ATLANTIC
GRUPA

ANNUAL REPORT 2018

BEVERAGES

- Cedevita
- Cockta
- Donat Mg
- Kala

COFFEE

- barcaffé
- grand kafa
- Bonito prava kafa

SNACKS

- Štark Najlepše želje
- Štark Smoki
- Štark Bananica
- Štark Integrino

PHARMA AND PERSONAL CARE

- DIETPHARM
- farmacia
- Bebi

SPORTS AND FUNCTIONAL FOOD

- MULTIPOWER
- SPORTS LINE Champ
- MULTABEN

SAVOURY SPREADS

- ARGETA
- montana

GOURMET

- Bakina Tajna
- Amfissa

Summary of key **financial indicators**

in HRK millions	2018	2017	2018/2017
REVENUES	**5,330.6**	5,303.4	**0.5%**
SALES	**5,255.5**	5,238.2	**0.3%**
EBITDA	**545.9**	582.2	**-6.2%**
EBITDA MARGIN	**10.4%**	11.1%	
EBITDA (NORMALIZED)	**565.6**	517.4	**9.3%**
EBITDA MARGIN (NORMALIZED)	**10.8%**	9.9%	
EBIT	**366.8**	406.5	**-9.8%**
EBIT MARGIN	**7.0%**	7.8%	
EBIT (NORMALIZED)	**386.5**	341.6	**13.1%**
EBIT MARGIN (NORMALIZED)	**7.4%**	6.5%	
NET PROFIT AFTER MINORITY INTEREST	**244.0**	275.5	**-11.5%**
NET PROFIT MARGIN	**4.6%**	5.3%	
NET PROFIT AFTER MINORITY INTEREST (NORMALIZED)	**261.5**	210.7	**24.1%**
NET PROFIT MARGIN (NORMALIZED)	**5.0%**	4.0%	
NET DEBT	**862.9**	1,185.4	**-27.2%**
NET DEBT/EBITDA (NORMALIZED)	**1.5**	2.3	**-33.4%**
CASH FLOW FROM OPERATING ACTIVITIES	**462.1**	346.3	**33.4%**
CAPITAL EXPENDITURE	**140.6**	129.2	**8.8%**
MARKET CAPITALIZATION AS AT 31 DEC	**3,867.8**	2,874.2	**34.6%**
EV	**4,734.6**	4,063.2	**16.5%**
EPS	**73.2**	82.7	**-11.5%**
EPS (NORMALIZED, IN HRK)	**78.5**	63.2	**24.1%**
PPS AS AT 31 DEC	**1,160.0**	862.0	**34.6%**
DPS (IN HRK)	**20.0**	13.5	**48.2%**


ATLANTIC
GRUPA

EMIL TEDESCHI

PRESIDENT OF THE MANAGEMENT BOARD OF ATLANTIC GRUPA

Letter of President of the Management Board to Shareholders

Due to primarily business results, and taking into account the awards and recognitions received, we may conclude that 2018 was another very successful year for **ATLANTIC GRUPA**, in which we strengthened corporate practices, organisation as well as our brands. Our top international brand Argeta, after the successful start of production in the USA a year before, has in 2018 become the leading European meat savoury spread, and the redesigned Cockta achieved extraordinary sales results with above average growth in the HoReCa segment. In addition to the extended distribution range, we also continued with improvements in the distribution organisation, and we finalized the investment into a new logistics and distribution centre in Zagreb aligned with modern technology and warehouse operations efficiency requirements. We also continued to disinvest "non-core" business operations and in July signed a purchase and sale agreement for the company Neva, with its renowned cosmetic brands Melem, Plidenta and Rosal, with the respectable company Magdis from Zagreb. We are particularly satisfied that in this transaction we found a partner with which we share common values and the desire for further growth and development of the company in question and its brands. Financially, in the year 2018 we achieved significant profitability growth (9.3% of normalized EBITDA) and lower finance costs, a result of further deleveraging that strengthened our cash flow and presents a strong basis for future growth. These excellent results were also recognised by the financial market, so in the last year Atlantic, in addition to the first award of the Zagreb Stock Exchange for best investor relations, also received the award for the stock with the highest price increase in 2018. Due to the growth of overall business performance, Atlantic Grupa's market capitalisation in the last year was increased by impressive 34.6% and Atlantic also, as the first issuer, moved from the Official to the Prime Market of the Zagreb Stock Exchange, which is yet another recognition for its high criteria of corporate governance and transparency in organisation, business operations and communication with the investment community. These are also the key business developments in 2018 with regard to Atlantic Grupa's activities arising from the company's strategic determinants. Our focus in the future will be on key brands and major categories, i.e. those with a strong growth and sustainability potential, as well as on new business opportunities. The strength of our brands, as well as the synergy realized together with our principal brands in distribution, make Atlantic Grupa a leading branded food company in this part of Europe. We continue to act primarily in view of ensuring the best possible user experience and creating content that supports our every product and service offered. We consider that, for this purpose, important support is provided by the development of technological solutions, and we recognise and invest in digital platforms, as well as develop analytical tools, software and hardware solutions. Additionally, our aim is to continue creating a special environment for new ideas, business advancements and, particularly, for the development of human resources within our system, not losing sight of the fact that people are at its centre and that technology serves people, and not the other way around. Finally and most importantly, it is our wish and one of our principal strategic determinants to develop and increase the feeling of satisfaction, optimism and the joy of creation within Atlantic Grupa, which is reflected in our continuously growing programmes dedicated to employees as the main lever of development.

Corporate Profile of Atlantic Grupa

ABOUT THE COMPANY

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

Today, Atlantic Grupa is a company with: (i) HRK 5.3 billion in sales revenues, (ii) 15 modern production plants (in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Macedonia), (iii) developed regional distribution infrastructure and (iv) 9 brands with sales above HRK 120 million, high market shares and consumer recognisability. Atlantic Grupa has a well-balanced presence in South-East Europe accounting for 89.3% of total sales, while 10.7% refers to the company's presence in West Europe, CIS countries and other countries. Since 2012, the Group's business operations are organised through the system of business units that monitor the operations related to specific product groups from the company's production portfolio and distribution units. During 2018,f Atlantic Grupa's business operations concerning the company's product portfolio were organised through Strategic Business Units Beverages, Coffee, Snacks, Savoury Spreads, Sports and Functional Food, and Pharma and Personal Care – with which the Business Unit Baby Food's operations were merged at the beginning the year – and the Business Unit Gourmet, which will from the beginning of 2019 operate within the Strategic Business Unit Savoury Spreads. From the beginning of 2018, the company's distribution operations have been reorganised into one single area, whereby components of the Strategic Distribution Region HoReCa have been merged with the existing distribution organisations in individual markets. The markets within the distribution area where Atlantic Grupa provides a complete distribution service are Strategic Distribution Units Croatia, Serbia, Slovenia and Distribution Units Macedonia and Austria, while the markets which we dominantly manage through our distribution partners have been grouped into a single distribution area, Global Distribution Account Management. At the end of 2018, as a result of reorganisation and reallocation of corporate performance management functions with regard to the listed production and distribution units, the single corporate management unit Business Operations ceased to exist.

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

COMPANY HISTORY

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

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

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

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

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

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

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

In line with the decision on focusing the company's future business operations on key brands, as well as on major categories, i.e. those with a strong growth and sustainability potential, the restructuring and simplification of operations of the business unit Sports and Functional Food.was carried out in 2017, under which the strategic partnership was concluded with the respectable Belgian company Aminolabs, to which two production facilities were sold – one in Bleckede (Germany) and one in Nova Gradiška (Croatia), together with associated contracts for service production on behalf of third parties (private label).

During 2018 we continued to disinvest "non-core" business operations of Atlantic Grupa by reorganising the distribution operations in the German market, which were entirely assumed by the company's long-standing distribution partner in that market and by selling the company Neva, with its renowned cosmetic brands Melem, Plidenta and Rosal, to the respectable domestic company Magdis.

NATIONAL COMPANY

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

Establishing cooperation with the company Wrigley

1992 Opening of the distribution centre Split

1994 Opening of distribution centres Osijek and Rijeka

1996 Cooperation with Gillette/Duracell

1997 Investment in the Ataco distribution system in BiH

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

1999 Establishing cooperation with Johnson & Johnson

REGIONAL COMPANY

2001 Start up of a distribution company Atlantic Trade d.o.o. Serbia

Acquisition of Cedevita d.o.o.

Establishing cooperation with Ferrero

2002 Incorporation of Atlantic Grupa d.o.o.

2003 Acquisition of Neva d.o.o.

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

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

Acquisition of the brand Melem

EUROPEAN COMPANY

2005 Acquisition of a German sports food producer Haleko/Multipower

2006 Establishing a representative office in Moscow

Transformation of Atlantic Grupa into a joint-stock company

2007 Acquisition of Fidifarm d.o.o.

Acquisition of Multivita d.o.o.

Listing of Atlantic Grupa d.d. shares on the Official Market of the Zagreb Stock Exchange

2008 Acquisition of pharmacies and forming of the pharmacy chain Farmacia

2010 Acquisition of Droga Kolinska d.d.

Acquisition of Kalničke Vode Bio Natura d.d.

2013 Establishing cooperation with Unilever

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

2016 Establishing distribution companies in Austria and Germany

2017 Strategic partnership with Aminolabs

2018 Savoury spread Argeta No 1 in Europe

Atlantic Grupa d.d. the first company listed on the prime market of the Zagreb Stock Exchange

Sale of Neva d.o.o.

ATLANTIC GRUPA

Representative offices and facilities **in 9 countries**

OFFICE + PRODUCTION FACILITY

–

Croatia
Bosnia and Herzegovina
Macedonia
Slovenia
Serbia

OFFICE

–

Austria
Germany
Montenegro
Russia

Organisational Structure

The business organisation of Atlantic Grupa in 2018 operated within two basic segments:

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

Business operations of Atlantic Grupa in 2018 may be followed through business activities of special business units related to individual product type, and special sales units which cover all major markets as well as strategic sales channels, namely:

During 2018,f Atlantic Grupa's business operations concerning the company's product portfolio were organised through six Strategic Business Units (SBU) Beverages, Coffee, Snacks, Savoury Spreads, Sports and Functional Food, and Pharma and Personal Care – with which the Business Unit Baby Food's operations were merged at the beginning of the year – and the Business Unit Gourmet, which will from the beginning of 2019 operate within the Strategic Business Unit Savoury Spreads.

From the beginning of 2018, the company's distribution operations have been reorganised into one single area, whereby components of the Strategic Distribution Region HoReCa have been merged with the existing distribution organisations in individual markets. The markets within the distribution area where Atlantic Grupa provides a complete distribution service are Strategic Distribution Units Croatia, Serbia, Slovenia and Distribution Units Macedonia and Austria, while the markets which we dominantly manage through our distribution partners have been grouped into a single distribution area, Global Distribution Account Management.

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

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

These corporate support functions are divided into:

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

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

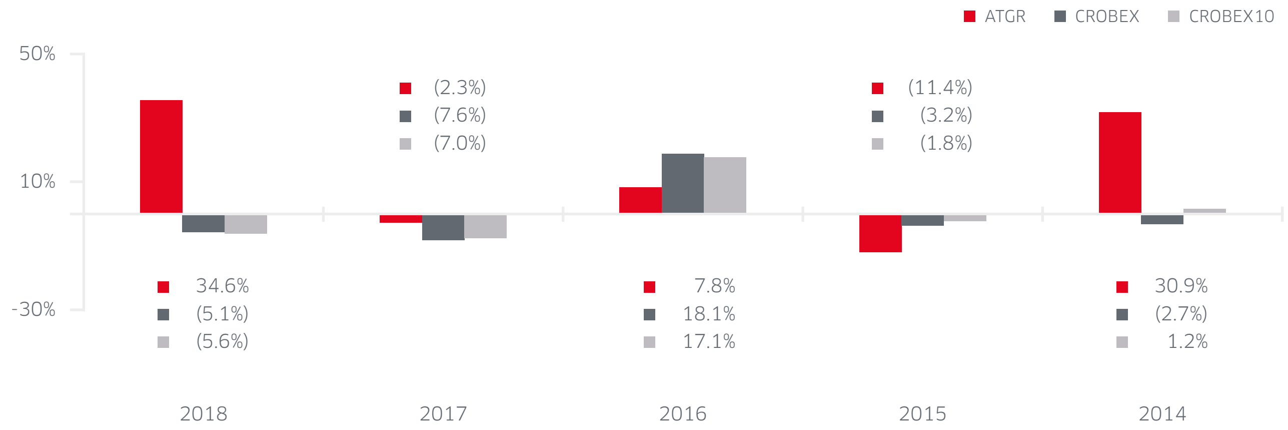
The strategic corporate function Finance includes the following units: Corporate Reporting and Consolidation, Corporate Controlling, Corporate Tax, Corporate Treasury and Investor Relations.

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

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

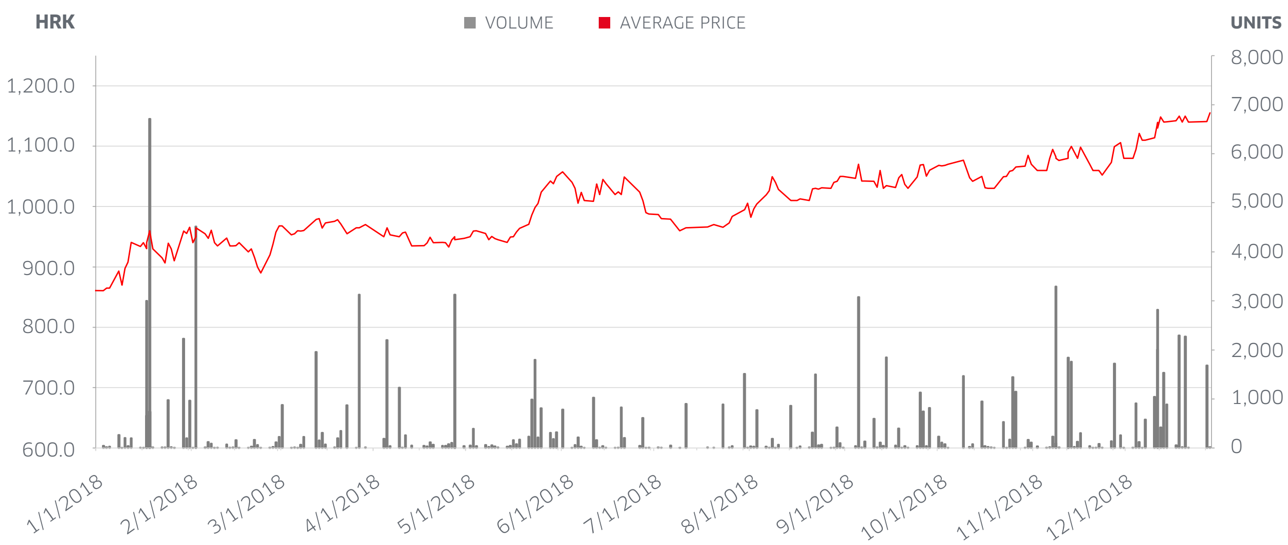
Performance on the **Croatian Capital Market** in 2018

The events on the Zagreb Stock Exchange in 2018 were characterised by similar mood as the year before. After an apparently optimistic beginning of the year and significantly increased turnover in January, in February, after the suspension of trading shares from the Agrokor Group, there was a significant decline in turnover and index value. The situation improved only before the year end, however, the CROBEX and CROBEX10 indices ended the year in the negative area, recording minuses of 5.1% and 5.6%, respectively. Despite negative market developments, due to good business results the Atlantic Grupa's share recorded a high 34.6% growth, which resulted in the historically highest level of market capitalization of Atlantic Grupa.



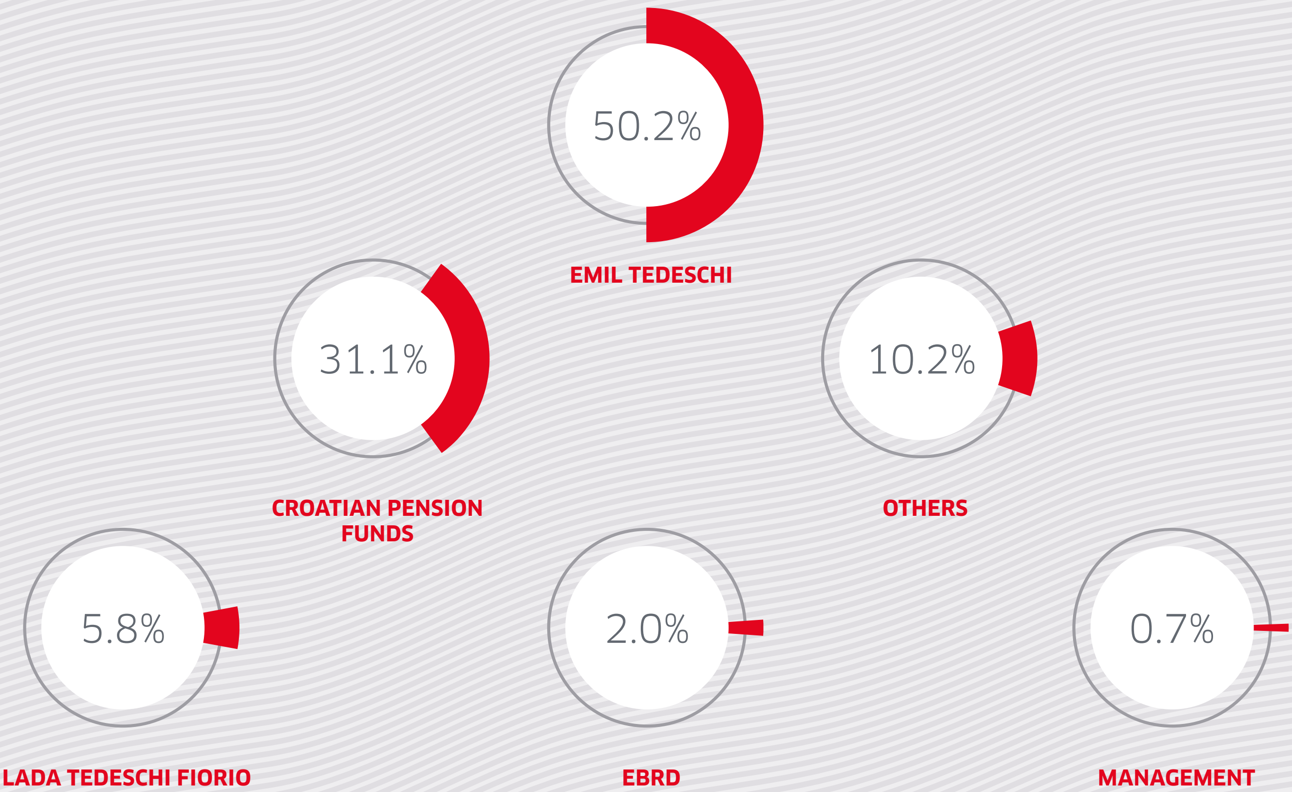
The average daily turnover amounted to HRK 436.3 thousand, or even 22.5% more than in 2017. Among the components of CROBEX10, with the average market capitalization of HRK 3,867.8 million, Atlantic Grupa holds the fourth place. At the end of 2018, the Atlantic Grupa's share recorded the historically highest level of market capitalization since its listing in November 2007. According to the total turnover in 2018, the Atlantic Grupa's share holds the fifth place compared to all the shares quoted on the Zagreb Stock Exchange, with a turnover of HRK 74.7 million.

MOVEMENTS IN THE AVERAGE PRICE AND VOLUME OF THE ATLANTIC GRUPA'S SHARE IN 2018

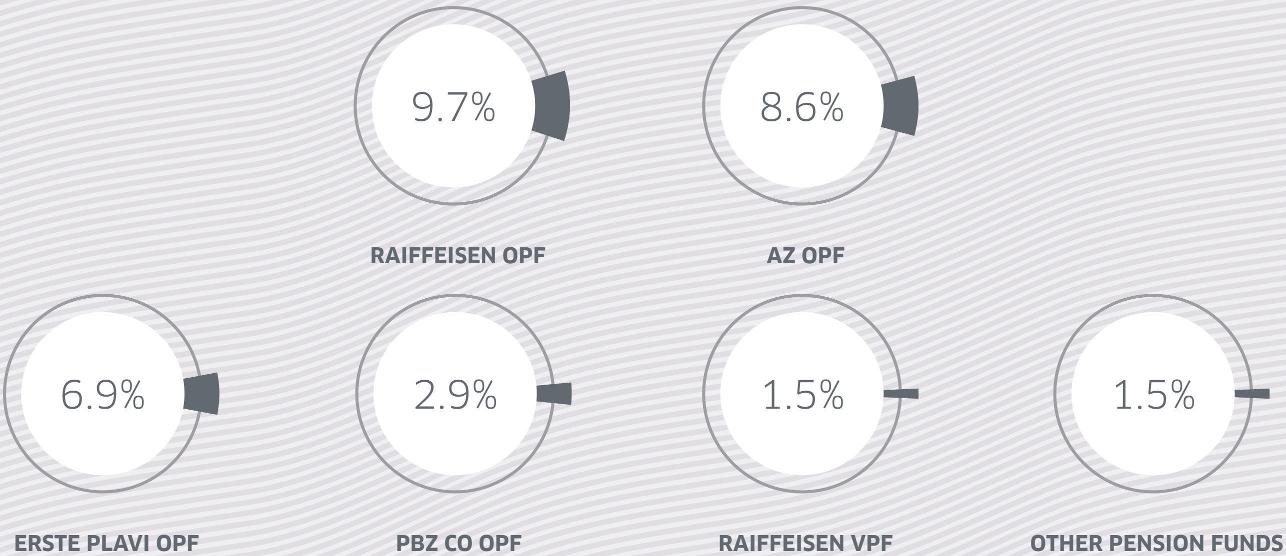


OWNERSHIP STRUCTURE ON 31 DECEMBER 2018

Atlantic Grupa has a stable ownership structure: 50.2% of the company is owned by Emil Tedeschi and 5.8% by Lada Tedeschi Fiorio, while pension funds hold 31.1% of Atlantic Grupa.



SHARE OF THE CROATIAN PENSION FUNDS (31,1%)



OVERVIEW OF TOP 10 SHAREHOLDERS OF ATLANTIC GRUPA D.D. ON 31 DEC 2018

SHAREHOLDER	NO. OF SHARES	% OWNERSHIP
EMIL TEDESCHI	1,673,819	50.2%
RAIFFEISEN OBLIGATORY PENSION FUND, CATEGORY B	322,729	9.7%
AZ OBLIGATORY PENSION FUND, CATEGORY B	286,946	8.6%
ERSTE PLAVI OBLIGATORY PENSION FUND, CATEGORY B	231,178	6.9%
LADA TEDESCHI FIORIO	193,156	5.8%
PBZ CO OBLIGATORY PENSION FUND, CATEGORY B	98,146	2.9%
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT – EBRD	66,686	2.0%
PBZ D.D./JOINT CUSTODIAL ACCOUNT	60,126	1.8%
RAIFFEISEN VOLUNTARY PENSION FUND	51,598	1.5%
PBZ D.D./STATE STREET CLIENT ACCOUNT	29,344	0.9%

According to the decision of the Company's General Assembly held on 28 June 2018, the dividend distribution was approved in the amount of HRK 20.00 per share, i.e. a total of HRK 66.7 million. The dividend was distributed in July 2018.

In line with the Decisions on authorising the Company's Management Board to acquire treasury shares and the Decisions on excluding pre-emption rights upon acquiring new shares, which were adopted at the General Assembly of Atlantic Grupa d.d. on 30 June 2014, the Company in 2018 acquired a total of 2,200 treasury shares (2,000 treasury shares in the total nominal amount of HRK 80,000.00, representing 0.06% of the Company's share capital, were acquired on 27 March 2018, while 200 treasury shares in the total nominal amount of HRK 8,000.00, representing 0.006% of the Company's share capital, were acquired on 10 December 2018).

The above acquisitions were executed by trading on the Zagreb Stock Exchange and information on acquisitions were published in line with legal regulations and are available on web pages of Atlantic Grupa (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr).

The purpose of these acquisitions of treasury shares is the realisation of management and employee remuneration in line with the Stock Option Programme and the Remuneration Policy of Atlantic Grupa d.d. After the 2018 Programme was realised by assigning treasury shares to the Company management and employees, i.e. on 31 December 2018, the Company has 819 treasury shares in the total nominal amount of HRK 32,760.00, which represent 0.024% of the Company's share capital.

INVESTOR RELATIONS IN 2018

In 2018, Atlantic Grupa won the first award for best investor relations, organised by Poslovni dnevnik and the Zagreb Stock Exchange, at the annual conference of the Zagreb Stock Exchange. This award is given by Poslovni dnevnik as the investment community's recognition of companies with high quality communication and transparent relations with investors. In addition to being awarded for relations with investors eight times in a row, in 2018 Atlantic Grupa also received the award for the stock with the highest price increase in 2018 (Top Price Gainer). In addition to the above mentioned awards, it should be noted that in 2018 Atlantic was listed as the first issuer on the Prime Market of the Zagreb Stock Exchange, which is yet another recognition of our high criteria of corporate governance, transparency in organisation, business operations and communication with the investment community.

Moreover, in 2018 Atlantic Grupa participated in various investor conferences, both in the country and abroad, and held a large number of meetings with domestic and foreign investors.

ATLANTIC GRUPA

NEVEN VRANKOVIĆ

GROUP VICE PRESIDENT FOR CORPORATE ACTIVITIES

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

ATLANTIC GRUPA is a successful business system which takes equal pride in its achieved business results, as well as in the culture we are building and values we are promoting, both among our employees and in the community where we work. The core of our corporate culture is respecting individual diversity and fostering cooperation and synergies between the different business segments. Our essential values rest on symbols of the three basic natural elements: the sun which symbolises passion, a wave which symbolises creativity, and a mountain as our symbol of growth. By creating a healthy and encouraging working environment, we try to provide our employees with more than just a job – many programmes developed within the system are aimed at developing human resources and careers within the company, performance management, appropriate rewarding of excellent results and retention of key employee categories. Quality is at the heart of all our activities, regardless of whether it concerns relations with employees, activities related to high production and quality control standards or concern for the environment.

With regard to the latter, we can say that, within our consistent Environmental Management System (EMS), concern for the environment was raised from a local to the corporate level with the key focus on sustainability and protecting the future. i.e. activities grouped in three dimensions – environment and energy efficiency, people and society, and governance. The sustainable environmental management system is based on a well-considered and economical use of natural sources, reduction of waste and lower consumption of energy and water. The international ISO 14001 environmental management system certificate shows that our Environmental Management System complies with the best practice standards, while the reports issued since 2014 in accordance with the Global Reporting Initiative (GRI) guidelines show that we are a steadily progressive regional company in respect of the criterion of transparency. Furthermore, it is worth mentioning that, since its foundation, Atlantic Grupa has based its business activities on the Code of Corporate Governance with which, particularly after the listing on the Zagreb Stock Exchange in 2007, the standards of business transparency have been significantly improved, and we are also a signatory of the Code of Ethics in Business and in 2007 we joined the UN initiative Global Compact. The 2018 listing of our shares on the newly opened top quotation, i.e. the Prime Market of the Zagreb Stock Exchange, confirmed our long-standing efforts to manage all business activities in line with the highest corporate governance and transparency standards.

Finally, it is also worth noting that Atlantic Grupa, as a part of the wider community, is aware of the importance and need for making its own impact on the improvement of general social conditions, promotion of correct values and the need to invest a part of its own profits into the community. In addition to a wide range of donor projects, our sponsorship activities are also notable, especially when it comes to the promotion of sports and healthy lifestyle for youth and adults. The largest sustained, structured and comprehensive arrangement in this sense we are investing in supporting projects such as the basketball club Cedevita where, other than being the main sponsor, through the club's basketball academy attended by over one thousand children and youth, we are trying to promote correct values among the new generations. Atlantic Grupa is also an active participant in a number of humanitarian actions, whether through internal programmes that engage our employees or by supporting a series of organisations and associations involved in protecting and helping vulnerable social groups.

IMPLEMENTING THE PRINCIPLES OF CORPORATE MANAGEMENT

Considering that the shares of Atlantic Grupa d.d. are quoted on the Zagreb Stock Exchange, Atlantic Grupa fully applies the valid Code of Corporate Governance of the Zagreb Stock Exchange. In accordance with relevant regulations, Atlantic Grupa in 2018 issued a Statement of Application of the Code of Corporate Governance, thereby confirming its actions and development in accordance with the good corporate governance practice in all business segments. The Statement of Application of the Code of Corporate Governance has been published on the Company's website (www.atlanticgrupa.com) as well as on the website of the Zagreb Stock Exchange (www.zse.hr) and of the Croatian Financial Services Supervisory Agency – HANFA (www.hanfa.hr). The internal Rules for Remuneration of Supervisory Board Members differ, in terms of their definition, from the ones stipulated in the Code of Corporate Governance of the Zagreb Stock Exchange Inc.

Extract from the Corporate Governance Questionnaire **question No 23**	Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)	NO	The remuneration for the Supervisory Board members is determined as a fixed amount, so they would be as independent as possible from the Company and those they are supervising.

In addition to the above, Atlantic Grupa also applies its own Code of Corporate Governance, thus improving the standards of business transparency and fully aligning them with European Union directives. The Code defines the procedures for the functioning of the Supervisory Board, Management Board and other bodies and structures responsible for decision-making, thus ensuring the avoidance of conflicts of interest, efficient internal control and an effective responsibility system. It is available on web pages of Atlantic Grupa (www.atlanticgrupa.com). Atlantic Grupa is a signatory of the Code of Ethics in Business initiated by the Croatian Chamber of Economy. The listed Code lays down guidelines for ethical behaviour of business subjects in the Croatian economy. Such definition of ethical criteria contributes to more transparent and efficient business operations and high quality relations between economic operators in Croatia and the business environment in which they operate. By signing the Code of Ethics, its parties undertake to respect human rights, apply anti-corruption provisions, use responsible and ethical behaviour towards the other companies on the market, as well as develop high quality relations and loyal competition.

Aware of their importance, Atlantic Grupa promotes the policy of diversity and non-discrimination in the workplace and in employment. This was the motivation behind being us signing the Diversity Charter – the initiative started by 16 EU Member States, which was developed in Croatia within the project of the Croatian Business Council for Sustainable Development. By signing the Charter, we committed to promote the policy of diversity and non-discrimination in the work and business environment, which is implemented accordingly, while also regularly reporting on activities in this area.

This policy of promoting diversity was in 2018 recognised by the Managers' Association of Slovenia, which awarded our company with the main award for its balance, diversity and non-discrimination in the work environment policy.

Atlantic Grupa is developing and acting in accordance with good practice of corporate governance and endeavours, through its business strategy, business policy and key internal acts, to contribute to transparent and efficient business and quality relationships with the business environment in which it operates, following global and European trends.

The internal control and risk management system is an integral and important component of our business operations, and its elements, as specified below, as well as the description of the functioning of, and method of exercising voting rights at, the General Assembly, composition and functioning of the Management Board and Supervisory Board and their committees, as well as information on the Company's shareholders, are an integral part of this Statement.

ORGANISATION OF CORPORATE MANAGEMENT IN ATLANTIC GRUPA

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

GENERAL ASSEMBLY

The General Assembly is a body in which shareholders accomplish their rights in Company matters. The method of functioning of the General Assembly, its powers, the rights of shareholders and the method of their exercise are defined in the Company's Articles of Association, which are publicly available on web pages of Atlantic Grupa (www.atlanticgrupa.com). In order to decide on issues prescribed by law and the Company's Articles of Association, the regular General Assembly of Atlantic Grupa d.d. was held on 28 June 2018. The following decisions were made at that Assembly: issuing the note of release to the members of the Management Board and the Supervisory Board, paying a dividend to the Company shareholders in the amount of HRK 20.00 per share, in proportion to the number of shares held by each shareholder, election of three members of the Supervisory Board, and appointment of an independent Auditor of the Company for the year 2018. All decisions from the held General Assembly were made in line with legal regulations and are available on web pages of Atlantic Grupa (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr).

SUPERVISORY BOARD OF ATLANTIC GRUPA

The joint stock company Atlantic Grupa has a Supervisory Board consisting of six members as, on 10 December 2018, its member Jean Louis Yvon Gourbin ended his term of office in the Company's Supervisory Board. In 2018, the Supervisory Board held four sessions in accordance with the previously announced Schedule posted on web pages of the Company (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr). In line with the OECD Principles of Corporative Governance and the Code's recommendations, the Supervisory Board of Atlantic Grupa is mostly composed of independent members who are not in business, family, or other connections with the company, the majority shareholder, or a group of majority shareholders, or management board members or supervisory board members of the company or the majority shareholder. Six out of the total of seven Supervisory Board members that were active in 2018 come from the ranks of independent experts. The members of the Supervisory Board are:

ZDENKO ADROVIĆ
PRESIDENT

ZDENKO ADROVIĆ, one of the leading experts in Croatian financial industry, is the director and one of the founders of the Croatian Banking Association. He was Chairman of the Management Board of Raiffeisenbank Austria d.d in the period 1996 – 2014, which in his term of office developed into one of the leading financial institutions and received several awards from the Croatian Chamber of Economy as the most successful bank in Croatia. Prior to his current position, he was the Executive Vice President responsible for the treasury and liquidity at Privredna Banka Zagreb, where he also worked as the Investment Banking Sector Manager and Deputy General Manager. He is a member of the Croatian Parliament's Finance and State Budget Committee since 2017, and a member of the National Competitiveness Council since 2018. In the period 2008 – 2016 he was a member of the Executive Board of the Croatian Employers Association, and in the period 2004 – 2013 a member of the Management Board of the Croatian Chamber of Economy. In addition to the above, he was a member of the Supervisory Board in Pliva d.d. in the period 1999 – 2006. He graduated from the Faculty for foreign trade, University of Zagreb, where he also earned his M. Sc. degree in corporate finance. He also continued his professional specialisation at universities in USA and UK.

LADA TEDESCHI FIORIO

VICE PRESIDENT

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

SINIŠA PETROVIĆ

MEMBER

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

FRANZ-JOSEF FLOSBACH

MEMBER

FRANZ-JOSEF FLOSBACH obtained a "Diplom –Wirtschaftsingenieur" (industrial engineer) degree at the Technische Hochschule Darmstadt, renamed Technische Universität Darmstadt, in 1973. He had spent most of his working life, since 1975, in the DEG-Deutsche Investitions und Entwicklungsgesellschaft mbH. DEG promotes private businesses in emerging and developing countries. DEG is a subsidiary of the German KFW – Bankengruppe, Frankfurt, since 2001. Mr. Flosbach has been assigned a number of executive tasks – management audit (among the duties: responsibility for the investments in Asia, the Arabian countries, South-East Europe, English speaking Africa); business planning and controlling (among the duties: successful implementation of the SAP System); business development and portfolio management in Sub-Saharan Africa; consultancy activities – "Deutsche Mittelstand", Programmes of the European Community (ECIP, CDI, JOPP), Foreign Promotion Agencies, Stability Pact for South-Eastern Europe. Furthermore, he was responsible for DEG's Business in East and South East Europe, Caucasus, Central Asia, Turkey and Near East – about 30 Countries, 1.5 billion Euro investment, about 110 portfolio companies, 200–500 million new Commitments per year. Prior to his career in DEG, he worked as a Senior Consultant at the Treuhand-Vereinigung AG/Coopers & Lybrand GmbH, today PriceWaterhouseCoopers (PWC) with a special focus on Merger & Acquisition activities. Mr. Flosbach has special knowledge in the following areas: financing – project financing, providing long term loans, equity; mergers and acquisitions; restructuring and privatisation; advisory service; risk management; corporate governance. He has a profound country and sector know-how. At present he serves as a member of four Supervisory Boards, two Audit Committees and – as a chair – one Risk Committee in four renowned companies in the region.

ALEKSANDAR PEKEČ

MEMBER

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

LARS PETER ELAM HÅKANSSON

MEMBER

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

The members of the Supervisory Board have been remunerated for their work and have the right to remuneration appropriate to the period of their engagement and the tasks performed, as well as the Company's situation and business performance. In line with the above, in 2018 members of the Supervisory Board received remuneration in the following gross amount: Mr. Zdenko Adrović, a total of HRK 364,932.12; Ms. Lada Tedeschi Fiorio, a total of HRK 25,095.33; Mr. Siniša Petrović, a total of HRK 150,572.04; Mr. Franz Jozef Flosbach, a total of HRK 117,187.77; Mr. Aleksandar Pekeč, a total of HRK 140,067.23; and Mr. Lars Peter Håkansson, a total of HRK 144,878.01.

SUPERVISORY BOARD COMMITTEES

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

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

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

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

The members of the said Committees who are not members of the Supervisory Board have received remuneration for their work and contribution to the functioning of the Supervisory Board of Atlantic Grupa. In 2018 Ms. Nina Tepeš received remuneration in the total gross amount of HRK 26,476.32, Mr. Marko Lesić in the total gross amount of HRK 19,996.29 kune, and Mr. Zoran Sušanj in the total gross amount of HRK 18,859.68.

Management Board of Atlantic Grupa

The Management Board of Atlantic Grupa has three members, consisting of the President and Group Vice Presidents for Corporate Activities and Finance. The term of office of the Senior Group Vice President for Business Operations Mladen Veber in the Company's Management Board ended on 6 November 2018. Eleven sessions of the Management Board were held in 2018. The Management Board of Atlantic Grupa operates in the following composition:

EMIL TEDESCHI

PRESIDENT OF THE
MANAGEMENT BOARD

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

NEVEN VRANKOVIĆ

GROUP VICE PRESIDENT
FOR CORPORATE ACTIVITIES

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

ZORAN STANKOVIĆ

VICE PRESIDENT
FOR FINANCE

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

REMUNERATION POLICY FOR MANAGEMENT BOARD MEMBERS

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

- **monthly salary** for board members, set in the gross amount,
- **annual bonus** (bonus remuneration) per year of contract duration, set in the defined percentage of the realised principal annual gross salary, provided that at least 90% of the AG's consolidated EBITDA plan for the business year is realised. The amount of the annual salary supplement (bonus) is defined according to the realisation of the business objective, which consists of assessing the realisation of the profit objective with a weight ratio of 80%, and direct sales to external buyers (third party) of the AG's consolidated plan with a weight ratio of 20%,
- **life insurance policy** for the members of the Management Board contracted by Atlantic Grupa at the reputable insurance companies in Croatia, with the annual premium of HRK 8,250,
- **personal accident insurance policy** with the annual premium of HRK 8,300,
- **voluntary health insurance policy** that includes the Management Board members, with which Atlantic Grupa, as the insurance contractor, with an annual premium of HRK 7,500 per person, provides a quality health treatment through an annual comprehensive health examination, any required specialist medical tests with the application of most contemporary and efficient medical devices and equipment in specialised polyclinics with the best health experts,
- **right to use an official vehicle**, right to compensation of all costs incurred by the Management Board member while performing his/her functions.

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

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

The President of the Management Board of Atlantic Grupa d.d., Emil Tedeschi, in 2018 received remuneration in the gross amount of HRK 4,098,728.26, of which the amount of HRK 2,751,840.00 represents the fixed part of the salary, and the amount of HRK 1,057,745.81 represents the variable part of the salary, while the amount of HRK 289,142.45 represents other receipts in kind.

Neven Vranković, the Group Vice President for Corporate Activities, in 2018 received remuneration in the gross amount of HRK 3,930,988.35, of which the amount of HRK 1,937,113.14 represents the fixed part of the salary, and the amount of HRK 1,912,035.96 represents the variable part of the salary, while the amount of HRK 81,839.25 represents other receipts in kind.

Zoran Stanković, the Group Vice President for Finance, in 2018 received remuneration in the gross amount of HRK 3,913,617.61, of which the amount of HRK 1,856,090.06 represents the fixed part of the salary, and the amount of HRK 2,001,642.62 represents the variable part of the salary, while the amount of HRK 55,884.93 represents other receipts in kind.

STRATEGIC MANAGEMENT COUNCIL

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

The Senior Group Vice President for Business Operations, due to ending his term of office in the Company's Management Board, and the Executive Director of the Business Unit Gourmet, due to the Business Unit Gourmet being merged with the Strategic Business Unit Savoury Spreads during 2018, also ended their terms of office in the Company's Strategic Management Council.

BUSINESS COMMITTEES

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

INTERNAL AUDIT IN 2018

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

In 2018, fourteen audits were performed in the following areas: distribution and logistics in retail and HoReCa channels, marketing, Central Purchasing, the Group's production and sales companies in Macedonia, Croatia and Bosnia & Herzegovina. These audits resulted in the total of 116 special actions to improve operations and reduce specific risks, but no significant irregularities were detected during their conduct.

Sponsorships and Donations
(Corporate Social Responsibility)

In its broader sense, corporate social responsibility is a determinant of Atlantic Grupa's actions. Through its sponsorships and donations, the company aims to promote the values shared with its social environment, namely passion, responsibility and growth. There is a multitude of activities and support that the company provided in 2018 to different associations, organisations and actions, of which some are listed below.

SPORT

- **BC CEDEVITA**
- **ATP UMAG**
- **FC HAJDUK**
- **BC ZABOK**
- **STREET CHALLENGE LIPIK**
- **COCKTA TROPHY YOUNG SKI JUMPERS**
- **EXTREME SPORTS AND ENTERTAINMENT COMPETITIONS**
- **JAKA REMEC – BMX EXTREME RIDER**
- **3X3 SARAJEVO BASKET**

BASKETBALL

Atlantic Grupa is actively involved in the promotion of basketball, so in 2018 the flagship of all Atlantic's sponsorships continues to be the basketball club Cedevita. In 2018, the club won its fifth consecutive Croatian Basketball Championship and its fifth consecutive Krešimir Ćosić Cup, while also being recognised as the best sports team in the city of Zagreb. As a result of Atlantic Grupa's sponsorship, as well as the efforts put in gathering additional sponsors of the club, it is now one of the most promising teams in Croatia and regional leagues and a regular participant in European competitions. What is particularly important and upon which the success of this project lies is Atlantic's dedicated support in financing, organising, and managing the club's Basketball Academy with over one thousand children. The club and academy actively work in 24 basketball schools organised in Zagreb's elementary schools, thus ensuring both the future of this sport and the option of a healthy and useful free time activity. All training during the season is extended by organising a summer camp in Veli Lošinj, where basketball school participants and other guests have an opportunity to enjoy the sea and basketball. The Cedevita Basketball Arena is still the main basketball centre in Croatia which is, in addition to all club selections, used by four other men's and two women's basketball clubs from Zagreb, as well as by, for a fifth consecutive season, protégés of the association Down 21. During the last year, Cedevita basketball club was also visited by the Croatian national basketball team in wheelchairs and by the Jerell Blassingame camp, which brought the NBA star Kenneth Faried.

1,000

CHILDREN IN CLUB'S BASKETBALL ACADEMY

24

BASKETBALL SCHOOLS ARE ORGANISED IN ZAGREB'S ELEMENTARY SCHOOLS

OTHER SPORTS

Along with basketball, tennis, football and supporting extreme sport competitions and athletes, Atlantic Grupa in 2018 also readily provided support to the table tennis club Malinska, which is achieving extraordinary results, as well as the water polo club Jadran Split that achieved noticeable results in national and European competitions. Street sports have their appeal, which is best known by competitors in the basketball street challenge in Lipik, which gathered the best European 3x3 basketball teams and offered attractive supporting activities together with the brands of Atlantic Grupa. We are also sponsoring a special Cockta Cup, a year-round competition system for younger ski jumpers to gain experience and improve their jumping technique for new victories.

Already for five years the company has internally gathered employees within the project “Body and Mind – Opportunity to be fit”, with the principal aim to allow them to apply a healthy lifestyle through different sports activities. Within this project, we should point out 27 sports clubs that are active in 5 markets, cover 14 different sports and in which as much as 1,172 Atlantic employees are participating. “Body and Mind – Opportunity to be fit” also reserves one weekend a year for extensive sports competitions between employees. This activity has fulfilled all criteria of the European Commission’s expert body and has for the first time been selected as one of the finalists for the BeActive award. This is also the first time that Croatia had its representative in this major event.

VALUE DAY

That Atlantic employees truly enjoy helping other is reflected in their high participation in the Value Day, where since 2012 employees are participating in a number of humanitarian actions aimed at improving the conditions in their local community and working environment. In 2018, more than 1,200 Atlantic employees participated in over 60 different activities in eight countries, where they again had an opportunity to show their positive spirit and values they invest in everything they do. They have passionately, creatively and responsibly assisted their local communities and each other through different forms of help: cleaning their work spaces and the environment, gardening, painting, cleaning and by donating blood. Consequently, at the eight international conference on corporate social responsibility CSR Forum Serbia, in 2017 Atlantic Grupa received the Award for Corporate Volunteering, and in 2018 it was, as one of the members, recognised for contributing to the development of CSR activities in Serbia. This award was established in 2011, in cooperation with international partners CSR Europe and BITC, under the European Year of Volunteering and, as part of a wider initiative, realised in 23 European countries.

EVERY DAY IS VALUE DAY – "Programme for the Soul" was implemented in 2017, supporting the humanitarian actions of our employees not only for Value Day, but throughout the year, and also continued in 2018. Atlantic Grupa understands the importance of the community it operates in, and supports the good deeds of its employees that affect the well-being of our community and represent our corporate values:

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

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

VALUE DAY EVERY

CULTURE AND KNOWLEDGE

- 24th SARAJEVO FILM FESTIVAL
- YAMMATOVO
- EXIT FESTIVAL
- MUSICOLOGY
- GASTRO MUSIC FEST
- SEASTAR FESTIVAL
- LEAP SUMMIT
- SEMPL CONFERENCE
- FORUM OF YOUNG SERBIAN LEADERS

Atlantic Grupa has again in 2018 supported the 24th Sarajevo Film Festival (SFF) as a central cultural manifestation in the region, not only as a Festival sponsor, but also as the supporter of the campaign ""Svi smo mi iz istog filma" (We're All From the Same Movie)". Atlantic Grupa and Sarajevo Film Festival have, in line with their long-standing cooperation and friendship, in 2018 decided to fully open the bounders of art and, in a never before seen project, enabled the audience across the region to become part of Sarajevo Film Festival. The campaign "Svi smo mi iz istog filma" lasted one week and resulted in the making of the first amateur vertical film, which was created by almost one hundred creative persons from the entire region. This promotion and campaign was for the first time also supported by Grand Kafa, which developed many activities on digital media in cooperation with the stars of small and big screen in order to use this opportunity to continue successfully positioning itself among art lovers, while Argeta breakfast was again the tastiest breakfast of Sarajevo Film Festival. Argeta welcomed participants of the project Sarajevo Talents, business partners and media representatives.

In addition to supporting the art of film-making, Atlantic Grupa is always looking to support the best music projects, so in 2018 it continued to sponsor Yammatovo with Cockta as the main brand, the Musicology Project with Barcaffè in Serbia, Slovenia and Croatia, as well as Novi Sad's Exit Festival, with performances by world-famous musicians like Johnny Marr, Keziah Jones, Ecos Company and others.

When youth and knowledge are concerned, Atlantic has for the third year in a row supported the largest gathering of the so called changemakers in this part of Europe by presenting at the LEAP Summit career opportunities offered by the company. LEAP Summit was attended by more than 3 thousand participants from more than 35 countries and 103 lecturers. Four different stages were usedto hold parallel discussions on innovation, entrepreneurship, digital technologies, career development and inspiration and motivation.

In Novi Sad, Serbia, the third consecutive Forum of Young Serbian Leaders 2018 YES!, which gathered over 100 young successful people employed in companies, as well as final year and doctoral students, was held under the general sponsorship of Atlantic Grupa. Atlantic Grupa presented itself by using an integrated Atlantic Experience exhibition solution, in which participants were introduced to opportunities Atlantic offers to young people.

OTHER ACTIVITIES IN THE COMMUNITY

Atlantic Grupa is aware how great things can be achieved with small steps, so, for example, it has for years organised internal collection of plastic bottle caps by which employees support a humanitarian action of the Association of Leukaemia and Lymphoma Patients – “Plastic Bottle Caps for Expensive Medicines”. The goal of this action is to collect plastic caps from PET and Tetra Pak packaging and send them to the Association, which then replaces them for certain funds used to buy expensive medicines that are not on the Croatian Health Insurance Fund list, but are required for the treatment of this group of patients. Additionally, Atlantic again in 2018 participated in the project “Iskustvo zlata vrijedi (Experience is Golden)”. This is a project in which Atlantic is participating for the last 5 years, under which students with disabilities or low income have an opportunity for practical training. It is organised for the sixth year in a row by Poslovni dnevnik and Večernji list, with the aim to expand the reach of corporate social responsibility and raise awareness of the business community about student issues.

That balance and diversity promotion are specially observed by the company is also confirmed by the award Involve Everyone that Atlantic received in Slovenia for balance and diversity in the company’s business operations. This award means that the integration of diversity is a part of everyday business environment in Atlantic. Additionally, we are also active in the community by supporting the Croatian Red Cross activities, which are readily supported by Atlantic also as a donor to their valuable initiatives during the year.

Throughout the year employees can participate in different humanitarian activities under the Atlantic’s Charity Programme. This programme enables the creation of positive feelings during such activities, and supports charitable works aligned with activities that were part of Value Day. Since the company wants to encourage its employees to engage in humanitarian actions, Atlantic Grupa decided to support such actions in two ways. Our employees may choose to volunteer in an organisation that was part of Value Day at any time outside the working hours, which is supported by the company with an additional day off that they can use for charity work. Likewise, employees may donate to one or more organisations that were part of Value Day. For every such financial support to a charitable cause, the Company will participate with its own donation in the amount of 50% of the donated sum. For example, if an employee donates EUR 10, the company will donate another EUR 5 (up to a maximum amount of EUR 200 in one year).

PROMOTING CSR ON DIGITAL PLATFORMS

The initiative Good Croatia, in cooperation with the Croatian Employers’ Association and UN Global Compact Croatia, presented the “Shine” award (Sjaj) for visibility of corporate social responsibility and sustainable development on digital communication platforms. This year’s award finals included 41 companies, and Atlantic Grupa came out on top of the list due to its outstanding CSR practice and related digital communication and thus, among others, received the “Shine” award. This initiative is aimed at promoting a good practice of digital visibility of CSR and encouraging the public to engage in corporate social responsibility. This award is given to organisations for digital visibility, communication and affirmation of corporate social responsibility and sustainable development.

Sustainable Development and Environmental Protection in 2018

Based on our continuous desire to improve in all areas of our work, in 2018 we improved numerous areas of the integrated environmental and energy management system by:

- focusing on raising the waste management efficiency,
- improving on-site energy efficiency measurement methods, and
- using a systematic approach to introducing improvements in wastewater treatment systems.

Our employees from the Marketing and Development departments take into account the sustainability elements, which means that, when designing new products, they regularly look for solutions with a minimum adverse environmental impact.

In order to ensure regular compliance with all requirements from the applicable legislation, we introduced a practice of an annual review of the environmental and energy management system, with assistance by external experts for local legislation. This approach was first applied in our business locations in Slovenia, from which we will transfer gained experience and good practice to other markets in which we operate.

ENERGY EFFICIENCY AND WATER CONSUMPTION

The energy efficiency management system, in the part related to measuring and planning improvements, is correlated with the operational excellence management process. The Operational Excellence department monitors and analyses KPIs on a monthly basis together with holders of these activities in individual production sites. By monitoring trends, new challenges, areas for improvement and good practices are identified.

The energy efficiency improvement initiatives from individual sites are registered on the corporate level within the Central Investment and Operational Excellence departments. In this way, the centralised approach is used to improve energy efficiency and realise specific projects. As in previous years, the highest priority in this area are still investments related to introducing more advanced energy consumption control systems, whereas quality measuring of energy consumption is a necessary prerequisite for further technical advancements.

A few examples of technological improvements that were implemented in our production sites during 2018 are as follows:

- Grand Prom d.o.o. and Soko Štark d.o.o., Belgrade – replacing the boiler with a more energy efficient one,
- Soko Štark d.o.o., Belgrade – improving the electricity and natural gas consumption control system,
- Soko Štark d.o.o., Igroš – investing in a new pasteurizator and a more energy efficient compressor,
- Soko Štark d.o.o., Palanački Kiseljak – increasing the capacity of heat exchangers by using thermal water as a renewable energy source,
- Cedevita d.o.o., Apatovec – installing the fuel consumption meter and working hours meter,,
- Cedevita d.o.o., Zagreb – installing a new counter-current heat exchanger used in the steam pipeline for heating business premises and improving counter-current heat exchangers used in production,
- Fidifarm d.o.o. and Montana Plus d.o.o. – replacing counter-current heat exchangers,
- in many sites we carried out improvements of thermal insulation on steam and other hot water pipelines, introduced control of condensate separation, more rational use of energy by automatic deactivation of the ventilation system, etc.

With regard to reducing water consumption in the production site of Cedevita d.o.o. in Apatovac, the programme of CIP washing of items in syrup-making and production facilities was reviewed, which resulted in significant water consumption reduction.

ENVIRONMENTALLY FRIENDLY PRODUCTS

In our company we are aware that, by carefully selecting source and packaging materials, we can reduce negative environmental impacts throughout the life cycle of our products.

In the process of innovation development, managed by the Central Marketing department, special attention is given to integrating sustainable development elements in all stages of development of new products. The most room for improvement was identified in the area of packaging materials, particularly with regard to careful selection of packaging materials, reduction of the amount of packaging used and use of recycled materials. We are also consistently carrying out additional activities in this area, namely considering the introduction of 100% recyclable R PET packaging that can be composted, and analysing the potential reduction of the amount of aluminium packaging used.

In this area we should especially note theactivities of the Strategic Business Unit Savoury Spreads which, in cooperation with an expert partner in the field of environmental protection, performed an analysis of the product life cycle (LCA-Life Cycle Assessment) for several products under the brand Argeta. This analysis provided us with a better understanding of adverse environmental impact contributions in the entire production chain, “from field to table”. In this way, the key elements for reducing adverse environmental impacts were identified, and the sustainability results will be integrated into the business programme development strategy in the future period.

WASTE MANAGEMENT AND WASTEWATERS

Waste management improvements are one of the regular objectives of the environmental management system in all our business locations. In order to achieve this objective, we are continuously carrying out planned training of employees aimed at raising their awareness about the importance of environmental protection. Additionally, we regularly use different internal communication channels to educate employees in this area. For example, our intranet and other internal corporate communication channels are regularly used to remind our employees about the importance of separating waste, which resulted in their higher awareness about the importance of this topic.

Here are a few examples of implemented waste management improvements:

- in the production plant site of Soko Štark d.o.o. in Igroš, a recycling yard was organised, while the same company’s plant site in Belgrade was equipped with new containers and receiving pools,
- in the production plant of Cedevita d.o.o. in Zagreb, an ecological safety cabinet was procured for the temporary storage of hazardous and explosive liquid waste,
- in the production plant site in Izola, separate waste collection was expanded to sub-fractions of different types of waste: the sorting of different types of paper and plastics was introduced,
- in the production plant in Rogaški Vrelci, new waste scales were procured for the purpose of automatizing the waste measuring process and achieving maximum data precision, so that we are ready for the next step of establishing a modern “ecological island”, which is planned for 2019.

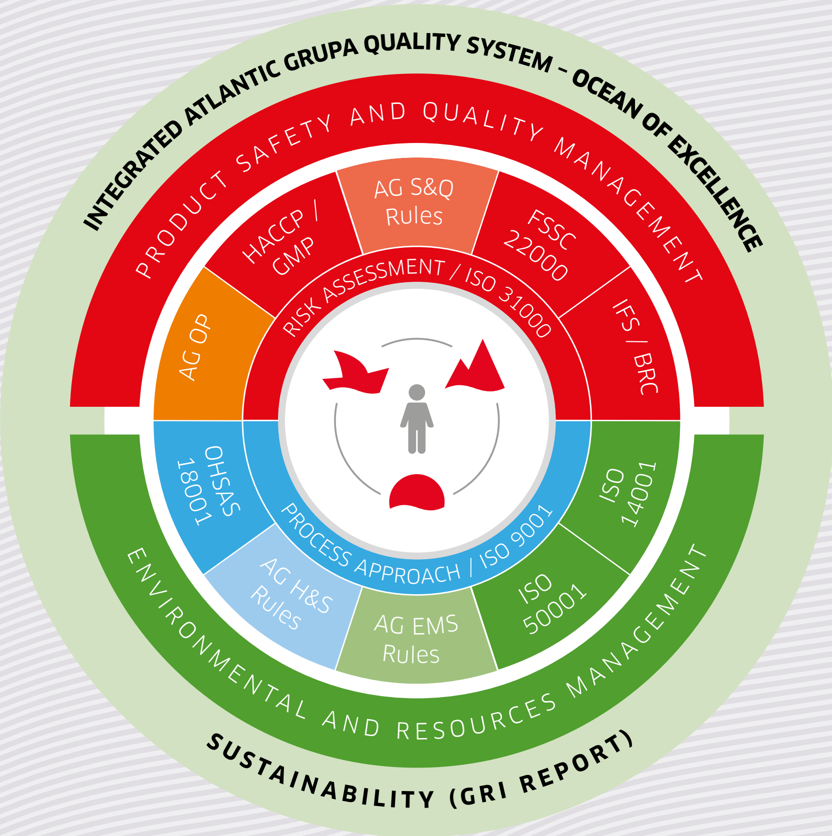
With the aim of improving wastewater treatment processes and thus reducing emissions, the environmental management system includes long-term action plans that were defined for production sites of Soko Štark d.o.o. in Belgrade, Ljubovija, Palančki Kiseljak and Igroš, under which the realisation of activities and their progress are regularly monitored.

With regard to the production of savoury spreads, in the production plant in Izola we reduced the amount of waste fat by increasing the amount of reused fat and concentrates after cooking meat and fish raw materials. In the segment of wastewaters, we reviewed the wastewater treatment system performance and optimized the process.

TRANSPARENT REPORTING OF PROGRESS IN THE FIELD OF SUSTAINABLE DEVELOPMENT ACCORDING TO GRI STANDARDS

In 2018, our sustainability report was prepared according to a new version of the Global Reporting Initiative (GRI) standard (2016), so we are harmonized with the latest international practice of transparency regarding impacts on the environment, economy and society.

Integrated **Process Management System** in 2018



In this segment of our business operations, the year 2018 was marked by several key projects:

1. implementation and preparations for energy efficiency certification of key production entities the markets of Serbia and Bosnia & Herzegovina,
2. introduction of the process approach and preparations for certification of the pharmacy chain Farmacia according to ISO 9001:2015,
3. preparations for recertification according to additional FSSC 22000 requirements,
4. integration of process objectives with sustainable development goals,
5. system digitalisation.

1. Implementation and preparations for energy efficiency certification of key production entities the markets of Serbia and Bosnia & Herzegovina

In 2018, we started intensive activities on the energy management system in the sites of Soko Štark d.o.o. in Belgrade and Ljubovija, and of Argeta d.o.o. in Sarajevo, for the purpose of preparing them for certification according to the requirements of the ISO 50001 standard. These sites will join the other sites, 7 from Slovenia and Croatia, that already confirmed their focus on continuous improvements in the area of energy efficiency with this certificate in 2017.

2. Introduction of the process approach and preparations for certification of the pharmacy chain Farmacia according to the ISO 9001:2015 standard

At the end of 2017, the decision on integrating our pharmacy chain Farmacia into the Atlantic Grupa 's process management system was made. The goal of this process was to position our pharmacy chain Farmacia as an institution aligned with the highest standards of pharmacy practice and quality system management. The integration process was conducted in several stages, from reviewing the existing processes to different levels of integration into Atlantic Grupa's corporate standards. Certification according to the ISO 9001 standard is planned for February 2019.

3. Preparations for recertification according to additional requirements of the FSSC 22000 standard

The focus of preparations in 2018 was on:

- risk analysis and implementation of the risk management system for risks associated with food fraud,
- internal communication and change management improvements,
- training of specialist auditors for FSSC 22000,
- reporting.

Additionally, we further improved the system control mechanisms through unannounced internal audit procedures. Specialised trainings of internal auditors were held with regard to basic standards ISO 9001, 14001, 50001, as well as additional FSSC 22000 requirements.. The unannounced internal audit procedures were introduced for the first time, and we also correlated non-conformity reports with internal audit reports and improved the internal audit planning system based on risk analysis. In 2018, we performed a total of 120 internal audit procedures, which resulted in over 150 corrective actions and around 100 system improvement measures.

List of Atlantic Grupa certificates in 2018

Legal entity (location)	Market	Process Management Standard	Food Safety System Certification	Food Safety Standard	Environmental Management Standard	EnMS	Good Manufacturing Practice	Halal	Bio	Other
ATLANTIC GRUPA	CRO	ISO 9001			ISO 14001	ISO 50001				
CEDEVITA (PLA)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001	GMP (CL)			
CEDEVITA (AP)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001				
APHC	CRO			HACCP			GMP			
MONTANA	CRO	ISO 9001		HACCP	ISO 14001					
FIDIFARM	CRO	ISO 9001		HACCP	ISO 14001		GMP			
ATLANTIC TRADE	CRO	ISO 9001		HACCP	ISO 14001	ISO 50001			BABY FOOD AND TEAS	
BIONATURA	CRO			HACCP						
DROGA KOLINSKA	SLO	ISO 9001			ISO 14001	ISO 50001				
DROGA KOLINSKA (IZOLA)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001		ARGETA	BARCAFFÈ BIO 200 g	ARGETA TUNA/MSC
DROGA KOLINSKA (MIRNA)	SLO	ISO 9001		HACCP	ISO 14001	ISO 50001				
DROGA KOLINSKA (ROGAŠKA)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001				
ARGETA	BIH	ISO 9001	FSSC 22000	HACCP	ISO 14001			ARGETA		
GRAND PROM (BIJELJINA)	BIH	ISO 9001		HACCP	ISO 14001					
SOKO ŠTARK (BEOGRAD)	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001					
SOKO ŠTARK (LJUBOVIJA)	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001					
SOKO ŠTARK (PALANAČKI KISELJAK)	SER	ISO 9001		HACCP	ISO 14001					
GRAND PROM (BEOGRAD)	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001					
FOODLAND	SER	ISO 9001	FSSC 22000	HACCP						
ATLANTIC BRANDS	SER	ISO 9001		HACCP	ISO 14001					
DROGA KOLINSKA (SKOPJE)	MAC	ISO 9001		HACCP	ISO 14001					
ATLANTIC TRADE (SKOPJE)	MAC	ISO 9001		HACCP	ISO 14001					
ATLANTIC TRADE (LJUBLJANA)	SLO								STORAGE AND DISTRIBUTION OF PREPACKAGED ORGANIC FOOD	

4. Integration of process objectives with sustainable development goals

The analysis of process objectives in the context of their impact on the sustainability strategy of Atlantic Grupa was performed. In a joint workshop for representatives of all processes, links between the process objectives, GRI and UN SDGs were identified, and the process of their integration and redefinition was initiated and will continue in 2019.

5. System digitalisation

The system of digital monitoring of KPIs in production and distribution processes was established. The basis for digitalisation of internal audit planning and implementation procedures, as well as the basis for document and information management, were prepared. A system of monthly reporting on the efficiency of corrective measures was introduced, the non-conformity reporting system was improved, as well as the digital supplier certificate monitoring system.

All activities in 2018 were followed by continuous work of the competent staff on improving their knowledge and functional skills within the organised educational programme "Functional Lab Quality". Over 3,000 participants attended different forms of training for developing specific knowledge related to the process approach and quality systems, namely: process management, production and distribution quality assurance, environmental and energy management, efficiency of internal audit procedures, non-conformity management and other workshops on different topics.

Human Resources in 2018

Top strategic goals of the Human Resources department today are to build a high performing and entrepreneurial culture, to develop great leaders and to engage employees.

Alignment of those three goals is assured by the key HRM process – planning and managing of all HR aspects of the organization, including employee data/information and administration, recruitment, employee integration, employee development, performance management, talent and career management, corporate culture, benefits administration, rewarding, employee retention, organizational design, payroll processing and labour union management.

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

Top strategic goals of our activities in this area are the critical strategic HRM processes such as: reward and recognition, career planning, culture & climate management, personal development, talent management, recruitment, leadership development, competency management, change management, performance management, knowledge management, organizational effectiveness, which are measured by the use of people metrics.

The results of the fourteenth consecutive survey of the first choice employees carried out by the portal MojPosao on more than 10,000 participants confirmed that Atlantic Grupa is one of the most attractive employers in Croatia according to the public opinion in 2018. Additionally, in Slovenia we received an award from the Managers' Association of Slovenia for promoting inclusion and diversity, and were also among the finalists of the "Zlata Nit" (Golden Thread) award for the best employer in 2018, while in Serbia we received an award from the Serbian Association of Managers for the best Talent Development programme in 2018.

Within the employee retention project and the remuneration model revision, we continued with medical exams for all employees, the solidarity programme and a day-off for all parents of first-graders. Following current trends and listening to the needs of our employees, in 2018 we also introduced the option of flexible working hours, within the agreed time, and the option of working from home, up to 4 days a month. With these improvements, Atlantic Grupa is again following the trends of large global companies, with the aim of encouraging feelings of own responsibility, belonging and dedication to work at the time each person sets on their own. Flexibility is a determinant of today's modern business systems, so Atlantic wants to encourage what is already characteristic for most of our work positions.

In the employee retention programme, in addition to the loyalty programme, selecting a benefits package tailored for employees and the option of taking a sabbatical, we have intensively worked on detecting the risks associated with employees leaving the company, which was performed by HR business partners, and on manager training, so that, by conducting quality stay interviews, we would better understand what motivates and inspires each employee to work in our company. Moreover, by using artificial intelligence (Watson), we are also working on predictive analysis models in order to be able to predict potential areas with employees leaving the company.

The third generation of Adventure has been initiated, which is Atlantic's one-year international development programme. This is a development programme for young professionals and menagers, but it is certainly not a "traditional" training. This is a programme that inspires, brings excitement and different development activities, leads towards innovations, learning, as well as gaining new experiences and knowledge. The programme offers:

- learning by working on strategic projects in an international and multifunctional team,
- building your own business network by cooperating with top experts and colleagues within the whole company,
- questioning everything in order to find new solutions and answers that help on the way to leadership,
- as any great journey, it primarily speaks to those who are happy to leave their comfort zone and ready for active rethinking, to those who are motivated to explore and grow and willing to develop.

Within the third generation of the Atlantic Trainee Programme. in January 2018, by using a new recruitment concept "Ask the right question", we hired 13 new trainees in the markets of Croatia, Slovenia, Serbia and Macedonia. During the programme, trainees went through training, worked on projects and had constant support from their mentor from Business Operations and Human Resources. All trainees fulfilled the criteria and successfully completed the programme.

Furthermore, we initiated the Atlantic Ambassador programme, which educates and motivates employees in their role of presenting Atlantic Grupa, who we are and what we do. We developed the guide with a set of tools that can help them in that, while the course "Representer" is part of the regular LEARN@Atlantic programme. Motivators were also introduced in the form of gifts for those employees who excelled in their role of ambassadors, designed so as to support their further engagement.

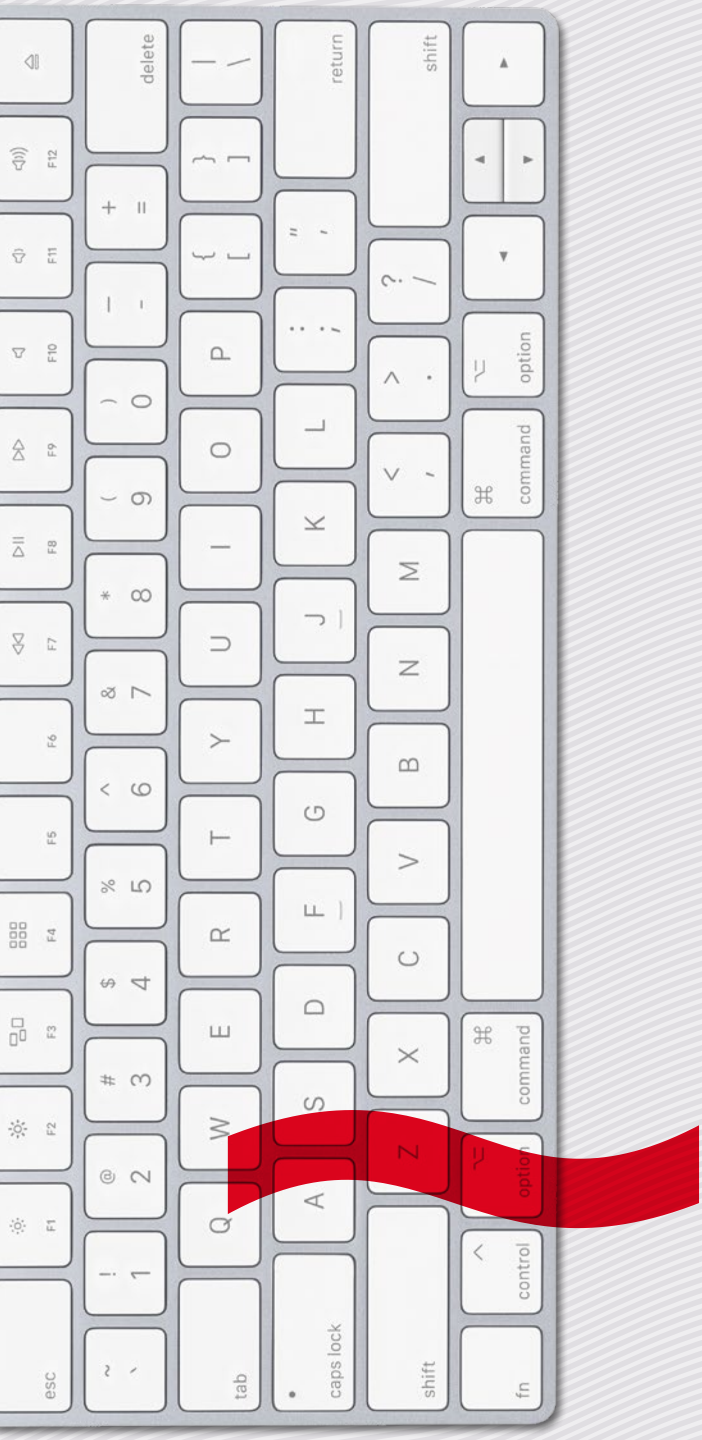
Since the summer season and high working tempo require additional workforce, a programme was designed for which we believe it will also be used during more demanding work periods in the future. Although our selection and employment team manages to fill the majority of work positions required for smooth seasonal operations, both by using internal referral processes and external vacancy announcements, the special value of colleagues who perform the same job in other markets was recognised. Being familiar with the company, its work processes, distribution portfolio and operational dynamics – these are all characteristics that make such "loans" an excellent alternative in summer months, as well as in preparations for the season.

Considering that attracting talents into the company is one of the most critical human resource management processes, and that recognising and recruiting the right people into the organisation has a measurable impact on business operations, Atlantic Grupa decided to implement the SAP software solution for recruitment support. In order to accelerate the process and improve efficiency in the process of detecting, attracting and selecting the best talents in the region and beyond, the platform SAP Success Factors was selected. It is recognised as a comprehensive and simple solution that provides step-by-step guidelines for all process participants. Recognising that satisfied employees will happily recommend Atlantic Grupa as an employer, we established a referrals programme under the working title "your opportunity to have good company", which provided our employees with an opportunity to give a referral to candidates who applied for a specific vacancy announcement or for our talent base, thus helping in selecting the best.

With the arrival of new colleagues into the company, with an onboarding programme we want to enable their fast job orientation and integration into the company. This year we also created a new Welcome Book for them, an on-line introductory guide about the company that is available to all employees on their local languages at http://welcomebook.atlanticgrupa.com/.

Finally, the implemented programme Creative Impulse aims to foster creativity – one of the three Atlantic's values – by inviting and encouraging employees to share their creative expressions with the public of over 5,000 Atlantic's employees in three categories: literary, visual and performing arts. The best artworks will be presented once a year in an exhibit that will be part of the Atlantic's management conference.

Information Technologies in 2018



The year 2018 was marked by continuing development activities in the field of information technologies, with additional structuring in the form of the company transformation programme. The IT development activities were implemented through a series of projects and initiatives in the field of IT infrastructure and in the segment of business IT systems. For the purpose of ensuring evenly balanced digital transformation in all segments of the company, the Digital Agenda Council was established, with the task to define a set of transformation activities, and to monitor their implementation.

The key strategic determinants of IT infrastructure and operations during 2018 were based on continuing the adopted Atlantic Grupa's programme of IT development and modernisation, its focus being on IT services from a private cloud, group technology standardisation and equal user experience of all AG users. The constant development of competencies was continued with significant investments in further education of the existing IT staff and with new hiring of competent experts.

In the first quarter of 2018, the AG IT private cloud was completed, from which IT services are provided for the needs of all markets and member companies of Atlantic Grupa. The completion of construction of the second data centre at the end of 2017 created the preconditions for complete consolidation of technological solutions and equipment migration to a new data centre, due to which this both technologically and organisationally very complex project was finalized within the planned deadlines.

For the purpose of providing all IT service users in Atlantic Grupa with the same service quality level, concurrently with the completion of constructing the private IT cloud, the project of major upgrading of broadband capacity towards all locations of Atlantic Grupa was finalized. In addition to the capacity expansion, WAN network equipment in all locations was fully modernised with standard solutions, which created the preconditions for implementing an IP-based group solution for unification of voice and video communication between all company locations and towards public networks.

During 2018, the process of user migration was initiated and the first phase of migration of a significant part of the user base to the Office365 cloud environment, including Exchange online and OneDrive services, was completed. New functions and almost limitless capacity of electronic e-mail boxes and space available for storing user data have further modernised a typical work environment, the possibility of accessing files and data from all devices and making backup copies of files and data. The migration of the remaining part of the user base will be continued in 2019.

The activities concerning IT security strengthening measures were continued and, in the beginning of 2018, implementation of the advanced protection and detection of IT security events on personal computers was completed. The second phase of this project was finalized by implementing a new generation of the same system on all servers in data centres during the second quarter of 2018. At the end of the year, a new solution for the advanced antivirus system was selected, the implementation of which is planned for the beginning of 2019. The above mentioned IT security solutions are based on advanced technologies and machine learning algorithms.

The development of business support IT systems in 2018 was focused on implementing innovative solutions that promote standardization of business processes, increase of operational efficiency, realization of group synergies and improved market competitiveness, of which more important examples are provided below.

During 2018 the project of the implementation of SAP ERP in the Strategic Distribution Unit Serbia was initiated and completed, and it was successfully put into operation at the beginning of 2019. The focus of this project was on the unification of business processes, so the implementation executed on the Croatian market was used as a reference model.

The synergistic effects of standardizing IT business solution were visible already in mid-2018, when the voice commissioning system was introduced in the Strategic Distribution Unit Serbia, identical to the one previously introduced in the Strategic Distribution Unit Croatia, which significantly raised the operational efficiency in distribution centres. In mid-2018, the shipping digitalization project in the Strategic Distribution Unit Croatia was initiated, which will enable the buyers of the Strategic Distribution Unit Croatia a fully transparent view of the processing of their orders, from receipt into the system to the delivery, while it is also planned to considerably increase internal efficiency by replacing paper shipping bills with electronic ones. Along with continuous efforts invested in introducing electronic document exchange with buyers, at the end of 2018 the Strategic Distribution Unit Croatia also realised the first EDI connection with principals. This pilot project was implemented with an internal principal, and included electronic exchange of orders, shipping bills and paperless invoices. Further expansion of exchange with other internal and external principals is planned during 2019.

In the field of digital marketing, we successfully implemented the project that uses innovative platforms and advanced analytics of historical data to open a meaningful communication with end users of our products for the purpose of better understanding of consumers and adjusting our offer. The internal Digital Agenda Council also defined strategic determinants for the development of digital technologies through a list of specific projects, which the Company plans to implement in the next 3 years.

All of the above activities were implemented with the aim of raising the global competitiveness of Atlantic Grupa by applying advanced technologies. By continuously developing the project culture and systematic approach to company projects through the Transformation and Project Management department, we have raised the level of successfulness in the realisation of multidisciplinary complex tasks. Among others, in 2018 Fast Forward (F2), a corporate strategic programme that already for 2 years successfully exists in all segments of Atlantic Grupa, was continued. Almost 80 of our employees under 10 strategic projects are working on its implementation.

Strategic Business Units and Business Units

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


for a beautiful day
for a beautiful day

Strategic Business Unit
Coffee

With its Strategic Business Unit Coffee (SBU Coffee), Atlantic Grupa's coffee brands successfully compete in all coffee segments and have impressive market leading position in the Adria region. This means that Atlantic Grupa is the leading coffee producer in the region known for consumption of roasted and ground coffee. Key business strengths are strong brand portfolio, product and regional know-how, flexible business operations and high quality product portfolio in sales categories. The most important brands are Barcaffè, Grand Kafa and Bonito. As a market leader in the category of roasted and ground coffee in Slovenia, Serbia, Bosnia & Herzegovina and Macedonia, SBU Coffee stands out as Atlantic Grupa's leading business unit.

The SBU Coffee in 2018 generated sales revenues of HRK 1,124 million, which represents 21.4% of the Group's total turnover, that is, 23,024 tonnes of coffee sold in 2018.

Key markets in 2018 are Serbia and Slovenia, accounting for 46.9% and 27.7% of sales, respectively, followed by Bosnia and Herzegovina (9.1%), Croatia (8.5%) and Macedonia (5.6%). Sales in coffee categories are dominated by roasted and ground coffee with 88.5% of total sales, followed by espresso 8.0%, instant coffee 2.5% and other coffee 1.1%.

In Serbia, Grand Prom also holds the leading position in the segment of roasted and ground coffee with a 48% value market share. In the category of roasted and ground coffee, Grand Kafa retained its position of the number one brand, and Bonito of the number two brand. In 2018 Bonito achieved the highest value market share (13%[1]) since the brand was established. In the category White Cup, Grand recorded a lower market share, while the category Black Cup recorded higher market shares in both volume and value. The market share of Grand Black 'n' Easy is growing, and it was supported by the marketing campaign Kolegende (Like Legends) and intensive market activities.

In Croatia, Barcaffè in 2018 managed to keep its third market position with a stable volume and a higher value market share of 15.6%, which was supported by launching additional variations of the existing products and a new marketing campaign "Barcaffè za svaki dan uz Ivanu Mišerić" (Barcaffè for every day with Ivana Mišerić). In the category Black Cup, in 2018 Barcaffè increased its market share by entering discount retail chains, strengthening marketing activities, as well as with the marketing campaign "Barcaffè Colleagues".

In Slovenia, Atlantic Grupa holds a dominant leading position in the coffee market. Barcaffè is a market leader in the category of roasted and ground coffee. It recorded a higher volume market share compared to the previous year, which was supported by high media presence through campaigns Kavamanija (Coffeemania), Loyalty and Barcaffè Single Origin. While Barcaffè recorded a downward trend in the category White Cup in 2018, in the category Black Cup Barcaffè in 2018 increased its market share due to improved sales of Barcaffè Black 'n' Easy, supported by marketing campaigns and intensive market activities.

In the category Black Cup, by focusing on "work", Black 'n' Easy managed to clearly communicate the benefits of new coffee and in Bosnia and Herzegovina it is gaining more and more loyal consumers every day. In Macedonia, Grand Kafa is the leading producer in the category of roasted and ground coffee in 2018.

In view of the development of new products and the SBU Coffee's vision to always be the first choice of customers in the region, the trend of portfolio innovation and strengthening of the Atlantic Grupa's coffee portfolio in 2018. This year again the key innovations were brought by Barcaffè D.O.T., a new sophisticated product line in capsules. Within the existing line of Barcaffè D.O.T. coffee capsules, in 2018 the Barcaffè capsule of "Turkish" coffee that is compatible with most of the coffee makers in the region was launched. It is the first such capsule in Europe, which automatically makes it an exceptionally innovative

23,024
TONNES OF COFFEE SOLD

THE SBU COFFEE GENERATED SALES REVENUES OF HRK
1,124
MILLION

[1] Source: AC Nielsen

product on the market because, until now, in our region it was not possible to have roasted and ground coffee from a capsule. What is revolutionary in the case of Barcaffè D.O.T. capsules is the fact that it takes only a few moments to make a real "Turkish" coffee with a distinctive flavour and aroma. In the category of capsules, Barcaffè DOT has in the first year after launching achieved significant results in the markets of Slovenia and Serbia – the volume market share in Slovenia is 8.9%, and in Serbia 9.0%.

In Slovenia a new line of coffee from a single country of origin was launched under the name Barcaffè Single Origin. During winter holidays, the points of sale in Croatia and Slovenia surprised their loyal coffee lovers with a mix of ground coffee with cinnamon, Barcaffè Winter Edition Cinnamon. Barcaffè Espresso introduced a new portfolio of brands in the markets of Slovenia, Croatia, Serbia. Bosnia and Herzegovina, Macedonia, Montenegro and Kosovo in March 2018, while shortly after the Barcaffè family was also joined by Barcaffè Divino 100% Arabica, a canned super-premium blend. Barcaffè Espresso recorded an 11.0% growth compared to 2017, and it is present in 3,800 HoReCa facilities across the region. In line with new consumption trends, the SBU Coffee is strongly developing the Barcaffè&Go segment, a modern and trendy concept that provides freedom of movement together with excellent quality of Barcaffè Espresso. In this year we increased the number of sold beverages by almost a million cups compared to 2017 and achieved an outstanding 12 million Barcaffè&Go cups sold in the region.

The year 2018 was also important for communication platforms of all brands under the SBU Coffee. The first digital loyalty programme was created, Barcaffè in Croatia launched the campaign "Ja volim Barcaffè. A vi?" (I love Barcaffè. And you?), while Grand Kafa launched the campaign "Bliskost" (Closeness) and started a regional roadshow. In Bosnia and Herzegovina, Grand Kafa participated in the Sarajevo Film Festival with live broadcasts on social networks. Black 'n' Easy won "The Best Social Media Campaign 2018" award for the campaign "Kolegende" in the digital category. Barcaffè Espresso launched a regional campaign "Barista Tour", had its première at the fair in Trieste, and won two gold medals at the international coffee tasting competition.

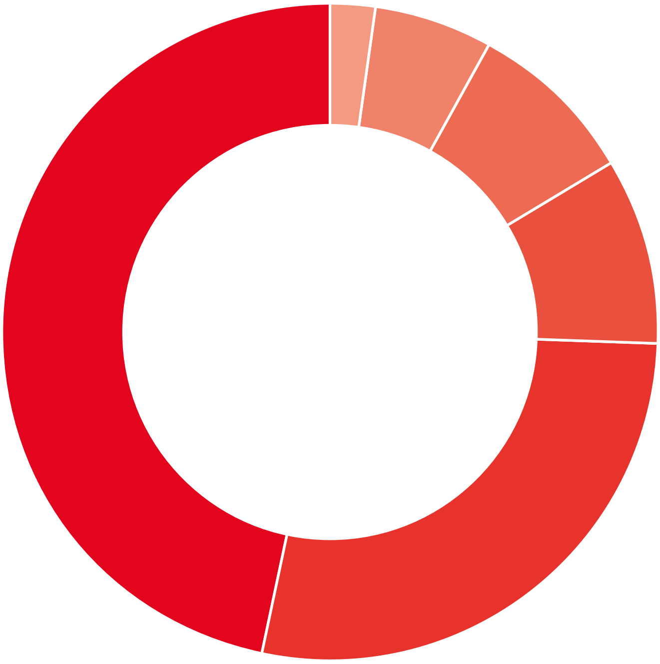
The raw coffee market in 2018 experienced a decline in raw coffee prices compared to 2017, primarily due to a record harvest in Brazil, where it in 2018 reached 65 million bags, thus creating an excess of supply on the global coffee market compared to demand. The raw coffee prices were high during the first half of 2018 until the new harvest, when the stock exchange prices started to decline, and the year ended with a 10% lower raw coffee price compared to 2017. It is expected that raw coffee prices will remain at this level during 2019 as well, because several coffee farmers recorded higher harvests, particularly Vietnam, which had a record harvest of 30 million bags. Although raw coffee prices are not expected to grow in the next year, the market indicates dynamic business conditions for the SBU Coffee.

The capital expenditure in 2018 was used for increasing operational efficiency of the SBU Coffee's production facilities. The capital expenditure in 2018 amounted to HRK 23 million. The roasted coffee silos capacity was increased in our production plant in Izola, the nitrogen production facility was completed and put into operation in our plant in Serbia, while the reconstruction and extension of business premises in our location in Belgrade was successfully finalized.

The SBU Coffee's production facilities increased their operational efficiency. In 2018, a total of 11,128,641 kg of the finished product was packaged in Serbia, 2,895,113 kg in Bosnia and Herzegovina, 2,092,775 kg in Macedonia, and 6,989,740 kg in the production plant in Izola, Slovenia.

SALES BY COUNTRIES

46.9 %
SER



2.2 %
OTHER COUNTRIES

5.6 %
MAC

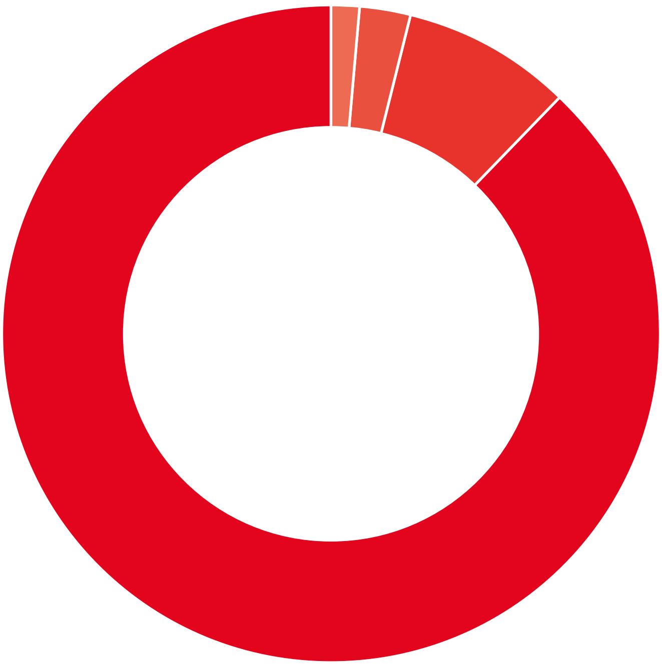
8.5 %
CRO

9.1 %
BIH

27.7 %
SLO

SALES BY CATEGORIES

88.5 %
ROASTED & GROUND



1.1 %
OTHER

2.5 %
INSTANTS

8.0 %
ESPRESSO

Source: Internal Atlantic Data

Strategic Business Unit
Beverages

The Strategic Business Unit Beverages (SBU Beverages) is continuously achieving successful business results due to the outstanding quality and competitiveness of its brands: Cedevita, Cockta, Donat Mg, Kala and Kalnička. The wide assortment of products under these brands and different product categories such as instant drinks, beverages, carbonated and non-carbonated water and candies is realised in four production facilities, two in Croatia, one in Slovenia and one in Serbia.

In 2018, the SBU Beverages generated sales revenues in the amount of HRK 711 million, which is a 7.5% increase compared to the previous year. The majority of sales still comes from countries in the region (91.7%), with the highest share of 38.3% in the Croatian market, followed by Slovenia with 25.5%.

As regards the sales structure according to brands, Cedevita accounts for 44.0% of sales, followed by Donat Mg with 25.2%, Cockta 20.1%, waters 6.6%, pressed candies 3.6% and 0.5% accounting for the rest of the assortment.

A high annual growth in sales was recorded in the regional markets: Serbia 8.6% primarily due to higher sales in the HoReCa segment, Croatia 5.3% and Slovenia 5.8% primarily due to higher sales of Cockta in the HoReCa segment (38.5%) and the continuing increase in household consumption of instant vitamin drinks (5.4%) and in the HoReCa segment (13.2%). A high growth in sales was recorded in the market of Bosnia and Herzegovina (10.5%), which is a result of strengthening Donat Mg in the leading position in the functional waters segment (11.0%) and excellent sales of Cockta in the HoReCa segment (49.7%). The trend of higher sales compared to previous years was continued in the markets of Russia and Ukraine; sales in the Russian market grew by 24.7%, while sales in Ukraine grew by 14.2% compared to 2017. Higher sales compared to the previous year were also recorded in the markets of Austria, Switzerland, Great Britain, Sweden, Baltic States, and Canada.

These generally successful sales results were, in addition to higher investments in the brand Cedevita, achieved by excellent acceptance of the Cockta's redesign, resulting in 47.3% higher sales revenues in the HoReCa segment compared to 2017. The continuing sales growth is also visible in instant vitamin drinks in all segments, amounting to 5.6% (households, "on the go" and HoReCa), while Donat Mg n all markets also recorded an increase in sales revenues of 8.1% compared to the previously year.

In 2018, Cedevita brands in total recorded a value growth of 5.6% compared to 2017. All categories of Cedevita recorded a growth in sales value. The segment of at-home instant vitamin drinks grew by 4.3% compared to 2017, due to strong activations in the excellent season. In 2018, the sales value grew in all the key markets: Croatia 2.8%, Slovenia 7.0% and Serbia 10.2%. In the on-the-go segment, Cedevita recorded a 7% growth, while in the HoReCa segment Cedevita continued its trend of strong growth and, compared to 2017, posted a 7.7% growth. The growth in the HoReCa segment was driven by strong consumer activations in Croatia, Serbia and Slovenia ("Cedevitu naruči i Vespu odvezi kući" (Order a Cedevita and take home a Vespa) and "Osvoji Fiću u kafiću" (Win a Fiat 500 in a café)).

The project "Cedevita Healthy OTG", for which the SBU Beverages received grant funds from the tender for "Increasing the development of new products and services arising from R&D activities" under the Operational Programme Competitiveness and Cohesion 2014 – 2020, was successfully completed. New product formulations were developed in line with new nutritional trends. The project partner was the Ruđer Bošković Institute.

At the beginning of 2018, the redesigned Cockta was launched on the extremely competitive market of "cola" beverages. The redesign comes in three packs: in 0.275L glass bottles for the HoReCa segment, and in 0.5L and 1.5L PET bottles on all markets in the region, as well as in the markets of Austria, the Netherlands, Sweden, the USA, Australia, Switzerland and the UK. The redesign of Cockta resulted in a 9.3% growth in all its markets.

THE SBU BEVERAGES GENERATED SALES REVENUES OF HRK

711

MILLION

47.3%

HIGHER SALES REVENUES OF COCKTA IN THE HoReCa SEGMENT COMPARED TO 2017

The new modern design with a blue colour reminiscent of the "old" times, and Cockta's new slogan were outstandingly accepted by all consumer categories. Its original recipe, consisting of herbal extracts, rose hip, lemon and caramel, was improved with additional herbal extracts, artificial aromas were replaced with natural ones, while Cockta's original taste remained the same for already 65 years. The top quality of Cockta was in 2018 confirmed at the international selection of quality in Brussels – The International Taste & Quality Institute (iTQi), where Cockta received the Superior Taste Award – Gold Star. Last year Cockta also received a gold medal for its taste in the international fruit juices, beverages and waters tasting competition at the AGRA Fair in Gornja Radgona.

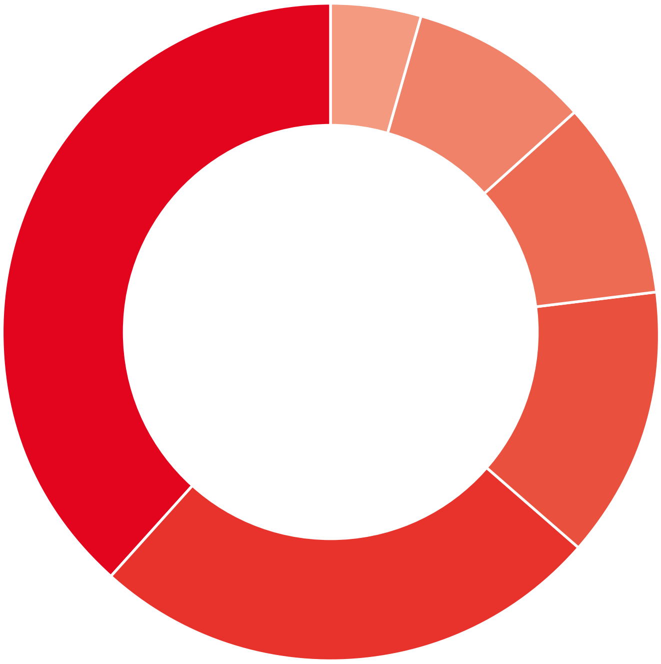
In 2018, Donat Mg recorded an 8.1% growth in sales compared to 2017. This growth was primarily generated by the markets of Russia, Slovenia, Croatia and Bosnia and Herzegovina. The main growth drivers in 2018 were the precisely defined strategy, innovative communication approach and uniqueness of the product exceptionally rich in magnesium, for which it has been scientifically proven that it stimulates digestion.

In 2018, natural mineral water Donat Mg celebrated its 110th birthday. To celebrate this great anniversary, Atlantic Grupa in cooperation with the Slovenian Post issued an anniversary post stamp. This is how Donat Mg became one of the few brands in the regional and wider markets that has its own post stamp. Due to its quality and marketing approach to consumers, in 2018 Donat Mg received many awards in regional and international markets. With a very creative campaign "Tajna briljantne probave" (The secret of brilliant digestion), it won a silver medal in Amsterdam at the Epic Awards Festival among more than a thousand participants from more than 70 countries. At the 27th Slovenian Advertising Festival held in Portorož, Donat Mg received 6 awards. At the same festival, Donat Mg won the fully deserved award "Brand of the Year!".

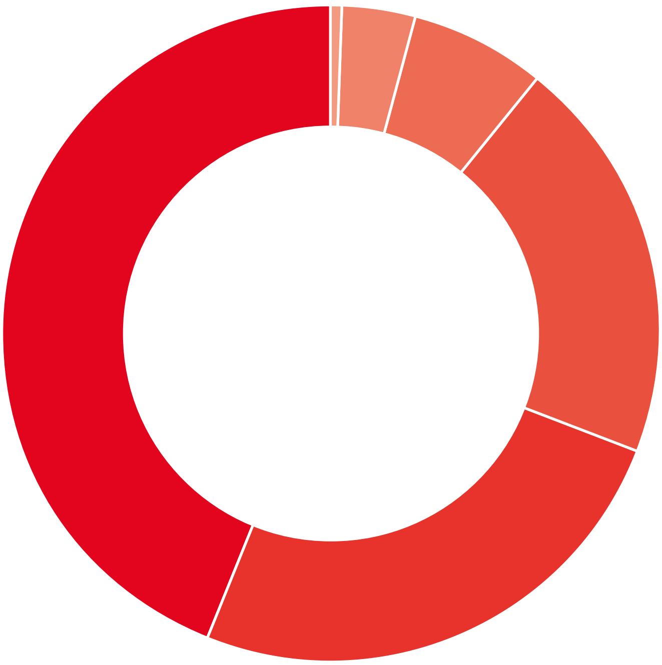
Lower sugar prices on the global and EU markets recorded near the end of 2017 were reflected in more favourable contracted and realized white sugar prices in 2018 compared to the prices in 2017. Consequently, the overall financial impact of source materials was significantly more favourable than in the previous year. The distortion of prices on the vitamin market in 2017 continued in 2018 as well. In the second half of 2018, vitamin C prices normalized, which was used to contract new quantities under more favourable conditions, thus mitigating the impact of the high price of source materials during the first three quarters of 2018. With regard to packaging, the lower production of PET granulates (polymer for creating PET bottle preforms) due to the lack of raw material caused a shortage of material on the market and a strong increase in prices of preforms.

The capital expenditure of the SBU Beverages in 2018 amounted to HRK 24 million. A significant portion of the capital expenditure was related to the redesign of Cockta in the segment of HoReCa packaging. The project "Conversion neck finish" was realized for the most significant product groups in PET packaging, Donat Mg and Cockta retail, by which Atlantic Grupa joined the global trend of reducing the quantity of plastics in the final product. Investments into the improvement of technological processes in all production facilities were made continuously throughout the year.

SALES BY COUNTRIES



SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic Business Unit **Snacks**

The Strategic Business Unit Snacks (SBU Snacks) consists of one of the leading companies in the area of candy products and salty snacks in the region – Soko Štark with 860 employees in production facilities in Belgrade and Ljubovija.

The production programme consists of the following categories: chocolate and chocolate products, cookies and biscuits and salty snacks in several segments (flips, sticks and chips). The production is organised in own production facilities.

Despite the more active national competitors, the SBU Snacks realized exceptional business results. The sales revenues amounted to HRK 688 million, which is 3.3% higher compared to the previous year, while volume sales were at the level of 28,800 tonnes.

The production programme structure remained stable compared to the previous year. Small changes are observed in a stronger position of chocolates and a weaker position of biscuits. Other than biscuits and chips, all other categories recorded both sales and volume growth. Chocolates posted the best sales results, while salty sticks posted a significant volume growth.

Analysed by geography, Serbia remained dominant with a 65.1% sales share and no significant deviations compared to the previous year. The markets outside the region improved their results compared to the previous year, while in the region only Macedonia recorded lower sales.

The channel of Štark's retail stores achieved positive business results, growth was recorded in most retail units, while to new stores were opened in Belgrade and Novi Sad. The B2B sales channel is gradually expanding the range of its clients, and long-standing cooperation was established with some buyers.

During 2018 most innovations were introduced in the category of chocolates, flips and biscuits. Innovative activities are divided into co-branding of already affirmed brands, following the trend of quality nutrition and developing strategic brands with attractive novelties. Following the trends in the industry of sweet and salty snacks, it is continuously invested in innovations of the production programme. Consumer expectations, especially of the younger generation of consumers, are satisfied by introducing new and improved existing products.

The experience in producing chocolates with additions, as well as the observed consumer habits that salty sticks are often consumed with chocolate spreads, inspired the launching of a chocolate that combines two apparently totally different brands. The sub-brand LOL, intended for curious teenage consumers, provides an opportunity for a special sweet and salty experience. Co-branding was also performed in the category of biscuits and wafers. Wafers are a category suitable for different flavour extensions. However, when a famous brand is combined with the quality of real chocolate made by another renowned brand, this creates special benefits for both the producer and consumer.

Health food trends are followed with products Integrino and Prima Heljda (buckwheat). Shortly after its launch, the brand Integrino was recognised for its functional characteristics, and the portfolio was enriched with HRONO variations. This is a unique product, without sugar and white flour, which makes it an ideal choice for a light snack or breakfast. It is made of 4 types of seeds (flax, sesame, sunflower and pumpkin) and 4 types of grains (wheat, oat, rye and buckwheat). It was launched in two variations – classic and with added apricot. Prima Heljda is a new light snack with specific ingredients: combination with buckwheat flour, use of 100% sea salt and added buckwheat as a rich source of fibres.

One of the oldest Štark brands, Smoki, in addition to its quality, values the loyalty of its consumers also by offering constant innovations. Accordingly, during the last year sub-brand Choco Smoki was extended

THE SBU SNACKS GENERATED SALES REVENUES OF HRK

688

MILLION

with a combination of flips covered in milk and white chocolate. The market's positive response to the Choco Smoki's redesign initiated the modernisation of the Smoki's basic classic portfolio. The recognisability of the so called product illustration window was in the new graphic solution redesigned in line with a higher level of association with the peanut product form. The new sub-brand Smoki Mini follows the trend of product minimization. It is suitable for "on the go" consumption with an adjusted size of easy open packaging. For lovers of aromatised snacks, the sub-brand Smoki Fun was extended with the flavour of sweet corn.

Najlepše Željice Kašičica (tea spoon) is a real novelty on the market for young and also somewhat older chocolate lovers. This product is a milk chocolate in the form of a tea spoon, which by mixing it in warm milk dissolves into a tasty chocolate beverage. The sub-brand Najlepše Želje Plus was improved by launching attractive refreshing flavours Mojito and Irish Cream.

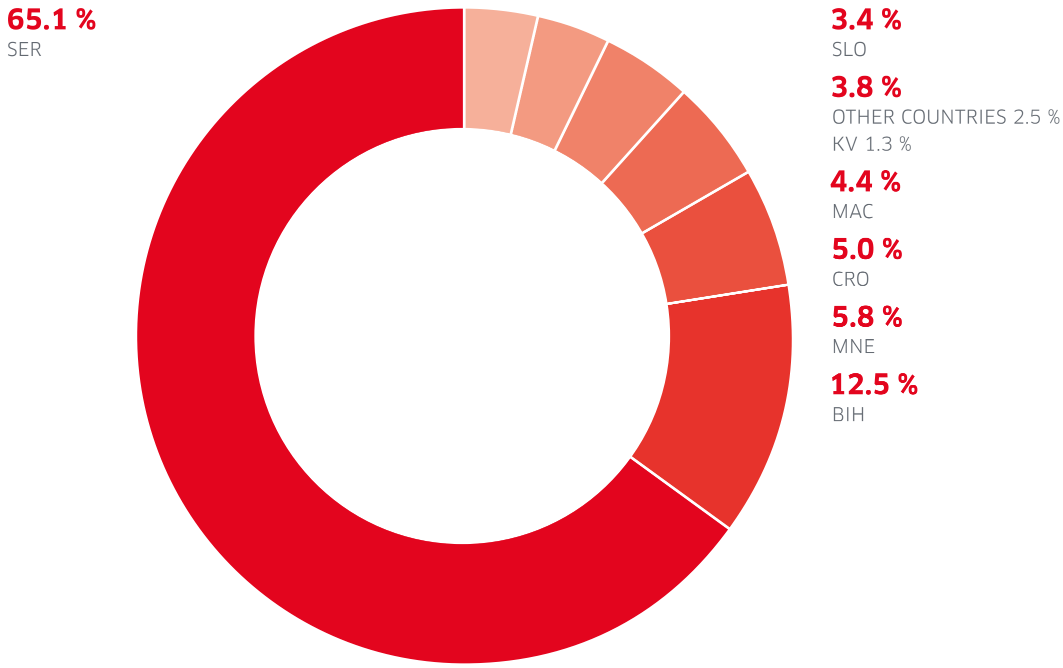
Among many integrated and individual marketing activities, we should particularly note the anniversary that very little brands can celebrate – "Bananica celebrates its 80th birthday". This oldest Štark brand is embedded in childhood memories of many generations, and its constant quality turned it into a "love mark" of modern consumers. The birthday was celebrated with an integrated marketing campaign with prizes for the most loyal fans of this brand.

In line with the corporate values and Štark's traditional support for sports and culture, in 2018 a main sponsorship agreement was concluded with one of the largest sports-cultural facilities, Štark Arena. Furthermore, a great number of sales improvement activities were carried out, of which we should point out the prize contest Najlepše Želje (send a code and pack your bags for Paris, Berlin, Verona and Venice) and Menaž – loyalty programme combined s a Delimano set.

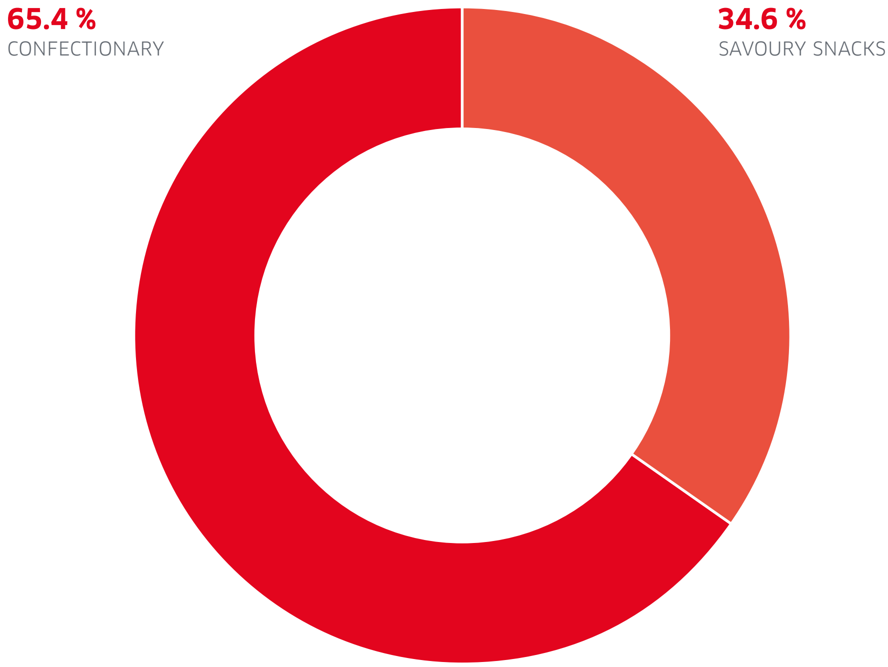
Smoki received the Superior Taste Award given by the leading independent food taste and quality certification organisation (International Taste & Quality Institute), which it proudly emphasizes in its market communication.

The capital expenditure in 2018 amounted to HRK 23 million. The most important investments were related to: automation of the tea biscuit production line in the production facility Ljubovija, completion of the first phase of investing into the distribution system with primary Smoki packaging, and procurement of new production equipment for Bananica (Mogul) in order to increase productivity.

SALES BY COUNTRIES



SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic Business Unit
Savoury Spreads

The Strategic Business Unit Savoury Spreads in 2018 achieved excellent results and generated total sales revenues in the amount of HRK 639 million, which is a 12.4% increase compared to the previous year.

The year 2018 was prosperous for Argeta for many reasons, but the first to mention is the fact that Argeta was proclaimed number one paté in Europe (this recognition is based on Nielsen Retail Measurement data for the Meat Pâté/Spread category). Argeta is already a leader in several markets and in 2018 it also claimed the number one position in Switzerland and Croatia for the first time. Additionally, record market shares were recorded in all markets where they are measured: Slovenia, Croatia, Serbia, Switzerland and Austria. In our biggest market, Bosnia and Hercegovina, we have achieved a new sales record surpassing 3.000 tonnes milestone, which was supported by special corporate social activities. Regarding markets, Argeta also made two important market entries, one in Poland and the other one in Luxembourg. Further development was also made in sales of the meat range in the USA and Canada from the contracted production in the USA.

THE SBU SAVOURY SPREADS RECORDED

12.4%

HIGHER SALES REVENUES COMPARED TO 2017

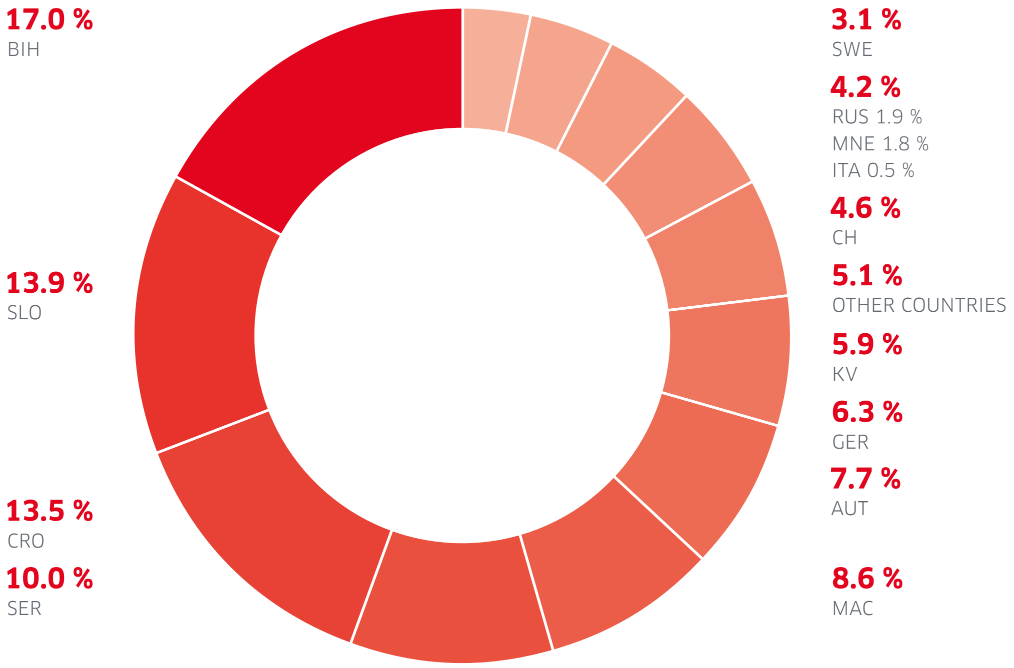
The novelties in Argeta's portfolio include hummus-based spreads that were launched in the Slovenian market in 2017, but two new flavours joined the family at the end of 2018 (red pumpkin with ginger and zucchini with wild garlic). Argeta Hummus was also launched in Croatia and Serbia in 2018 for the first time, with a range of three different flavours. The opening of a new segment in Slovenia was accompanied by major 360° advertising campaigns including programmatic and highly targeted advertising on digital media. The Croatian and Slovenian markets also welcomed new Argeta Exclusive paté, which was developed with Slovenian chef Luka Košir, who made a limited edition duck paté with vanilla and roasted hazelnuts. The launch of this year's Exclusive pate was very special because more than 1,000 people received free virtual reality glasses and went on a 360° digital journey with chef Luka, who took them through the creative process of paté making and to his culinary workshop, where people could see how his special meals are prepared.

Another big digitalization project was carried out in the segment of Argeta Junior, where we joined forces with renowned developmental psychologists, user experience developers, illustrators and storytellers to make unique e-books for children where the main character, our duck Junior, sets out on different adventures with his friends. This is how Junior's adventures came to life and are available for three different age groups (4–5, 6–7 and 8–9 years old). They are interactive and offer a variety of games and puzzles that help in strengthening child development. In the Junior segment a new taste was also launched in 2018, KokoKrem, a chicken paté made with 20% milk spread and a novelty for our youngest consumers, as well as an excellent source of proteins. The Junior e-books and Junior KokoKrem paté were launched on the 6 biggest markets in the Balkan region.

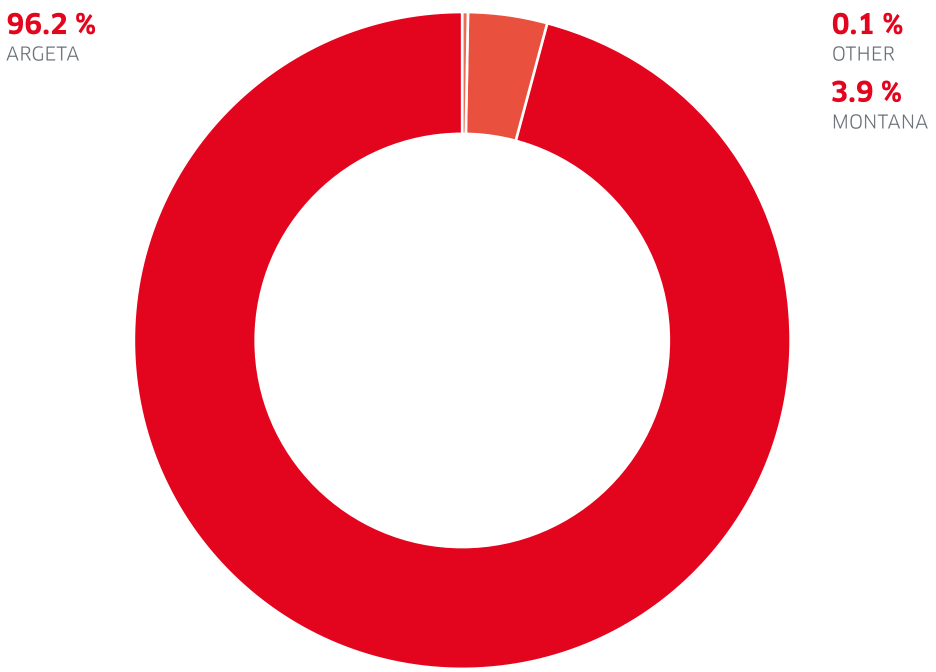
In 2018 both Argeta and Droga Kolinska were awarded. More specifically, Argeta was acknowledged by the American Chamber of Commerce in Slovenia, which gave the brand an award "Best of the Best 2018" for the legal protection of Argeta's unique pantone colour P 159C. This legal protection is a big step for Argeta, as only 0.03% of the world's brands have their brand colour protected based on their recognition among consumers. Droga Kolinska received the most important award in the marketing community given by the Slovenian Marketing Association, award for marketing excellency.

The capital expenditure for the SBU Savoury Spreads amounted to HRK 7 million in the year 2018, which is mainly related to investments in the production equipment at the production sites in Bosnia & Herce-govina and Slovenia.

SALES BY COUNTRIES



SALES BY CATEGORIES



Source: Internal Atlantic Data

Business Unit **Gourmet**

In 2018, the Business Unit Gourmet generated sales in the amount of HRK 36 million and recorded a 6.6% growth compared to 2017. The most significant growth in sales was recorded in the following markets: Croatia 22.7%, Serbia 12.1%, Montenegro 22.1%, Slovenia 11.0%, Bosnia and Herzegovina 18.3%. As in the previous year, we continued educating consumers about Bakina Tajna Ajvar relish. We also invested in researching the markets of Germany, Austria and France. After investments in the capacity expansion and product quality during 2017. this year the focus was on procuring raw material preparation equipment for further processing. The capital expenditure in 2018 amounted to HRK 0.2 million.

Bakina Tajna Ajvar relish is still a significant brand on the Serbian market with almost a 20% market share. In Croatia, Bakina Tajna holds the second place by volume market share. The premium segment in Serbia stands at 30%, of which Bakina Tajna covers 55%. The premium segment in Croatia stands at 12%, of which Bakina Tajna covers 71%[2].

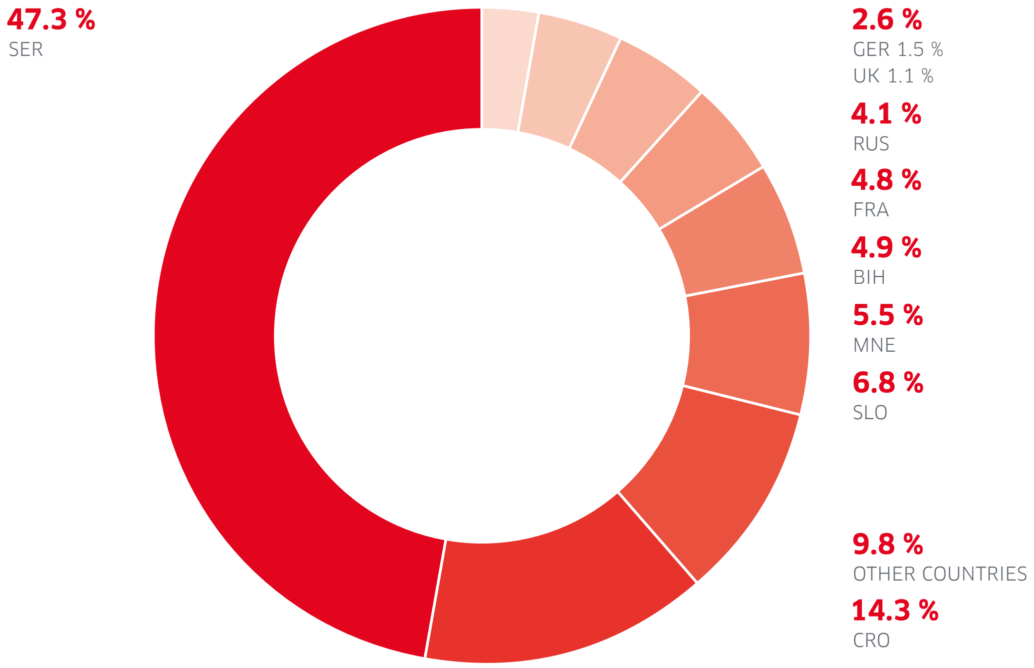
Bakina Tajna, with its premium fruit spreads – Apricot and Honey, and Black Currant and Honey, continues to win prestigious global awards. In 2018, it received the Great Taste Award for high quality from the most prominent British association for gourmet products – Guild of Fine Food.

"Le Monde de l'Épicerie Fine", a leading professional magazine in the French gourmet sector, this year also organised the Épicure Fair, during which the best gourmet product on the French market is selected. In this prestigious competition, Bakina Tajna fruit spread Wild Fruit and Honey won a gold medal. This year Bakina Tajna was also awarded by Michelin chefs and sommeliers. The prestigious Superior Taste Awards stars were received by Pindjur relish and fruit spread Strawberry and Honey.

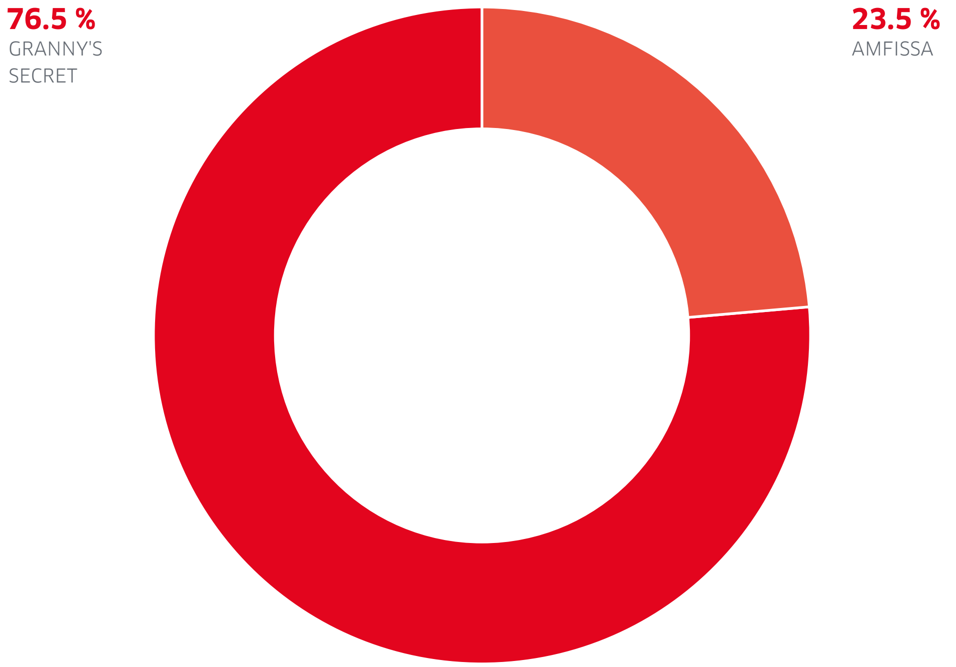
In 2019, the Business Unit Gourmet was merged with the Strategic Business Unit Savoury Spreads.

[2] Source: AC Nielsen

SALES BY COUNTRIES



SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic Business Unit
Pharma and Personal Care

The Strategic Business Unit Pharma and Personal Care (SBU Pharma and Personal Care) experienced more extensive changes in 2018. Due to internal reorganisation within Atlantic Grupa, at the beginning of the year the Business Unit Baby food became part of the SBU Pharma and Personal Care. As a result of disinvestment of the company Neva, the cosmetics programme was closed. In 2018, the SBU Pharma and Personal Care achieved total sales revenues of HRK 648 million, which is 5.7% lower compared to the previous year. Excluding the negative impact of Baby Food's lower sales, the SBU Pharma and Personal Care recorded a 2.2% sales growth.

Driven by the strategy of strengthening own brands, added focus was placed on attracting consumers in the retail channel. In the wholesale pharmacy business segment, new contracts with principals were signed. Our own vertical integration through the pharmacy chain Farmacia, as well as the remaining market composed of pharmacies and specialised stores, provide for stable business operations. The constant adjustments to new trends, continuous investments in marketing, sales skills training for employees and new positioning resulted in higher market shares in an increasingly demanding environment. The basis for communication with consumers was the very important digital channel, engagement of social networks and web platforms. Consumers were additionally educated on raising the life quality through expert advice provided by different counselling centres in Farmacia.

In 2018, the pharmacy and specialised shop chain Farmacia celebrated its 10th birthday and marked this anniversary with special activities implemented in 85 locations. Total revenues of Farmacia amounted to HRK 413 million and are 6.2% higher compared to 2017. In line with professional standards as well as with growing trends in all healthy lifestyle areas, in the first half of the year Farmacia organised special events for consumers: a mix of traditional public health actions and sports, nutrition and beauty counselling centres across Croatia. The year was characterised by integration of all areas to which Farmacia gives equal importance in its approach and investments: activities in professional circles, numerous educations and trainings regarding competences of our teams, high level of advice and recommendations, and the resulting excellent sales results and better understanding of specific needs of our consumers.

Farmacia was awarded at the counselling of pharmacists for the best project in the field of pharmacy care in Croatia, which was aimed at preventing drug administration errors that occur in cases of prescription drugs. This major recognition by the profession yet again confirmed Farmacia as the leader in applying a modern approach to pharmacy in Croatia that is in line with European and global standards. The year ended with launching of a unique product on our market, Running Kit, designed as a starting package with products for joggers.

During 2018 Fidifarm remained the leader on the Croatian market of dietary supplements with the brand Dietpharm. Regionally, Dietpharm retained its leading position on the market of dietary supplements in the categories where we have our products. In Croatia, we are market leaders in the category of eye vitamins with a 49% market share, in the category of magnesium with a 35% market share, in the category sleep and relaxation with a 40% market share, in the category of haemorrhoids with a 29% market share and in the category of vitamin C with a 25% market share.[3]

Striving for ever more innovative products, the new brand Premium Green was launched. Premium Green is intended for increasingly more educated and aware consumers who take care of their health, want to live a healthy lifestyle, be active and stay in line with the latest trends. In 2018, four products were launched in the Premium Green line: Marine Magnesium, Detox Liver and Beauty Complex and, at the end of the year, Stress Balance. These products contain top branded ingredients from a natural source, gluten free and with no unnecessary additives, while capsules are also suitable for vegetarians. The products were presented on new web and Facebook pages designed in line with high standards expected by consumers of premium products.

FARMACIA CELEBRATED ITS
10th
BIRTHDAY

FARMACIA GENERATED SALES REVENUES OF HRK
413
MILLION, WHICH IS
6.2%
HIGHER COMPARED TO 2017

[3] Source: IQVIA, global provider for pharma IMS markets

Today, awareness about health care begins at an earliest age, when educated parents include dietary supplements in interesting and innovative forms into their children's nutrition. In line with this, the young sub-brand Lizzy, in addition to the already existing teddy bear-shaped candies and three types of lollipops, was extended with apple and orange-flavoured vitamin straws. Lizzy was followed by interesting offline and online activities. Young consumers and their parents were introduced to Lizzy products and likeable characters through an animated campaign on TV and YouTube. We will continue to build and extend the Lizzy brand with additional products in the future.

Following new trends on the market, in 2018 new products were launched: MG 400 ACTIVE – magnesium in the form of granules for direct oral application, and C 1000 complex effervescent tablets, as a replacement for the OTC product C 1000. At the end of the first quarter, a redesigned product line was launched in regional markets, brand Multivita, a retail food supplement brand. The busy life style and consumer preferences to satisfy their needs immediately and in a single place inspired Fidifarm to extend its expertise in dietary supplements to the retail channel via the brand Multivita. The line was enriched with new products from a very active and alive category of energy boosters – Energy UP DIRECT and Energy UP effervescent tablets, as well as with an additional portfolio of "direct" forms (Vitamin C + Zinc DIRECT and Magnesium DIRECT). The newest product in the line, Immuno HOT DRINK, was launched near the end of 2018.

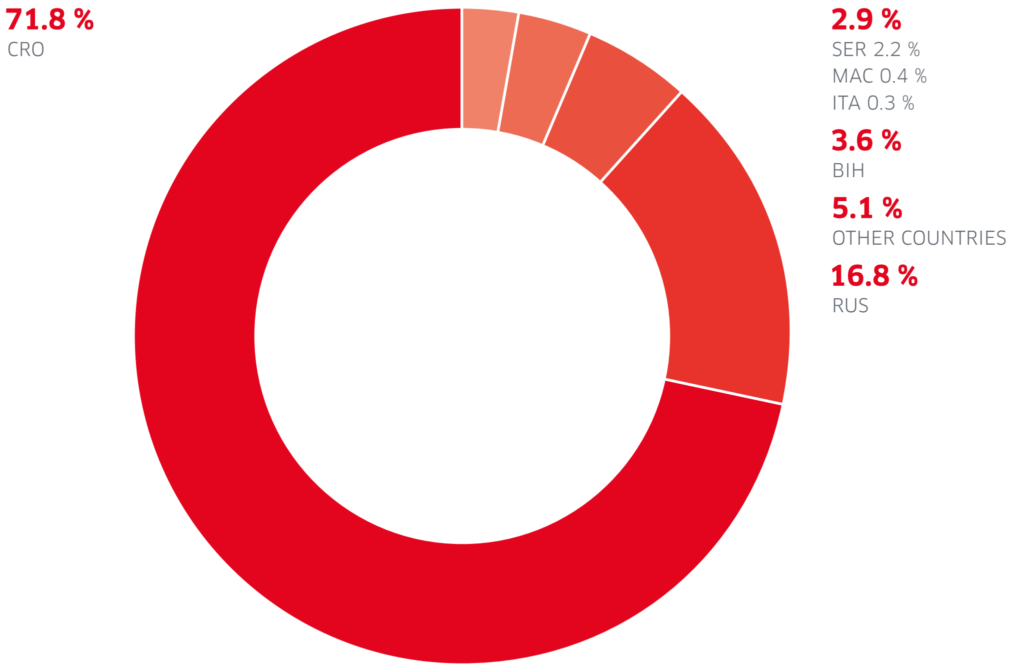
In Russia, which is a strategically important market with the potential for pharmacy business growth, the brand Multivita maintained its high market share in the sales of Vitamin C effervescent products. Fidifarm in 2018, in addition to Makulin that found its consumers through professional support, launched a new food supplement for the Russian market – Vitaflex, an innovative direct collagen formula for healthy joints and other connective tissues.

The capital expenditure of the SBU Pharma and Personal Care in 2018 amounted to HRK 5 million. Investments were mostly related to furnishing new and renovating the existing sites of Farmacia, as well as to renovating IT networks and supplying IT equipment.

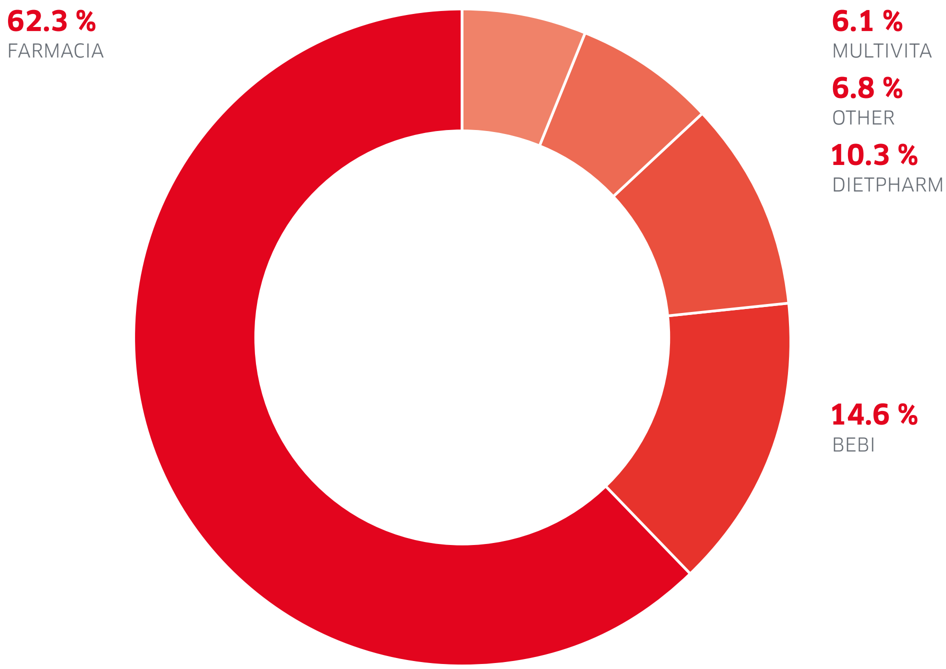
The cosmetics programme was part of the SBU Pharma and Personal Care during 2018, and in the beginning of October the company Neva was sold to Magdis d.o.o., which resulted in closure of this programme. In those nine months, Neva ensured stable operations. This is primarily a result of a 30% growth of the brand Melem due to its portfolio development and extensions.

As of 2018, the BU Bebi is reported within the SBU Pharma and Personal Care. While most of the Russian market segments still struggle with reduced purchasing power and decrease in value and volume, the Baby Food category also showed negative dynamics in the cereals segment resulting in both lower sales and volumes compared to the previous year. For the BU Bebi, 2018 was a challenging year due to FX impact and issues in Tender as well as Distributor channels, mostly related to the volatile Caucasus region. However, the focus of investments was placed on the retail channel, where we succeeded to reverse the negative trend towards the end of the year and to defend the number 4 position. The heavy promotion plan implemented in the second half of the year helped the Bebi brand to stabilize positions on the market. A new redesigned pack was launched on the market. The new, more informative back of the pack and new claims can help to increase brand expertise and functionality of the product.

SALES BY COUNTRIES



SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic Business Unit
Sports and Functional Food

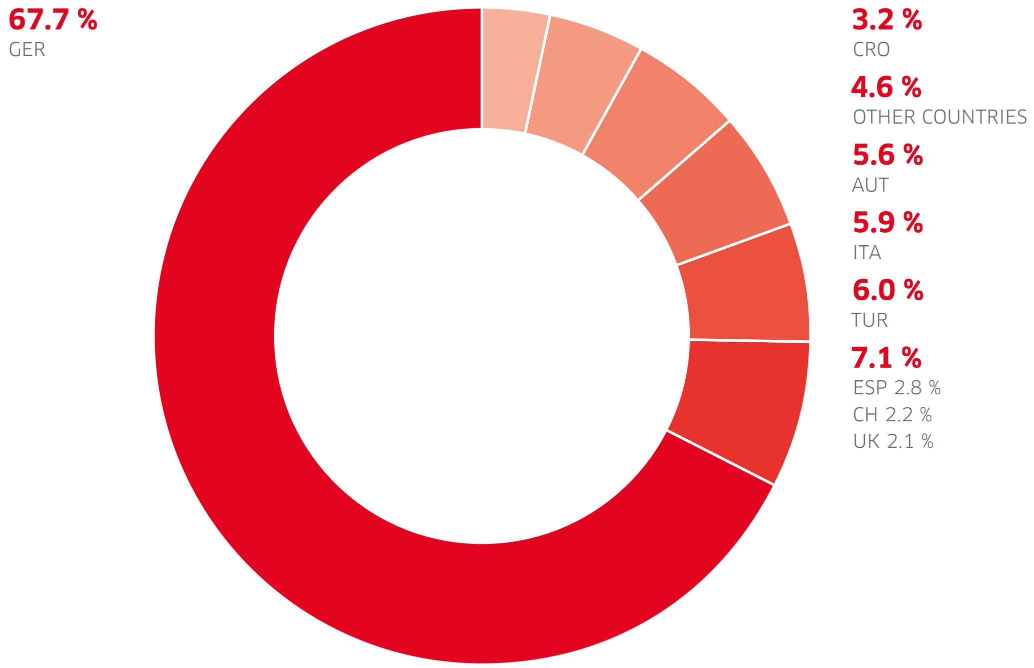
The Strategic Business Unit Sports and Functional Food (SBU Sports and Functional Food) specialises in the development and marketing of sports nutrition and weight-management products. Tradition and constant innovation in the sports food segment have resulted in being one the leading companies of sports and functional food in Germany. The headquarters of the SBU Sports and Functional Food is in Hamburg while the products are sold on the European market under the three brands: Multipower, Champ and Multaben. In 2018, the SBU Sports and Functional Food generated total sales in the amount of HRK 134 million, which is a 66.6% decline compared to the previous year.

The Strategic Business Unit Sports and Functional Food in 2018 continued the process of restructuring and business simplification with focus on its core brands. The sales and distribution model was simplified in all markets. The SBU Sports and Functional Food will continue to develop the Multipower brand, moving it into the premium category through its marketing, sales and innovations department. The SBU Sports and Functional Food is focused on the branded part of the business, i.e. strengthening the leading brand, Multipower. After the sale of production facilities in Germany (Bleckede) and Croatia (Nova Gradiška) in 2017, production is organised through private label contracts with external partners.

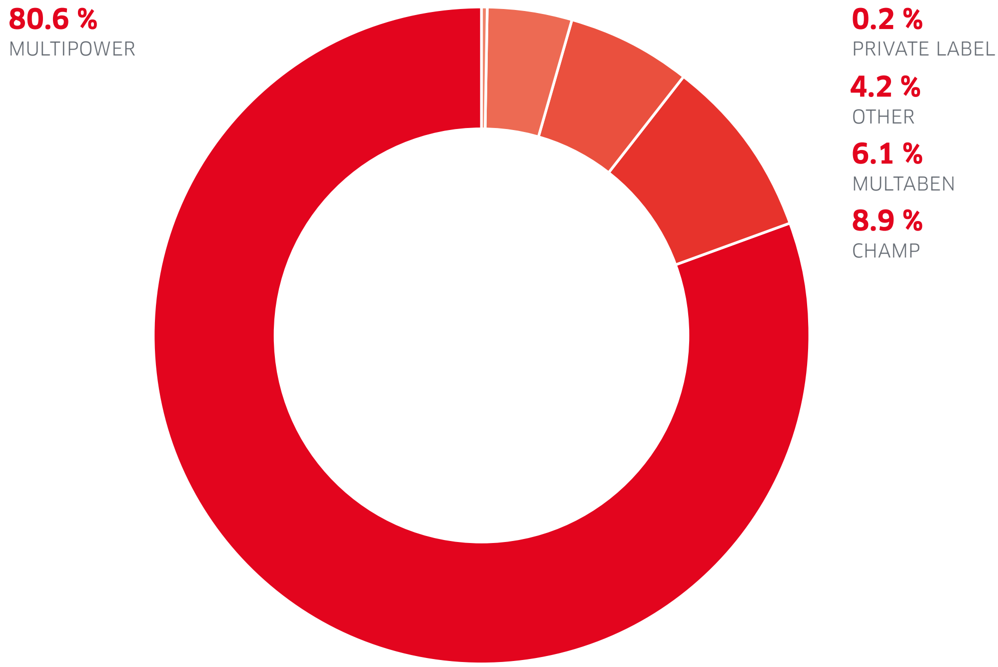
Historically, Multipower was positioned in the sport channel, now shifting focus to the two fastest growing channels in sports nutrition: mass market and online. Most of the Multipower portfolio was renovated, with clear focus on protein bars development and stronger entry into the lifestyle category. The biggest success of 2018 is further strengthening of the Multipower brand on the mass market with products 100% Whey in the segment of powders and Protein Layer and Protein Delight in the segment of protein bars. Multipower was continuously supported through increased presence in social media with support of influencers.

In the next three years the SFF plans to stay focused on the domestic German market and further develop prospective markets of Austria, Italy and Croatia. Mass market and online channel will be in focus, supported by stable sales in the Sports channel. After the successful mass market distribution transition in 2017, in the year 2018 we continued cooperation with a prominent German distributor, extending it to sports and online channels for the German market.

SALES BY COUNTRIES



SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic Distribution Units
and Distribution Units

Distribution operations are organised in a way as to cover the five largest markets – Croatia, Serbia, Slovenia, Macedonia and Austria. Additionally, the Department of Global Distribution Account Management was established, covering the markets dominantly managed by our distribution partners.

The Strategic Distribution Units and Distribution Units have a highly developed know-how in the fields of distribution, key client management, product category management, supply chain management, trade marketing and sales improvement, which is continuously adapted to market trends. The primary activity of the Strategic Distribution Units and Distribution Units is to provide distribution services for the entire product range from Atlantic's own production and the portfolio of external principals. Distribution in Bosnia and Herzegovina and Montenegro is organised in cooperation with the partner company Ataco.

STRATEGIC DISTRIBUTION UNIT CROATIA

In 2018, SDU Croatia generated sales in the amount of HRK 1.265 million and recorded a 12.4% growth compared to 2017. Higher sales are a result of volume growth secured through the exceeded route to market coverage, seized summer season gains and extended category portfolio (Mars), which promise a sustainable growth trend over the years. The sales revenue breakdown shows an increase in retail revenues by 8.4% compared to the last year, while the HoReCa channel recorded a significant revenue growth of 16.0% compared to the year 2017.

12.4%

GROWTH IN NET REVENUES GENERATED BY THE STRATEGIC DISTRIBUTION UNIT CROATIA COMPARED TO 2017

During the year 2018, the revenue performance was challenged within the Q1 2018 by the introduction of the new Food Trade Law causing a distress from March 2018 onwards. The law novelty had adverse impacts on the results in the Q2 2018 due to adjustments to the new legal requirements.

The number of retail outlets has reduced by 4.4%, while the Atlantic Trade coverage grew from 86% to 90%, reconfirming its strategic direction of being the distributor with the deepest reach in the market. The market continuously shows an increased relevance of bigger formats (Hypers and Supers) due to deliberately increased promotion driven by the shopping footprint. An overall pressure point on the market for customers and brands remains more than ever on finding an optimized assortment while understanding format potential.

The HoReCa business performance growth was achieved through the successful Cockta redesign, consumer loyalty to the Cedevita brand, and an expanded professional service support for Barcaffè espresso customers. The HoReCa business segment continues to proactively seek new channels and portfolio opportunities in order to meet the market demands.

The main reasons that contributed to surpassing the 2017 results are as follows:

1) The revenue performance developments of the key product categories:

   - **Coffee** (+4.1%) – growth achieved via customer activations in the roasted and ground category (12.6%)[4] and via increased sales of Black 'n' Easy products (+43%);
   - **Savoury Spreads** (+6.8%) – substantial organic growth is a result of strong marketing initiatives and in-store activations;
   - **Gourmet** (+22.8%) – growth is a result of improved sales of products ajvar and fruit spreads of the brand Bakina Tajna;
   - **Beverages** (+5.1%) – impact of the successful Cockta redesign and focus on the respective brand activations;
   - **Mars** – start of distribution of the complete Mars portfolio. The priority is to achieve the necessary depth and quality of distribution processes and to establish a strategic relationship with the customer.

2) In 2018, brands have shown the capability to shift among the trade marketing tools in an agile way, and therefore optimize investments into customers and boost sales.

3) A new central warehouse located near the city of Zagreb further strengthens logistic support, increases stock capacity, and with the one return centre point makes delivery more flexible. Besides that, continuous improvements and developments are performed in operational systems together with the start of the electronic data interface project with internal vendors.

4) The horizontal trade market growth was supported by capital investments in the new coffee and cold beverages equipment.

[4] Movements of the annual total market share according to AC Nielsen

STRATEGIC DISTRIBUTION UNIT SERBIA

5.3%
GROWTH IN NET REVENUES GENERATED BY THE STRATEGIC DISTRIBUTION UNIT SERBIA COMPARED TO 2017

The Strategic Distribution Unit Serbia (SDU Serbia) generated sales in the amount of HRK 1,253 million, which represents a 5.3% growth compared to 2017.

All Atlantic's key business units and segments recorded growth, namely: Coffee 4.7%, Snacks 3.4%, Savoury Spreads 9.9%, Gourmet 13.0%, while Beverages grew by 7.9%, primarily due to changes in Cockta's brand strategy.

As regards principal brands, the highest growth in sales compared to the previous year was recorded by the brands Beam Suntory 33.7% and Rauch 13.1%.

At the beginning of April, Atlantic took over the distribution of Red Bull and already in its first year surpassed the plans and achieved a record number distribution with over 9,000 points of delivery. All sales channels were well-covered and the synergy between Atlantic and Red Bull teams was created in a short period, promising further growth and stable cooperation with this principal.

In the last quarter, the retail chain Lidl entered the Serbian market, with which cooperation on the level of all key brands was established (Grand Kafa, Soko Štark, Bakina Tajna, Cockta, Cedevita and Argeta).

All brands recorded growth in terms of their numeric distribution, while it should be noted that Najlepše Želje, Bananica, Smoki and Rauch recorded over 10,000 direct delivery points.

Considering the market (buyer) consolidation, it may be said that SDU Serbia achieved a favourable sales structure by channels, through which both the traditional and modern trade channels retained their respective sales levels compared to 2017.

STRATEGIC DISTRIBUTION UNIT SLOVENIA

4.1%
GROWTH IN NET REVENUES GENERATED BY THE STRATEGIC DISTRIBUTION UNIT SLOVENIA COMPARED TO 2017

The Strategic Distribution Unit Slovenia (SDU Slovenia) in 2018 stabilised its operations and affirmed itself as the largest distributor of consumer goods in Slovenia. Net revenues amounted to HRK 908 million, which is a 4.1% growth compared to 2017. The retail sales channel posted a 4.0% growth, while the HoReCa channel posted an outstanding 11.0% growth.

The Slovenian market recorded a 2% increase in spending. The consumer goods index is still behind the one achieved in 2015. This is a result of price pressures by the fast-growing "hard discount" retail channel, which already covers 25% of the retail market, thus changing the purchasing habits of end consumers. In terms of physical availability, reflected in numeric and weighted distribution levels of brands in the DU Slovenia's portfolio, all results were better than planned and better than the targeted competition.

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

- Barcaffè in the category of roasted and ground coffee 1.7%
- Argeta in the category of savoury spreads 12.6%
- Cedevita in the category of instant vitamin drinks 7.0%
- Ferrero in the category of chocolate products and pralines 6.9%
- Rauch in the category of fruit juices and beverages 13.3%
- Cockta in the category of cola products in the HoReCa sales channel 37.1%

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

The year 2018 was marked by an exceptionally successful redesign of the brand Cockta in Slovenia, s a new design and its legendary taste, which was confirmed through surveys by both loyal and new consumers.

This year we were again focused on continuous optimisation of receivables from clients, which resulted in a 6% shorter period of collection. This excellent result was achieved through continuous control of operating costs and the collection process, and constant use of sales opportunities on this extremely concentrated and competitive market of Slovenia.

DISTRIBUTION UNIT MACEDONIA

In the year 2018, the Distribution Unit Macedonia (DU Macedonia) achieved significant growth and increased the company's income with an aligned profitability growth. The DU Macedonia remained one of the top distributor companies of consumer goods in Macedonia. With a wide-ranged and diversified portfolio and high-quality products, our company satisfies a broad range of consumer needs. Besides the familiar and famous internal brands, the DU Macedonia distributes a portfolio of well-known international companies – Ferrero, Beam Suntory, Asahi, Spider Grupa.

5.0%

GROWTH IN NET REVENUES GENERATED BY THE DISTRIBUTION UNIT MACEDONIA COMPARED TO 2017

The DU Macedonia recorded sales revenues in the amount of HRK 218 million, which is a 5.0% increase compared to 2017, and this is due to excellent organisation and the passionate way of doing work within Atlantic Grupa. In 2018, we expanded our portfolio with one new principal – Asahi (beer Kozel and Pilsner Urquell), but we are still focusing and developing the ones we have, strengthening their power on the domestic market. The SBU Coffee has the biggest share in our sales (29,5%), followed by the SBU Savoury Spreads (25.2%) and Ferrero (19.3%) – which experience new expansion on the Macedonian market every year.

Organisationally, our 24-hour delivery is carried out from two warehouses on different locations, divided into Retail and HoReCa/Pharma segments, performed with own and outsourced logistic transportation. Every day, 142 employees organised in different departments by function, including the HoReCa segment, are focused on the development and promotion of both principal and own brands.

A continuous focus on the current portfolio growth through improvement of service satisfaction and reaching excellence in performance, puts the DU Macedonia on the map of strong global and regional brands as a prospective distribution partner. In 2018, we have successfully conducted negotiations for expanding our portfolio with a leading baby food producer Hipp.

In the future, we expect further growth of income and improvement of operational efficiency with new brands and the existing ones.

DISTRIBUTION UNIT AUSTRIA

The Distribution Unit Austria has further stabilised its operations and, after two years of existence, became an independent distribution unit within Atlantic Grupa. During the last quarter, operations of the Distribution Unit Austria were extended to the sports channel in the Italian market where the Multipower brand is present.

ATLANTIC GRUPA

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12.1%

GROWTH IN NET REVENUES GENERATED BY THE DISTRIBUTION UNIT AUSTRIA COMPARED TO 2017

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During the year 2018, the Austrian market recorded sales revenues in the amount of HRK 77 million, which is a growth of 12.1% compared to the previous year. Growth is coming from all Atlantic Grupa brands with the most significant growth drivers being Argeta, Grand Kafa and Donat.

Argeta remains the brand with the highest share in total market sales and the category market leader. In comparison to 2017, Argeta's market share has grown 2% and reached a historical record with a total market share of 39%. This high growth was not only a result of increase in rotation, but was also supported by new product launches – Argeta Sardine and Argeta Exclusive, which will also remain in the focus for 2019.

The retail channel remains a sales channel with the highest share in total sales of the Distribution Unit Austria and continues to grow through existing and new customers. The most significant growth in 2018 was recorded with the customer LIDL.

In 2019, we are expecting further increase in sales and profits.

GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT

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In 2018, Atlantic Grupa continued to grow in all key markets of Europe, the USA and Canada, while the region of Central and Eastern Europe and the region of Russia and the Commonwealth of Independent States (CIS)) recorded lower sales compared to the previous year. The total sales of the Global Distribution Account Management in 2018 were HRK 371 million, which is a 7.0% decline compared to sales in the previous year.

In the region GENCH (Germany and Switzerland) and Benelux (the Netherlands and Luxembourg), the Group recorded the highest growth in Germany, while the biggest contributor to this growth was the brand Argeta with 18.5% higher sales compared to 2017. This growth comes from all sales channels, which provides quality foundations for further expansion. The markets of Switzerland and the Netherlands achieved results in line with expectations and with an improved distribution index for the key brands.

In the region covering other Western European countries, Australia and the USA, the Group continued its growth in the markets of Sweden, Italy and Great Britain. Brands under the Štark portfolio recorded significant sales growth in Sweden. By individual brands, the largest growth was, along with Argeta, achieved by the brand Smoki, the brand Donat in Italy, and all brands under the AG portfolio in Great Britain. In Great Britain, the distribution was reorganised by working with only one distributor, thus ensuring better and more quality focus on the Group's brands. The brand Donat is still showing the largest potential in the Italian market, where in 2018 it recorded a 30.6% total sales growth. In the markets of the USA and Canada, the brand Argeta, with its domicile production, is the main generator of sales growth, so chicken Argeta sales grew over 20%, while the market of Australia is in decline because of cooperation issues with a local distributor. It should be noted that brand portfolios of Štark and Grand are also realizing their potential on the U.S. and Canadian markets.

The key market in the region of Central and Eastern Europe is Kosovo, whose growth slowed down at the end of 2018. The reason behind this slowdown is that the Government of Kosovo increased customs duties for products from Serbia and Bosnia and Herzegovina. Other countries in the region are operating according to the defined plans, Argeta's strong growth in Bulgaria is a result of entering its leading retail chain, while all necessary actions for a stronger entry into the Romanian market were implemented.

The region Russia and CIS was in the last year under great pressure by competitors' activities, as well as by additional challenges related to local currency exchange rates. All of the above resulted in slower growth of the overall Baby Food category, while brands Donat and Argeta continued their double-digit growth. Measures were implemented during 2018 that will ensure the company's improved internal efficiency in the markets of Russia and CIS, and the sales strategy by distribution channels was defined with the aim of achieving ambitious business results in 2019.

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■ SDU CROATIA, SDU SERBIA, SDU SLOVENIA, DU MACEDONIA AND DU AUSTRIA

Quality Control

The processes of quality control in Atlantic Grupa are organised through independent quality assurance departments within the company's operating structure, and directed according to balanced goals from the corporate level. Quality control departments exchange good practices between themselves. Each year we give ourselves realistic, but challenging goals, while concurrently optimising activities without increasing product-related risks. Such organisational structure enables the following:

- implementation of best practices,
- optimal improvement and use of expert knowledge in the field of microbiological, chemical and other hazards,
- centralised supplier management in view of the quality of input materials,
- specialisation of the quality assurance system according to specific issues of individual Strategic Business Units in the product segments of beverages, savoury spreads, sweet and salty products, fruit and vegetable products, children's and sports food, dietary supplements and medical products,
- traceability and maintenance of a high quality level in transport, storage and distribution to customers.

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

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

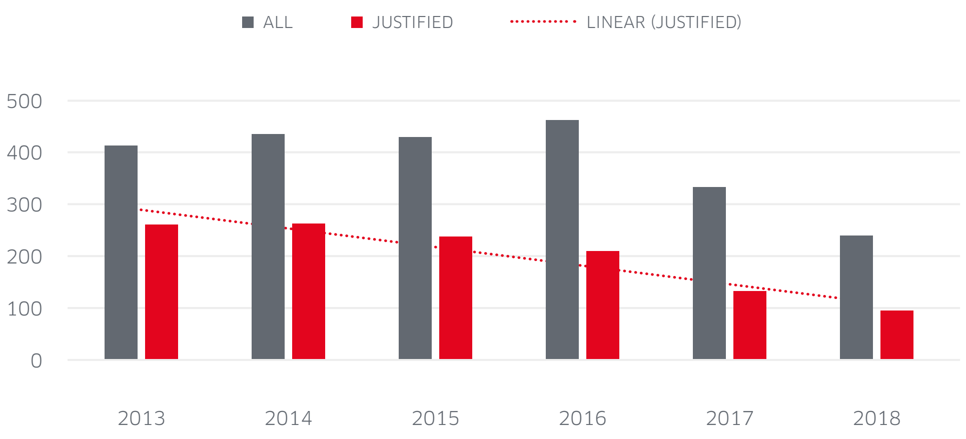
The most important novelties that were introduced during 2018 in all our production facilities are as follows:

- increased control of food fraud risks,
- stronger connections with suppliers via a digital platform, which for us means centralised, transparent and improved control of document and information exchange,
- stricter control of the risk of metals in food products in line with FDA, British Retail Consortium, International Featured Standard and equipment manufacturers' recommendations in order to ensure maximum compliance with all global requirements.

Further to the above, additional specific improvements were also introduced in individual business programmes. For example, in the strategic production programme Snacks, we upgraded the process of allergen control by expanding the scope of validation and implementing additional production measures.

Many other improvements that are constantly introduced in line with suggestions of our food safety experts show their efficiency through excellent results of key performance indicators, such as the number of consumer complaints and the number of product recalls. In addition, great efforts were invested in collecting reactions and comments of our consumers through the call centre. The trend of monitoring market complaints is showing excellent results of continuous decrease in the total number of complaints in recent years.

CONSUMER COMPLAINTS ALL AND JUSTIFIED WITH THE TRENDLINE 2013–2018



Within the internal programme for improving functional knowledge in the field of quality control, "Functional Lab Quality", we continued implementing the regular training plan.

The prevention programme for health safety control, which was also implemented during 2018, covered testing for acrylamide, allergens, pesticide residues, heavy metals, microtoxins, dioxins, alkaloids, antibiotics, PAHs, radioactivity, nitrates, non-compliant colourings, nitrosamines and specific migration of substances from primary packaging.

Laboratory testing of input materials, semi-finished products and finished products are carried out in three central laboratories specialised for chemical, sensory and microbiological tests with state-of-the-art measurement equipment. The accuracy of measurement results is regularly verified by the method of international interlaboratory testing. Laboratory activities in 2018 included testing of culture media intended for microbiological analysis in each culture media series according to the EN ISO 11133 standard, and these activities were strengthened by investing in new equipment (DA detector, new HPLC module for instrumental analysis, autoclave).

In 2018, additional steps forward were also made in the fields of product safety management and product quality in food-related distribution operations, with focus on internal and external principals. Expert associates in the field of quality assurance were involved in the project of construction of a new warehouse of Atlantic Trade d.o.o. in Velika Gorica since its beginning, which allowed us to implement the highest quality standards for distribution operations on this site.

Pleased with the results in 2018, in the next year we will continue with improvements and automation of control procedures, gaining further excellence in this field of our work and continuous enhancement of expert knowledge of our employees.

Financial Operations of Atlantic Grupa

* **DRVO NOVCA**
Crassula ovata

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

For the eleventh year in a row, Atlantic Grupa continued to successfully execute its set and publicly announced business plans, bringing growth in sales revenues and profitability, as well as strong positions of its leading brands. With regard to the latter, we should first mention Argeta, which confirmed its status of our most international brand by earning the title of the absolute European leader in its category according to Nielsen market research agency. The recorded sales of HRK 5.3 billion in 2018 are 4.2% higher on an organic basis compared to the previous year, revenue growth was recorded in most business and distribution units, while all regional markets of Atlantic Grupa achieved their historically highest sales revenues. Earnings before interest, taxes, depreciation and amortisation (EBITDA) are 9.3% higher compared to the previous year and amount to HRK 566 million, while the normalized EBITDA margin increased from 9.9% in 2017 to 10.8%, mostly as a result of a higher gross profit margin and improved cost control.

After the challenge in 2017 that was presented by limitations in co-operation with a key customer, i.e. Agrokor Group's retail companies, the year 2018 was marked by confirmation of the settlement plan between the creditors and the extraordinary administration of Agrokor Group, thus finally stabilising our business operations with Agrokor.

Following the restructuring of the Strategic Business Unit Sports and Functional Food and the sale of two factories in 2017, Atlantic Grupa continued disinvesting "non-core" business operations, and in 2018 concluded the sale agreement for Neva, the leading Croatian cosmetics manufacturer. All of the above, together with the historically highest amount of cash generated through operations of HRK 634 million, enabled us to continue deleveraging, which led to a further decrease in interest expenses and a significant decrease in debt. Consequently, in 2018 the net debt to EBITDA ratio of 1.5 was recorded, which is the lowest ratio since the acquisition of Droga Kolinska in 2010. Financial deleveraging and continued excellent liquidity management provide a strong basis for future growth of the company's business operations.

With the aim of raising the efficiency of internal business processes, transparency and timeliness of information, standardization and establishing best business practices at the entire Group level, Atlantic Grupa continues investments in digitalization. Accordingly, in 2018 the SAP system in distribution operations on the market of Serbia was implemented. The project of the implementation of SAP, application for mobile sales, application for marketing expenses management, Cognos BI solution, with integration with the existing

ZORAN STANKOVIĆ

GROUP VICE PRESIDENT FOR FINANCE

solutions for warehouse management, routing, invoice management and human resources management system brings to the Serbian market many innovative business processes and improvements.

Atlantic Grupa is the first issuer on the Zagreb Stock Exchange to meet very demanding Stock Exchange criteria and it was listed on the Stock Exchange Prime Market, representing the most demanding market segment in terms of the criteria set for the issuer, especially with respect to transparency and corporate governance. Despite negative market developments, due to good business results the Atlantic Grupa's share recorded a high 34.6% growth, on the basis of which it received the award for the stock with the highest price increase in 2018 by the Zagreb Stock Exchange. In addition to the above, it should be especially noted that Atlantic Grupa in 2018 recorded the historically highest market capitalization since Atlantic's share is traded on the ZSE. The increase in market price of the share is a result of stable operations and ownership structure, as well as of regular dividend distribution, whereas in 2018 our shareholders received a total of HRK 67 million, which is 49% more compared to the previous year. Market actors continue to recognise Atlantic Grupa's transparent corporate governance system, so for the eight year in a row it was awarded for investor relations. More specifically, in 2018 Atlantic Grupa received the award for the best company in the category of investor relations, organised by Poslovni dnevnik and the Zagreb Stock Exchange.

Sales Dynamic
in 2018

SALES PROFILE BY STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	2018	2017	2018/2017
SBU Coffee	**1,123.6**	1,085.7	3.5%
SBU Beverages	**711.1**	661.2	7.5%
SBU (Sweet and Salted) Snacks	**687.6**	665.7	3.3%
SBU Pharma and Personal Care	**648.0**	687.2	(5.7%)
SBU Savoury Spreads	**638.8**	568.6	12.4%
SBU Sports and Functional Food	**133.7**	400.8	(66.6%)
* From which private label production	**0.3**	193.9	(99.8%)
SDU Croatia	**1,265.3**	1,125.9	12.4%
SDU Serbia	**1,253.4**	1,190.6	5.3%
SDU Slovenia	**907.9**	872.3	4.1%
Global distribution network management	**370.6**	398.6	(7.0%)
Other segments*	**333.3**	311.3	7.1%
Reconciliation**	**(2,817.8)**	(2,729.6)	n/p
Sales	**5,255.5**	5,238.2	0.3%

Comparative period has been adjusted to reflect current period reporting.

In 2018, Atlantic Grupa recorded sales of HRK 5.3 billion. The sales recorded an organic growth of 4.2% compared to the same period of the previous year, while lower nominal growth of 0.3% is the result of last-year's sale of sports food production plants in Germany and Croatia to the Belgian partner and the absence of the related service production income. The revenue growth is recoded in most business and distribution units due to excellent results of the majority of own and principal brands.

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

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

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

- **THE STRATEGIC BUSINESS UNIT COFFEE** continues to record great results due to the increase in sales on all markets. The growth was led by the markets of Serbia, Slovenia, Croatia, Macedonia and Austria. Analyzed by categories, the growth was recorded by roast and ground coffee as the most significant category, and espresso coffee that continues to record a double-digit growth. All three brands in the roast and ground coffee segment, Barcaffè, Grand kafa and Bonito, contributed to the growth. Instant roast and ground coffee Black'n'Easy recorded a 19% growth compared to the previous year. Promising results are also recorded by the new category of coffee machine capsules. Key innovation in 2018 was brought by Barcaffè D.O.T. capsule line that launched the Barcaffè roast and ground coffee capsule as the first capsule in Europe that gives the opportunity to consume roast and ground coffee. The increase in sales is realised in addition to retaining high market shares in the roast and ground coffee segment. Our brands in Serbia represent 5 of 10 cups of coffee consumed, in Slovenia 8 of 10 cups consumed, while in Croatia Barcaffè holds the second place*.

- **THE STRATEGIC BUSINESS UNIT BEVERAGES** recorded a significant revenue growth in all major markets, with the highest increase recorded in the markets of Croatia, Slovenia, Serbia and Bosnia and Herzegovina. Among markets outside the region, a significant contribution came from the Russian, Italian and Austrian markets. The growth is recorded in all categories and in both sales channels, retail and HoReCa. Higher sales were recorded by all brands, led by the vitamin instant drink Cedevita, functional drink Donat Mg, visually refreshed Cockta with a new recipe, and waters under the Kala and Kalnička brands. Natural mineral water Donat Mg celebrated its 110th anniversary in 2018 To mark this jubilee, Atlantic Grupa in cooperation with the Post of Slovenia issued a custom-made postage stamp. This way Donat Mg is one of rare brands in the regional market and beyond that has been depicted on a postage stamp.

- **THE STRATEGIC BUSINESS UNIT SNACKS** recorded growth primarily due to the increase in sales in the Serbian market, which brings almost two thirds of revenues to this business unit. The growth was also recorded in other markets such as Slovenia, Montenegro and Bosnia and Herzegovina. In the sweets segment, the biggest growth was recorded by chocolates under the Najlepše želje and Bananica brands (which celebrated its 80th anniversary) and wafers, while in the salty segment growth was recorded by Prima salty sticks and flips under the Smoki brand. During 2018, 124 new products were launched, of which 17 with completely new recipes. Most innovation was made in the chocolate, flips and biscuits categories.

- **THE STRATEGIC BUSINESS UNIT PHARMA AND PERSONAL CARE** recorded a decrease in sales primarily in the Russian market, as a consequence of the decrease in sales of baby food under the Bebi brand, which is a part of this business unit from the beginning of 2018 The decrease in sales was also largely impacted by the significant depreciation of the ruble (the decrease in average ruble exchange rate of 13% compared to the previous year). The revenue decrease was partly compensated by the increase in sales recorded in the most significant market – Croatian, due to a significant revenue growth of the pharmacy chain Farmacia. If the effect of the baby food sales decrease is excluded, the sales grew by 2.2%.

- The double-digit sales growth of **THE STRATEGIC BUSINESS UNIT SAVOURY SPREADS** is a result of the increase in sales of products under the Argeta brand in all regional markets and of the increase in sales in the significant Western European markets (Germany, Austria, Switzerland and Sweden) and in the United States of America. After the markets of Bosnia and Herzegovina, Austria, Switzerland, Montenegro, Kosovo and Slovenia, as of August 2018 Argeta also holds the leading position in the value share on the market of Croatia**. In the savoury spreads segment, the growth was recorded by meat and fish segments and vegetable spreads launched to the Slovenian market this year and already holding over 12%* of the category. By increasing sales and strengthening market shares on all markets, this year Argeta became meat savoury spread number one in Europe.**

- The expected decrease in sales of **THE STRATEGIC BUSINESS UNIT SPORTS AND FUNCTIONAL FOOD** was largely caused by the sale of service production for third parties to the Belgian company Aminolabs but also by lower sales of own brands, primarily Multipower, and partly by changed methods of distribution. The most significant decrease was recorded in the German market, which makes two thirds of revenues of this business unit, and in the markets of the United Kingdom and Italy.

* SKU Performance Monitor, AC Nielsen, November 2018 ** SKU Performance Monitor, AC Nielsen, June–July 2018

- **THE STRATEGIC DISTRIBUTION UNIT CROATIA** recorded a sales growth following the growth of both own and principal brands. Own brands recorded growth in all product categories, led by Argeta from the savoury spreads segment, Barcaffè from the coffee segment (roast and ground coffee and espresso), Cedevita from the vitamin instant drinks segment, redesigned Cockta and Kala and Kalnička in the waters segment. Among principal brands, the biggest growth was recorded by Philips, SAB Miller, Ferrero and the new principal Mars. Sales growth of 9% was also recorded by the HoReCa channel, due to great sales of the redesigned Cockta, but also due to the growth in sales of principal and own brands led by Cedevita, Barcaffè espresso and Kala.

- The increase in sales of **THE STRATEGIC DISTRIBUTION UNIT SERBIA** is recorded due to the increase in sales of own and principal brands, but also to the positive effect of the strengthening of the Serbian dinar. The growth of own brands is recorded in almost all sales categories, led by roast and ground coffee under the Grand kafa and Bonito brands, instant roast and ground coffee Black'n'Easy, Najlepše želje, Smoki, Bananica and Sweet brands from the snacks segment, Argeta from the savoury spreads segment, Cedevita and Donat Mg from the beverages segment and Granny's Secret from the gourmet segment. The HoReCa channel recorded an exceptional 35% growth, mainly due to the increase in sales of the redesigned Cockta, Cedevita, Barcaffè espresso and the new principal Red Bull.

- The growth in sales of **STRATEGIC DISTRIBUTION UNIT SLOVENIA** is based on the increase in sales of all product categories, led, among own brands, by savoury spreads under the Argeta brand, roast and ground coffee under the Barcaffè brand, vitamin instant drink under the Cedevita brand and functional water under the Donat Mg brand. Among principal brands, the biggest growth is recorded by Ferrero and Rauch. HoReCa segment continues to record double-digit growth rates, primarily due to the success of the redesigned Cockta with new recipe, good results of espresso coffee under the Barcaffè brand and vitamin instant drinks under the Cedevita brand.

- **GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT** recorded a decrease in sales primarily in the Russian market caused by the decrease in sales of baby food under the Bebi brand, partly compensated by the sales increase in the markets of the United States of America, Germany, Italy and Switzerland. If the effect of the decrease in the baby food segment is excluded, the sales grew 9.0%.

- **OTHER SEGMENTS** record an increase in sales following the increase in sales in all three segments (DU Macedonia, BU Gourmet and DU Austria).

- **THE DISTRIBUTION UNIT MACEDONIA** recorded a 5.5% sales growth due to the growth of own and principal brands. Among own brands, ARGETA in the savoury spreads segment and GRAND KAFA in the roast and ground coffee segment stand out, while among principal brands, the most significant growth continues to be recorded by Fererro. HoReCa channel recorded a 4.7% sales growth on the back of better sales results of Barcaffè espresso, new Cockta and Cedevita.

- **THE DISTRIBUTION UNIT AUSTRIA** recorded a 12.4% sales growth, with the growth of majority of own brands in the retail channel, led by Argeta, coffee, beverages and products from the snacks portfolio.

- **THE BUSINESS UNIT GOURMET** recorded a 6.0% sales growth mainly due to good results recorded in regional markets (primarily Serbia and Croatia) and in the market of the United States of America. The growth was recorded primarily due to the ajvar category and new premium jams with honey.

SALES PROFILE BY SEGMENTS

2018

PRINCIPAL BRANDS	25.2 %
COFFEE	21.4 %
BEVERAGES	13.5 %
SWEET AND SALTED SNACKS	13.1 %
SAVOURY SPREADS	12.1 %
PHARMA AND PERSONAL CARE	11.5 %
SPORTS AND FUNCTIONAL FOOD	2.5 %
GOURMET	0.7 %

2017

PRINCIPAL BRANDS	22.2 %
COFFEE	20.8 %
BEVERAGES	12.6 %
SWEET AND SALTED SNACKS	12.7 %
SAVOURY SPREADS	10.9 %
PHARMA AND PERSONAL CARE	12.5 %
SPORTS AND FUNCTIONAL FOOD	7.7 %
GOURMET	0.6 %

SALES PROFILE BY MARKETS

(HRK million)	2018	% of Sales	2017	% of Sales	2018/2017
Croatia	**1,735.7**	33.0%	**1,566.1**	29.9%	10.8%
Serbia	**1,275.4**	24.3%	**1,210.3**	23.1%	5.4%
Slovenia	**908.7**	17.3%	**873.1**	16.7%	4.1%
Bosnia and Herzegovina	**421.7**	8.0%	**409.6**	7.8%	2.9%
Other regional markets*	**351.9**	6.7%	**334.8**	6.4%	5.1%
Key European markets**	**275.2**	5.2%	**424.6**	8.1%	(35.2%)
Russia and CIS	**178.3**	3.4%	**229.4**	4.4%	(22.3%)
Other markets	**108.6**	2.1%	**190.3**	3.6%	(42.9%)
Total sales	**5,255.5**	100.0%	**5,238.2**	100.0%	0.3%

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

- **THE MARKET OF CROATIA** recorded a 10.8% sales growth due to the increase in sales of: (i) the pharmacy chain Farmacia, (ii) own brands, with growth recorded by all brands from the beverages segment (primarily Cedevita, Kala, Cockta in the HoReCa channel), Argeta in the savoury spreads segment, Barcaffè in the coffee segment, and (III) external principals, among which the biggest growth was recorded by Philips, Ferrero, SAB Miller, Duracell and the new principal Mars.

- **THE MARKET OF SERBIA** rrecorded a 5.4% sales growth following the good sales results of own brands, arising from the increase in sales of: (i) roast and ground coffee under the Bonito and Grand kafa brands, espresso coffee under the Barcaffè brand and instant roast and ground coffee under the Black'n'Easy brand, (ii) Najlepše želje, Smoki, Bananica and Sweet in the snacks segment, (iii) Argeta in the savoury spreads segment, (iv) Cedevita, Cockta and Donat Mg in the beverages segment, and (v) Granny's Secret in the gourmet segment. Among principal brands, the most significant growth was recorded by Rauch and Beam Suntory, and the new principal Red Bull also contributed to the sales growth.

- The increase in sales of 4.1% in **THE MARKET OF SLOVENIA** was recorded following: (i) the increase in sales of Cockta, Cedevita and Donat Mg in the beverages category, (II) the increase in sales of Argeta in the savoury spreads category, (III) The increase in sales of coffee under the Barcaffè brand, AND (IV) The increase in sales of principal brands Ferrero and Rauch.

- The 2.9% increase in sales in **THE MARKET OF BOSNIA AND HERZEGOVINA** was recorded due to the increase in sales of: (i) savoury spreads under the Argeta brand, (II) Cockta and vitamin instant drinks under the Cedevita brand, and (iii) espresso coffee under the Barcaffè brand.

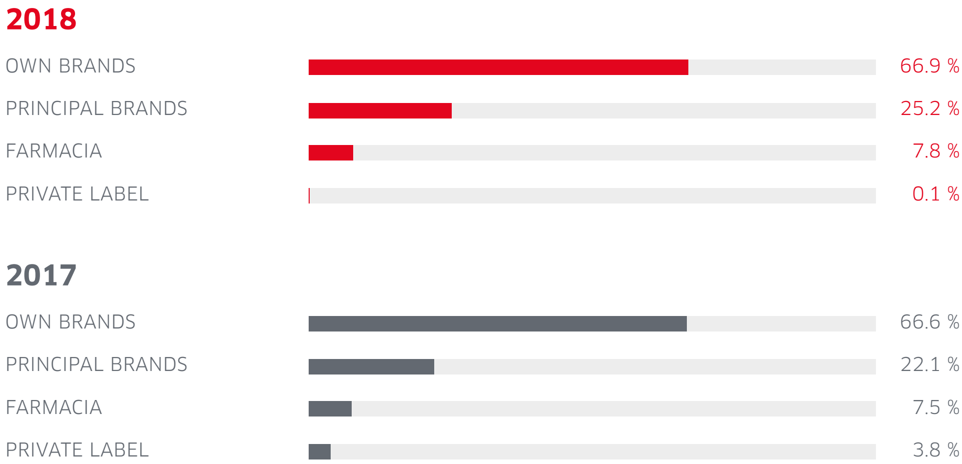
- The increase in sales of 5.1% in **OTHER REGIONAL MARKETS*** was recorded primarily due to the increase in sales in the markets of Macedonia and Montenegro.

- A significant decrease in sales in **KEY EUROPEAN MARKETS**** is a result of the decrease in sales in all markets except Austria, caused by lower sales of the sport and function food segment. If we exclude the effect of the decrease in the sports and functional food segment, sales grew by 19.5%.

- The decrease in sales in **THE MARKET OF RUSSIA AND THE COMMONWEALTH OF INDEPENDENT STATES** was primarily caused by the decrease in sales of baby food under the Bebi brand, partly compensated for by the increase in sales of the functional drink Donat Mg and savoury spreads under the Argeta brand.

- **OTHER MARKETS** record a significant sales decrease due to the drop in sales in the sports and functional food segment. If we exclude the effect of the decrease in the sports and functional food segment, sales grew by 6.0%.

SALES PROFILE BY PRODUCT CATEGORY



In 2018, **OWN BRANDS** recorded sales of HRK 3,513.7 million, which is a 0.7% growth compared to 2017 The growth was recorded by almost all business segments, and the greatest contribution was made by: (i) Argeta in the savoury spreads segment, (ii) Cedevita, Donat Mg and Cockta in the beverages segment, (iii) Barcaffè, Grand and Bonito in the coffee segment, and (iv) Najlepše želje, Smoki, Bananica and Prima salty sticks in the snacks segment. The decrease in sales was recorded by brands from the sports and functional food portfolio and baby food under the Bebi brand. If we exclude the effect of the decrease in own brands from the sports and functional food segment and baby food, the revenue increased by 4.4%.

With HRK 1,323.9 million, **PRINCIPAL BRANDS** recorded an increase in sales of 14.3%. The growth is mainly based on the increase in sales of principals Ferrero, Rauch, SAB Miller and Philips, and the sales of products from the portfolio of new principals Mars and Red Bull.

The pharmacy chain **FARMACIA** recorded sales of HRK 413.1 million, which is a 6.2% growth compared to 2017, due to the increase in sales of the existing Farmacia locations and a newly-opened specialised store. In 2018, Farmacia consists of 85 pharmacies and specialised stores. In 2018, the Farmacia chain marked its 10th anniversary and 85 locations marked this jubilee by special activities and events for patients and customers: by combining traditional public health actions and sports, nutritional and beauty counselling across Croatia.

With sales of HRK 4.8 million, **PRIVATE LABELS** recorded a 97.6% decrease in sales, following the disinvestment of service production in the sports and functional food segment at the end of October 2017, which had accounted for the largest portion of the overall production of private labels, and in smaller part by disinvestment of Neva.

Profitability Dynamics in 2018

PROFITABILITY DYNAMICS

(HRK million)	2018	2017	2018/2017
Sales	**5,255.5**	5,238.2	0.3%
EBITDA	**545.9**	582.2	(6.2%)
Normalised EBITDA	**565.6**	517.4	9.3%
EBIT	**366.8**	406.5	(9.8%)
Normalised EBIT	**386.5**	341.6	13.1%
Net profit	**244.2**	276.2	(11.6%)
Normalised Net profit	**261.7**	211.4	23.8%
Profitability margins			
EBITDA margin	**10.4%**	11.1%	-73 bp
Normalised EBITDA margin	**10.8%**	9.9%	+89 bp
EBIT margin	**7.0%**	7.8%	-78 bp
Normalised EBIT margin	**7.4%**	6.5%	+83 bp
Net profit margin	**4.6%**	5.3%	-63 bp
Normalised Net profit margin	**5.0%**	4.0%	+94 bp

Earnings before interest, taxes, depreciation and amortisation (EBITDA) adjusted for one-off items amounts to HRK 565.6 million and is 9.3% higher compared to the previous year. One-off items relate to the following:

- In 2018, normalised EBITDA was increased by HRK 19.7 million of net effects from Neva, related to the one-off profit from the sale of Neva and provision for legal claim related to Neva.
- In 2017, normalised EBITDA was decreased by HRK 64.9 of one-off profit from the sale of factories in the sports and functional food segment.

The increase in EBITDA was mainly impacted by higher sales in most business units, lower costs of production materials and lower operating expenses, despite the increase in cost of goods sold and higher investments in marketing.

Normalised net profit increased following the increase in EBIT and lower tax expense, while finance cost is at the same level as in the previous year, despite significantly lower interest expense due to lower foreign exchange gains.

OPERATING EXPENSES STRUCTURE

(HRK million)	2018	% of Sales	2017	% of Sales	2018 /2017
Cost of goods sold	**1,505.8**	28.7%	**1,317.4**	25.1%	14.3%
Change in inventory	**13.2**	0.3%	**6.6**	0.1%	n/a
Production materials	**1,392.4**	26.5%	**1,635.5**	31.2%	(14.9%)
Energy	**58.3**	1.1%	**57.8**	1.1%	0.9%
Services	**412.5**	7.8%	**409.5**	7.8%	0.7%
Staff costs	**843.0**	16.0%	**828.5**	15.8%	1.7%
Marketing and selling expenses	**338.3**	6.4%	**309.5**	5.9%	9.3%
Other operating expenses	**208.2**	4.0%	**221.2**	4.2%	(5.9%)
Other (gains)/losses, net	**13.1**	0.2%	**-64.9**	(1.2%)	n/a
Depreciation and amortisation	**179.1**	3.4%	**175.8**	3.4%	1.9%
Total operating expenses	**4,963.9**	94.5%	**4,897.0**	93.5%	1.4%

The increase in **cost of goods sold** of 14.3% is a consequence of the product mix, i.e. higher sales of principal brands and transferring the production in the sports and functional food segment to a service partner, following the mentioned sale of two factories in Germany and Croatia.

Costs of **production materials** are 14.9% lower, as a result of the above mentioned production transfer and lower prices of raw materials, primarily raw coffee, sugar and cocoa.

Costs of **services** are slightly higher, and the increase in costs of transport and logistics services in Croatia was largely compensated by lower services following the restructuring of the sports and functional food segment.

Staff costs increased due to a larger number of employees caused by the sales growth, and partly due to payments of additional rewards to our employees following excellent business results. As at 31st December 2018, Atlantic Grupa had 5,354 employees, 86 employees more than at the end of 2017

Marketing expenses increased by 9.3%, primarily due to higher investments in marketing in the beverages, coffee, savoury spreads and snacks segments.

Other operating expenses decreased mainly due to restructuring of the sports and functional food segment and better collection control in the market of Russia compared to 2017

Other (gains)/losses – net: mainly relate to the previously described one-off items.

OPERATING RESULT OF STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	2018	2017	2018/2017
SBU Coffee	**259.9**	210.2	23.6%
SBU Beverages	**170.6**	161.6	5.5%
SBU (Sweet and Salted) Snacks	**131.2**	119.9	9.4%
SBU Pharma and Personal Care	**44.8**	68.0	(34.1%)
SBU Savoury Spreads	**147.0**	131.1	12.1%
SBU Sports and Functional Food	**(64.3)**	(58.8)	(9.2%)
SDU Serbia	**31.0**	27.7	12.1%
SDU Croatia	**31.1**	27.9	11.3%
DU Slovenia	**52.2**	48.8	6.9%
Global Distribution Network Management	**14.8**	12.0	22.6%
Other segments*	**(272.3)**	(166.2)	(63.8%)
Group EBITDA	**545.9**	582.2	(6.2%)

Comparative period has been adjusted to reflect current period reporting.

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

SBU COFFEE: significant profitability growth follows the increase in sales and lower costs of raw coffee, despite higher investments in marketing.

SBU BEVERAGES: profitability growth mainly arises from the revenue increase and higher gross profit margin, despite higher investments in marketing.

SBU SNACKS: the increase in profitability is a consequence of the increase in sales revenue coupled with lower prices of production materials and consequently better gross profit margin, despite higher investments in marketing and higher staff costs.

SBU PHARMA AND PERSONAL CARE: despite very good business results and the increase in profitability of the pharmacy chain Farmacia, the decrease in profitability is the result of the decrease in sales revenue and profitability of the baby food brand Bebi and the Multivita segment in Russia.

SBU SAVOURY SPREADS: profitability growth was recorded following a significant revenue growth and higher gross profit margin, despite higher investments in marketing and higher staff costs.

SBU SPORTS AND FUNCTIONAL FOOD: the increase in loss is a result of the decrease in sales revenue and the restructuring process this segment is subjected to.

SDU SERBIA: profitability growth as a consequence of the sales growth in retail and HoReCa segments.

SDU CROATIA: profitability growth as a consequence of the significant increase in sales and increase in distribution efficiency coupled with optimum cost management.

SDU SLOVENIA: profitability growth as a result of an increase in sales and good cost control.

GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT: despite the decrease in sales, primarily caused by the decrease in revenue from baby food under the Bebi brand in the Russian market, improvement in profitability is a result of lower staff costs and costs of services and lower other operating expenses.

OTHER SEGMENTS with DU Macedonia, BU Gourmet and DU Austria, include costs of corporate functions and support services, but also the previously described one-off items that are also the main reason for negative movements. The DU Macedonia records a profitability growth following the increase in sales, despite higher staff costs. The increase in loss of the BU Gourmet is a result of lower gross profit margin. The DU Austria records a profitability decrease due to slightly higher costs of services.

Financial Indicators
in 2018

FINANCIAL INDICATORS

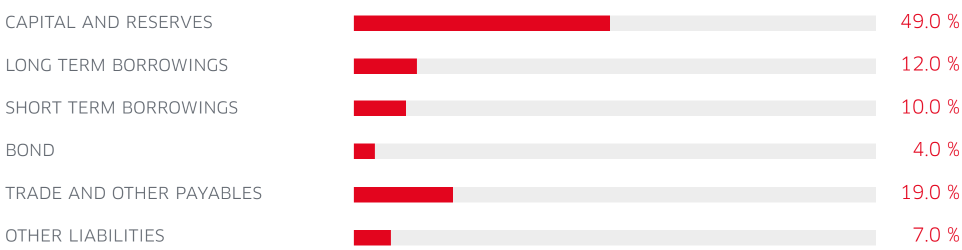
(HRK millions)	2018	2017
Net debt	**862.9**	1,185.4
Total assets	**4,935.3**	5,168.9
Total Equity	**2,398.4**	2,249.9
Current ratio	**1.44**	1.46
Gearing ratio	**26.5%**	34.5%
Net debt/EBITDA	**1.5**	2.3
Interest coverage ratio	**9.9**	8.8
Capital expenditure	**140.6**	129.2
Cash flow from operating activities	**462.1**	346.3

Comparative period has been adjusted to reflect current period reporting.
* Excluding one-off items

Among the key determinants of the Atlantic Grupa's financial position in 2018, the following should be pointed out:

- Due to the decrease in net debt of HRK 322.5 million compared to the end of 2017, the gearing ratio decreased by as much as 805 basis points.
- The debt measured as the net debt to normalised EBITDA ratio dropped from 2.3 at the end of 2017 to 1.5 at the end of 2018
- At the same time, the coverage of interest expense by normalised EBITDA in the comparative period increased from 8.8 times in 2017 to 11.3 times.
- In addition to the continuous improvement in the Group's financial position, the stability of operations is best reflected in the increase in cash flow from operating activities of HRK 115.8 million to HRK 462.1 million in 2018.

EQUITY AND LIABILITIES STRUCTURE AS AT 31 DECEMBER 2018



ATLANTIC GRUPA

OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENT

The increase in cash flow from operating activities in 2018 compared to the same period of the previous year is primarily the result of the business operations growth, significantly more favourable effect of the working capital and lower finance costs.

Capital expenditure in 2018 primarily relates to investments in the production equipment of business units for the purpose of increasing the efficiency of production processes, in the development of new products and the development of IT infrastructure, business systems and applications.

Among significant investments, we should mention:

SBU SNACKS: investment in automatisation and improved production efficiency (primarily for Smoki and Bananica brands) and in retail points of sale;

SBU COFFEE: purchase of espresso machines, investment in production equipment for the purpose of improving production efficiency;

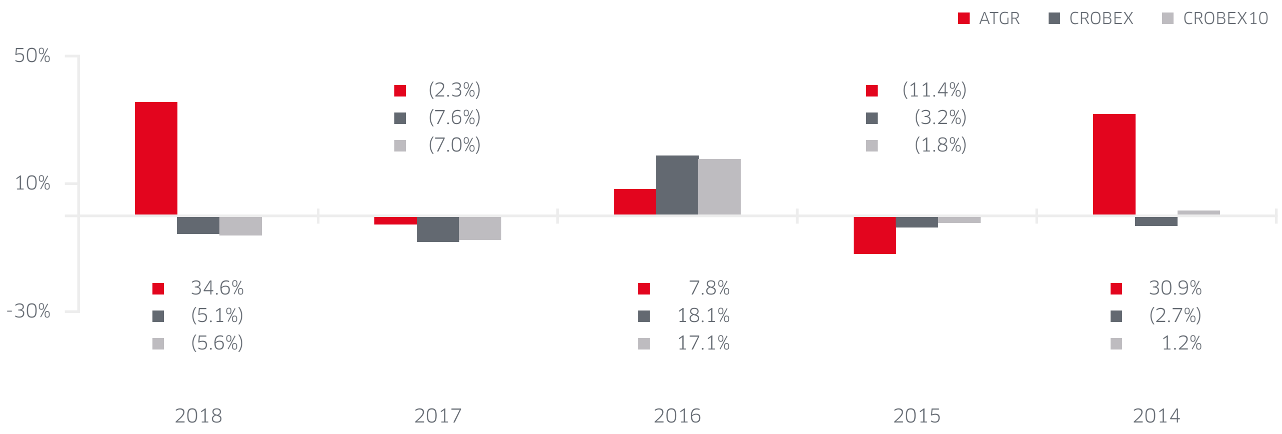
SBU BEVERAGES: investment in Cockta redesign, the line for rigid packaging of Cedevita and redesign of the existing products;

SDU CROATIA: investment in the new logistics and distribution centre in Velika Gorica adjusted to contemporary requirements of technology and warehouse efficiency;

IT: investment in infrastructure, digital technologies and implementation of business applications and the replacement of equipment.
Among significant projects the implementation of the SAP system in distribution operations on the market of Serbia stands out. The project of the implementation of SAP, application for mobile sales, application for marketing expenses management, Cognos BI solution, with integration with the existing solutions for warehouse management, routing, invoice management and human resources management system brings to the Serbian market many innovative business processes and improvements.

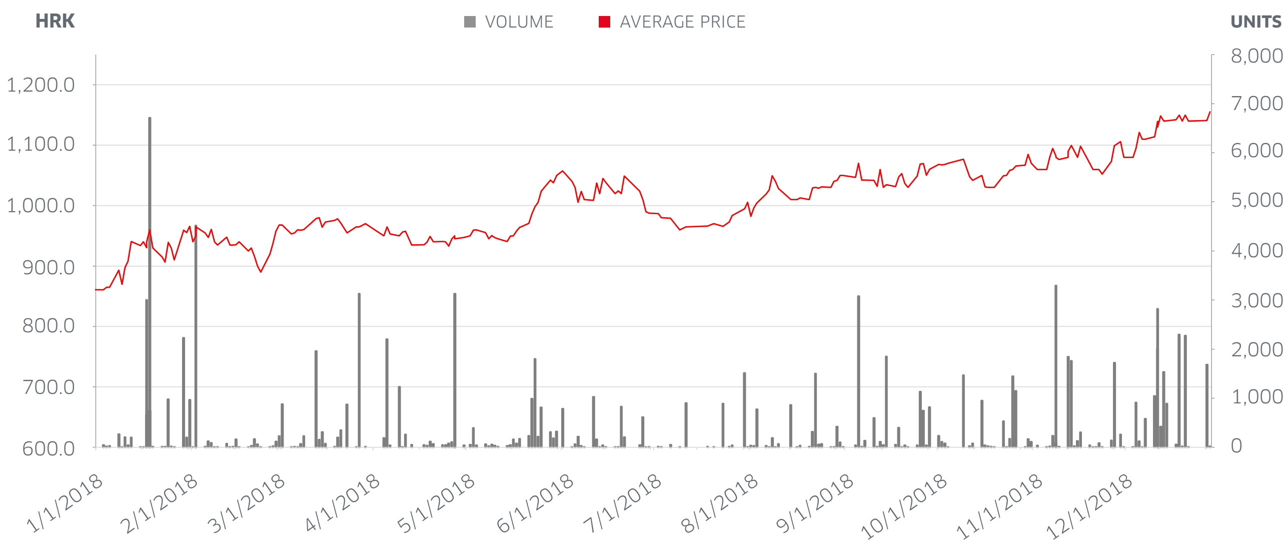
STOCK MARKET PERFORMANCE: RECORD HIGH MARKET CAPITALIZATION

Developments on the Zagreb Stock Exchange in 2018 were similar to those in the previous year. After an apparently optimistic beginning of the year and significantly increased turnover in January, in February, after trading shares from the Agrokor concern was suspended, there was a significant decrease in turnover and index value. The situation improved only before the year end, however, the CROBEX and CROBEX10 indices entered the year in the negative area, recording minuses of 5.1% and 5.6%, respectively. Despite negative market developments, due to good business results, the Atlantic Grupa's share recorded a growth of as much as 34.6%.

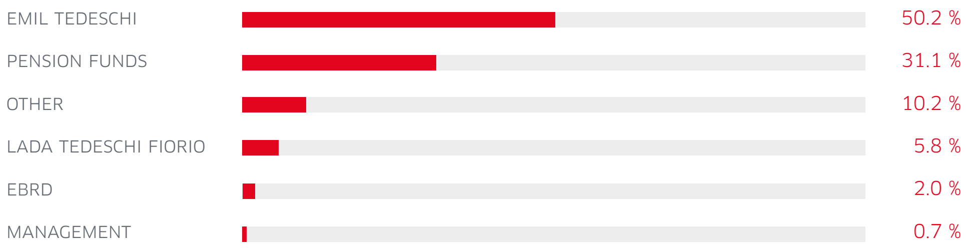


The average daily turnover amounted to HRK 436.3 thousand, or even 22.5% more than in 2017 Among the components of CROBEX10, with the average market capitalization of HRK 3,867.8 million, Atlantic Grupa holds the fourth place. At the end of 2018, the Atlantic Grupa's share recorded the historically highest level of market capitalization since its listing in November 2007. According to the total turnover in 2018, the Atlantic Grupa's share holds the fifth place compared to all the shares quoted on the Zagreb Stock Exchange, with a turnover of HRK 74.7 million.

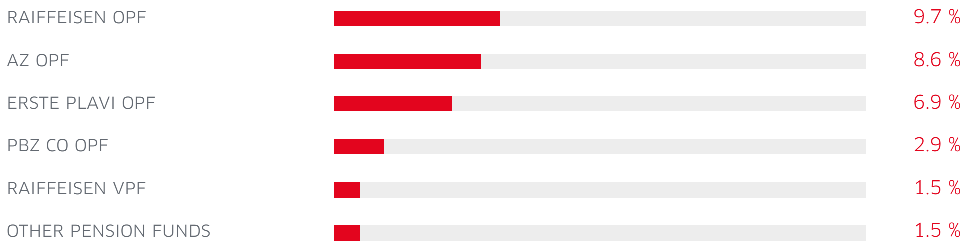
MOVEMENTS IN THE AVERAGE PRICE AND VOLUME OF THE ATLANTIC GRUPA'S SHARE IN 2018



OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2018



PENSION FUNDS 31,1 %



Atlantic Grupa has a stable ownership structure: 50.2% of the company is owned by Emil Tedeschi and 5.8% by Lada Tedeschi Fiorio, while pension funds hold 31.1% of Atlantic Grupa.

Valuation	2018	2017
Last price in reporting period	**1,160.0**	862.0
Market capitalization* (in HRK millions)	**3,867.8**	2,874.2
Average daily turnover (in HRK thousands)	**436.3**	356.2
EV (in HRK millions)	**4,734.6**	4,063.2
EV/EBITDA**	**8.4**	7.9
EV/EBIT**	**12.2**	11.9
EV/sales	**0.9**	0.8
EPS (in HRK)**	**78.4**	63.2
P/E**	**14.8**	13.6

* Closing price multiplied by the total number of shares

**Normalised data

Outlook for 2019

MANAGEMENT'S VIEW ON MACROECONOMIC EXPECTATIONS

In 2018, for the fourth consecutive year the Croatian economy recorded a good economic growth, due to the successful tourist season, the increase in personal and public consumption and exports, and the generally increasing optimism. Atlantic Grupa's management expects positive trends in the Croatian economy in 2019; however it takes cautious standpoint following the expected slowdown of the eurozone.

In countries in the region, management also expects economic growth to continue in 2019, but at slower rates than in 2018 It is expected that Slovenian and Serbian economies will grow, but at more moderate rates compared to 2018, where the growth will be backed by the increase in personal consumption, investments and decrease in unemployment. We do not expect significant movements in the Serbian dinar exchange rate in 2019.

After the significant growth of the eurozone countries in 2017, in 2018 lower but still positive growth rates were recorded. In 2019, Atlantic Grupa's management expects the growth rate to slow down following slowdown of personal consumption and foreign demand.

After the beginning of the Russian economy recovery in 2017, based on the increase in oil prices that positively affected the growth in domestic demand, similar movements continued in 2018 In 2019, fiscal and structural reforms are planned to be continued, but the uncertainty caused by sanctions will affect the slowdown of economic activities.

ATLANTIC GRUPA'S MANAGEMENT STRATEGIC GUIDANCE FOR 2019

In 2019, management will focus on (i) strengthening the position of prominent regional brands, (ii) internationalisation of certain brands, (iii) development of distribution operations by strengthening the existing and acquiring new principals, and (iv) further disinvestment of non-core business operations that do not have a significant growth potential.

In 2019, Atlantic Grupa's management expects lower average prices of raw coffee on global commodity markets, which will be partly negatively affected by the EUR/USD exchange rate.

In 2019, we expect payments related to capital expenditure in the amount of approximately HRK 230 million.

The effects of disinvestments of non-core business operations and potential acquisitions are not included in the stated expectations.

Accordingly, management's expectations for 2019 are as follows:

(HRK millions)	2019 Guidance	2018*	2019/2018
Sales	**5,400**	5,256	2.7%
EBITDA	**615**	566	8.7%
EBIT	**430**	386	11.3%
Interest expense	**30**	38	(20.8%)

*Normalised

Plan for 2019 is comparable to data for 2018 and does not include the implementation of new IFRS 16.**.

** In 2019, Atlantic Grupa will prepare financial statements based on the same accounting policies, overviews and calculation methods used in the preparation of the annual consolidated financial statements of Atlantic Grupa in 2018, except for the implementation of the new standard IFRS 16. The standard defines a single lessee accounting model for leases and requires a lessee to recognise assets and liabilities for all leases, other than leases with a term of 12 months or less, or if the leased asset is of low value.

Risks of Atlantic Grupa

BUSINESS ENVIRONMENT RISK

Business environment risk includes political, macroeconomic and social risks with a direct impact on business activities in all markets in which the company operates, while the company cannot individually influence any of them. Political risk relates to all the risks associated with a potential political instability of an individual state. Taking into consideration the current internal and external political affairs, Croatia functions as a stable parliamentary democracy that successfully entered the European Union on 1 July 2013.

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

As previously stated, political and general social risk is inherent to all components of a society and therefore cannot be individually influenced by any single company. However, Atlantic Grupa, as the company that operates in several different countries, significantly reduces these risks through their diversification.

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

INDUSTRY AND COMPETITION RISKS

CONSUMER GOODS INDUSTRY AND RETAIL (PHARMACIES)

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

Macroeconomic conditions, GDP fluctuation dynamics, in particular personal consumption as a component of the GDP, fluctuation of the disposable personal income and the development of the living standard of consumers largely dictate the trends in the consumption goods industry. In addition to that, the development of the consumer goods industry is also largely influenced by the ability of companies to constantly adapt to consumer needs and market trends, which in turn requires investments in research and development, marketing and technology.

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

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

Atlantic Grupa operates in the consumer goods industry segment that includes food products with added value and, accordingly, it uses activities like investing in research and development, investing in technology and closely monitoring market trends and consumer preferences to maintain high market shares in the listed segment. The portfolio of Atlantic Grupa includes a wide range of brands with leading market positions in the region in the segments of coffee, savoury spreads, snacks and beverages. Considering that some of the listed segments are exposed to strong competitive pressures by local and multinational companies, Atlantic Grupa in 2018 continued to actively manage its own brands.

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

COMPETITION RISK

With Croatia's accession to the EU and the harmonisation of legislation with the acquis communautaire, new standards and norms are established and, at the same time, final obstacles to free competition are removed as a result of the accession to the internal market of the European Union. In line with the mentioned processes, on one hand local companies are becoming increasingly exposed to international competition and, on the other hand, are experiencing the opening of new business opportunities in foreign markets. Many companies, including Atlantic Grupa as the leader in this trend, have in recent years focused their efforts on business expansion in regional markets of South-East Europe that are generally characterised by the increasing demand for consumer goods and, at the same time, the increasing recognisability of domestic brands.

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

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

BUSINESS RISK

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

IMPACT OF INDIVIDUAL PRODUCTS AND BUSINESS PARTNERS ON BUSINESS PERFORMANCE

In previous years Atlantic Grupa has given significant attention to the diversification and expansion of its production as well as distribution portfolio with the strategic objective of reducing its dependence on the sales of any individual product and thus also the volatility in the realisation of sales results, particularly during the changes of macroeconomic cycles.

Considering the listed diversification in its production and distribution portfolios, changes in the business environment relating to either a specific production segment or a specific partner will not jeopardise the overall business operations of Atlantic Grupa.

PRODUCT DEPENDENCE

Resulting from the significant expansion and diversification of the production and distribution portfolio in previous years, today Atlantic Grupa's regular business operations do not depend significantly on any individual product. At the same time, the most prominent product categories are the segments of coffee, snacks and beverages.

During the past years, Atlantic Grupa combined acquisition activities, innovative approach to new product development and conclusion of new distribution agreements in the diversification of both the production and distribution portfolio. In the last 15 years Atlantic Grupa participated in about 50 acquisitions, which have resulted in a significant reduction of the company's dependence on any one product, market or business partner.

BUSINESS PARTNERSHIP DEPENDENCE

In previous years Atlantic Grupa developed strong partnerships with both domestic and international producers of brands within the distribution portfolio of Atlantic Grupa. Although a loss of exclusive distribution rights to a particular product would have an impact on the business performance of Strategic Distribution Units, the risk of that has been greatly reduced in recent years due to the significant expansion of the distribution portfolio.

Atlantic Grupa is continually monitoring developments in the brand market with the purpose of concluding new business partnerships. The continuous expansion of the distribution portfolio enables the company to quickly adjust to new conditions in the case of termination of cooperation with any of its present partners.

Close business cooperation with leading domestic retail chains is at the very nature of distribution activities. Atlantic Grupa has developed good business cooperation with a majority of regional retail chains, which in turn are the company's major buyers, and our dependence on any individual buyer is at an appropriate level. In the case of termination of partnership, or bankruptcy of one of the more important buyers, the impact on business results of Strategic Distribution Units could be significant. However, with the continuous monitoring of the buyers' risk level and payment process and the resulting limitation of exposure to risky buyers, the company aims to reduce the risk to its own operations in the case of termination of partnership or bankruptcy of one of its major buyers. Moreover, Atlantic Grupa strives to reduce the dependence of distribution on one distribution channel by developing the "alternative distribution channels" like the HoReCa segment (catering), outlets for sales of technical goods and the pharmacy channel.

FINANCIAL RISKS

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

Abbreviations

GDP	Gross domestic product
BITC	Business in the Community, a non-profit organisation committed to promoting corporate social responsibility
BPA – NI	Bisphenol A Non-Intent, coatings without Bisphenol A
B2B	Business to bussines
CSR	Corporate Social Responsibility
DEG	German Investment and Development Corporation
DMS	Data Management System
EBRD	European Bank for Reconstruction and Development
EMS	Environmental Management System
ERP	Enterprise Resource Planning
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
F2	Fast Forward Program
FMCG	Fast moving consumer goods – food, drink and tobacco products
FSSC	Food Safety System Certification
GHP	Good Hygienic Practices
GMO	Genetically Modified Organism
GMP	Good Manufacturing Practices
GRI	Global Reporting Initiative
HACCP	Hazard Analysis and Critical Control Point
HMF	Hydroxymethylfurfural, breakdown product of fructose
HoReCa	Hotel Restaurant Caffe
HRIS	Human Resources Information System
HUP	Croatian Employers' Association
HZZO	Croatian Health Insurance Fund
IFS	International Food Standard
ITIL	Information Technology Infrastructure Library
KPI	Key Performance Indicators
KAM	Key Account Management
OTC	Over The Counter
PAH	Polycyclic Aromatic Hydrocarbons
PET	Polyethylene Terephthalate
R-PET	Recycled Polyethylene Terephthalate
SDU	Strategic Distribution Unit
SMC	Strategic Management Council
SBU	Strategic Business Unit
CIS	Commonwealth of Independent States (ex-Soviet Union countries)
ZSE	Zagreb Stock Exchange

Auditor's Report
and Consolidated Financial Statements

ATLANTIC GRUPA PLC.
31 DECEMBER 2018

Responsibility for the annual financial statements

In accordance with provisions of Law on Capital Market, Zoran Stanković, Management board member responsible for finance and Tatjana Ilinčić director of Department of Corporate Reporting and Consolidation, person responsible for corporate accounting, reporting and consolidation, together as persons responsible for the preparation of annual reports of the company Atlantic Grupa d.d. Zagreb, Miramarska 23, OIB 71149912416 (hereinafter: Company), hereby make the following

STATEMENT

According to our best knowledge the annual audited consolidated financial statements for 2018, are prepared in accordance with applicable standards of financial reporting and give true and fair view of the assets and liabilities, profit and loss, financial position and operations of the Company and its subsidiaries (together – "the Group").

Report of the Company's Management board for the period from 1 January to 31 December 2018 contains the true presentation of development, results and position of the Group, with description of significant risks and uncertainties which the Group is exposed.

In Zagreb, 28 March 2019

Zoran Stanković
Group Vice President for Finance

Tatjana Ilinčić
Director of Corporate Reporting and Consolidation

Responsibility for the consolidated financial statements

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

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

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

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

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 28 March 2019.

Emil Tedeschi
President and Chief Executive Officer

Zoran Stanković
Group Vice President for Finance

Neven Vranković
Group Vice President for Corporate activities

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Independent auditor's report

To the Shareholders of Atlantic Grupa d.d.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Atlantic Grupa d.d. (the Company) and its subsidiaries (together – "the Group"), which comprise the consolidated balance sheet as at 31 December 2018, consolidated income statement and the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU).

Basis for opinion

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

Key audit matters

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

Key Audit Matter	How we addressed Key Audit Matter
Assessment of impairment of intangible assets with indefinite useful lives *See Note 2.7 Impairment of non-financial assets and Note 4.b Impairment of goodwill and intangible assets with indefinite useful lives* The Group has goodwill and other intangible assets with indefinite useful lives (Brands & Licenses) with carrying amounts totaling HRK 1,525,994 thousand as at 31 December 2018. The carrying amount of the indefinite life intangible assets represents 31% of total consolidated assets and the assessment of the "fair value" and "value in use" of the Group's cash generating units ("CGU") represents significant area of management's judgement regarding the future results of the business and the discount rates applied to future cash flow forecasts. Due to the range of judgements and assumptions used in the models and impairment assessments, as well as the significant	Audit procedures included understanding of the assets impairment process and walk through of controls implemented within. We examined the methodology used by management to assess the carrying value of respective intangible assets, to determine its compliance with IFRS as adopted by EU and consistency of application. We evaluated the Group's future cash flow forecasts and the process by which they were prepared. We compared the budget inputs in the model to the approved budgets and forecast inputs in the model to management plans. We compared current year (2018) actual results with the figures included in the prior year (2017) forecast to evaluate assumptions used. We also evaluated management's key assumption for long-term growth rate by comparing it to historical growth results.

carrying amount of the intangible assets, this is an area considered to be a key audit matter.	We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis, and tested the appropriateness of discount rates and royalty rates used in the calculation with the assistance of the specialists. We also assessed the completeness of the impairment charges. We also assessed adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of International Financial Reporting Standards as adopted by EU.
Assessment of indefinite useful lives of Brands and Licences *See Note 4.a Expected useful lives of brands and Note 4.b Impairment of goodwill and intangible assets with indefinite useful lives* The Group determined that several Brands and Licenses have indefinite useful lives. The carrying value of such assets amounts to HRK 713,486 thousand at 31 December 2018. The carrying amount of the indefinite life of Brands and Licenses represents 14% of total consolidated assets and the assessment of the indefinite life involves significant management's judgments about the strength of the brand and future cash flows generated from brands and licenses affected. The Group annually assesses the accounting estimates of indefinite useful life. The assessment is performed by reviewing external reports on brand strength, market share position of individual brands in each country and stability of the industry or, in case of licenses, local laws as licenses relate to the pharmaceutical retail business. If management notices that there is a foreseeable limit to the period over which the asset is expected to generate net cash flow, the Group changes its estimates according to IAS 8, from indefinite life asset to definite useful life. Due to the range of significant judgements used, this is an area considered to be a key audit matter.	Audit procedures included understanding of the useful lives of intangibles assets process and walk through of controls implemented within. We performed specific inquiry to the management in respect of consistency of the applied methodology. We evaluated and assessed the Group's assumption on historical and projected cash flows and relevant judgements used within. We compared current year (2018) actual results per brand / license with the figures included in the prior year (2017) forecast to evaluate used assumptions. We also evaluated management's key assumption for long-term growth rate by comparing it to historical growth results. Furthermore, we assessed and reviewed external reports related to market share of the individual brand and assessed changes in relevant local laws, if any, in respect of licensee of the pharmaceutical retail business. We also assessed on the adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of the International Financial Reporting Standards as adopted by EU.

Other information included in the Group's Annual Report for 2018

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

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

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

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1. the information given in the enclosed Management report for the 2018 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;

2.the enclosed Management report for 2018 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

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

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's annual report for 2018 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed consolidated financial statements;

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

Responsibilities of management and Audit Committee for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as the auditors of the Company by the General Meeting of Shareholders on 29 June 2017 and our uninterrupted engagement has lasted for 2 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 19 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

Berislav Horvat, president of Management Board and certified auditor
Ernst & Young d.o.o.
Radnička cesta 50, Zagreb

28 March 2019

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts expressed in thousands of HRK)	**Note**	**2018**	**2017**
Revenues	5	5,330,624	5,303,426
Cost of trade goods sold		(1,505,820)	(1,317,355)
Change in inventories of finished goods and work in progress		(13,195)	(6,644)
Material and energy costs		(1,450,652)	(1,693,309)
Staff costs	6	(842,955)	(828,533)
Marketing and promotion costs	7	(338,293)	(309,522)
Depreciation, amortisation and impairment	2.24, 13, 14, 15	(179,113)	(175,758)
Other operating costs	8	(620,714)	(630,696)
Other (losses)/gains - net	9	(13,115)	64,859
Operating profit		**366,767**	**406,468**
Finance income	10	12,028	28,559
Finance costs	10	(62,237)	(78,118)
Finance costs - net	10	(50,209)	(49,559)
Profit before tax		**316,558**	**356,909**
Income tax expense	11	(72,340)	(80,685)
Profit for the year		**244,218**	**276,224**
Attributable to:			
Owners of the parent		243,970	275,529
Non-controlling interests		248	695
		244,218	276,224
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		73.19	82.69
- diluted		73.19	82.69

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts expressed in thousands of HRK)	**Note**	**2018**	**2017**
Profit for the year		**244,218**	**276,224**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gains from defined benefit plan, net of tax		97	1,033
		97	**1,033**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences, net of tax	22	(33,081)	21,411
Cash flow hedges, net of tax	22	2,422	(15,466)
		(30,659)	**5,945**
Other comprehensive (loss)/ gain for the year, net of tax		**(30,562)**	**6,978**
Total comprehensive income for the year		**213,656**	**283,202**
Attributable to:			
Owners of the parent		213,450	282,520
Non-controlling interests		206	682
Total comprehensive income for the year		213,656	283,202

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

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

(all amounts expressed in thousands of HRK)	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	13	966,860	999,866
Investment property		1,152	1,209
Intangible assets	15	1,706,820	1,750,216
Deferred tax assets	25	31,943	32,165
Financial assets through OCI	17	1,027	948
Trade and other receivables	18	52,168	95,239
		2,759,970	2,879,643
Current assets			
Inventories	19	493,910	547,278
Trade and other receivables	18	1,247,478	1,233,565
Prepaid income tax		13,052	5,029
Derivative financial instruments	16	1,689	-
Cash and cash equivalents	20	413,663	497,079
		2,169,792	2,282,951
Non-current assets held for sale	14	5,583	6,336
Total current assets		2,175,375	2,289,287
TOTAL ASSETS		**4,935,345**	**5,168,930**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	881,275	881,089
Treasury shares	21	(92)	(1,514)
Reserves	22	(81,628)	(52,428)
Retained earnings		1,461,644	1,285,668
		2,394,571	2,246,187
Non-controlling interests		3,869	3,663
Total equity		2,398,440	2,249,850
Non-current liabilities			
Borrowings	24	805,882	1,135,191
Deferred tax liabilities	25	160,437	162,652
Other non-current liabilities		2,656	3,017
Provisions	26	58,761	50,456
		1,027,736	1,351,316
Current liabilities			
Trade and other payables	23	926,188	945,667
Borrowings	24	472,386	546,060
Derivative financial instruments	16	-	1,226
Current income tax liabilities		10,174	21,341
Provisions	26	100,421	53,470
		1,509,169	1,567,764
Total liabilities		2,536,905	2,919,080
TOTAL EQUITY AND LIABILITIES		**4,935,345**	**5,168,930**

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 2018

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital, Premium and Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2017	1,014,773	(80,964)	1,079,698	2,013,507	2,981	2,016,488
Comprehensive income:						
Net profit for the year	-	-	275,529	275,529	695	276,224
Other comprehensive (loss)/income	-	5,958	1,033	6,991	(13)	6,978
Total comprehensive income	-	5,958	276,562	282,520	682	283,202
Transaction with owners:						
Acquisition of non-controlling interests (Note 28)	-	-	(1,126)	(1,126)	-	(1,126)
Share based payment (Note 21)	5,605	-	-	5,605	-	5,605
Purchase of treasury shares (Note 21)	(7,431)	-	-	(7,431)	-	(7,431)
Transfer	-	22,578	(22,578)	-	-	-
Dividends relating to 2016 (Note 21)	-	-	(46,888)	(46,888)	-	(46,888)
Balance at 31 December 2017	**1,012,947**	**(52,428)**	**1,285,668**	**2,246,187**	**3,663**	**2,249,850**
Comprehensive income:						
Net profit for the year	-	-	243,970	243,970	248	244,218
Other comprehensive (loss)/income	-	(30,617)	97	(30,520)	(42)	(30,562)
Total comprehensive income	-	(30,617)	244,067	213,450	206	213,656
Transaction with owners:						
Share based payment (Note 21)	3,772	-	-	3,772	-	3,772
Purchase of treasury shares (Note 21)	(2,164)	-	-	(2,164)	-	(2,164)
Transfer	-	1,417	(1,417)	-	-	-
Dividends relating to 2017 (Note 21)	-	-	(66,674)	(66,674)	-	(66,674)
Balance at 31 December 2018	**1,014,555**	**(81,628)**	**1,461,644**	**2,394,571**	**3,869**	**2,398,440**

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts expressed in thousands of HRK)	Note	2018	2017
Cash flows from operating activities:			
Cash generated from operations	29	633,824	505,076
Interest paid		(61,860)	(100,391)
Income tax paid		(109,858)	(58,345)
		462,106	346,340
Cash flows (used in)/from investing activities			
Purchase of property, plant and equipment and intangible assets	13,14,15	(140,626)	(129,193)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		1,512	8,799
Proceeds from sale of subsidiary – net of cash disposed	28	59,511	129,342
Proceeds from sale of tea business		-	18,750
Acquisition of subsidiary – net of cash acquired	28	-	(2,207)
Loans granted and deposits placed	18	(43,154)	(22,640)
Repayments of loan and deposits granted	18	34,614	22,002
Interest received		1,604	4,584
		(86,539)	29,437
Cash flows used in financing activities			
Purchase of treasury shares	21	(2,164)	(7,431)
Proceeds from borrowings, net of fees paid	24	80,064	120,394
Repayments of borrowings	24	(466,298)	(437,715)
Acquisition of interest in a subsidiary from non-controlling interests	28	-	(1,906)
Dividends paid to Company shareholders	21	(66,674)	(44,984)
		(455,072)	(371,642)
Net (decrease)/increase in cash and cash equivalents		**(79,505)**	**4,135**
Exchange (losses)/gains on cash and cash equivalents		(3,911)	2,214
Cash and cash equivalents at beginning of year		497,079	490,730
Cash and cash equivalents at end of year	20	**413,663**	**497,079**

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, Najlepše želje and Bananica, the savoury spread brand Argeta. Additionally, the Group owns the leading Croatian producer of vitamins, minerals, supplements and OTC drugs as well as the leading pharmacy chain in Croatia under the Farmacia brand. Furthermore, the Group manufactures and distributes one of the leading European brand in sports nutrition - Multipower and has a strong foothold on the Russian and CIS markets with its baby food portfolio under the Bebi brand. With its own distribution network in Croatia, Slovenia, Serbia, Austria and Macedonia, the Group also distributes a range of products from external partners. The Group has manufacturing plants in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Macedonia with firms and representative offices in 12 countries. The Group exports its products to more than 40 markets worldwide.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) which were endorsed by the European Union (EU) under the historical cost convention, as modified by the revaluation of financial assets that have been measured at fair value 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.

Changes in accounting policies and disclosures

The Group applied IFRS 15 and IFRS 9 for the first time in 2018. The nature and effects of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued by the International Financial Standards Board („Board") but are not yet effective.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Standards and interpretations effective in the current period

- ***IFRS 15, Revenue from Contracts with Customers*** supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

The date of the initial application of IFRS 15 is 1 January 2018. The Group has elected to use the full retrospective approach as conveyed in IFRS 15, which means that comparative figures were adjusted.

The effects of adopting IFRS 15 are as follows:

(in thousands of HRK)	**Jan – Dec 2017**
Sales revenues	(68,648)
Cost of merchandise sold	10,484
Marketing and selling expenses	58,164
Profit for the period	-
Trade and other receivables	42,523
Total assets	42,523
Trade and other payables	42,523
Total equity and liabilities	42,523

The income statement effects relate to variable consideration paid to customers for placements in refrigerated showcases, additional placements of sales spots (display areas) and marketing activities agreed with customers on ad-hoc basis (such as leaflets). Since these services are not distinct and the Group does not obtain any rights or receive any benefit without selling products, the related expenses are reclassified from marketing and selling expenses to reduction of the revenue. Furthermore, since these costs are partially supported by principals, related support is reclassified from the reduction of marketing and selling expenses to the reduction of cost of merchandise sold. The balance sheet effects relate to contract liability for customer rebates which was previously shown as reduction of trade receivables. There was no impact on EPS.

- ***IFRS 9, Financial instruments*** replaced the IAS 39 Financial instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group adopted the new standard on the required effective date. The adoption did not have significant impact on the consolidated financial statements of the Group. Further information on accounting policy is provided in Note 2.8.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- ***Amendments to IAS 40 – Transfers of Investment Property*** clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are not relevant to the Group.

- ***Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions*** address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group does not have cash-settled share based payments nor share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the consolidated financial statements of the Group.

- ***IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*** clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the consolidated financial statements of the Group as the current practice is aligned with the interpretation.

- ***Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*** address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

- ***Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*** The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the consolidated financial statements of the Group.

- **Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters -*** Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the consolidated financial statements of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

- ***IFRS 16 "Leases"*** *(issued in January 2016 and effective for annual periods beginning on or after 1 January 2019, early adoption is permitted but not before IFRS 15 is applied)*

Replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., printing and photocopying machines) that are considered of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary, the impact of IFRS 16 adoption for FY 2019 is expected to be as follows:

	(in thousands of HRK)
Right-of-use assets	401,257
Lease liabilities	(411,183)
Net impact on equity	9,926
Increase of depreciation	(77,984)
Decrease of rental costs	84,657
Operating profit	6,673
Increase in finance cost	(9,358)
Profit before tax	(2,685)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- ***Amendments to IFRS 9: Prepayment Features with Negative Compensation***

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

- ***IFRS 17 Insurance Contracts***

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

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

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

- ***Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** Address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Management anticipates that the adoption will have no material impact on the consolidated financial statements of the Group.

- ***Amendments to IAS 28: Long-term interests in associates and joint ventures*** clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures. The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. The Management anticipates that the adoption will have no impact on the consolidated financial statements of the Group.

- ***IFRIC 23 Uncertainty over Income Tax Treatment*** addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Management anticipates that the adoption will have no material impact on the consolidated financial statements of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- ***Amendments to IAS 19: Plan Amendment, Curtailment or Settlement***

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income. The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- ***Annual Improvements 2015-2017 Cycle (issued in December 2017)*** include:

- *IFRS 3 Business Combinations* - clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.
- *IFRS 11 Joint Arrangements* – a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.
- *IAS 12 Income Taxes* - clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Group’s current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.
- *IAS 23 Borrowing Costs* - clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. Amendments are effective for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group’s current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

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

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

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

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

(b) Transactions with non-controlling interests

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

(c) Disposal of subsidiary

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

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

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

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

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

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

(b) Distribution rights

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

(c) Brands

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

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

(d) Computer software

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

(e) Licences

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

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

2.8 Financial assets

The Group classifies its financial assets in the following categories: financial asset at fair value through other comprehensive income (OCI), financial assets at fair value through profit or loss and financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evalues this designation at each reporting date.

(a) Financial assets at amortised costs

The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at amortised cost include trade receivables and loans and deposits given.

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

This category includes 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 or if so designated by the Management. Assets in this category are classified as current assets except derivative financial instruments.

(c) Financial assets at fair value through OCI

The Group measures financial assets at fair value through OCI if both of the following conditions are met:

- the financial asset is held within a business model with the objective of holding the financial assets to collect and selling contractual cash flows,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for the financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

Financial assets at fair value through OCI are included in non-current assets unless management intends to dispose the investment within 12 months of the balance sheet date. Financial assets at fair value through OCI 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.

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 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.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as financial assets at fair value through OCI 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 financial assets at fair value through OCI and non-monetary securities classified as financial assets at fair value through OCI 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 Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Financial assets are written off when there is no reasonable expectation of recovery.

The amount of the impairment and subsequent recoveries of amounts previously written off are recognised in the income statement within 'other operating costs'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (EIR) method, less the allowance for expected credit losses (ECLs), as described in Note 2.8.

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred tax

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

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

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

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

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Long-term employee benefits

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

(d) Share-based compensation

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the 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

Under IFRS 15 the Group recognise revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the Group expect to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

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.

(e) Rental income

Rental income is generally recognised in the period in which the services are provided using a straight-line basis over the terms of contracts with lessee and presented in income statement within 'other income'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Dividend distribution

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

2.20 Value added tax

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

2.21 Non-current assets held for sale

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

2.22 Derivative financial instruments and hedging activities

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

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

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

The fair value of cash flow hedge derivatives is disclosed in Note 16 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 42 thousand in 2018 (2017: HRK 41 thousand).

2.25 Operating profit

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

2.26 Comparatives

In order to ensure comparability, operating results of segments for the year ended 31 December 2017 have been restated according reporting logic applied in 2018.

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 US dollar (USD). The appreciation of the Serbian dinar against EURO in 2018 resulted in HRK 742 thousand foreign currency gains from financing activities (2017: positive impact of HRK 15,213 thousand) while the depreciation of Russian ruble did not have an impact on Group's 2018 financial activities results (2017: positive impact of HRK 4,015 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 2018 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	344,056	345,324	4,248	46,360
Cash and cash equivalents	189,561	32,640	33	2,551
Trade and other payables	(353,757)	(143,554)	(33,622)	(6,255)
Borrowings	(904,692)	-	(8,640)	-
Net balance sheet exposure	**(724,832)**	**234,410**	**(37,981)**	**42,656**

31 December 2017 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	379,708	332,318	3,205	27,097
Cash and cash equivalents	223,819	99,249	776	3,273
Trade and other payables	(393,855)	(123,762)	(45,521)	(9,329)
Borrowings	(1,239,417)	(1,198)	(8,609)	-
Net balance sheet exposure	**(1,029,745)**	**306,607**	**(50,149)**	**21,041**

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 3,542 thousand lower (2017: HRK 5,186 thousand lower), mainly due to the EUR denominated borrowings, and other comprehensive income would be HRK 11,636 thousand higher (2017: HRK 13,520 thousand higher), due to the translation differences arising on consolidation of subsidiaries whose functional currency is EUR.

In the event of a rise of 1% in the RSD against HRK, assuming all other variables remain constant, the profit after tax for the year would have been HRK 64 thousand lower (2017: HRK 223 thousand lower) and other comprehensive income would be HRK 9,127 thousand higher (2017: HRK 6,760 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 fair value through OCI. Equity investments classified as fair value through OCI 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 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 2018, if the fair value of the financial assets through OCI 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 2018, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2017: 100 basis points), the profit after tax would have been lower/higher by HRK 8,993 thousand (2017: HRK 11,021 thousand), mainly as a result of increased/decreased interest expense.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group's assets, potentially subjecting the Group to concentrations of credit risk, primarily include cash, deposits and trade and other receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. The Group's credit risk is low, since receivables are dispersed among a large group of customers. Additionally, the Group's key customers are large retail chains, whereas dependence on these customers is reduced by developing alternative distribution channels. The Group reduces credit risk by implementing strict policies for receivables collection and goods delivery, as well as securing receivables with standard security instruments (bills of exchange and promissory notes). No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. A detailed analysis and maximum exposure to credit risk is shown in Notes 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 2018, the Group held cash and cash equivalents in the amount of HRK 413,663 thousand (2017: HRK 497,079 thousand) and short-term deposits in the amount of HRK 136 thousand (2017: HRK 252 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 2018			
Trade and other payables	878,521	-	878,521
Borrowings (excluding finance lease)	492,712	832,932	1,325,644

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Total
31 December 2017			
Trade and other payables	898,884	-	898,884
Borrowings (excluding finance lease)	656,016	1,199,898	1,855,914

3.2 Changes in liabilities arising from financial activities

(in thousands of HRK)	1 January 2018	Cash flow	Foreign exchange movement	Current portion	Prepaid fee amortised	Other	31 December 2018
Borrowings - current	546,060	(102,685)	(343)	29,354	-	-	472,386
Borrowings - non-current	1,135,191	(283,549)	(15,141)	(29,354)	2,470	(3,735)	805,882
Total liabilities	**1,681,251**	**(386,234)**	**(15,484)**	**-**	**2,470**	**(3,735)**	**1,278,268**

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

3.3 Capital risk management

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Capital risk management (continued)

The gearing ratios were as follows:

	2018	2017
	(in thousands of HRK)	
Total borrowings (Note 24)	1,278,268	1,681,251
Derivative financial instruments (Note 16)	(1,689)	1,226
Less: Cash and cash equivalents (Note 20)	(413,663)	(497,079)
Net debt	862,916	1,185,398
Total equity	2,398,440	2,249,850
Total capital and net debt	**3,261,356**	**3,435,248**
Gearing ratio	**26%**	**35%**

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

3.4 Fair value estimation

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

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value estimation (continued)

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

The fair value of derivative financial instruments is determined based on specific valuation techniques (level 2).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

(a) Expected useful lives of brands

Expected useful lives of brands is considered to be indefinite unless there are circumstances that would indicate they should be limited to a certain period. The Group considers such indicators at each reporting period.

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

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

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

(i) Licences

Operating segment *(in thousands of HRK)*	**2018**	**2017**
SBU Pharma and Personal Care	162,159	162,159
	162,159	**162,159**

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

(ii) Brands

Operating segment *(in thousands of HRK)*	**2018**	**2017**
SBU Beverages	46,397	57,463
SBU Coffee	100,946	102,253
SBU (Sweet and Salted) Snacks	137,582	139,205
SBU Savoury Spreads	238,297	241,383
BU Gourmet	-	803
BU Baby food	28,105	28,454
	551,327	**569,561**

(iii) Goodwill

Operating segment *(in thousands of HRK)*	**2018**	**2017**
SBU Beverages	88,795	89,894
SBU Coffee	62,647	63,310
SBU (Sweet and Salted) Snacks	215,760	217,824
SBU Savoury Spreads	124,598	126,181
SBU Pharma and Personal Care	196,155	196,155
BU Baby food	6,193	21,802
SDU Croatia	35,508	35,876
SDU Serbia	50,895	51,422
SDU Slovenia	26,039	26,309
DU Macedonia	5,918	5,979
	812,508	**834,752**

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 2018**	**After-tax discount rate 2017**
SBU Beverages	7.2%	7.3%
SBU Coffee	7.6%	7.9%
SBU (Sweet and Salted) Snacks	8.3%	8.6%
SBU Savoury Spreads	7.3%	8.0%
SBU Pharma and Personal Care	6.2%	7.7%
BU Baby food	7.0%	7.6%
SDU Croatia	6.8%	6.9%
SDU Serbia	8.0%	8.2%
SDU Slovenia	5.3%	5.5%
DU Macedonia	8.7%	8.5%

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

The Growth rate assumptions were based on historical data and management's expectations for market development. Terminal growth rate is 2.0% for all Operating segments and individual asset impairment tests and it is based on management's expectations for market development (2017: 2.0%). Compared to 2017, after-tax discount rates in 2018 are mostly lower across segments, based on changed market conditions – combination of lower risk-free rates based on reduced sovereign yields across markets and pre-tax cost of debt based on reduced interest rates on loans to non-financial corporations.

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

	2018	**2017**
Barcaffe	5.0%	5.0%
Najlepše želje	6.0%	6.0%
Bananica	5.0%	5.0%
Smoki	7.0%	7.0%
Argeta	8.0%	8.0%
Donat	8.0%	8.0%
Cockta	5.0%	5.0%
Bebi	3.0%	3.0%
Bakina tajna	3.0%	3.0%
Licences	4.5%	4.5%

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 26,373 thousand was recognised (2017: HRK 20,153 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 16.7% decrease of the recoverable amount of cash generating units (2017: 15.4%). Despite the decrease, the net recoverable amount of cash generating units would still exceed the carrying value.

(c) Deferred tax asset recognition

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

NOTE 5 – SEGMENT INFORMATION

The business model of the Group is organized through six strategic business units which have been joined by business unit Gourmet. The distribution business is organized to cover five largest markets – Croatia, Serbia, Slovenia, Macedonia and Austria and additionally, the Department of Global Distribution Account Management was established, covering the markets dominantly managed by distribution partners.

SBU – Strategic distribution unit
BU – Business unit
SDU – Strategic distribution unit
DU – Distribution unit

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

The Strategic Management Council monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA (earnings before interest taxes, depreciation, amortisation and impairment) and operating profit or loss. Group financing and income taxes are managed on the Group level and are not allocated to operating segments.

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

NOTE 5 – SEGMENT INFORMATION (continued)

Sales revenues *(in thousands of HRK)*	**2018**	**2017**
SBU Coffee	1,123,570	1,085,722
SBU Beverages	711,051	661,159
SBU (Sweet and Salted) Snacks	687,613	665,685
SBU Pharma and Personal Care	647,963	687,158
SBU Savoury Spreads	638,837	568,561
SBU Sports and Functional Food	133,678	400,765
SDU Croatia	1,265,289	1,125,879
SDU Serbia	1,253,436	1,190,623
SDU Slovenia	907,930	872,289
Global Distribution Account Management	370,599	398,642
Other segments	333,298	311,304
Reconciliation	(2,817,758)	(2,729,618)
Total	**5,255,506**	**5,238,169**

Operating results	**For the year ended 31 December 2018**		
(in thousands of HRK)	**Operating profit before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating profit**
SBU Coffee	259,863	20,177	239,686
SBU Beverages	170,599	30,856	139,743
SBU (Sweet and Salted) Snacks	131,167	14,249	116,918
SBU Pharma and Personal Care	44,833	11,342	33,491
SBU Savoury Spreads	146,979	12,649	134,330
SBU Sports and Functional Food	(64,264)	1,468	(65,732)
SDU Croatia	31,062	12,063	18,999
SDU Serbia	31,009	1,769	29,240
SDU Slovenia	52,178	3,882	48,296
Global Distribution Account Management	14,758	380	14,378
Other segments	(272,304)	70,278	(342,582)
Total	**545,880**	**179,113**	**366,767**

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results	**For the year ended 31 December 2017**		
(in thousands of HRK)	**Operating profit before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating profit**
SBU Coffee	210,238	17,572	192,666
SBU Beverages	161,640	34,681	126,959
SBU (Sweet and Salted) Snacks	119,909	13,398	106,511
SBU Pharma and Personal Care	67,983	12,130	55,853
SBU Savoury Spreads	131,081	16,410	114,671
SBU Sports and Functional Food	(58,847)	3,803	(62,650)
SDU Croatia	27,914	10,561	17,353
SDU Serbia	27,657	1,924	25,733
SDU Slovenia	48,803	3,864	44,939
Global Distribution Account Management	12,040	460	11,580
Other segments	(166,192)	60,955	(227,147)
Total	**582,226**	**175,758**	**406,468**

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:

	2018	**2017**
	(in thousands of HRK)	
Slovenia	900,968	952,048
Serbia	936,111	944,573
Croatia	690,507	701,475
Other	147,246	153,195
Total geographically allocated non-current assets	**2,674,832**	**2,751,291**

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2018 (in thousands of HRK)	2018 %	2017 (in thousands of HRK)	2017 %
Croatia	1,735,738	33.0	1,566,119	29.9
Serbia	1,275,388	24.3	1,210,264	23.1
Slovenia	908,740	17.3	873,119	16.7
Bosnia and Herzegovina	421,675	8.0	409,599	7.8
Other regional markets*	351,873	6.7	334,760	6.4
Key European markets**	275,196	5.2	424,590	8.1
Russia and CIS countries	178,307	3.4	229,392	4.4
Other markets	108,589	2.1	190,326	3.6
Total sales by markets	**5,255,506**	**100.0**	**5,238,169**	**100.0**

*Other regional markets: Macedonia, Montenegro, Kosovo
**Key European markets: Germany, Switzerland, Austria, Sweden

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

Analysis of revenue by category	2018 (in thousands of HRK)	2018 %	2017 (in thousands of HRK)	2017 %
Sales by type of products				
Own brands	3,513,689	65.9	3,489,708	65.8
Principal brands	1,323,855	24.8	1,158,637	21.9
Pharmacy	413,113	7.8	389,129	7.3
Private label	4,849	0.1	200,695	3.8
Total sales by type of products	**5,255,506**	**98.6**	**5,238,169**	**98.8**
Other income /i/	75,118	1.4	65,257	1.2
Total revenues	**5,330,624**	**100.0**	**5,303,426**	**100.0**

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

NOTE 6 – STAFF COSTS

	2018	2017
	(in thousands of HRK)	
Gross salaries /i/	710,559	722,641
Public transport	17,354	17,286
Termination benefits	8,030	5,268
Christmas and Easter bonuses and holiday allowances	38,585	23,097
Other staff costs /ii/	68,427	60,241
	842,955	**828,533**

In 2018, the average employees number was 5,512 (2017: 5,528).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2018 amounted to HRK 128,651 thousand (2017: HRK 118,205 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2018	2017
	(in thousands of HRK)	
Marketing and promotion costs - external	289,235	248,856
Marketing and promotion costs - related parties (Note 30)	4,271	4,902
Sponsorships and donations	44,787	55,764
	338,293	**309,522**

NOTE 8 – OTHER OPERATING COSTS

	2018	2017
	(in thousands of HRK)	
Transportation costs	140,776	140,586
Maintenance	112,430	104,263
Rentals (Note 27)	112,201	111,690
Non-production material	27,729	28,114
Entertainment	25,368	20,449
Taxes and contributions not related to operating results	22,012	18,251
Provision for impairment of inventories (Note 19)	21,736	25,831
Intellectual services	19,714	28,153
Fuel	19,211	17,996
Travel expense and daily allowances	17,970	18,355
Non-production services	15,751	15,096
Telecommunication services	12,782	13,154
Provision for impairment of other receivables (Note 18)	10,416	6,832
Provision for impairment of trade receivables (Note 18)	9,875	24,186
Production services	8,657	5,562
Bank charges	8,305	8,660
Supervisory Board fees	1,222	1,270
Royalties	513	132
Collection of previously impaired receivables (Note 18)	(3,724)	(9,673)
Other – related parties (Note 30)	2,157	2,220
Other	35,613	49,569
	620,714	**630,696**

NOTE 9 – OTHER (LOSSES)/GAINS – NET

	2018	2017
	(in thousands of HRK)	
Gain on sale of property, plant and equipment	291	1,712
Gain on sale of financial assets at fair value through OCI	-	434
(Loss) / gain on sale of subsidiary, net of transaction expenses	(19,563)	64,868
Fair value gains/(losses) on financial assets	13,233	(1,085)
Foreign exchange (losses)/gains – net	(4,704)	2,255
Other losses – net	(2,372)	(3,325)
	(13,115)	**64,859**

NOTE 10 – FINANCE COSTS – NET

	2018	2017
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	12,028	28,559
	12,028	28,559
Finance costs		
Foreign exchange loss on borrowings	(5,077)	(5,001)
Interest expense on bank borrowings	(31,498)	(46,424)
Interest expense on bonds	(6,386)	(6,386)
Interest expense on provisions for employee benefits	(993)	(1,017)
Interest expense on borrowings – related parties (Note 30)	(7,219)	(14,629)
Other interest expense /i/	(11,064)	(4,661)
	(62,237)	(78,118)
Finance costs - net	**(50,209)**	**(49,559)**

/i/ Other interest expenses mostly relate to penalty interests.

NOTE 11 – INCOME TAX

	2018	2017
	(in thousands of HRK)	
Current income tax	78,927	71,931
Deferred tax (Note 25)	(6,587)	8,754
	72,340	**80,685**

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:

	2018	2017
	(in thousands of HRK)	
Profit before taxation	**316,558**	**356,909**
Income tax calculated at Croatian statutory income tax rate of 18% (2017: 18%)	56,980	64,244
Tax effects of:		
Lower income tax rates overseas	(20,482)	(11,937)
Adjustments in respect of prior years	-	619
Income not subject to tax	(14,998)	(13,219)
Expenses not deductible for tax purposes	33,092	26,531
Effect of utilized tax incentives	(13,031)	(4,334)
Utilisation of previously unrecognized tax losses	(84)	(11,200)
Tax losses for which no deferred tax assets were recognised	30,863	16,605
Effect of utilized tax losses	-	13,376
Tax expense	**72,340**	**80,685**

The effective tax rate was 22.9% (2017: 22.6%). The increase compared to the previous year primarily arises from a different level of tax loss utilization.

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.

	2018	**2017**
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	243,970	275,529
Weighted average number of ordinary shares in issue	3,333,167	3,332,250
Basic earnings per share *(in HRK)*	73.19	82.69

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 2016					
Cost	109,413	1,028,532	1,783,929	43,441	2,965,315
Accumulated depreciation	-	(548,180)	(1,335,076)	-	(1,883,256)
Net book amount	**109,413**	**480,352**	**448,853**	**43,441**	**1,082,059**
At 1 January 2017					
Opening net book amount	109,413	480,352	448,853	43,441	1,082,059
Additions	-	-	-	129,119	129,119
Transfer	-	9,505	87,159	(96,664)	-
Disposals	(856)	(4,065)	(1,983)	-	(6,904)
Depreciation	-	(25,188)	(101,492)	-	(126,680)
Impairment charge	-	-	-	(460)	(460)
Transfer from assets held for sale	-	(612)	-	-	(612)
Transfer to intangible assets	-	-	(938)	(51)	(989)
Divestment of subsidiary	(5,569)	(43,380)	(31,934)	(659)	(81,542)
Foreign exchange differences	(245)	2,498	3,274	348	5,875
Closing net book amount	**102,743**	**419,110**	**402,939**	**75,074**	**999,866**
At 31 December 2017					
Cost	102,743	949,638	1,739,704	75,074	2,867,159
Accumulated depreciation	-	(530,528)	(1,336,765)	-	(1,867,293)
Net book amount	**102,743**	**419,110**	**402,939**	**75,074**	**999,866**
At 1 January 2018					
Opening net book amount	102,743	419,110	402,939	75,074	999,866
Additions	-	-	-	121,382	121,382
Transfer	-	16,869	80,781	(97,650)	-
Disposals	-	-	(2,014)	-	(2,014)
Depreciation	-	(21,933)	(94,945)	-	(116,878)
Impairment charge	-	(5,008)	(448)	-	(5,456)
Divestment of subsidiary	(5,066)	(14,278)	(1,808)	-	(21,152)
Foreign exchange differences	(1,213)	(4,060)	(3,423)	(192)	(8,888)
Closing net book amount	**96,464**	**390,700**	**381,082**	**98,614**	**966,860**
At 31 December 2018					
Cost	96,464	936,444	1,714,996	98,614	2,846,518
Accumulated depreciation	-	(545,744)	(1,333,914)	-	(1,879,658)
Net book amount	**96,464**	**390,700**	**381,082**	**98,614**	**966,860**

Property, plant and equipment with a net book value of HRK 202,833 thousand as at 31 December 2018 (2017: HRK 233,614 thousand), have been pledged as collateral for borrowings (Note 24).

NOTE 14 – NON-CURRENT ASSETS HELD FOR SALE

	2018	2017
	(in thousands of HRK)	
Opening net book amount	6,336	5,687
Additions	-	726
Disposals	(741)	(302)
Classified as held for sale during the year	-	612
Impairment charge	-	(409)
Foreign exchange differences	(12)	22
Closing net book amount	**5,583**	**6,336**

NOTE 15 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brands	Rights	Software	Total
At 31 December 2016						
Cost	825,993	208,566	800,397	16,730	158,114	2,009,800
Accumulated amortisation and impairment	-	(47,221)	(77,642)	(8,724)	(119,996)	(253,583)
Net book amount	**825,993**	**161,345**	**722,755**	**8,006**	**38,118**	**1,756,217**
At 1 January 2017						
Opening net book amount	825,993	161,345	722,755	8,006	38,118	1,756,217
Foreign exchange differences	17,025	-	3,750	(69)	(15)	20,691
Additions	-	2,173	225	-	19,655	22,053
Transfer from property, plant and equipment	-	-	-	-	989	989
Divestment of subsidiary	-	-	-	-	(1,566)	(1,566)
Amortisation	-	-	(12,593)	(3,139)	(12,283)	(28,015)
Impairment charge	(8,266)	(1,359)	(10,528)	-	-	(20,153)
Closing net book amount	**834,752**	**162,159**	**703,609**	**4,798**	**44,898**	**1,750,216**
At 31 December 2017						
Cost	834,752	210,739	806,247	16,631	164,074	2,032,443
Accumulated amortisation and impairment	-	(48,580)	(102,638)	(11,833)	(119,176)	(282,227)
Net book amount	**834,752**	**162,159**	**703,609**	**4,798**	**44,898**	**1,750,216**
At 1 January 2018						
Opening net book amount	834,752	162,159	703,609	4,798	44,898	1,750,216
Foreign exchange differences	(6,975)	-	(8,449)	(63)	(98)	(15,585)
Additions	-	-	127	-	29,202	29,329
Divestment of subsidiary	-	-	-	-	(16)	(16)
Disposals	-	-	-	-	(387)	(387)
Amortisation	-	-	(12,813)	(3,119)	(14,432)	(30,364)
Impairment charge	(15,269)	-	(11,104)	-	-	(26,373)
Closing net book amount	**812,508**	**162,159**	**671,370**	**1,616**	**59,167**	**1,706,820**
At 31 December 2018						
Cost	812,508	210,739	776,712	16,418	179,181	1,995,558
Accumulated amortisation and impairment	-	(48,580)	(105,342)	(14,802)	(120,014)	(288,738)
Net book amount	**812,508**	**162,159**	**671,370**	**1,616**	**59,167**	**1,706,820**

The disclosure on goodwill and intangible assets with indefinite useful lives impairment test and the basis for impairment charge are provided in Note 4 b).
Intangible assets with a net book value of HRK 593,988 thousand as at 31 December 2018 (2017: HRK 623,799 thousand) have been pledged as collateral for borrowings (Note 24).

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY

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

	2018	2017
	(in thousands of HRK)	
Financial assets at amortised cost		
Trade receivables	1,076,925	1,112,874
Loans and deposits given	59,795	62,638
Other financial assets at amortized cost	75,992	77,183
Cash and cash equivalents	413,663	497,079
	1,626,375	1,749,774
Financial assets at fair value through OCI		
Financial assets at fair value through OCI	1,027	948
Derivatives used for hedging		
Derivative financial instruments	1,689	-
Total financial assets	**1,629,091**	**1,750,722**
Total current	1,575,896	1,654,535
Total non-current	53,195	96,187
Financial liabilities at amortised cost		
Borrowings	1,278,268	1,681,251
Trade and other payables	878,143	898,562
	2,156,411	2,579,813
Derivatives used for hedging		
Derivative financial instruments	-	1,226
Financial liabilities at fair value through profit or loss		
Contingent consideration	2,955	3,323
Total financial liabilities	**2,159,366**	**2,584,362**
Total current	1,350,907	1,446,170
Total non-current	808,459	1,138,192

NOTE 17 – FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME (OCI)

Investments in financial assets through OCI 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 2018 and 2017, there were no impairment provisions on financial assets through OCI.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2018	2017
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	44,874	57,641
Other non-current receivables	7,294	37,598
	52,168	95,239
Current receivables		
Trade receivables /ii/	1,076,925	1,112,874
Loans receivable and deposits /i/	14,921	4,997
Other receivables /iii/	155,632	115,694
	1,247,478	1,233,565
	1,299,646	**1,328,804**

	2018	2017
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	59,795	62,638
Trade receivables	1,076,925	1,112,874
Other receivables	75,992	77,183
	1,212,712	**1,252,695**

/i/ Loans receivable and deposits are as follows:

	2018	2017
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	1,586	2,200
Loans	47,435	55,873
Current portion	(4,147)	(432)
	44,874	57,641
Current receivables		
Loans – related parties (Note 30)	1,598	1,764
Loans	9,040	2,549
Deposits	136	252
Current portion of non-current receivables	4,147	432
	14,921	4,997
	59,795	**62,638**

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

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ Trade receivables are as follows:

	2018	2017
	(in thousands of HRK)	
Gross trade receivables	1,091,944	1,114,126
Trade receivables – related parties (Note 30)	81,435	103,300
Provision for trade receivables	(96,454)	(104,552)
	1,076,925	**1,112,874**

/iii/ Other receivables are as follows:

	2018	2017
	(in thousands of HRK)	
Receivables from government institutions	29,841	36,701
Outstanding advances	8,912	6,105
Prepaid expenses and accrued income	48,181	33,303
Interest receivable	228	5,652
Receivables from the sale of subsidiaries	58,837	29,793
Other receivables – related parties (Note 30)	-	25
Other	9,633	4,115
	155,632	**115,694**

Due to uncertainty in collection, other receivables of HRK 10,416 thousand were impaired (2017: HRK 6,832 thousand), (Note 8).

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

As of 31 December 2018, trade receivables in the amount of HRK 96,454 thousand (2017: HRK 104,552 thousand) were provided for. The individually impaired receivables relate to customers that are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2018	2017
	(in thousands of HRK)	
Up to 3 months	1,067	4,287
3 to 6 months	4,170	1,853
Over 6 months	91,217	98,412
	96,454	**104,552**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2018, trade receivables in the amount of HRK 142,951 thousand (2017: HRK 183,890 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2018	**2017**
	(in thousands of HRK)	
Up to 3 months	106,752	124,012
3 to 6 months	19,787	10,552
Over 6 months	16,412	49,326
	142,951	**183,890**

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

	2018	**2017**
	(in thousands of HRK)	
EUR	344,056	379,708
HRK	398,835	431,003
RSD	345,324	332,318
Other	124,497	109,666
	1,212,712	**1,252,695**

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

	2018	**2017**
	(in thousands of HRK)	
As at 1 January	104,552	105,745
Provision for receivables impairment (Note 8)	9,875	24,186
Collected amounts reversed (Note 8)	(3,724)	(9,673)
Receivables written off	(4,760)	(8,788)
Divestment of subsidiary	(8,154)	(5,936)
Exchange differences	(1,335)	(982)
As at 31 December	**96,454**	**104,552**

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

NOTE 19 – INVENTORIES

	2018	2017
	(in thousands of HRK)	
Raw materials and supplies	98,285	132,875
Work in progress	14,360	18,666
Finished goods	156,633	205,287
Trade goods	224,632	190,450
	493,910	**547,278**

As of 31 December 2018, inventories of HRK 21,736 thousand (2017: HRK 25,831 thousand) were impaired due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2018	2017
	(in thousands of HRK)	
Current account and cash on hand	143,284	136,718
Foreign currency account	270,306	290,547
Deposits up to three months /i/	73	69,814
	413,663	**497,079**

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

Cash and cash equivalents are denominated in the following currencies:

	2018	2017
	(in thousands of HRK)	
EUR	189,561	223,819
HRK	143,652	135,635
RSD	32,640	99,249
Other	47,810	38,376
	413,663	**497,079**

NOTE 21 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of shares	Share capital	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2017	**3,334,195**	**133,372**	**881,489**	**(88)**	**1,014,773**
Purchase of treasury shares	(8,583)	-	-	(7,431)	(7,431)
Share based payments	6,939	-	(400)	6,005	5,605
31 December 2017	**3,332,551**	**133,372**	**881,089**	**(1,514)**	**1,012,947**
Purchase of treasury shares	(2,200)	-	-	(2,164)	(2,164)
Share based payments	3,855	-	186	3,586	3,772
31 December 2018	**3,334,206**	**133,372**	**881,275**	**(92)**	**1,014,555**

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 2018		31 December 2017	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	322,729	9.68	322,729	9.68
AZ Obligatory pension fund	286,946	8.61	286,946	8.61
Erste Plavi Obligatory pension fund	231,178	6.93	202,328	6.07
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	22,656	0.68	38,860	1.16
Other shareholders	603,722	18.11	614,713	18.44
Treasury shares	94	0.00	1,749	0.05
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

Dividend distribution

According to the decision of the Company's General Assembly from 28 June 2018, the distribution of dividend in the amount of HRK 20.00 per share, or HRK 66,674 thousand in total was approved. Dividend was paid in July 2018.

In 2017 the distribution of dividend in the amount of HRK 13.50 per share, or HRK 44,984 thousand in total was approved. Dividend was paid in July 2017.

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

Share based payments

According to the Company's share award programme, shares are granted to the Management Board members and top management (equity- settled transactions). There are no cash settlement alternatives.

These share options are conditional on the relevant employee completing two years of service (vesting period).
The fair value of the shares granted is determined as of the grant date at the estimated market price of the share of HRK 1,130.00 (2017: HRK 979.94).

In 2018 Management Board members and top management have received 3,855 shares out of which 3,130 shares was related to shares granted in 2017 and 725 shares related to shares granted in 2016. In 2017 Management Board members and top management have received 6,939 shares out of which 6,535 shares was related to shares granted in 2016 and 404 shares related to shares granted in 2015.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves /i/**	**Translation reserves /ii/**	**Cash flow hedge reserve /ii/**	**Total**
At 1 January 2017	**(6,670)**	**(85,310)**	**11,016**	**(80,964)**
Foreign exchange differences	-	21,424	-	21,424
Transfer from retained earnings	22,578	-	-	22,578
Cash flow hedge	-	-	(15,466)	(15,466)
At 31 December 2017	**15,908**	**(63,886)**	**(4,450)**	**(52,428)**
Foreign exchange differences	-	(33,039)	-	(33,039)
Transfer from retained earnings	1,417	-	-	1,417
Cash flow hedge	-	-	2,422	2,422
At 31 December 2018	**17,325**	**(96,925)**	**(2,028)**	**(81,628)**

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

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

Components of Other comprehensive income:

	2018	**2017**
	(in thousands of HRK)	
Cash flow hedges:		
Currency forward contracts		
Reclassification during the year to profit or loss	4,316	(15,237)
Net gain/(loss) during the year (except not-yet matured contracts)	(2,444)	1,297
Net gain/(loss) during the year of not-yet matured contracts	550	(1,526)
	2,422	**(15,466)**

NOTE 23 – TRADE AND OTHER PAYABLES

	2018	2017
	(in thousands of HRK)	
Trade payables	630,665	688,182
Trade payables – related parties (Note 30)	1,833	2,246
Other payables	293,690	255,239
	926,188	**945,667**

Other payables recorded as at 31 December are as follows:

	2018	2017
	(in thousands of HRK)	
Gross salaries payable	48,951	51,128
Liabilities to state institutions	(4,853)	(5,058)
Accrued expenses	140,300	107,890
Vacation accrual	19,905	17,340
Liabilities to related parties in relation to borrowings (Note 30)	-	14,629
Contractual obligation	63,705	42,523
Termination benefits payable	3,569	713
Deferred income	2,164	5,160
Dividend payable	264	227
Other	19,685	20,687
	293,690	**255,239**

Financial liabilities are denominated in the following currencies:

	2018	2017
	(in thousands of HRK)	
EUR	353,757	393,855
HRK	324,228	309,638
RSD	143,554	123,762
Other	56,982	71,629
	878,521	**898,884**

NOTE 24 – BORROWINGS

	2018	2017
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /i/	606,036	935,481
Bonds /ii/	199,846	199,710
Long-term debt	**805,882**	**1,135,191**
Short-term borrowings:		
Financial institutions /i/	472,262	545,936
Bonds /ii/	124	124
	472,386	**546,060**
	1,278,268	**1,681,251**

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

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

In November 2018, the Group signed amendment agreements with the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) where Group defined more favorable financial terms to the total outstanding credit package.

As at 31 December 2018, EUR 30.00 million of the committed line was unused (31 December 2017: EUR 17.8 million).

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

Borrowings from financial institutions are secured by pledges over property, plant and equipment (Note 13), intangible assets (Note 15) and shares of subsidiaries (Atlantic Trade d.o.o. Zagreb, Droga Kolinska d.d., Grand Prom d.o.o. Serbia and Soko Štark d.o.o.). Furthermore, issued bonds and part of borrowings from financial institutions are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators such as total net debt cover, interest cover, cash flow cover and maximum capital expenditures. At the balance sheet date, all covenant clauses were met.

NOTE 24 – BORROWINGS (continued)

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

	2018	2017
	(in thousands of HRK)	
Fixed interest rate	237,035	211,686
Up to 3 months	535,308	806,432
3 to 6 months	505,925	663,133
	1,278,268	**1,681,251**

The maturity of long-term borrowings is as follows:

	2018	2017
	(in thousands of HRK)	
Between 1 and 2 years	336,133	267,962
Between 2 and 5 years	469,749	867,229
	805,882	**1,135,191**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 1.63% (2017: 2.26%). The effective annual interest rate related to bonds at the balance sheet date was 3.19% (2017: 3.19%).

The carrying amounts and fair value of long-term borrowings as at 31 December 2018 were as follows:

	Carrying amounts	Fair value
	(in thousands of HRK)	
Long-term borrowings		
Financial institutions	606,036	606,036
Bonds	199,846	200,120
	805,882	**806,156**

The fair values of borrowings from banks and financial institutions were based on cash flows discounted using a rate of 1.63% (2017: 2.26%).

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

	2018	2017
	(in thousands of HRK)	
HRK	364,936	432,027
EUR	904,692	1,239,417
USD	8,640	8,609
Other	-	1,198
	1,278,268	**1,681,251**

NOTE 25 – DEFERRED TAX

	2018	2017
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	19,610	19,222
- Deferred tax assets to be recovered within 12 months	12,333	12,943
	31,943	32,165
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(159,056)	(159,869)
- Deferred tax liabilities to be recovered within 12 months	(1,381)	(2,783)
	(160,437)	(162,652)
Deferred tax liabilities - net	**(128,494)**	**(130,487)**

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

The Group did not recognize deferred tax assets of HRK 39,798 thousand (2017: HRK 50,638 thousand) in respect of losses that arose in its subsidiaries that can be carried forward against future taxable income. Deferred tax assets have not been recognized in respect of these losses as it is not probable that future taxable profit will be available for utilization of the temporary differences. Losses amounting to HRK 83,923 thousand (2017: HRK 130,205 thousand) expire over the next five years, while the losses in the amount of HRK 78,162 thousand (2017: HRK 96,277 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	Tax losses	Provisions	Other	Total
At 1 January 2017	**15,832**	**8,222**	**23,239**	**47,293**
(Charged)/credited to the income statement (Note 11)	(13,376)	3,586	(4,825)	(14,615)
(Charged)/credited to other comprehensive income	-	(274)	327	53
Divestment of subsidiary	-	(81)	(162)	(243)
Exchange differences	(63)	84	(344)	(323)
At 31 December 2017	**2,393**	**11,537**	**18,235**	**32,165**
(Charged)/credited to the income statement (Note 11)	986	1,063	1,819	3,868
(Charged)/credited to other comprehensive income	-	(6)	(321)	(327)
Divestment of subsidiary	-	(358)	100	(258)
Other changes	-	-	(2,671)	(2,671)
Exchange differences	(602)	(75)	(157)	(834)
At 31 December 2018	**2,777**	**12,161**	**17,005**	**31,943**

NOTE 25 – DEFERRED TAX (continued)

Deferred tax liabilities

(in thousands of HRK)	Fair value gains	Fair value uplifts of assets acquired in business combinations	Other	Total
At 1 January 2017	**3,348**	**167,645**	**818**	**171,811**
Charged/(credited) to the income statement (Note 11)	-	(5,778)	(83)	(5,861)
Charged/(credited) to other comprehensive income	(3,341)	-	-	(3,341)
Divestment of subsidiary	-	(250)	250	-
Exchange differences	(7)	3	47	43
At 31 December 2017	**-**	**161,620**	**1,032**	**162,652**
Charged/(credited) to the income statement (Note 11)	-	(2,662)	(57)	(2,719)
Charged/(credited) to other comprehensive income	-	-	247	247
Other changes	-	-	(903)	(903)
Exchange differences	-	1,420	(260)	1,160
At 31 December 2018	**-**	**160,378**	**59**	**160,437**

NOTE 26 – PROVISIONS

(in thousands of HRK)	Employee benefits	Legal proceedings	Warranties	Other provisions	Total
At 31 December 2017	78,563	22,786	797	1,780	103,926
Analysis of total provisions:					
Non-current	35,291	13,805	-	1,360	50,456
Current	43,272	8,981	797	420	53,470
At 1 January 2018	**78,563**	**22,786**	**797**	**1,780**	**103,926**
Additions	47,490	39,143	-	14,619	101,252
Used during year	(36,039)	(423)	-	-	(36,462)
Divestment of subsidiary	(1,277)	-	-	-	(1,277)
Unused amounts reversed	(6,034)	(244)	(785)	(430)	(7,493)
Interest expense	178	-	-	-	178
Exchange differences	(701)	(185)	(12)	(44)	(942)
At 31 December 2018	**82,180**	**61,077**	**-**	**15,925**	**159,182**
Analysis of total provisions:					
Non-current	38,834	14,067	-	5,860	58,761
Current	43,346	47,010	-	10,065	100,421

NOTE 26 – PROVISIONS (continued)

Legal proceedings

The Group has recognized provision in an amount of HRK 38,529 thousand arising from the agreement for the sale and purchase of shares in company Neva d.o.o. which was concluded in 2018. Namely, based on the above agreement for the sale and purchase of shares, the Company is liable to the Buyer for any additional tax liabilities arising from a pending court case with the Croatian Tax Authorities. Since the Administrative Court has issued a negative decision in this case during 2018, the Company has recognized the above amount. The same will not become due until the appeal to the Supreme Administrative Court which has been filed by Neva d.o.o. is decided upon.

In addition to the above, 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 2018.

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 2019. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 2,671 thousand that will be paid out within the following year from the balance sheet date.

Other provisions

Other provisions mainly relate to estimated legal obligation from the supply agreement.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2018 but not yet incurred amounted to HRK 25,958 thousand (2017: HRK 7,300 thousand) for property, plant and equipment and HRK 195 thousand for intangible assets (2017: HRK 2,397 thousand). Contracted obligations for products purchase as per supply agreement amounted to HRK 41,441 thousand (2017: HRK 74,288 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:

	2018	**2017**
	(in thousands of HRK)	
Not later than 1 year	60,568	49,152
Later than 1 year and not later than 5 years	185,606	113,463
Over 5 years	116,104	4,682
	362,278	**167,297**

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES

/i/ In 2018 Atlantic Grupa continues to conduct its strategic programme of divesting of „non-core“ small business operations and decided to sell its share in company Neva d.o.o. to the company Magdis d.o.o. and its share in company Atlantic Brands GmbH, Frankfurt to the company Genuport Trade GmbH. Both transactions were realised at the end of September 2018. The payoff of part of the sales price were realised till the end of 2018, while the rest will be collected during 2019. In addition to these transactions, the Group has recognised a provision for legal dispute connected to Neva d.o.o. and realized net loss from sale of subsidiaries in the amount of HRK 21.2 million.

Cash received and receivables from sale of subsidiaries *(in thousands of HRK)*	
Cash	34,059
Receivables	27,411
Total sales consideration	**61,470**
Current value of net asset disposed	(43,068)
Transaction expenses	(1,083)
Provision for legal dispute	(38,529)
Loss from sale of subsidiaries	**(21,210)**

Carrying value of net asset disposed as at 30 September 2018 *(in thousands of HRK)*	
Property, plant and equipment	21,152
Intangible assets	16
Deferred tax assets	258
Prepaid income tax	787
Inventories	17,644
Trade and other receivables	19,829
Cash and cash equivalents	3,997
Provisions	(1,277)
Trade and other payables	(19,338)
	43,068

Cash flow from sale of subsidiaries *(in thousands of HRK)*	
Cash received	34,059
Cash in subsidiaries sold	(3,997)
Proceeds from sale of subsidiaries - net	**30,062**

Disposed subsidiaries contributed HRK 97,421 thousand of revenues and HRK 3,619 thousand of loss to the Group in period from 1 January to 30 September 2018.

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES (continued)

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

Cash received and receivables from sale of subsidiaries at 31.12.2017. *(in thousands of HRK)*	
Cash	150,031
Receivables	59,587
Total sales consideration	**209,618**
Carrying value of net asset disposed	(142,749)
Transaction costs	(2,001)
Gain from sale of subsidiaries	**64,868**

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

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

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

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

During 2018, the Group collected HRK 29,449 thousand of receivables from the sale of the subsidiaries in 2017 and realized additional profit from the sale in the amount of HRK 1,647 thousand.

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES (continued)

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

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

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2018	2017
Net profit		**244,218**	**276,224**
Income tax	11	72,340	80,685
Depreciation, amortisation and impairment	13, 14, 15, 2.24	179,113	175,758
Gain on sale of property, plant and equipment	9	(291)	(1,712)
Gain on sale of financial assets at fair value through OCI	9	-	(434)
Loss/(gain) on sale of subsidiary, net of transaction expenses	9	19,563	(64,868)
Provision for current assets		42,027	56,849
Foreign exchange differences - net		132	(12,256)
Increase/decrease in provision for risks and charges	26	20,625	(976)
Fair value (gains)/losses on financial assets	9	(13,233)	1,085
Share based payment	21	3,772	5,605
Interest income		(1,729)	(4,916)
Interest expense	10	57,160	73,117
Other non-cash items, net		(41)	(2,452)
Changes in working capital:			
Decrease/(increase) in inventories		13,988	(14,247)
Decrease in current receivables		61,695	23,601
Decrease in current payables		(65,515)	(85,987)
Cash generated from operations		**633,824**	**505,076**

NOTE 30 – RELATED PARTY TRANSACTIONS

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

Related party transactions that relate to balances as at 31 December 2018 and as at 31 December 2017 and transactions recognized for the years then ended, are as follows:

(all amounts expressed in thousands of HRK)	**Note**	**2018**	**2017**
RECEIVABLES			
Current receivables			
Other entities	18	83,033	105,089
LIABILITIES			
Trade and other payables			
Shareholders	23	-	14,629
Other entities	23	1,833	2,246
		1,833	16,875
REVENUES			
Sales revenues			
Other entities		496,026	482,721
Other revenues			
Other entities		1,310	1,296
EXPENSES			
Marketing and promotion costs	7		
Other entities		4,271	4,902
Other operating costs	8		
Other entities		2,157	2,220
Finance cost - net	10		
Shareholders		7,219	14,629

Management board compensation

In 2018 members of the Management Board received total gross amount of HRK 11,943 thousand relating to salaries, bonuses and Supervisory board compensation in respect of operating companies (2017: HRK 18,813 thousand).

NOTE 31 – AUDITORS’ FEES

Statutory audit services fees to the auditor of the Group’s financial statements amounted to HRK 2,447 thousand (2017: HRK 2,238 thousand), while fees related to other services amounted to HRK 63 thousand (2017: 135 thousand). Other services relate to consultancy services, education trainings and agreed upon procedures in relation to financial covenants calculation.

NOTE 32 – SUBSIDIARIES

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

	2018	2017
Cedevita d.o.o., Croatia	100%	100%
Neva d.o.o., Croatia (disposed in 2018)	-	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 (merged to Soko Štark d.o.o.)	-	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%
Fidifarm d.o.o., Croatia	100%	100%
- Atlantic Pharmacentar d.o.o., Croatia	100%	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	100%
Montana Plus d.o.o., Croatia	100%	100%
Hopen Investments, BV, Netherlands	100%	100%
- Tripoint GmbH, (former AKTIVKOST Handelsgesellschaft mbH), Germany	100%	100%
- Atlantic Management GmbH, Germany	100%	100%
Atlantic Multipower UK Ltd, Great Britain (liquidated)	-	100%
- Sport Direct Ltd, Great Britain (liquidated)	-	100%
Atlantic Multipower Srl, Italy (liquidation in proceedings)	100%	100%
Atlantic Multipower Iberica, Spain (liquidation in proceedings)	100%	100%
Atlantic Brands GmbH, Austria	100%	100%
Atlantic Brands GmbH, Germany (disposed in 2018)	-	100%

The Management Board of Atlantic Grupa d.d. (hereinafter: Atlantic Grupa or the Company), pursuant to the provisions of Articles 250a, 250b, 300a and 300b of the Companies Act and Articles 462 and 463 of the Capital Market Act, at its session held on 28 March 2019, rendered the following

DECISION

I The Annual Report of Atlantic Grupa d.d. is hereby determined, as stated in the text of the "ANNUAL REPORT 2018" enclosed with this Decision.

II The audited non-consolidated and consolidated annual financial statements for 2018 are hereby determined, which consist of the following: statement of financial position (balance sheet), income statement, statement of other comprehensive income, cash flow statement, statement of changes in equity and notes to the financial statements, as stated in the text that forms an integral part of the Report referred to in item I of this Decision.

III It is hereby determined that the auditor, Ernst & Young d.o.o. from Zagreb, Radnička cesta 50, produced the Auditor's Report for 2018, as stated in the text that forms an integral part of the Report referred to in item I of this Decision.

IV The Management Board's Report on the Status of the Company / Management Report for the period from 1 January 2018 to 31 December 2018 is hereby determined, as stated in the text that forms an integral part of the Report referred to in item I of this Decision.

V Pursuant to Article 463 of the Capital Market Act, the Company's Management Board adopted the decision to publish the reports referred to in items I, II and III of this Decision, indicating that the Supervisory Board has yet to decide on them, i.e. they have not yet been approved by the competent body of the issuer Atlantic Grupa d.d.

V Pursuant to Article 300b of the Companies Act:

1. The reports referred to in items II and IV of this Decision shall be submitted to the Supervisory Board for examination together with a proposal that the Supervisory Board approves those Reports at its session scheduled according to the published calendar of events (6 and 7 May 2019);

2. The Auditor's Report referred to in item III of this Decision shall be submitted to the Supervisory Board, so that the Supervisory Board could take its position at the session scheduled according to the published calendar of events (6 and 7 May 2019);

3. After the Supervisory Board adopts the decisions referred to in items 1 and 2, the Company's Management Board shall, concurrently, at the session of the Supervisory Board scheduled according to the published calendar of events (6 and 7 May 2019), submit to the

Supervisory Board the Proposal of decision on the distribution of profits, so that the Supervisory Board could take its position;

4. The decision of the Company's Supervisory Board on approval of annual reports, as well as the consequently adopted proposal of the Management Board and Supervisory Board on the distribution of profits, shall be published in accordance with Article 463 paragraph 4 of the Capital Market Act.

Atlantic Grupa d.d.

Emil Tedeschi, President of the Management Board

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