ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2017

Responsibility for the consolidated financial statements

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

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

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

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

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

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

Emil Tedeschi
President and Chief Executive Officer

Mladen Veber
Senior Group Vice President for Business Operations

Zoran Stanković
Group Vice President for Finance

Neven Vranković
Group Vice President for Corporate activities

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Independent auditor ' s report

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

Opinion

We have audited the consolidated financial statements of Atlantic Grupa d.d. (the Company) and its subsidiaries (together – "the Group"), which comprise the consolidated balance sheet as at 31 December 2017, consolidated income statement and the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU (" IFRS as adopted by EU ").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor ' s responsibilities for the audit of the consolidated financial statements* section of our report.

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

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

Other matter

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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

Key audit matters (continued)

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

Independent auditor ' s report (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Independent auditor ' s report (continued)

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

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

Consistence with Additional Report to Audit Committee

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

Provision of Non-audit Services

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

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

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

29 March 2018

ATLANTIC GRUPA d.d.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

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

ATLANTIC GRUPA d.d.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

NOTE 1 – GENERAL INFORMATION

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

- *IFRS 14 Regulatory Deferral Accounts*

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

- *IFRS 17 Insurance Contracts*

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

These improvements include:

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

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

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

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

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

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

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

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

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

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

(b) Transactions with non-controlling interests

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

(c) Disposal of subsidiary

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

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

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

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

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

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

(b) Distribution rights

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

(c) Brands

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

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

(d) Computer software

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

(e) Licences

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

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

2.8 Financial assets

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

(a) Loans and receivables

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

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

(b) Available-for-sale financial assets

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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

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

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

2.9 Leases

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

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

2.10 Inventories

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and other receivables

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

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred tax

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

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

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

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

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Long-term employee benefits

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

(d) Share-based compensation

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

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

(e) Short-term employee benefits

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

2.17 Provisions

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

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

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

(a) Sales of products and trade goods – wholesale

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

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

(b) Sales of goods - retail

The Group operates a pharmacy and specialised stores.

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

(c) Sales of services

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

(d) Interest income

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Dividend distribution

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

2.20 Value added tax

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

2.21 Non-current assets held for sale

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

2.22 Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Trade payables

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

2.24 Investment property

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

2.25 Operating profit

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

2.26 Comparatives

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(ii) Equity securities risk

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

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

(iii) Cash flow and fair value interest rate risk

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

(c) Liquidity risk

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

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

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

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

3.2 Changes in liabilities arising from financial activities

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

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

3.3 Capital risk management

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Capital risk management (continued)

The gearing ratios were as follows:

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

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

3.4 Fair value estimation

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

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value estimation (continued)

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

(a) Expected useful lives of brands

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

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

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

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

(i) Licences

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

(ii) Brands

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

(iii) Goodwill

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

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

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

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

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

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

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

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

(c) Deferred tax asset recognition

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

NOTE 5 – SEGMENT INFORMATION

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

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

Based on such organizational model, following segments are established:

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

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

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

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

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

Geographical information

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

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

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

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

NOTE 6 – STAFF COSTS

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

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

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

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

NOTE 7 – MARKETING AND PROMOTION COSTS

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

NOTE 8 – OTHER OPERATING COSTS

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

NOTE 9 – OTHER GAINS – NET

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

NOTE 10 – FINANCE COSTS – NET

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

NOTE 11 – INCOME TAX

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

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

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

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

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

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

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

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

Diluted earnings per share

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

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

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

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

NOTE 13a – NON-CURRENT ASSETS HELD FOR SALE

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

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

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

NOTE 14 – INTANGIBLE ASSETS

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

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

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

NOTE 15 – FINANCIAL INSTRUMENTS BY CATEGORY

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

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

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS

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

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

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

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

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

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

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

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

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

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

***** Counterparties without external credit rating

- Group 1 – new customers/related parties (less than 12 months)
- Group 2 – existing customers/related parties (more than 12 months) with no defaults in the past
- Group 3 – existing customers/related parties (more than 12 months) with some defaults in the past. All defaults were fully recovered.

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

NOTE 17 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

NOTE 18 – TRADE AND OTHER RECEIVABLES

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

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

/i/ Loans receivable and deposits are as follows:

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

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

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ Trade receivables are as follows:

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

/iii/ Other receivables are as follows:

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

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

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

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

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

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

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

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

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

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

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

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

NOTE 19 – INVENTORIES

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

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

NOTE 20 – CASH AND CASH EQUIVALENTS

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

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

Cash and cash equivalents are denominated in the following currencies:

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

NOTE 21 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

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

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

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

The ownership structure of the Company is as follows:

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

Dividend distribution

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

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

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

Share based payments

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

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

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

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

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

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

NOTE 22 – RESERVES

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

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

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

Components of Other comprehensive income:

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

NOTE 23 – TRADE AND OTHER PAYABLES

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

Other payables recorded as at 31 December are as follows:

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

Financial liabilities are denominated in the following currencies:

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

NOTE 24 – BORROWINGS

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

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

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

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

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

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

NOTE 24 – BORROWINGS (continued)

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

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

The maturity of long-term borrowings is as follows:

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

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

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

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

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

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

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

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

NOTE 25 – DEFERRED TAX

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

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

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

Deferred tax assets

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

NOTE 25 – DEFERRED TAX (continued)

Deferred tax liabilities

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

NOTE 26 – PROVISIONS

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

NOTE 26 – PROVISIONS (continued)

Legal proceedings

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

Employee benefits

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

NOTE 27 – COMMITMENTS

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

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

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

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

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

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

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES

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

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

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

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

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

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

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

NOTE 28 – BUSINESS COMBINATIONS (continued)

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

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

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

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

Purchase consideration:

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

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

NOTE 29 – CASH GENERATED FROM OPERATIONS

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

NOTE 30 – RELATED PARTY TRANSACTIONS

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

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

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

Management board compensation

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

NOTE 31 – AUDITORS' FEES

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

NOTE 32 – SUBSIDIARIES

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

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