ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
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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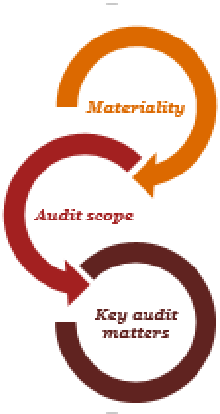
Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: J. M. Gasparac, President; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

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. 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.	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. 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

ATLANTIC GRUPA d.d.

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.

ATLANTIC GRUPA d.d.

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.

ATLANTIC GRUPA d.d.

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.