304)	(4,304)
Share based payments	4,593	-	(1,061)	4,184	3,123
31 December 2015	**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**

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 2016		31 December 2015	
	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	325,759	9.77
AZ Obligatory pension fund	286,372	8.59	130,439	3.91
Erste Plavi Obligatory pension fund	202,328	6.07	198,178	5.94
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	38,753	1.16	38,331	1.15
Other shareholders	617,038	18.51	774,391	23.23
Treasury shares	105	0.00	227	0.01
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

Dividend distribution

According to the decision of the Company's General Assembly from 16 June 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.

In 2015 the distribution of dividend in the amount of HRK 12.00 per share, or HRK 40,009 thousand in total was approved. Dividend was paid in July 2015.

NOTE 21 – SHARE CAPITAL (continued)

Share based payments

According to the Company's share option programme, shares are granted to Management Board members and to 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, 4,294 new shares have been granted in 2016 (2015: 1,331 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 5,791 thousand (2015: HRK 2,079 thousand). Of that amount, HRK 4,995 thousand (2015: HRK 1,498 thousand) has been reported as staff costs (Note 6), relating to 3,818 shares for which vesting conditions were met in 2016 (2015: 996 shares) and HRK 796 thousand was deferred, relating to shares for which vesting conditions will be met in the next two years (476 shares, 2015: 335 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 937.89 (2015: HRK 805.22).

In 2016 Management Board members and top management have received 1,422 shares relating to shares granted in 2013.
In 2015 Management Board members and top management have received 4,593 shares in total. Out of this number, 3,650 shares related to award for the extraordinary performance on special projects subject to specific restrictions which include restriction to trade the shares within 5 years from the grant date and vesting condition which includes 5 years of service within the Group. The fair value of one share at the award grant date amounted to HRK 630.00 and it has been determined based on external valuation report, taking into consideration trading restriction of the shares as described above. The rest of shares related to shares granted in 2014 and 2013.

NOTE 22 – RESERVES

(in thousands of HRK)	Reserves /i/	Translation reserves /ii/	Cash flow hedge reserve /ii/	Total
At 1 January 2015	**5,971**	**(29,974)**	**4,368**	**(19,635)**
Foreign exchange differences	-	(7,771)	-	(7,771)
Transfer to retained earnings	3,194	-	-	3,194
Cash flow hedge	-	-	(2,052)	(2,052)
At 31 December 2015	**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)**

/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.

NOTE 23 – TRADE AND OTHER PAYABLES

	2016	2015
	(in thousands of HRK)	
Trade payables	794,021	797,560
Trade payables – related parties (Note 30)	3,906	5,645
Other payables	276,069	185,349
	1,073,996	**988,554**

Other payables recorded as at 31 December are as follows:

	2016	2015
	(in thousands of HRK)	
Gross salaries payable	49,155	49,771
Liabilities to state institutions	21,559	9,618
Accrued expenses	101,038	75,494
Vacation accrual	17,887	15,864
Liabilities to related parties in relation to borrowings (Note 30)	44,954	-
Termination benefits payable	390	514
Deferred income	7,288	8,359
Dividend payable	185	146
Other	33,613	25,583
	276,069	**185,349**

Financial liabilities are denominated in the following currencies:

	2016	2015
	(in thousands of HRK)	
EUR	391,923	420,658
HRK	396,068	293,199
RSD	127,084	134,645
Other	87,818	80,149
	1,002,893	**928,651**

NOTE 24 – BORROWINGS

	2016	2015
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /i/	1,223,031	279,041
Related parties /ii/ (Note 30)	-	1,030,139
Bonds /iii/	199,574	-
Long-term debt	**1,422,605**	**1,309,180**
Short-term borrowings:		
Financial institutions /i/	588,415	331,480
Related parties /ii/ (Note 30)	-	293,598
Bonds /iii/	124	116,537
Finance lease	-	417
	588,539	**742,032**
	2,011,144	**2,051,212**

/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).

Additional EUR 10 million loan agreement was signed with EBRD in September 2014, to finance the construction of the energy bars production plant in Nova Gradiška.

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 2016, EUR 4.8 million of the committed line was unused (31 December 2015: EUR 16.6 million).

/ii/ Borrowings from EBRD in 2015 were disclosed separately since this financial institution owned more than 5% of shares of the Company as at 31 December 2015 and had a presence in the Supervisory Board and was therefore considered as a related party.

/iii/ 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 December 2006 which matured on 20 September 2016.

Borrowings from financial institutions are secured by pledges over property, plant and equipment (Notes 13 and 13a), 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 or a waiver from the banks was obtained.

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:

	2016	2015
	(in thousands of HRK)	
Fixed interest rate	219,211	144,457
Up to 3 months	1,074,305	1,129,189
3 to 6 months	717,628	777,566
	2,011,144	**2,051,212**

The maturity of long-term borrowings is as follows:

	2016	2015
	(in thousands of HRK)	
Between 1 and 2 years	244,142	516,490
Between 2 and 5 years	1,178,463	792,690
	1,422,605	**1,309,180**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 2.53% (2015: 3.65%). The effective annual interest rate related to bonds at the balance sheet date was 4.84% (2015: 7.28%).

The carrying amounts and fair value of long-term borrowings as at 31 December 2016 were as follows:

	Carrying amounts	Fair value
	(in thousands of HRK)	
Long-term borrowings		
Financial institutions	1,223,031	1,223,031
Bonds	199,574	204,167
	1,422,605	**1,427,198**

The fair values of borrowings from banks and financial institutions were based on cash flows discounted using a rate of 2.53% (2015: 3.80%).

The fair value of long-term borrowings as at 31 December 2015 approximated the carrying amounts.

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

	2016	2015
	(in thousands of HRK)	
HRK	482,792	268,261
EUR	1,518,783	1,773,869
USD	9,464	8,872
Other	105	210
	2,011,144	**2,051,212**

NOTE 25 – DEFERRED INCOME TAX

	2016	2015
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	32,227	23,232
- Deferred tax assets to be recovered within 12 months	15,066	13,834
	47,293	37,066
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(167,248)	(173,521)
- Deferred tax liabilities to be recovered within 12 months	(4,563)	(3,156)
	(171,811)	(176,677)
Deferred tax liabilities - net	**(124,518)**	**(139,611)**

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 income tax assets of HRK 50,827 thousand (2015: HRK 63,069 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 certain that future taxable profit will be available for utilization of the temporary differences. Losses amounting to HRK 252,142 thousand (2015: HRK 296,439 thousand) expire over the next five years, while the losses in the amount of HRK 60,727 thousand (2015: HRK 18,908 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	**Tax losses**	**Provisions**	**Other**	**Total**
At 1 January 2015	**5,347**	**6,450**	**29,427**	**41,224**
(Charged)/credited to the income statement (Note 11)	1,002	1,209	(4,603)	(2,392)
(Charged)/credited to other comprehensive income	-	77	(923)	(846)
Exchange differences	(180)	(30)	(710)	(920)
At 31 December 2015	**6,169**	**7,706**	**23,191**	**37,066**
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**

NOTE 25 – DEFERRED INCOME 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 2015	**3,913**	**174,974**	**2,268**	**181,155**
Charged/(credited) to the income statement (Note 11)	-	(2,223)	(1,543)	(3,766)
(Charged)/credited to other comprehensive income	(1,729)	-	-	(1,729)
Acquisition of subsidiary	-	477	1,230	1,707
Exchange differences	(13)	(696)	19	(690)
At 31 December 2015	**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**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal proceedings**	**Warranties**	**Other provisions**	**Total**
At 31 December 2015	62,938	29,867	2,658	11,298	106,761
Analysis of total provisions:					
Non-current	32,397	20,575	-	1,503	54,475
Current	30,541	9,292	2,658	9,795	52,286
At 1 January 2016	**62,938**	**29,867**	**2,658**	**11,298**	**106,761**
Additions	39,271	8,859	1,238	189	49,557
Used during year	(27,127)	(4,494)	(2,625)	(4,305)	(38,551)
Unused amounts reversed	(4,448)	(2,455)	-	(4,446)	(11,349)
Interest expense	971	-	-	-	971
Exchange differences	(488)	(233)	(29)	(142)	(892)
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

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 2016.

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 2017. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 2,204 thousand that will be paid out within the following year from the balance sheet date.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2016 but not yet incurred amounted to HRK 14,867 thousand (2015: HRK 23,855 thousand) for property, plant and equipment and HRK 1,058 thousand for intangible assets (2015: HRK 3,741 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:

	2016	**2015**
	(in thousands of HRK)	
Not later than 1 year	47,091	44,869
Later than 1 year and not later than 5 years	105,794	102,531
Over 5 years	1,721	1,665
	154,606	**149,065**

NOTE 28 – BUSINESS COMBINATIONS

/i/ At the beginning of 2015, the Group acquired 100% interest and obtained control over the company Foodland d.o.o. Serbia, whose main activity is the production of healthy food from selected ingredients with the recognizable brand "Bakina tajna".
Details of the net assets acquired, goodwill and purchase consideration are as follows:

Net assets acquired:

(in thousands of HRK)	Fair value recognised on acquisition
Property, plant and equipment (Note 13)	34,057
Brand (Note 14)	3,224
Software (Note 14)	284
Inventories	10,832
Trade and other receivables	16,312
Cash and cash equivalents	1,194
Borrowings	(41,757)
Trade and other payables	(22,982)
Provisions	(1,003)
Deferred tax liability (Note 25)	(1,707)
Total identifiable net assets acquired	**(1,546)**
Add: goodwill (Note 14)	12,352
Net assets acquired	**10,806**

Purchase consideration:

(in thousands of HRK)	
Cash paid	6,225
Contingent consideration	4,581
Total purchase consideration	**10,806**

Cash flow on acquisition:

(in thousands of HRK)	
Net cash acquired with the subsidiary	1,194
Cash paid	(6,225)
Net cash flow on acquisition	**(5,031)**

As part of the acquisition agreement, a contingent consideration has been agreed. Additional cash payments to the previous owner of Foodland d.o.o. will be made if sales targets in following three years are achieved. As at reporting date, the fair value of the contingent consideration was determined based on discounted cash flows taking into account the probability of meeting performance targets.
As at 31 December 2016, the total amount of the contingent consideration is non-current and is classified as Other non-current liabilities (HRK 3,401 thousand, 2015: HRK 3,436 thousand). As at 31 December 2015, the current part of contingent consideration (HRK 1,145 thousand) was classified as Trade and other payables. In 2016, a part of contingent consideration in the amount of HRK 1,122 thousand was paid.

Foodland d.o.o. contributed HRK 42,624 thousand of revenues and HRK 6,182 thousand of loss to the Group for the period from 1 January to 31 December 2015.

NOTE 28 – BUSINESS COMBINATIONS (continued)

/ii/ In September 2015, the Group acquired 100% interest and obtained control over the company Salubritas d.o.o., Split, 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)	288
Software (Note 14)	18
Trade and other payables	(42)
Total identifiable net assets acquired	**264**
Add: goodwill (Note 14)	nil
Net assets acquired	**264**

Cash flow on acquisition:

(in thousands of HRK)	
Net cash acquired with the subsidiary	-
Cash paid	(264)
Net cash flow on acquisition	**(264)**

There would have been no effect on the consolidated financial statements had the acquisition taken place at the beginning of 2015, since the company acquired had no operations and was acquired solely for the purpose of obtaining the licence to open the specialized shop.

NOTE 28 – BUSINESS COMBINATIONS (continued)

/iii/ 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.

/iv/ During the year ended 31 December 2016, the Group has paid an additional amount of 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 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 paid that related to penalty interest and court expenses was charged to the income statement.

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2016	2015
Net profit		**163,235**	**242,523**
Income tax	11	40,910	46,573
Depreciation, amortization and impairment	13, 13a, 14, 2.24	166,580	163,297
Gain on sale of property, plant and equipment	9	(764)	(1,005)
Gain on sale of available-for-sale financial assets	9	-	(7,523)
Gain on sale of tea business	9	-	(23,782)
Provision for current assets		49,730	48,555
Foreign exchange differences - net		(16,051)	41,676
(Decrease)/ increase in provision for risks and charges - net	26	(264)	26,174
Fair value gains on financial assets	9	(12,124)	(42,257)
Share based payment	21	1,160	3,123
Interest income		(4,188)	(4,637)
Interest expense	10	123,261	105,664
Other non-cash items, net		1,454	5,591
Changes in working capital:			
Increase in inventories		(47,678)	(39,049)
Increase in current receivables		(111,668)	(38,153)
Increase in current payables		50,404	89,705
Cash generated from operations		**403,997**	**616,475**

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'). In 2015 the European Bank for Reconstruction and Development (EBRD) was considered a related party, since this financial institution owned more than 5% of shares of the Company as at 31 December 2015 and had a presence in the Supervisory Board.

Related party transactions that relate to balances as at 31 December 2016 and as at 31 December 2015 and transactions recognized for the years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2016	2015
RECEIVABLES			
Current receivables			
Other entities	18	98,322	92,057
LIABILITIES			
Borrowings			
Shareholders	24	-	1,323,737
Trade and other payables			
Shareholders	23	44,954	-
Other entities	23	3,906	5,645
		48,860	5,645
REVENUES			
Sales revenues			
Other entities		471,724	465,682
Other revenues			
Other entities		733	1,277
EXPENSES			
Marketing and promotion costs	7		
Other entities		13,020	13,966
Other operating costs	8		
Other entities		2,393	2,532
Finance cost - net	10		
Shareholder		44,954	57,035
Purchases of property, plant and equipment			
Other entities		140	11,000

Management board compensation

In 2016 members of the Management Board received total gross amount of HRK 17,778 thousand relating to salaries, bonuses and supervisory board compensation in respect of operating companies (2015: HRK 15,970 thousand).

NOTE 31 – AUDITORS' FEES

PricewaterhouseCoopers d.o.o., the auditor of the Group's financial statements has rendered services in the amount of HRK 4,463 thousand (2015: HRK 3,942 thousand). These services relate to the audits and reviews of the financial statements, consultancy services 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:

	2016	2015
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	100%	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%
- Atlantic Multipower GmbH & CO OHG, Germany	100%	100%
- Atlantic Multipower UK Ltd, Great Britain	100%	100%
- Sport Direct Ltd, Great Britain	100%	100%
- Atlantic Multipower Srl, Italy	100%	100%
- Atlantic Multipower Iberica, Spain	100%	100%
- AKTIVKOST Handelsgesellschaft mbH, Germany	100%	100%
- Atlantic Management GmbH, Germany	100%	100%
Atlantic Brands GmbH, Germany	100%	100%
Atlantic Brands GmbH, Austria	100%	100%

NOTE 33 – EVENTS AFTER BALANCE SHEET DATE

Trade and other receivables disclosed in Note 18 include receivables in the amount of HRK 354.894 thousand related to a customer which started, after the balance sheet date, a process of potential restructuring and change of business model. At the moment of financial statements approval, the process has just started and potential effects (if any) are uncertain, but management expects outstanding receivables will be fully collected.

2016

ATLANTIC GRUPA Plc.
Miramarska 23
10000 Zagreb, Croatia

Information desk
tel. +385 1 2413 900
fax. +385 1 2413 901
mail.grupa@atlanticgrupa.com