ATLANTIC
G R U P A

ATLANTIC GRUPA
ANNUAL REPORT
2015

BEVERAGES

- Cedevita
- Cockta
- Donat Mg
- Kala

COFFEE

- barcaffè
- grand KAFA
- Bonito prava kafa

SNACKS

- Najlepše želje
- Smoki
- Bananica
- Integrino
- CHIPSOS chips

PHARMA AND PERSONAL CARE

- MELEM
- plidenta
- ROSAL
- DIETPHARM
- farmacia

SPORTS AND FUNCTIONAL FOOD

- MULTIPOWER
- SPORTS LINE Champ
- MULTABEN

SAVOURY SPREADS

- ARGETA
- montana+

GOURMET

- Granny's Secret
- Amfissa

BABY FOOD

- Bebi

SUMMARY OF KEY FINANCIAL INDICATORS

in HRK millions	2015	2014	2015/2014
REVENUES	5,451.0	5,168.6	5.5%
SALES	5,405.3	5,118.4	5.6%
EBITDA	567.3	597.0	-5.0%
EBITDA MARGIN	10.5%	11.7%	-117 bp
EBIT	404.0	440.7	-8.3%
EBIT MARGIN	7.5%	8.6%	-113 bp
NET PROFIT	242.5	213.4	13.6%
NET PROFIT MARGIN	4.5%	4.2%	+33 bp
NET DEBT	1,678.1	1,927.7	-13.0%
NET DEBT / EBITDA	3.0	3.2	n/a
CASH FLOW FROM OPERATING ACTIVITIES	470.7	445.7	5.6%
CAPITAL EXPENDITURE	115.5	190.1	-39.2%
MARKET CAPITALIZATION AS AT 31 DEC	2,777.1	3,134.2	-11.4%
EV	4,457.7	5,064.3	-12.0%
EPS (IN HRK)	72.7	60.0	21.1%
PPS AS AT 31 DEC (IN HRK)	832.9	940.0	-11.4%
DPS (IN HRK)	12.0	10.5	14.3%

EMIL TEDESCHI

PRESIDENT OF THE MANAGEMENT BOARD OF ATLANTIC GRUPA

In 2015, **ATLANTIC GRUPA** has set the main direction of the company's further development in line with its strategic focus on intensive internationalisation of operations, primarily directed towards Western Europe, but also towards Eastern European countries. The region of Southeast Europe is in no way affected by this as we continue the intensive development of our own portfolio and expansion of distribution activities in this area, but the goal of the internationalisation strategy is to significantly increase the share of total sales outside the regional market with limited growth opportunities. We plan to achieve this goal through the expansion of our distribution network to new markets, which is on the level of internal organisation reflected in establishing two distribution zones: Zone East and Zone West. Among key business developments in 2015, in addition to the reorganisation of distribution operations and the establishment of distribution companies in the markets of Germany and Austria, we should also point out further expansion of the distribution portfolio in the region. Further, less than one year since the start of construction works, the newly built plant for production of energy bars from the sports and functional food product range in Nova Gradiška started its operations. Finally, the last acquisition of Atlantic Grupa, the company Foodland d.o.o., was successfully and fully integrated into the business system of Atlantic Grupa and today, with its brand Bakina Tajna (Granny's Secret), operates under the new business unit Gourmet. We are particularly pleased that our business model has proven stable in a difficult economic environment, as confirmed by reported results and launching of new investments. Despite the challenges, we are continuously successful in generating growth in an environment of general decline or stagnation, which also includes the region, while by the results achieved in key European markets we confirm this company's orientation towards internationalisation as our strategic focus. The main levers of this process are our brands with the highest development and expansion potential in international markets – Granny's Secret, Argeta, Donat Mg, Multipower, Bebi and Cedevita. In addition to the strong support of our own distribution system and cooperation with renowned distribution partners in the markets where we do not have own companies yet, smooth implementation of this strategic direction is also enabled by exceptional quality of the allocation of production capacities. As the company whose shares have been quoted on the official market of the Zagreb Stock Exchange for 36 consecutive quarters, we realise the results we announce, on the basis of which the capital market as well as our shareholders consider us to be a transparent, responsible and perspective company. In addition to constantly working on building and developing quality working conditions and distinguishable corporate culture, we have placed additional focus on strengthening our management team and developing capacities. At the same time, the company is continually dedicated to risk management, liquidity maintenance and debt management. Due to all these factors, Atlantic Grupa, according to the latest survey of Euromoney, the leading global financial magazine, was awarded as the best-managed company in Croatia and the best-managed company in the food and beverages sector in Central and Eastern Europe in 2015.


ATLANTIC
G R U P A

ABOUT THE COMPANY

ATLANTIC GRUPA is a vertically integrated multinational company whose business activities incorporate R&D, production and distribution of fast moving consumer goods in Southeast Europe, the West European markets and Russia and Commonwealth of Independent States. Since the company's inception in early 1990's, Atlantic Grupa pursued a growth strategy based on combination of organic growth and M&A activities that culminated with the company's largest acquisition ever – acquisition of Droga Kolinska in 2010.

Today, Atlantic Grupa is a company with: (i) HRK 5.4 billion in sales revenues, (ii) modern production network (in Croatia, Slovenia, Germany, Serbia, Bosnia and Herzegovina and Macedonia), (iii) regional distribution infrastructure and (iv) 11 brands with sales above HRK 120 million, high market shares and consumer recognisability. Atlantic Grupa has a well-balanced presence in Southeast Europe accounting for 78.2% of total sales, while 21.8% refers to the company's presence in West Europe and CIS countries. From 2014 the company's business operations are organised in six Strategic Business Units (SBU), one Business Unit (BU), five Strategic Distribution Units (SDU) and two Distribution Units (DU), while in late 2015 another business unit was added and distribution operations were organised through two main zones: Zone East and Zone West, allowing the company to manage its sales and distribution operations more effectively.

Atlantic Grupa stands out today as one of the leading food and beverage manufacturers in Southeast Europe with prominent coffee brands Grand Kafa and Barcaffè, range of beverage brands Cockta, Donat Mg, Cedevita, Kala and Kalnička, portfolio of sweet and salted snacks brands Smoki, Najlepše Želje and Bananica and savoury spread brands Argeta and Granny's Secret. Additionally, Atlantic Grupa has a wide personal care product portfolio, owns the leading Croatian producer of vitamins, minerals, supplements and OTC drugs as well as the leading pharmacy chain in Croatia under Farmacia brand. Furthermore, Atlantic Grupa manufactures and distributes the leading European brand in the sports nutrition – Multipower and has a strong foothold on the Russian and CIS markets with its baby food portfolio under Bebi brand. With its own distribution network in Croatia, Slovenia, Serbia and Macedonia, the company also distributes a range of products from external partners.

COMPANY HISTORY

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

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

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

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

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

After the acquisition of Foodland d.o.o., a company with the recognisable brand Granny's Secret and a range of high-quality products in early 2015, focus was placed on integrating the company which will provide an additional impulse in internationalisation of Atlantic Grupa's operations as Foodland's product portfolio is present in over 20 countries, The construction of the new factory of energy bars from the product range of Sports and Functional Food in the Industrial Park Nova Gradiška was completed and started operating in 2015.

NATIONAL COMPANY

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

Establishing cooperation with the company Wrigley

1992 Opening of the distribution centre Split

1994 Opening of distribution centres Osijek and Rijeka

1996 Cooperation with Procter & Gamble

1997 Investment in the Ataco distribution system in Bosnia & Herzegovina

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

1999 Establishing cooperation with Johnson & Johnson

REGIONAL COMPANY

2001 Establishing a representative office in Bosnia & Herzegovina

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

Acquisition of Cedevita d.o.o.

Establishing cooperation with Ferrero

2002 Incorporation of Atlantic Grupa d.o.o.

2003 Acquisition of Neva d.o.o.

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

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

Acquisition of the brand Melem

EUROPEAN COMPANY

2005 Acquisition of a German sports food producer Multipower

2006 Establishing a representative office in Moscow

Transformation of Atlantic Grupa into a joint-stock company

2007 Acquisition of Fidifarm d.o.o.

Acquisition of Multivita d.o.o.

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

2008 Acquisition of pharmacies and forming of the pharmacy chain Farmacia

2010 Acquisition of Droga Kolinska d.d.

Acquisition of Kalničke Vode Bio Natura d.d.

2013 Establishing cooperation with Unilever

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

REPRESENTATIVE OFFICES AND COMPANIES IN

12

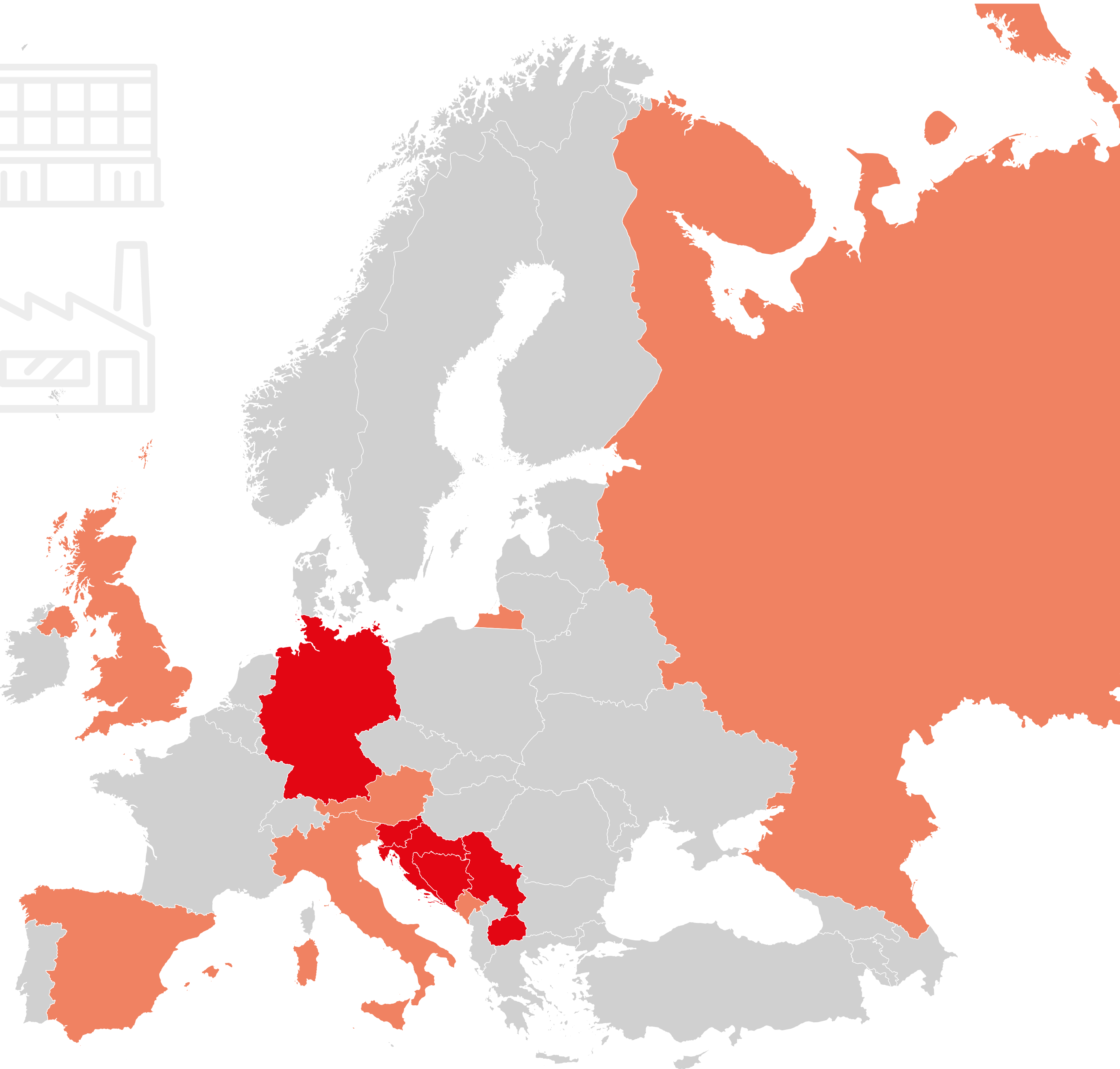
COUNTRIES

OFFICE + FACTORY

Croatia
Bosnia & Herzegovina
Germany
Macedonia
Serbia
Slovenia

OFFICE

Austria
Great Britain
Italy
Montenegro
Russia
Spain

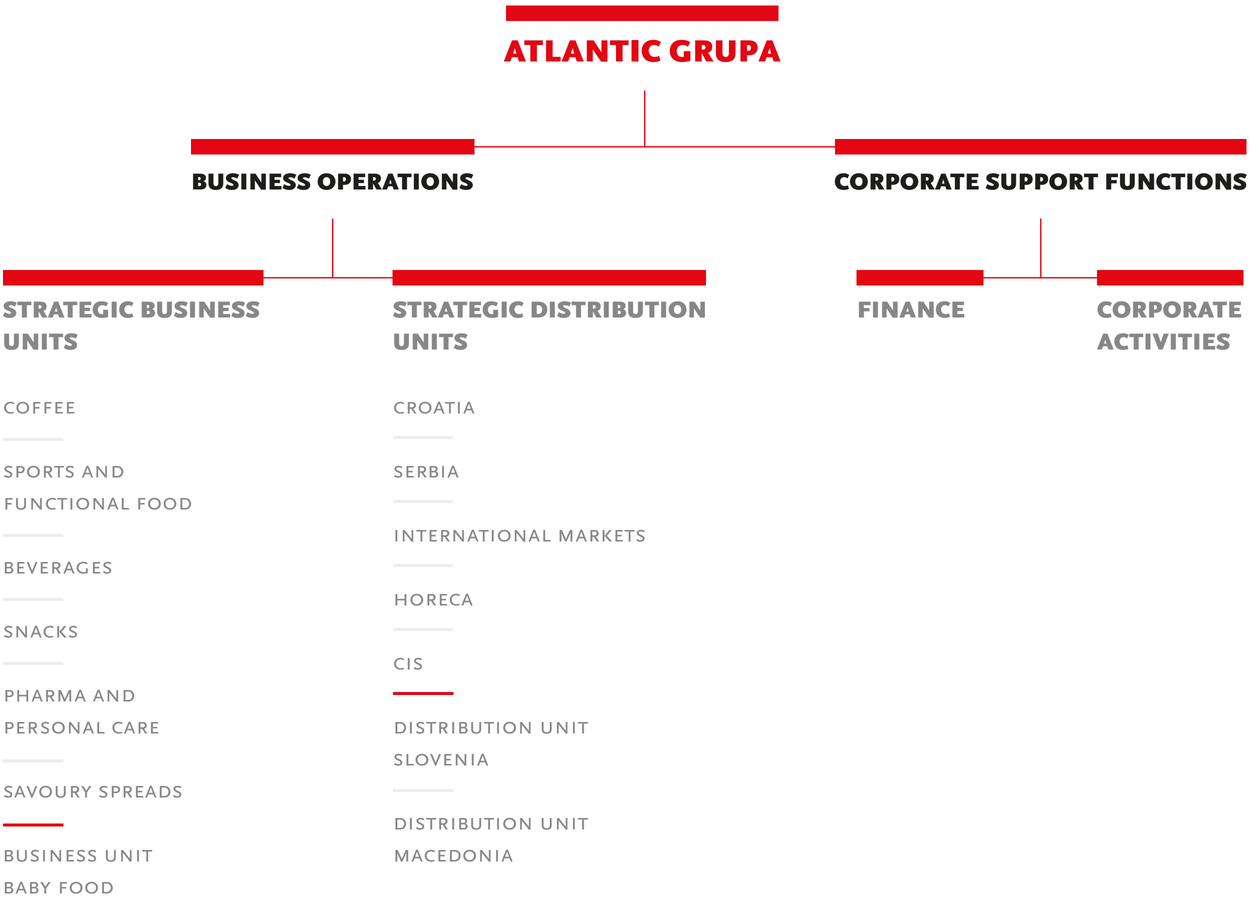


The business organisation of Atlantic Grupa comprises two basic segments:

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

Business operations of Atlantic Grupa in 2015 may be followed through business activities of special business units related to individual product type, and special sales units which cover all major markets as well as strategic sales channels, namely:

- **Six Strategic Business Units (SBUs)** – Coffee, Snacks, Beverages, Savoury Spreads, Pharma and Personal Care, and Sports and Functional Food;
- **Business Unit (BU)** Baby Food;
- **Five Strategic Distribution Units (SDUs)** – Croatia, Serbia, International markets, HoReCa and the Commonwealth of Independent States (CIS); and
- **Two Distribution Units (DUs)** – Slovenia and Macedonia.



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

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

These corporate support functions are divided into:

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

The strategic corporate function Corporate Activities includes the following departments: **Human Resources**, **Corporate Communications**, **Legal Affairs**, **Investments and Asset Management**, and **Corporate Security**.

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

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

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

REORGANISATION OF DISTRIBUTION OPERATIONS

In line with Atlantic Grupa's strategic focus on the internationalisation of operations, the last quarter of 2015 was, in terms of the organisational structure, marked by the decision on implementing certain changes in the structure of its business operations, with the aim to manage particular distribution markets and business segments as effectively as possible.

The new organisational structure is based on the division of the company's distribution operations into two main zones: **ZONE EAST** and **ZONE WEST**, where the Zone East includes Southeast Europe, the Baltics and the CIS region, and the Zone West includes Central and Southwest Europe, the Nordic countries and all overseas markets. At the same time, the process of intensive internationalisation demanded a stronger focus on particular areas with global potentials, such as the production of the brand Granny's Secret which is, in the context of plans for its strengthening on the markets outside the region of Southeast Europe, was removed from the Strategic Business Unit Savoury Spreads and established as a separate area organised within the Business Unit Gourmet.

ATLANTIC GRUPA

- **BUSINESS OPERATIONS**
  - **BUSINESS UNITS**
    - SBU COFFEE
    - SBU SPORTS AND FUNCTIONAL FOOD
    - SBU BEVERAGES
    - SBU SNACKS
    - SBU PHARMA AND PERSONAL CARE
    - SBU SAVOURY SPREADS
    - BU GOURMET
    - BU BABY FOOD
  - **DISTRIBUTION UNITS**
    - **ZONE EAST**
      - SDU CROATIA
      - SDU SERBIA
      - DU SLOVENIA
      - DU MACEDONIA
      - SDR HORECA
      - SDR BALTIC & CIS
      - PDR KOSOVO, BULGARIA, ROMANIA
    - **ZONE WEST**
      - SDR DACH & BENELUX
      - DR MEDITERRANEAN & AFRICA
      - DR NORTHWEST EUROPE & AUSTRALIA
      - PDR CENTRAL EUROPE AND OVERSEAS
- **CORPORATE SUPPORT FUNCTIONS**
  - **FINANCE**
  - **CORPORATE ACTIVITIES**

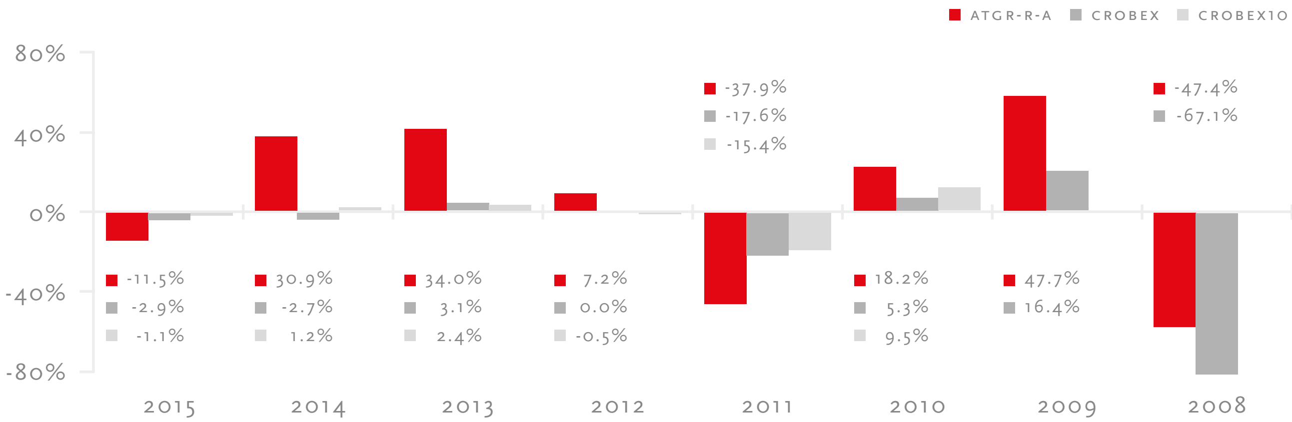
The process of applying the listed organisational changes was implemented by the end of 2015 in order to ensure quality preparations for starting business operations based on the new organisational structure and adjusted financial reporting in 2016.

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

On the Zagreb Stock Exchange in 2015, the CROBEX stock index dropped by 2.9%, while the CROBEX10 stock index recorded a somewhat slighter drop of 1.1%. In the same period, the Atlantic Grupa's shares lost 11.5% of their value.

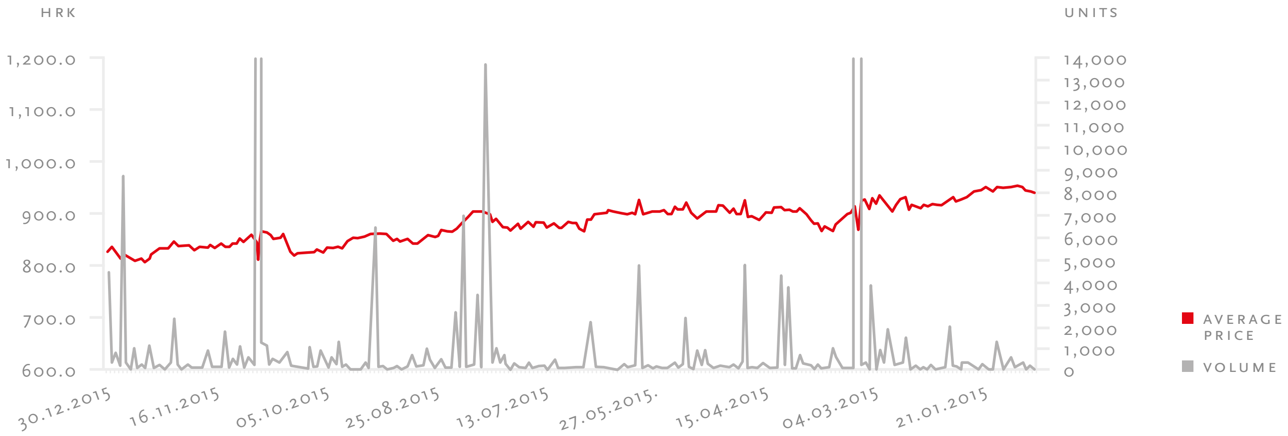
PERFORMANCE ON CAPITAL MARKET

The average price of an Atlantic Grupa's share in 2015 amounted to HRK 880.1, while the average regular daily turnover amounted to HRK 380.1 thousand, which is a 26.9% increase compared to the previous year. With the average market capitalisation of HRK 2,934.6 million, Atlantic Grupa takes the significant fourth place among the components of the CROBEX10 stock index. Moreover, according to the total turnover in 2015, the Atlantic Grupa's share holds the sixth place compared to all the shares quoted on the Zagreb Stock Exchange.



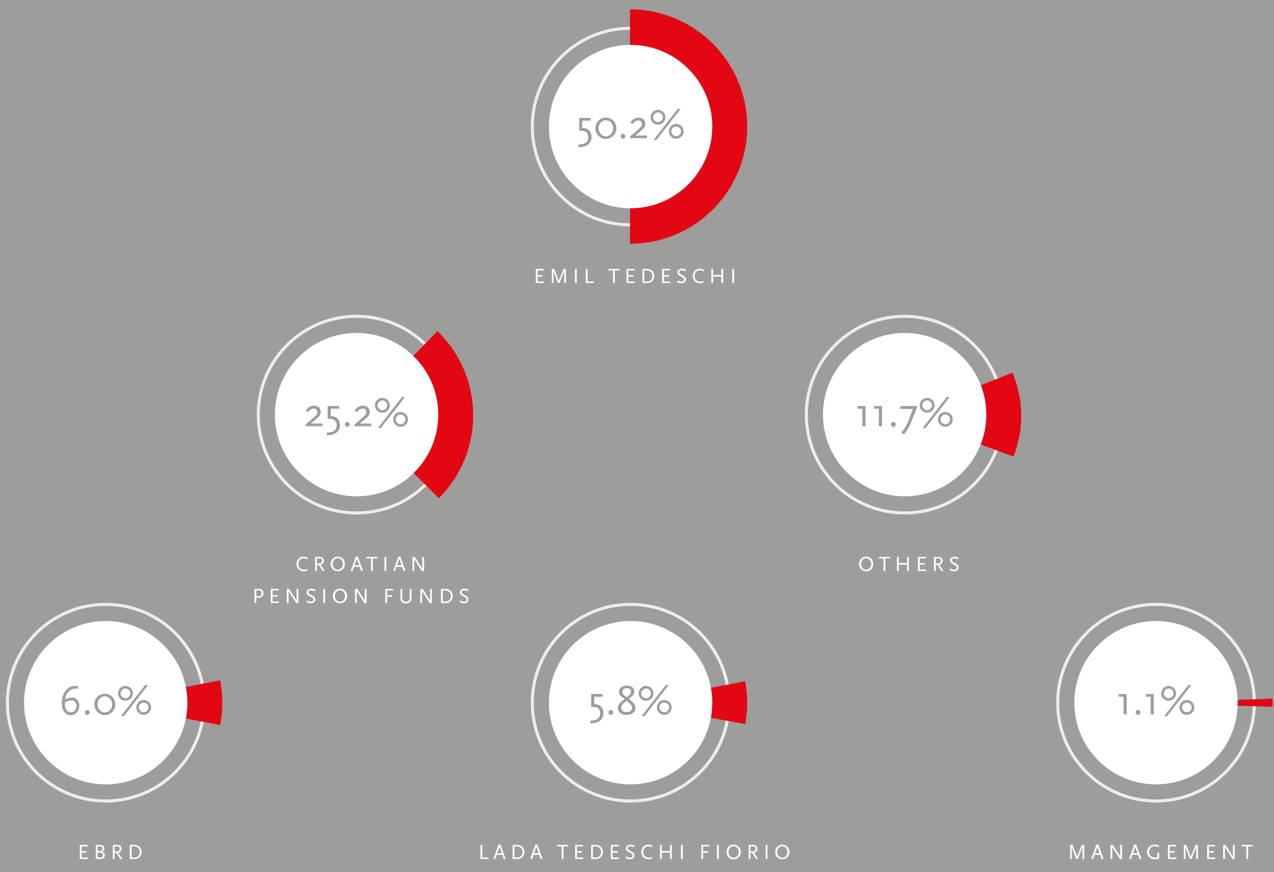
MOVEMENTS IN THE AVERAGE PRICE AND VOLUME OF THE ATLANTIC GRUPA'S SHARE IN 2015

Atlantic Grupa has a stable ownership structure: 50.2% of the company is owned by Emil Tedeschi, 6.0% by the European Bank for Reconstruction and Development, 5.8% by Lada Tedeschi Fiorio, and 25.2% of Atlantic Grupa is owned by pension funds. In November 2015, the German development finance institution – DEG sold its remaining ownership share of Atlantic Grupa by transaction on the Zagreb Stock Exchange. This transaction significantly expanded the free float to 38.0%, which places the Atlantic Grupa's share in the seventh place in terms of the free float market capitalisation among the components of the CROBEX10 stock index.

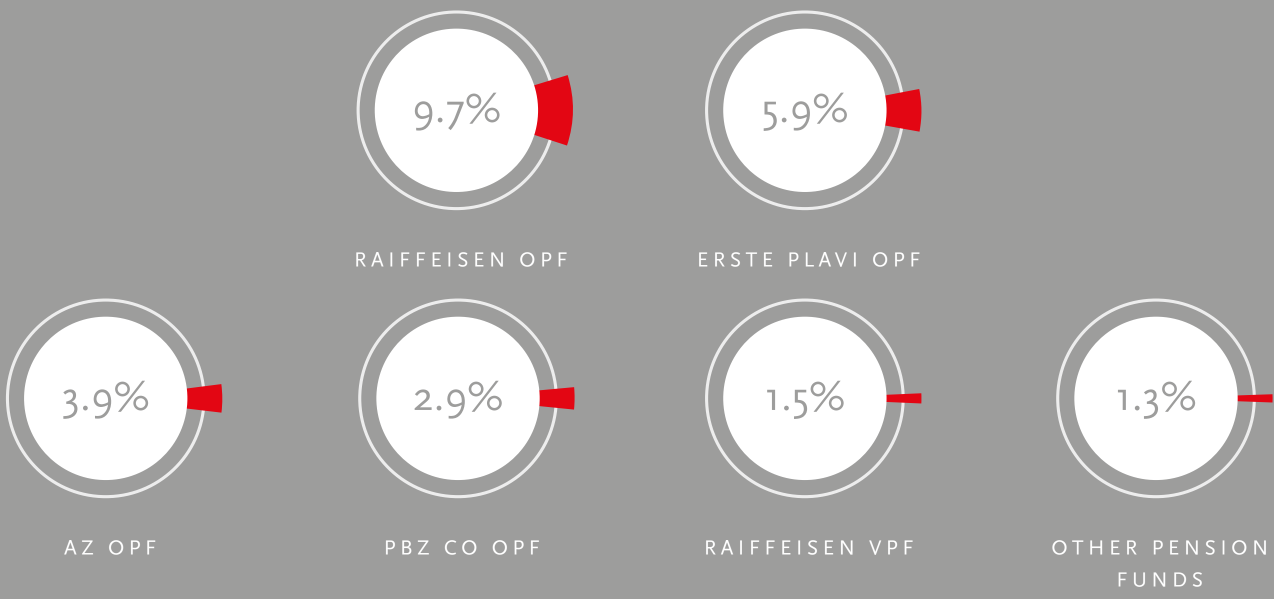


ATLANTIC GRUPA

OWNERSHIP STRUCTURE ON DECEMBER 31ST 2015



SHARE OF THE CROATIAN PENSION FUNDS



OVERVIEW OF TOP 10 SHAREHOLDERS OF ATLANTIC GRUPA D.D. ON DEC 31ST 2015

SHAREHOLDER	NO. OF SHARES	% OWNERSHIP
EMIL TEDESCHI	1,673,819	50.2 %
RAIFFEISEN OBLIGATORY PENSION FUND, CATEGORY B	322,494	9.7 %
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT – EBRD	199,301	6.0 %
ERSTE PLAVI OBLIGATORY PENSION FUND, CATEGORY B	196,462	5.9 %
LADA TEDESCHI FIORIO	193,156	5.8 %
AZ OBLIGATORY PENSION FUND, CATEGORY B	130,439	3.9 %
PBZ CO OBLIGATORY PENSION FUND, CATEGORY B	98,146	2.9 %
RAIFFEISEN VOLUNTARY PENSION FUND	48,298	1.5 %
PBZ D.D. / JOINT CUSTODIAL ACCOUNT	42,364	1.3 %
ZAGREBAČKA BANKA D.D. / JOINT CUSTODIAL ACCOUNT FOR UNICREDIT BA	34,825	1.0 %

According to the decision of the Company's General Assembly held on 18 June 2015, the dividend distribution was approved in the amount of HRK 12.00 per share, i.e. a total of HRK 40 million. The dividend was distributed in July 2015.

INVESTOR RELATIONS IN 2015

In 2015, Atlantic Grupa won the third prize for best relations with investors, an award given by Poslovni dnevnik as the investment community's recognition of companies who have fair and transparent relations with investors. The award has been given for six years in a row now, out of which Atlantic Grupa has five times been the winner of one of the top three awards.

Moreover, in 2015 Atlantic Grupa participated in various investor conferences across Europe, and held numerous meetings with domestic and foreign investors.

IVANA BARAĆ WITH REPRESENTATIVES FROM VALAMAR RIVIERA HOTEL AND HT – CROATIAN TELECOM

CORPORATE MANAGEMENT
OF ATLANTIC GRUPA

NEVEN VRANKOVIĆ

GROUP VICE PRESIDENT
FOR CORPORATE ACTIVITIES

ATLANTIC GRUPA represents a successful business system with companies in the region of Southeast Europe and in both West and East Europe. Our responsibility with regard to all stakeholders has been an integral part of the company's development strategy, while business growth and expansion have at the same time extended the range of responsibility towards our internal and external surroundings and raised the awareness about the possibilities and the need to have own influence on improving the general conditions around us. Special attention is paid to building a unique corporate culture that respects individual diversity and fosters cooperation and synergies between the different segments of production, innovations, marketing and sales. The core values of our corporate culture rest on symbols of the three basic natural elements: sun (passion), wave (creativity) and mountain (growth). By creating a healthy and encouraging working environment, we try to provide our employees with more than just a job – many programmes developed within the system are aimed at developing human resources and careers within the company as well as at performance management and appropriate rewarding of excellent results. Since its foundation Atlantic Grupa based its business activities on the Code of Corporate Governance with which, particularly after the listing on the Zagreb Stock Exchange in 2007, the standards of business transparency in line with European Union directives and relevant Croatian legislation have been significantly improved. Atlantic Grupa is also a signatory of the Code of Ethics in Business and in 2007 we joined the UN initiative Global Compact. In respect to environmental protection, we can say that, within a consistent Environmental Management System (EMS), it has expanded from a local approach to the corporate level with the key focus on sustainability and protecting the future. With its main activities in this area, which arise from three dimensions – environment and energy efficiency, people and society, and governance, Atlantic Grupa has made a big step toward sustainability. The sustainable environmental management system is based on a well-considered and economical use of natural sources, using environmental friendly technologies in our production, reduction of waste and lower consumption of energy and water. The international ISO 14001 environmental management system certificate shows that our Environmental Management System complies with the best practice standards, while the report issued in 2014 and 2015 in accordance with the GRI 4.0 guidelines shows that we are a steadily progressive regional company in respect of the criterion of transparency. Finally, but certainly not least, Atlantic Grupa, as a part of the wider community, is aware of the importance and need for making its own impact on the improvement of general social conditions, promotion of correct values and the need to invest a part of its own profits into the community. In addition to a wide range of donor projects, our sponsorship activities are also notable, especially when it comes to the promotion of sports and healthy lifestyle for youth and adults. The largest sustained, structured and comprehensive arrangement in this sense we invested in supporting projects such as the Basketball Club Cedevita where, other than being the main sponsor, through the club's basketball academy attended by over one thousand children and youth, we are trying to promote correct values among the new generations. Atlantic Grupa is also an active participant and organiser of a number of humanitarian actions and we systematically support a whole series of organisations and associations involved in protecting and helping vulnerable social groups.

ORGANISATION OF CORPORATE MANAGEMENT IN ATLANTIC GRUPA

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

GENERAL ASSEMBLY

The General Assembly is a body in which shareholders accomplish their rights in Company matters. In order to decide on issues prescribed by law and the Company's Articles of Association, the regular General Assembly of Atlantic Grupa d.d. was held on 18 June 2015. The following decisions were made at that Assembly: issuing the note of release to the members of the Management Board and the Supervisory Board, paying a dividend to the Company shareholders in the amount of HRK 12.00 per share, in proportion to the number of shares held by each shareholder, amendments of Atlantic Grupa's Articles of Association and appointment of an independent Auditor of the Company for the year 2015. All decisions from the held General Assembly were made in line with legal regulations and are available on web pages of Atlantic Grupa (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr).

SUPERVISORY BOARD OF ATLANTIC GRUPA

The joint stock company Atlantic Grupa has a Supervisory Board consisting of seven members. In 2015, the Supervisory Board held four sessions in accordance with the previously announced Schedule posted on web pages of the Company (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr). The members of the Supervisory Board are:

ZDENKO ADROVIĆ
PRESIDENT

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

LADA TEDESCHI FIORIO

VICE PRESIDENT

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

SINIŠA PETROVIĆ

MEMBER

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

FRANZ-JOSEF FLOSBACH

MEMBER

FRANZ-JOSEF FLOSBACH is an internationally recognized expert. He obtained a "Diplom-Wirtschaftsingenieur" (industrial engineer) degree at the Technische Hochschule Darmstadt in 1973. He had spent most of his working life, since 1975, in the DEG-Deutsche Investitions und Entwicklungsgesellschaft mbH. DEG promotes private businesses in emerging and developing countries. DEG is a subsidiary of the German KFW – Bankengruppe, Frankfurt, since 2001. Mr. Flosbach has been assigned a number of executive tasks – management audit (among the duties: responsibility for the investments in Asia, the Arabian countries, South-East Europe, English speaking Africa); business planning and controlling (among the duties: successful implementation of the SAP System); business development and portfolio management in Sub-Saharan Africa; consultancy activities – "Deutsche Mittelstand", Programmes of the European Community (ECIP, CDI, JOPP), Foreign Promotion Agencies, Stability Pact for South-Eastern Europe. In addition, he was responsible for business development in East and South-East Europe, Caucasus, Central Asia, Turkey and the Near East (about 30 countries, 1.5 billion Euro investment, about 110 portfolio companies, 200 – 500 million new commitments per year). Prior to his career in DEG, Mr. Flosbach worked as a Senior Consultant at the Treuhand-Vereinigung AG/Coopers &Lybrand GmbH, today PriceWaterhouseCoopers (PWC) with a special focus on merger & acquisition activities. Mr. Flosbach has special knowledge in the following areas: financing – project financing, providing long term loans, equity; mergers and acquisitions; restructuring and privatisation; advisory service; risk management. Likewise, he has a profound country and sector know how. Mr. Flosbach has retired in 2013 and serves as a Supervisory Board member in five renowned companies in the region.

ALEKSANDAR PEKEČ

MEMBER

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

VEDRANA JELUŠIĆ-KAŠIĆ

MEMBER

VEDRANA JELUŠIĆ-KAŠIĆ is the Director for Croatia of the European Bank for Reconstruction and Development (EBRD) and Head of the Bank's Resident Office in Zagreb. Before taking the position of the EBRD Director for Croatia, she managed EBRD's investments in the food, beverage and retail sectors in South-Eastern Europe. In her 17-year career at EBRD she participated in more than 100 projects with total value over EUR 1,7 billion in Southeast Europe, CIS and Russia. She has been leading projects with key regional and multinational corporations as well the leading banks in the region. She gained extensive experience in reputable organisations such as Raiffeisen bank Austria d.d. Zagreb, Merrill Lynch Private Client Group in Boston, Massachusetts, Croatian National Bank and central agency for securities in Italy, Monte Titoli S.p.A., Milan. She holds B.A. from Zagreb University of Economics, and continued her professional specialisation at the Vienna Institute for International Economic Studies and received her M.A. from Brandeis University, Massachusetts, USA. She is a co-author of the book on international accounting and author of numerous expert articles in national business publications. In July 2013 she earned the diploma of Non-Executive Director by London's Financial Times. By assuming a wider range of duties, in January 2016 she was promoted to Regional Director for Croatia and Slovenia.

LARS PETER ELAM HÅKANSSON

MEMBER

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

The members of the Supervisory Board have been remunerated for their work and have the right to remuneration which is appropriate for the tasks performed as well as the Company's situation and business performance. In 2015, members of the Supervisory Board of Atlantic Grupa d.d. on the said grounds received compensation in the total gross amount of HRK 1,292,262.18.

SUPERVISORY BOARD COMMITTEES

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

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

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

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

The members of the said Committees who are not members of the Supervisory Board have received remuneration for their work and contribution to the functioning of the Supervisory Board of Atlantic Grupa in 2015 in the total gross amount of HRK 56,113.49.

MANAGEMENT BOARD OF ATLANTIC GRUPA

The Management Board of Atlantic Grupa consists of the President and Group Vice Presidents. Eighteen sessions of the Management Board were held in 2015. The Management Board of Atlantic Grupa operates in the following composition:

EMIL TEDESCHI

PRESIDENT OF THE
MANAGEMENT BOARD

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

MLADEN VEBER

SENIOR GROUP VICE PRESIDENT
FOR BUSINESS OPERATIONS

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

CORPORATE MANAGEMENT OF ATLANTIC GRUPA

NEVEN VRANKOVIĆ

GROUP VICE PRESIDENT
FOR CORPORATE ACTIVITIES

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

ZORAN STANKOVIĆ

VICE PRESIDENT
FOR FINANCE

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

REMUNERATION POLICY FOR MANAGEMENT BOARD MEMBERS

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

- **monthly salary** for board members, set in the gross amount,
- **annual bonus** (bonus remuneration) per year of contract duration, set in the defined percentage of the realised principal annual gross salary and remuneration on the grounds of membership in supervisory boards of associated companies. The payment of the annual bonus is conditioned upon the realisation of planned business results in the ratio of at least 95% of the EBIT plan for the consolidated Atlantic Grupa's business year. Provided that all contractual criteria were satisfied, board members are paid the amount of realised bonus remuneration through the Stock Option Programme by acquiring own shares of Atlantic Grupa. For the President of the Management Board, the whole bonus remuneration amount is paid in cash,
- **life insurance policy** for the members of the Management Board contracted by Atlantic Grupa at the reputable insurance companies in Croatia, with the annual premium of HRK 8,250.00,
- **personal accident insurance policy** with the annual premium of HRK 8,300.00,
- **voluntary health insurance policy** that includes the Management Board members, with which Atlantic Grupa, as the insurance contractor, with an annual premium of HRK 7,500 per person, provides a quality health treatment through an annual comprehensive health examination, any required specialist medical tests with the application of most contemporary and efficient medical devices and equipment in specialised polyclinics with the best health experts,
- **right to use an official vehicle**, right to compensation of all costs incurred by the Management Board member while performing his/her functions.

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

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

In 2015, members of the Management Board of Atlantic Grupa d.d., on the grounds of salary and remuneration for supervisory board membership in operating companies and annual bonus received a gross amount of HRK 17,905,535.23. From that amount, on the basis of salary, remuneration for supervisory board membership in operating companies and annual bonus, President of the Management Board Emil Tedeschi in 2015 received a gross amount of HRK 4,133,088.07.

STRATEGIC MANAGEMENT COUNCIL

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

BUSINESS COMMITTEES

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

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

IMPLEMENTING THE PRINCIPLES OF CORPORATE MANAGEMENT

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

Considering that the shares of Atlantic Grupa d.d. are quoted on the Zagreb Stock Exchange, Atlantic Grupa applies the valid Code of Corporate Governance of the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange. In accordance with relevant regulations, Atlantic Grupa in 2015 issued a Statement of Application of the Code of Corporate Governance, thereby confirming its actions and development in accordance with the good corporate governance practice in all business segments. The Statement of Application of the Code of Corporate Governance has been published on the Company's website (www.atlanticgrupa.com) as well as on the official website of the Zagreb Stock Exchange (www.zse.hr).

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

CEDEVITA
9
LABORAL
kutxa
hummel

SOCIALLY RESPONSIBLE BUSINESS

Atlantic Grupa, as a part of the wider community in which it functions, is aware of the importance and need for making its own impact on the improvement of general social conditions and the promotion of correct values, primarily related to the promotion of sports, where most funds and involvement are dedicated to supporting projects such as the Basketball Club Cedevita. Atlantic Grupa is also an active participant and organiser of a number of humanitarian actions and it systematically supports a whole series of organisations and associations involved in protecting and helping vulnerable social groups.

SPORT

- **PLANICA SKI JUMP**
- **GIRO D'ITALIA**
- **BASKET TOUR (STREET BASKET)**
- **BC CEDEVITA**
- **CROATIAN OLYMPIC COMMITTEE**
- **SLOVENIAN SKI FEDERATION**
- **BEO BASKET**

BASKETBALL

THE BASKETBALL CLUB CEDEVITA continues to be the flagship of all Atlantic's sponsorships. Atlantic Grupa is actively involved in the promotion of basketball as a sport of national importance by attracting increasingly better players and trainers as well as in the promotion of the brand Cedevita, to which the club was renamed. What is particularly important and upon which the success of this project lies is Atlantic Grupa's dedicated support in financing, organising, and managing the club's Basketball Academy with over 1,000 children. The club and academy actively work in 24 basketball schools organised in Zagreb's elementary schools, thus ensuring both the future of this sport and the option of a healthy and useful free time activity. As a result of Atlantic Grupa's sponsorship, as well as the efforts put in getting additional sponsors for the BC Cedevita, the club is now one of the most promising teams in Croatia and regional leagues which is also successful in Euroleague, primarily by entering the TOP 16.

1,000

CHILDREN IN CLUB'S BASKETBALL ACADEMY

24

BASKETBALL SCHOOLS ARE ORGANISED IN ZAGREB'S ELEMENTARY SCHOOLS

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

Atlantic Grupa understands socially responsible action as a principle it applies in all the countries in which it is present with its business entities. To that end, Atlantic is a major sponsor through its sports food brand Multipower, as well as many others. In 2015, Multipower, among others, sponsored sports such as cycling, triathlon, running, as well as adrenaline sports. A strong presence was achieved by sponsoring the race Giro d'Italia, while last year Multipower was also a proud sponsor of Spanish triathletes Eneko Llanosa and Saleta Castro. With its brands Cockta, Cedevita, Argeta, Multipower, Smoki and Barcaffé, Atlantic Grupa has already for many years supported the ski jumping competition in Planica. Additionally, Atlantic Grupa also supports the Slovenian Ski Federation – Alpine and Nordic skiing national team.

ATLANTIC VALUE DAY

Opportunity to make a better world

VALUE DAY

The fourth in a row Atlantic Grupa's Value Day has once again exceeded all expectations and showed that hardworking Atlantic employees can, with their teamwork, limitless positive energy, humanitarian efforts and great will, leave a positive trace and live their corporate values. More than 1,500 Atlantic employees participated in over 60 different activities in seven countries where they passionately, creatively and responsibly assisted their local communities and each other through different forms of help: cleaning their work spaces and the environment, gardening, painting, cleaning and by donating blood. This year's Value Day was marked by as much as 28 "green" activities under the project Atlantic Green – Opportunity to grow in harmony with nature, where more than 600 Atlantic employees chose to participate in one of the activities aimed at environmental protection.

CULTURE AND KNOWLEDGE

- **21ST SARAJEVO FILM FESTIVAL**
- **INNOVATION INSTITUTE**
- **BEER FEST**
- **NIŠVILLE JAZZ FESTIVAL**
- **HIGH FIVE – TEEN DAYS**
- **FILM – YOU CARRY ME**
- **ŠPANCIRFEST**
- **CROATIAN CHAMBER OF DENTAL MEDICINE**

Atlantic Grupa has again in 2015 supported the 21st Sarajevo Film Festival (SFF) as a central cultural manifestation in the region, once more not only as a Festival sponsor, but also as the main partner of the special festival project Sarajevo grad filma ("Sarajevo Film City"). It is a project that gives an opportunity to young film professionals from the widely interpreted region to work in professional conditions. On one hand, the project is concerned with the future of young professionals, on the other, the future of the regional film industry and, finally, the future of the festival. In the last year Atlantic also signed a golden partnership agreement with Croatian Innovation Institute for 2015. In addition to supporting the Institute's work, the cooperation also includes a series of trainings for Atlantic employees. With the brand Plidenta, Atlantic also supported the work of the Croatian Chamber of Dental Medicine.

ŠPANCIRFEST
POKRENI SVOJU KREATIVNOST! 21.-30.08. 2015. Varaždin

Sarajevo Film Festival

ATLANTIC GREEN
Opportunity to grow in harmony with nature

Scan the QR code with your smartphone and watch a video about our activities.

GREEN INITIATIVES – GREEN ISLANDS

Starting with Izola in Slovenia, the so called ecological islands for separate collection of waste by employees have been installed at over 30 locations in seven countries. This creates yet another opportunity to protect the environment from municipal waste that burdens it and to reuse recycled materials, this giving them a new life. Hit the right basket, a challenge provided by the programme Atlantic Green which will be implemented in all Atlantic's locations.

GREEN INITIATIVES – ECO-CAR

ATLANTIC'S ELECTRIC CAR In 2015, Atlantic started to upgrade its vehicle fleet with environmentally friendly vehicles. Renault Zoe is one of the first such vehicles to be purchased and it is marked accordingly.

- NOISE REDUCTION
- NO CO_2 EMISSIONS
- NO HARMFUL NITROGEN OXIDES
- NO HARD PARTICLES IN THE AIR
- DOES NOT PRODUCE WASTE OIL, CONTAMINATED FILTERS, OR DISCARDED ELECTRICAL PLUGS
- LOWER TOTAL COST PER KILOMETRE

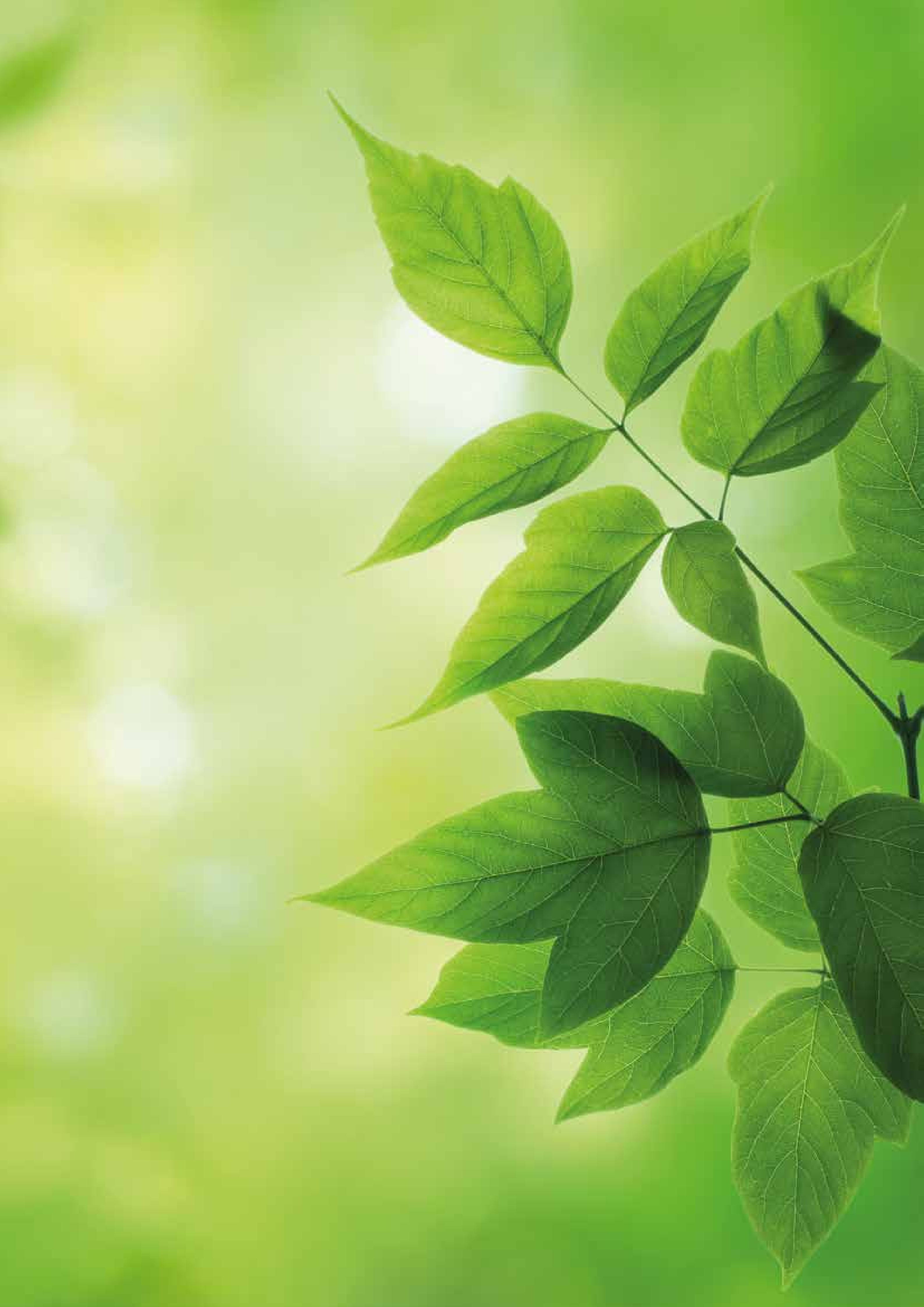
SOCIALLY VULNERABLE GROUPS

- **RED CROSS**
- **CHILDREN'S HOME NAZOROVA**
- **CENTRE FOR THE PROTECTION OF TODDLERS, CHILDREN AND YOUTH**
- **SERBIAN CLINICAL CENTRE**

Atlantic Grupa has in 2015 made a donation to the Children's Home Zagreb in Nazorova Street, which was used to purchase furniture for its little beneficiaries. At the Centre for the Protection of Toddlers, Children and Youth in Belgrade, Atlantic Grupa's actions were also directed towards improving the living conditions of children deprived of parental care. The humanitarian organisation Reto – ima nade (there is hope) accepted a donation of products aimed at improving the living conditions of their beneficiaries – drug and alcohol addicts. The Croatian Association of Leukaemia and Lymphoma Patients continues to implement the project "Plastic Bottle Caps for Expensive Medicines" aimed at collecting and recycling plastic bottle caps, whereas the funds raised in this way will be used to co-finance expensive medicines for the treatment of the Association's members. The Atlantic's Follow Me Team supported this project in Atlantic's locations in Zagreb and other cities and invited all colleagues to participate in this humanitarian and environmental initiative.

MIGRANT ASSISTANCE

In view of the biggest migrant crisis in recent history, Atlantic Grupa recognised the tragedy that leaves people helpless and tried to help them in their need. The first activities were started in the territory of the Republic of Serbia, by donating aid packages which, in addition to products from Atlantic Grupa's portfolio, also included products from its distribution portfolio. Other than sweets and coffee, this humanitarian package contained natural water and diapers in order to meet the most basic needs of mothers with small children. In Croatia, the company was in direct contact with the Crisis Headquarters and the Croatian Red Cross in an effort to, in line with its capacities, provide the best possible help in improving the conditions in refugee reception centres.



Atlantic Grupa supports and promotes the principles of sustainable development in its operations: economic prosperity, environmental acceptability and social responsibility. The extension of principles related to the environment is implemented in three areas – among employees, in business processes and with external stakeholders, including consumers.

RAISING THE ENVIRONMENTAL AWARENESS OF EMPLOYEES

Concern for the environment is an integral part of Atlantic Grupa's operations. In 2015 we continued our way towards integration of environmental values into existing projects under the title Atlantic Green – Opportunity to grow in harmony with nature.

The following activities were carried out under the project Atlantic Green:

- **ECOLOGICAL ISLANDS** Integration of ecological islands at 30 locations in 7 countries. We have been separating waste in Atlantic Grupa for some time, but this has been made even easier by installing newly designed "eco-islands". Around 4,500 tonnes of separated waste are collected annually, which is almost 70% of total waste in the yards of our companies. Over 94% of waste is collected separately in seven out of the total of seventeen locations.
- **ATLANTIC GREEN VIDEO** Marking the environmental protection day by releasing the video clip Atlantic Green.
- **ARTICLES** Publishing a series of articles related to environmental protection on the intranet and in Atlantic News.
- **PLANTING TREES** Planting trees at production facilities in Nova Gradiška, Rogaški Vrelci, Mirna and Izola.
- **ECO-CAR** Ecological car in the vehicle fleet.
- **VALUE DAY** On Value Day, more than 1,500 Atlantic employees in 7 countries participated in various activities.
- **GREENINOWAVE** Upgrading the internal programme for promoting creativity and innovative ideas Innowave in order to separately collect ideas on environmental protection, green innovations and economic use of natural resources.
- **NATURALY FIT PROJECT** The project Naturally Fit was launched, focusing on promoting the campaign Cycle to Work, which reduces greenhouse gas emissions and consumption of energy associated with coming to work.
- **REPORTS** Reporting on sustainable and socially responsible business conductaccording to GRI principles.

ATLANTIC GREEN
Opportunity to grow in harmony with nature

Scan the QR code with your smartphone and watch Atlantic Green video clip.

ENERGY EFFICIENCY

The activities focused on improving the company's energy efficiency and integrating the related good practices have become more intensive in Atlantic Grupa. In 2015, the project of switching the existing lighting to LED bulbs in all company office locations was performed as well as a series of activities aimed at reducing energy and water consumption. Cedevita's plant in Zagreb is saving significant amounts of water and vapour due to installing a water meter and due to remote control of vapour consumption, which are the result of own knowledge and efforts. At the Droga Kolinska's plant in Izola, we used our own knowledge and efforts to allow for the use of waste vapour formed in the production process to heat sanitary water at the site. In addition to the above, internal trainings were organised at the Group level on the subject of potential savings of electricity in the manufacturing process for the purpose of improving the ecological efficiency of facilities in the future, while in Serbia both Belgrade-based facilities implemented solutions that significantly reduced their energy consumption. On account of its activities in this segment, our operating company in Skopje received the certificate "Socially Responsible Company".

ENVIRONMENTALLY FRIENDLY PRODUCTS

The philosophy of sustainable development in Atlantic Grupa is one of the cornerstones in the design of products and business processes, and it is also interwoven with brand development. For example, **Cockta** products are filled into bottles made of 50% recycled plastics, which reduces the annual consumption of the primary source of packaging material (virgin PET) by 365 tonnes. **Argeta** products are packaged in aluminium packaging in Slovenia since 2009, and in 2015 we transferred this good practice to Argeta's plant in BiH. Unlike classic packaging, aluminium packaging and the new easy peel mechanism have a lower carbon footprint, while it also has an additional advantage of being lighter, on the basis of which Argeta reduced its annual quantities of waste packaging by 1,600 tonnes. In addition to the listed "environmentally oriented" brands, the packaging of **Barcaffé BIO** coffee was developed in a new, "environmentally aware" design which allows recycling of waste packaging.

84%

LOWER ENERGY CONSUMPTION ENABLES R-PET PACKAGING

10%

LIGHTER BARCAFFÈ BIO PACKAGING

ALUMINIUM PACKAGING REDUCED PACKAGING WASTE BY 3,800 TONS –

60%

IN THE LAST 5 YEARS

REPORTING ACCORDING TO GRI PRINCIPLES

Atlantic Grupa's sustainability reporting according to the standards of the Global Reporting Initiative, which started in 2014, is constantly evolving and being upgraded with new elements, thus confirming the company's dedication to a higher degree of responsibility and transparency towards all interest groups.

Atlantic Grupa's sustainable environmental management is based on a well-considered and economical use of natural sources, using environmentally friendly technologies in our production, reduction of waste and rational consumption of energy and water. This encourages us to look further for best solutions in the area of sustainable development.

INTEGRATED PROCESS MANAGEMENT SYSTEM IN 2015

In 2015, Atlantic Grupa's activities in this segment were directed at integrating new companies into the process management system and reviewing the system's efficiency after three years of implementing the integrated approach.

Improvements were focused on the following areas:

- integration of new companies into the quality management system;
- implementation of the process approach in new processes and companies;
- integration of the "risk approach" philosophy into the process approach, both on the corporate (Enterprise Risk Management) and individual process level;
- improvement of the process performance control, new form of reporting on the key process level, monitoring frequency, redefining key performance indicators (KPI);
- service supplier management (requirements, contracting, supervision, reporting);
- improvement of non-conformity management processes;
- improvement of competences and skills;
- analysis of the three-year cycle of integrated certification and improvement goals in the following cycle,

of which the most significant are described next:

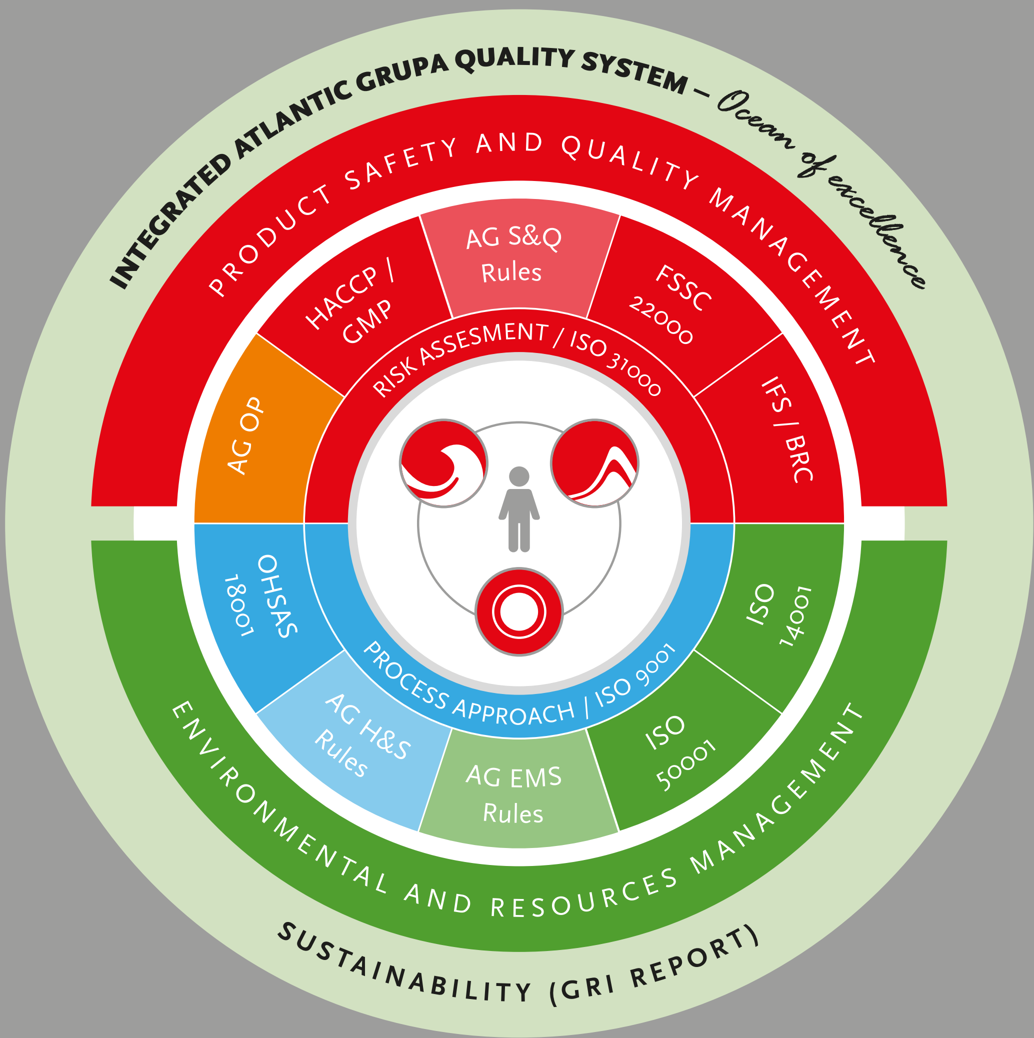
1

IMPLEMENTATION OF THE PROCESS APPROACH IN NEW PROCESSES AND COMPANIES

The food safety management system was implemented in the new factory for energy bars Atlantic Multipower in Nova Gradiška in 2014, while in February 2015, when the company was successfully certified according to the standard IFS Food, its integration into the process approach at the Group level was continued and preparations for certification according to standards ISO 9001 and 14001, which will be implemented in 2016, were started.

In the last acquired company, Foodland d.o.o. in Serbia, along with redefining processes and supporting documentation, the focus of relevant activities in 2015 was on implementing standards related to product safety FSSC 22000, while the integration into the process approach will continue at the Group level in 2016.

In addition to the above, even before new versions of standards ISO 9001:2015 and ISO 14001:2015 based on ISO/FDIS were published, we started a gap analysis of compliance with new requirements.



2

MONITORING OF KEY PROCESS PERFORMANCE PARAMETERS

In 2015, key performance indicators were redefined, including the frequency of their monitoring and reporting method, resulting in a new form of reporting which allows for historical performance monitoring of each particular process as well as trends.

3

INTEGRATED AG SUPPLIER MONITORING SYSTEM

The common model for monitoring Atlantic Grupa's suppliers was defined and established in 2014 – the system includes common criteria for approval, evaluation and control of suppliers. The system was further improved in 2015 by clearly defining input data for service specification, method of contracting, supervision, audit and criteria for evaluating service suppliers.

4

IMPROVEMENT OF NON-CONFORMITY MANAGEMENT PROCESSES

The non-conformity management project was defined at the level of Atlantic Grupa and its implementation initiated in the last quarter of 2015, while full implementation is planned in January 2016.

The project's aim is to create a common management tool for the entire Group in order to ensure:

- process standardisation;
- risk reduction;
- efficiency enhancement;
- transparent analytics and reporting.

5

IMPROVEMENT OF COMPETENCES AND SKILLS

Atlantic Grupa in 2015 held several conferences aimed at improving different segments of its operations:

- Atlantic Grupa 's Process Management;
- Quality Conference;
- Environmental Management;
- Distribution Quality;
- Conference of Atlantic Grupa's Internal Auditors.

ANALYSIS OF THE THREE-YEAR CYCLE OF INTEGRATED CERTIFICATION

The project of implementing the integrated quality and environmental management system was initiated at the end of 2012, aimed at integrated certification of all members of Atlantic Grupa. The project involved a new innovative approach to certification and implementation of the so called "multi-site" certification model for Atlantic Grupa, which was in March 2015, after three years of intensive work, successfully implemented.

2013 INTEGRATION → **2014** IMPLEMENTATION → **2015** EFFECTIVENESS → IMPROVEMENTS

The Atlantic Grupa certificate family comprises:

Legal entity (location)	Market	Quality Management Standard	Food Safety System Certification	Food Safety Standard	Environmental Management Standard	Good Manufacturing Practice
Atlantic Grupa	CRO	ISO 9001			ISO 14001	
Cedevita (Planinska)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	
Cedevita (Apatovec)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	
AMHR	CRO		IFS			
APHC				HACCP		
Neva	CRO	ISO 9001			ISO 14001	ISO 22716
Montana	CRO	ISO 9001		HACCP	ISO 14001	
Fidifarm	CRO	ISO 9001		HACCP	ISO 14001	GMP
Atlantic Trade	CRO	ISO 9001		HACCP	ISO 14001	
Bionatura	CRO			HACCP		
Droga Kolinska (Ljubljana)	SLO	ISO 9001			ISO 14001	
Droga Kolinska (Izola)	SLO	ISO 9001	FSSC 22000		ISO 14001	
Droga Kolinska (Mirna)	SLO	ISO 9001			ISO 14001	
Droga Kolinska (Rogaška)	SLO	ISO 9001	FSSC 22000		ISO 14001	
Argeta	BIH	ISO 9001	FSSC 22000		ISO 14001	
Kofikom Product	BIH	ISO 9001			ISO 14001	
Soko Štark	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001	
Soko Štark Ljubovija	SER	ISO 9001		HACCP	ISO 14001	
Palanački kiseljak	SER	ISO 9001		HACCP	ISO 14001	
Grand Prom	SER	ISO 9001		HACCP	ISO 14001	
Atlantic Brands	SER	ISO 9001		HACCP	ISO 14001	
Atlantic Multipower	GER	ISO 9001	IFS		ISO 14001	
Droga Kolinska (Skoplje)	MAC	ISO 9001		HACCP	ISO 14001	
Atlantic Trade (Skoplje)	MAC	ISO 9001		HACCP	ISO 14001	

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

HUMAN RESOURCES IN 2015

In 2015 we have continued the processes initiated and implemented in 2014. We ended the year with 5,387 employees in 12 markets.

In 2015 we successfully continued the project Corporate Culture at the Group level. The programme “Value a Colleague” was started within this project, in which all employees may nominate a colleague and/or team for whom they think that he/she best represents the company’s corporate values. The programme proved to be very successful and will continue to be implemented on an annual basis.

During 2015 we continued the project “Share a Smile” at the Group level, whose aim was to raise awareness about the attachment that connects us with our work colleagues.

Near the end of 2015 we launched a new project called “Body and Mind – Opportunity to be fit”, with the principal aim to allow our employees to apply a healthy lifestyle throughout the day. This may relate to what they eat during lunch-break, how they get to work, adjustments of work places, organised activities with colleagues interested in the same sports, forming of sports clubs, annual sports games and a series of actions aimed to promote activity, sports and health in our immediate work surroundings. The official kick-off of 14 Atlantic teams was held in 2015, and the second Atlantic’s sports weekend was organised in November with over 600 participants from 7 markets.

The fourth in a row Atlantic Grupa’s Value Day has once again exceeded all expectations and showed that hardworking Atlantic employees can, with their teamwork, limitless positive energy, humanitarian efforts and great will, leave a positive trace and live their corporate values.

More than 1,500 Atlantic employees participated in over 60 different activities in 7 countries where they passionately, creatively and responsibly assisted their local communities and each other through different forms of help: cleaning their work spaces and the environment, gardening, painting, cleaning and by donating blood. This year’s Value Day was marked by as much as 28 “green” activities under the project Atlantic Green – Opportunity to grow in harmony with nature, where more than 600 Atlantic employees chose to participate in one of the activities aimed at environmental protection.

The programme INNOWAVE, merging the words “innovation” and “wave” in its title, symbolises one of our core corporate values – creativity. The large letter A symbolises Atlantic, something that holds us all together. At the time of economic crisis when best companies are recognised by their ability to find new approaches to production, distribution and end consumers, Atlantic Grupa has promoted the programme aimed at promoting the idea that each individual employed in our company can with his/her unique insight contribute to the growth and development of the company. During 2015 we continued to improve the processes by awarding good ideas and establishing a system for their evaluation, and the employees’ response to participating in this programme is very good.

Near the end of 2014 we started the recertification process and in 2015 confirmed the status of Employer Partner with high scores in all evaluation segments.

The performance management process (U3) continues for a fifth consecutive year and in 2015 the HRnet performance management modules were redesigned and new functionalities were added in order to facilitate the use of the system for end-users.

In the field of headcount planning and employee costs, great steps forward were made by creating a new HrNet-based tool designed to standardise processes, regulate the data collection system, communicate with other departments involved in the process and in costs monitoring and reporting.

THE YEAR 2015 ENDED WITH

5,387

EMPLOYEES IN

12

MARKETS

ATLANTIC BODY AND MIND

Opportunity to be fit

HRIS – HRNET

The HRnet system essentially includes all personnel administration, annual leave and business travel management as well as all advanced processes like performance management, employee development management, recruitment and selection management, talent and career management, etc. The launching of this software solution integrated in one place all important human resource processes available through a simple application to more than 5,000 users.

During 2015, the existing functionalities were improved and redesigned (reporting, employment module, performance management module, development module) in order to increase the efficiency and usability of our processes. Between the many benefits included in this new HRnet system are reduced administration and increased engagement of employees in key HRM processes.

LEARN DEVELOPMENT@AG

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

The task of **LEADER LAB** is primarily to develop LEARN leadership competencies for all Atlantic Grupa leaders. By concept, it consists of two parts: Basic Leadership Skills and Leadership in Action. The Basic Leadership Skills programme is designed for newly hired or newly promoted leaders and it is realised through a set of development activities intended to develop basic leadership skills, while the Leadership in Action is a concept that supports active involvement of leaders in rethinking and maintaining the desired leadership culture. In 2015, under the programme Leadership in Action, 30 teams composed of over 200 managers proposed 30 projects – proposals for improvement related to business processes, awarding and communications, whose implementation will be actively continued in 2016.

FUNCTION LAB is focused on the development of functional competencies for the following areas: Quality, Safety, Pharma, Marketing and Key Account Management (KAM). The areas of Quality, Safety and Pharma are under the organisation and control of the business units that manage them, while Marketing and KAM are realised as the joint project of Central Marketing, that is, KAM/Sales Department and the Corporate Talent&Development Team.

TALENT LAB covers programmes defined on the corporate level, corresponding to the development needs resulting from the talent management process, while **MY LAB** covers all forms of individual development. TALENT LAB has launched some of its projects in 2015, of which the most significant is the young talent identification programme.

In addition to the above, each Atlantic Grupa employee through his/her individual development plan available via the information system, during the entire 2015 had access to the catalogue of development activities according to defined competencies as well as the option of applying for activities which are not part of the standard catalogue of trainings.

TALENT MANAGEMENT

Talent management in Atlantic Grupa represents a form of human capital management – a long-term, comprehensive and integrated approach for support and strengthening of the company's core competencies. The general aim of this project is to introduce a structured process of identification, selection, development and retention of talents/successors for present and future needs of Atlantic Grupa. After the model was established at the level of the entire employee population, it is expected to ensure a highly flexible and agile organisation through the creation of a sustainable succession of management personnel at all levels.

Key benefits:

- ensuring business continuity through succession management;
- recognition, motivation and retention of the best people;
- platform for strategic decision-making in human resource management.

In this process each participant (sponsor, supervising manager, employee and HRM) has its role and responsibility and active engagement is expected from all participants in order to ensure successful implementation. The central event of the project "Organisation & People" is a panel designed to assess employees in view of the quality of performance and the level of potential for assuming positions with more complex responsibilities. The Talent Management process in 2015 included close to 200 employees. This process is repeated every two years with the same group of employees.

EMPLOYEE ENGAGEMENT

At the end of 2015, the employee engagement survey was carried out for a fourth consecutive year. It included all employees of Atlantic Grupa in all markets, while the analysis of results and reports was prepared by an external consulting firm. The implemented actions plans based on the 2014 results effectively led to positive changes recorded in 2015. The Engagement Index serves as an integral part of the annual performance evaluation for managers and as such serve as indicators of successful people management. We plan to carry out such research once a year in order to be able to monitor the results of our targeted actions and to ensure that all employees give their opinion about working in the company.

EMPLOYER BRANDING

Ocean of opportunities

In mid-2014, a comprehensive project “Employer Branding” under the working title “Imagen Atlantic” was initiated. A series of external and internal research of our company’s perception and months of dedicated work resulted in a slogan that was adopted by consensus – “Atlantic Grupa, Ocean of Opportunities”. This slogan is the basis for a wider concept of “Employer Branding” and a series of activities and projects to be implemented.

“Employer Branding” is a project dedicated to the targeted and structured building of Atlantic Grupa’s image as an employer. It extends beyond as well, as a business entity in countries we are active in since, by its nature, it extends to other similar corporate areas. Until now, the second demanding phase of collecting information on how we perceive ourselves and how we are perceived by others was carried out, and the results were used as a starting point for defining Atlantic Grupa’s employer brand. As a result of research and focus groups, it emerged that the company profile is that of a creator and entrepreneur.

According to the results of research and our aspirations, Atlantic Grupa is defined as an inspirational company which attracts people who operate and love to work in an inspirational environment. Open, inquisitive and motivated, Atlantic offers present and new colleagues, partners and investors an endless ocean of growth and development opportunities. Together we wish to create a vision and provide long term well-being, always keeping our fundamental corporate values in mind: CREATIVITY, symbolized by a wave, PASSION, symbolized by the sun, and GROWTH, symbolised by a mountain. Over time these values were developed because, after all, they also have to grow with us.

The market research in the initial project phase included Croatia, Serbia, Slovenia and Germany – where we have the most extensive business activities and the largest number of employees, while the entire project is related to all markets of Atlantic Grupa.

The aim of the entire project is primarily to be seen and recognised as a desirable employer on all markets. This applies to internal community – our employees, through continuous development and maintaining a high level of engagement, as well as to external community – potential employees, partners, investors. The “Ocean of Opportunities” is a framework from which all human resources activities will be developed, including different projects in this field. Moreover, the project has an obvious effect on Atlantic Grupa’s overall image, hence the ocean tide will pull with it other related areas of corporate identity and promotional activities. A kind of launching into the “Ocean of Opportunities”, which as a project will actively sail from the beginning of 2015, are schedule books and calendars that will be used in 2016. The seas will surely not be calm, but we at Atlantic always knew how to seize the opportunities carried by waves. At the end of 2015 we initiated the action “Atlantic’s Reflections” by organising a contest for all our employees to submit and share their stories with us and use this opportunity to become a reflection of Atlantic Grupa in new employment ads which will be used to search for new colleagues, considering that Atlantic employees represent the true image of Atlantic Grupa and their stories and actions are what makes this company.

MLADEN VEBER

SENIOR GROUP VICE PRESIDENT
FOR BUSINESS OPERATIONS

Every year Atlantic Grupa's successful business performance confirms its status of the leading regional distributor and one of the leading producers of consumer goods in Southeast Europe. Business operations in 2015 were marked by significant revenues and profitability growth, signing of new distribution agreements and reorganisation of distribution operations. At the beginning of 2015, the plant for manufacturing energy bars from the sports and functional food product range in Nova Gradiška started production, while the integration of the acquired company Foodland d.o.o. into the Atlantic Grupa's system was completed. We continued to work on improving the existing products and introducing innovations, of which it is worth to point out the revolutionary concept of Black'n'Easy – the real Turkish coffee that can be prepared quickly, which is usually a characteristic of instant coffee drinks. The portfolio of principal brands distributed on the Croatian market was in 2015 expanded with renowned beer brands – Pilsner Urquell, Kozel Premium and Kozel Dark, owned by the company SABMiller, as well as with cooperation between Atlantic Grupa and Philips Croatia under which Atlantic Grupa n September took over the distribution of Philips small household appliances and products for personal care. Taking into account the main strategic goal of Atlantic Grupa that implies the company's internationalisation, near the end of 2015 the distribution system was restructured so that distribution operations are organised through two main zones: Zone East and Zone West. Operating activities will be focused on developing and strengthening own distribution and sales capacities. In addition to the already existing companies in Italy, Great Britain and Spain, new distribution companies have been established in Germany and Austria. In order to provide full support to the Atlantic Grupa's portfolio, significant investments in the markets and strengthening of local teams are planned. The aim is to eventually develop a high quality own distribution support to the overall Atlantic Grupa's portfolio in all key international markets. With Multipower as the leading European brand of sports food and the group of strong Atlantic's regional brands with outstanding positions in Southeast Europe, which are also present in the Western markets and have a strong international potential (Argeta, Granny's Secret, Donat Mg, Cedevita, Bebi), Atlantic Grupa plans to achieve the envisaged strategic goals. Euromoney magazine, the leading global professional financial magazine, published the results of the latest survey about the best-managed companies in 2015, according to which Atlantic Grupa was awarded in three categories, including the award for the best-managed company in Croatia. Donat Mg won the important "Diggit" award for digital strategy and the main prize in the food and beverages category for the Donat Mg Moments mobile application. In addition, Analyze&Realize institute from Berlin has proven in a clinical trial that Donat Mg is effective in regulating digestion. In the Strategic Business Unit Snacks, the Najlepše Želje brand won this year the "Superior Taste Award" in a prestigious testing of quality of products from various categories and countries, organised by the International Taste Quality Institute from Brussels. These acknowledgments from professionals as well as our faithful customers show that Atlantic Grupa is a company on the right track.

STRATEGIC BUSINESS UNITS AND BUSINESS UNITS

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

STRATEGIC BUSINESS UNIT
BEVERAGES

As a prominent regional producer, Atlantic Grupa is continuously developing the activities of the Strategic Business Unit Beverages (SBU Beverages) with the aim of better utilisation and stronger recognisability of its brands that are market leaders in their respective categories: Cedevita and Multivita in the category of instant vitamin drinks, Multivita in the category of effervescent tablets, Cockta and Jupi in the exceptionally strong and sizeable category of refreshing soft drinks, Donat Mg in the category of mineral waters rich in magnesium and the brands Kala, Kalnička, Tempel and Karađorđe in the category of non-carbonated and carbonated mineral and spring waters. The optimum balance of focusing on categories and market regions has created quality preconditions for growth and development in 2015 as well.

In 2015, the SBU Beverages generated sales in the amount of HRK 666.1 million and recorded a growth in sales of 4.3% compared to the previous year.

In the beverages industry, product innovations are one of the key elements for the company's success. For this reason, in 2015 expert teams from different organisational units worked intensively on all product groups. However, it can be said that 2015 was the year of Cedevita instant vitamin drinks. According to the results of a survey on the strength of brands in 2015, Cedevita holds the fourth place in the region of Southeast Europe among the brands in the FMCG industry.

As a true leader in the category of instant vitamin drinks, Cedevita introduced a trendy new design. The distinctive Cedevita's orange colour remains the core element of the new logotype, while the recognisable Cedevita glass, decorated with a moustache, hat, sunglasses or lips, became the new logo. In the first half of 2015, a new conceptual approach to positioning Cedevita on all markets was created on the basis of authorised health claims relating to the use of vitamins. The emphasis was placed on Cedevita's composition and comparative advantages with regard to similar vitamin products, namely the selection and quantity of vitamins as well as its preparation immediately before consumption. During the year the concept was promoted as Cedevita "Fresh Dose of 9 Vitamins". Further, the product mix was innovated by launching three new products: Cedevita Elderberry & Lemon flavour, a 200g pack for in-home consumption, Cedevita Mint & Lemon flavour in the HoReCa channel, and Cedevita Elderberry & Lemon flavour with stevia and 35% less sugar in the "on the go" segment.

CREATED DIFFERENT
Cockta
CEDEVITA
MultiVita
Donat Mg
Kala
KALNIČKA
TEMPEL
Karađorđe
SINCE 1719

QUENCHING YOUR THIRST WHEREVER YOU ARE

666.1

MILLION HRK OF SALES REVENUE IN 2015

4.3%

GROWTH IN SALES COMPARED TO 2014

13%

GROWTH OF THE ENTIRE ASSORTMENT OF INSTANT VITAMIN DRINKS COMPARED TO 2014

These successful innovations contributed to a significant volume growth of the entire assortment of instant vitamin drinks for more than 13% compared to 2014, with a 15% value growth. High growth in sales was achieved in all sales channels, particularly in the HoReCa channel, which posted an excellent 36% growth. The main “culprits” are an innovative 19g packaging, new design and favourable weather conditions that allowed for the implementation of numerous marketing activities. In the “on-the-go” segment, Cedevita instant vitamin drinks also achieved excellent results and posted a 15% growth compared to 2014, whereas the highest growth of 21% was achieved on the Croatian market. The entry into new markets of Austria and Spain should definitely be mentioned.

Multivita instant vitamin drinks and Multivita effervescent products kept their leading market positions on the markets where they are present – Serbia, Montenegro and Bosnia & Herzegovina. Multivita’s effervescent products remain the market leader in Serbia with a 44%* value market share.

The group of Cedevita candies posted a 7% sales growth, primarily based on the exceptionally successful sub-brand Puc-Puc in the group of Cedevita Kids candies. The year 2015 saw the launching of a new Cedevita multivitamin candy with lemon-mint flavour made without sugar, primarily intended for adult consumers, and which can also be consumed by diabetics.

In 2015, Cedevita teas experienced a true innovation. Multivitamin instant teas Monstea were launched on the markets of Croatia, Bosnia and Herzegovina and Montenegro. They are primarily intended for children, but will also reach adult consumers due to their practical method of preparation. Monstea tea comes in three irresistible flavours: lemon mint, orange masala, and wild berries. They contain 9 vitamins and a black tea extract, and may be prepared with warm or hot water. The combination of attractive design, simple preparation and top-quality taste resulted in excellent reception by both children and parents, with only two months of market presence. In 2015 Naturavita teas kept their leading position in the market of functional teas. Together with consumer Cedevita teas, they posted a 3% growth in sales compared to the previous year. At the end of 2015, the tea business segment – except Monstea instant teas – was sold to our long-term strategic partner in tea production, Spider Group.

* SOURCE: AC NIELSEN RETAIL PANEL: JANUARY – NOVEMBER 2015

The production category of waters also experienced significant changes in 2015 – all brands were redesigned: Kala, Kalnička, Tempel and Karađorđe, which resulted in repositioning and revitalisation of these brands. The greatest progress was achieved in the "home office delivery" channel, where Kala posted a 10% growth compared to the previous year.

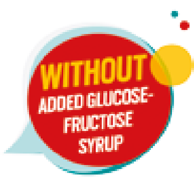
10%

GROWTH OF KALA WATER COMPARED TO 2014

3%

GROWTH IN SALES OF COCKTA ON THE MARKET OF CARBONATED SOFT DRINKS

On the extremely competitive market of carbonated soft drinks, Cockta again achieved a total growth in sales of 3% in 2015. The highest growth of 6% was recorded in the HoReCa channel. In line with the brand's values: distinctiveness, quality, innovation and focus on nature or, as the slogan says, "Cockta – Created Different", two new top products were launched on the market: Cockta Black Tonic and new Cockta Easy. Cockta Black Tonic is a completely new refreshment whose revolutionary taste is the mix of the legendary Cockta and light tonic bitterness, whereby for the first time caffeine was added to Cockta. In addition to 0.5 and 1.5 litre PET packaging made from recycled plastic, Black Tonic is also sold in a unique black glass bottle. New Cockta Easy contains no sugar, it is sweetened with sucralose and natural sweetener stevia and therefore has no energy value. The whole range of Cockta products is characterised by the distinctive aroma of rose hip, specific composition of herbal extracts, and being free of orthophosphoric acid, otherwise an usual ingredient in cola drinks. In 2014, Financial Times also recognised that Cockta is a top product even in global terms by ranking Cockta Original among the best 4 cola drinks in the world.



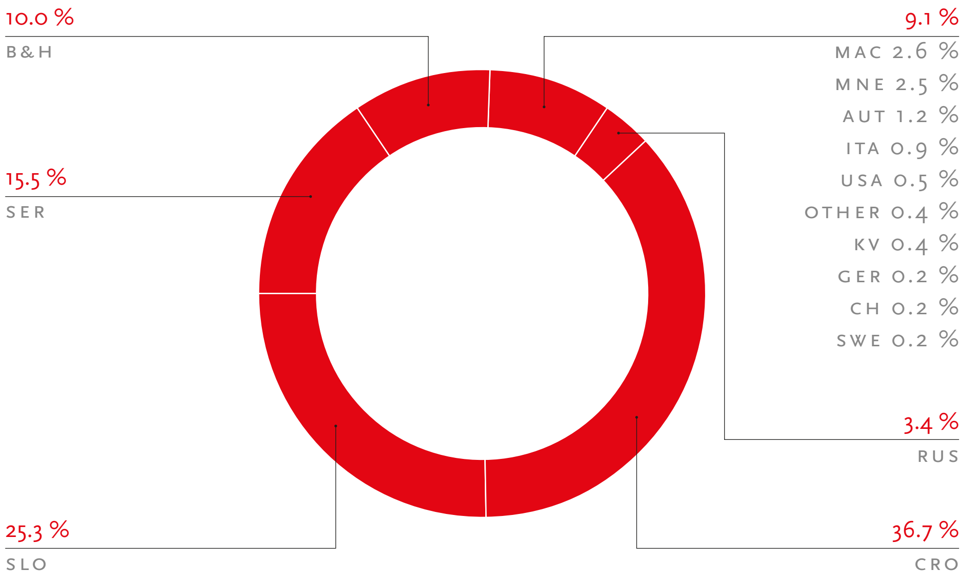
After a very successful 2014, Donat Mg continues to grow and develop in 2015 as well. Donat Mg posted a 12% growth in the Slovenian market. During the year a clinical trial on the effects of Donat Mg water on human health was performed by the German Institute Analyze & Realize GmbH in Berlin. It scientifically proved that 0,5 litre of Donat Mg has a positive effect on digestion, stimulates bowl movement and their purging. During the trial, 97% of participants evaluated Donat Mg as effective, very tolerable and extremely useful for the quality of life. Based on the results of this research, Donat Mg started a new communication campaign under the slogan "Royal Treatment for Your Digestion". The campaign was present in almost all communication channels. To raise awareness about the brand and campaign, Donat Mg came up with Roylet, a custom-made public toilet with a special treatment that only Donat Mg can provide for the user's digestion. A funny and visually attractive YouTube video Roylet shows that good digestion, provided by Donat Mg, creates a royal feeling. The Roylet video went "viral" and had more than 1,8 million views, and Google, in its blog campaign, cited it among the three examples of good advertising practice in Slovenia. Further, Donat Mg has one of the largest communities of pregnant women in the world – a Facebook community with more than 598,000 pregnant women. In 2015, Donat Mg in Slovenia also won 3 digital awards: Websi, Diggit and Donat Mg Moments for the best mobile application.

The intensive process of improving the Atlantic Grupa's integrated process management system was continued in 2015, while the three-year cycle of integrated certification of AG was completed. The SBU Beverages' quality and environmental management systems comply with the strict international standards (ISO 9001, 14001, HACCP, FSSC 22000), while sites in Croatia and Slovenia hold the most comprehensive food safety management system certificate FSSC 22000. The replacement of external joinery on facilities in Zagreb that was carried out in 2015 is expected to have a direct impact on the environmental aspect of air pollutant emissions and heat savings related to reduced vapour consumption. The SBU Beverages continues to invest in its facilities with the aim of increasing the process safety level, raise productivity, improve the quality of products and their competitiveness in a very demanding market.

DONAT Mg – ROYAL TREATMENT FOR YOUR DIGESTION

STRATEGIC BUSINESS UNIT
BEVERAGES

SALES BY COUNTRIES



SOURCE: INTERNAL ATLANTIC DATA

SALES BY CATEGORIES

VID	34.1 %
FUNCTIONAL DRINKS	23.7 %
CSD	21.2 %
OTHER	8.2 %
BOTTLED WATER	5.3 %
TEAS	3.8 %
CANDIES	3.7 %

STRATEGIC BUSINESS UNIT
COFFEE

Atlantic Grupa, with its Strategic Business Unit Coffee (SBU Coffee), holds leading positions in most of the markets of former Yugoslavia. This means that Atlantic Grupa is the leading coffee producer in the region known for consumption of Turkish coffee. With the leading brands Barcaffè, Grand Kafa and Bonito, as a market leader in the category of Turkish coffee in Slovenia, Serbia, Bosnia & Herzegovina and Macedonia, the SBU Coffee is Atlantic Grupa's largest business unit with HRK 1,084 million of sales, representing 20% of the Group's total turnover. Key markets are Serbia and Slovenia, accounting for 49% and 29% of sales, respectively, followed by BiH (8%) Croatia (7%) and Macedonia (5%). Exports to other international markets in 2015 recorded a 25% value growth compared to the previous year. Sales in coffee categories are dominated by Turkish coffee with 89% of total sales, followed by espresso with 6%, instant coffee with 3% and other coffee with 2% of sales.

The regional markets in 2015 recorded negative trends in the segment of Turkish coffee – Serbia posted a 5.7% decline in consumption, which is equivalent to 1,100 tonnes of end products. The market of raw coffee had a turbulent year with a 30-percent increase in average price compared to the previous year. The SBU Coffee in 2015 compensated for the increase in prices of raw coffee by good management of raw materials and currency risks, with minimum price adjustments for the final consumer, yielding a positive end-result.

Despite the complex market situation, the leading market shares in all regional markets were successfully maintained and increased. On a decreasing Slovenian market, Barcaffè maintained stable sales in the category of Turkish coffee despite the strengthening of private labels. In the white cup segment, Barcaffè took the third position, while in the black cup segment Black'n'Easy coffee increased its market share. In Croatia, even though the entire coffee category dropped by 5.5%, Barcaffè is the only brand posting higher sales. The year, which started with a 11% market share, reached its peak with entry into key clients, strong activities in the HD channel and modern communication, which during the summer resulted in market shares as high as 16.6%. Barcaffè ended 2015 with a 25% volume growth, 34% value growth and a stable 13%* market share of Turkish coffee. The category of Turkish coffee also recorded lower sales in Bosnia and Herzegovina. However, Grand Gold improved its volume and value market share and remained the absolute leader with 19% of the market. Grand Aroma also increased its market share, due to which this market posted highest sales ever.

THE REGION WAKES UP WITH US

* SOURCE: AC NIELSEN RETAIL PANEL: JANUARY – NOVEMBER 2015

1,084

MILLION HRK OF SALES REVENUE IN 2015

20%

OF THE GROUP'S TOTAL TURNOVER REPRESENTS THE SBU COFFEE

45th

BARCAFFÈ BIRTHDAY IN SLOVENIA

13

MEDALS GRAND KAFA WON

In Serbia, Grand Kafa retained its leading position on the market of Turkish coffee and, supported by marketing activities and a price increase, improved its volume and value market share (49% and 52%*, respectively). In 2015, Bonito defended its 2nd position on the Serbian market and posted 6% higher revenues compared to the previous year, while Grand Kafa instant successfully defended its 2nd position in the segment and retained its market share. In Macedonia, Grand Kafa initiated a prize contest "Open and Drive" and in doing so proved as strong competition to the main competitor and provided an adequate answer to the preferences of local consumers. According to the latest available market research, Grand Prom is the number one producer with a 40%* value market share in Macedonia.

By analysing new products, as the regional leader and innovator, the SBU Coffee in 2015 launched a new coffee category called Black'n'Easy (hereinafter: B'n'E). This new category represents a revolution in traditional Turkish coffee – the real Turkish coffee prepared quickly, which was launched throughout the region – under the brands Grand B'n'E in Serbia, BiH and Macedonia and Barcaffè B'n'E in Slovenia and Croatia. Sales in the region show that the product successfully established its market position and has a great potential for development. In addition, the new product Freeze ready to drink was launched, while the assortment of Grand Kafa instant got a new flavour – Choco peanut in the 3in1 segment.

In view of new consumption trends, the SBU Coffee is strongly developing the Barcaffè&Go segment. Barcaffè&Go in 2015 continued its market expansion through a strategic partnership with INA and a loyalty programme in over 150 venues. The development and expansion through the Petrol channel in BiH and Serbia in 2015 as well as regional expansion through the cinema chain CineStar contributed to Barcaffè keeping its position of the number one brand in the Coffee2Go segment. In parallel, the SBU Coffee worked on developing products that will meet the contemporary needs – coffee machine and coffee in capsules, both for in-home consumption and in the HoReCa channel.

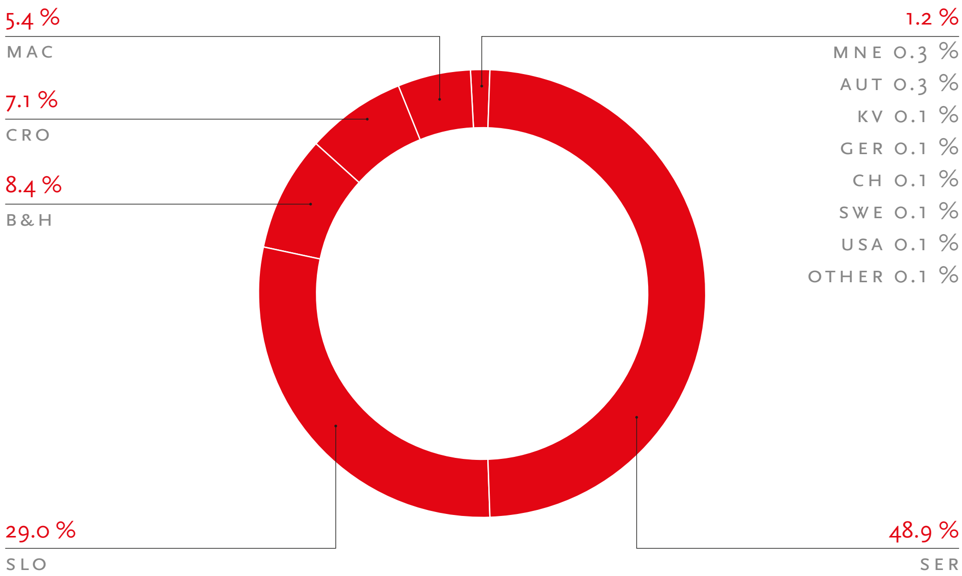
The year was also successful for communication platforms of the SBU Coffee's brands. Barcaffè launched a successful campaign in Croatia called "Nisu sve kave iste" (Not all coffees are the same), while in Slovenia Barcaffè celebrated its 45th birthday with an integrated campaign "45 let" (45 years). In Serbia, Grand Gold coffee launched its new campaign "Krug oko šoljice" (Circle around the cup), while Grand Aroma launched the ATL campaign called "Aroma novog dana" (Aroma of a new day). The modern communication strategy of Grand Kafa brands resulted in many awards, of which we should point out the award for the TOP advertiser in Serbia for the year 2015 given by the Serbian Association of Market Communication Professionals (UEPS). In addition, in the listed contest we won a total of 13 medals, of which 3 gold medals – for the campaign for direct communication under the project "Aroma mature" (Graduation-day aroma), for the creation of a new brand "Grand Black'n'Easy kafa nove generacije" and for the creation of visual identity "Grand Black'n'Easy kafa nove generacije" (Grand Black'n'Easy – coffee of a new generation).

The SBU Coffee's production facilities successfully finished the process of automatisation related to instant coffees on the multi-line packaging machine, which significantly increased the line capacity, while a completely new line was installed for B'n'E products.

* SOURCE: AC NIELSEN RETAIL PANEL: JANUARY – NOVEMBER 2015

STRATEGIC BUSINESS UNIT
COFFEE

SALES BY COUNTRIES



SOURCE: INTERNAL ATLANTIC DATA

SALES BY CATEGORIES

TURKISH COFFEE	89.0 %
ESPRESSO	6.1 %
INSTANTS	3.2 %
OTHER	1.7 %

STRATEGIC BUSINESS UNIT
SNACKS

The Strategic Business Unit Snacks (SBU Snacks) consists of one of the leading companies in the area of candy products and salty snacks in the region – Soko Štark d.o.o., with production facilities in Serbia (Belgrade and Ljubovija) and 870 employees. These facilities manufacture products in the category of chocolate, tea biscuits, wafers, flips, and sticks, while the production of chips and cereals is outsourced to Kannan in Croatia and Emco in the Czech Republic, respectively.

In 2015 a sales record was broken with over 27,300 tonnes of manufactured products and sales in the amount of HRK 632 million. The highest growth compared to the previous year was posted in the categories of chocolate products (chocolate bars and sticks) and salty sticks. The new categories of chips and cereals, launched in 2014. also contributed to the overall results.

Analysed by geography, Serbia remained dominant with two thirds of total sales. A significant growth in sales was posted in Croatia, Macedonia and Slovenia, while the only market with lower sales is Montenegro. In the next year we expect a significant expansion of exports to markets outside the region.

The positive sales results are also reflected in market positions of the leading brands. Smoki, the number one flips in the Adriatic region, strengthened its leading market position in Serbia and Croatia. The year 2015 was the most successful year for the chocolate programme, taking into account that Soko Štark became the strongest producer in the category of chocolate bars in the Serbian market. The brands Najlepše Želje, Bananica and Sweeet improved their market shares not only in Serbia, but also in Bosnia & Herzegovina.

These record results in 2015 were achieved by introducing innovations in the product range, stronger marketing and distribution efforts and investment activities related to upgrading the internal production efficiency. The innovations introduced in our assortment were:

- 12 products with completely new recipes;
- 9 packaging redesigns;
- 80 discount and "limited edition" products.

In line with the latest consumer trends, the assortment was also refreshed by redesigning the leading brands.

SALTY OR SWEET – A PERFECT SNACK FOR EVERYBODY

27,300
TONNES OF MANUFACTURED PRODUCTS IN 2015

632
MILLION HRK OF SALES REVENUE IN 2015

2/3
OF TOTAL SALES SERBIA HOLDS

12
PRODUCTS WITH COMPLETELY NEW RECIPES

9
PACKAGING REDESIGNS

80
DISCOUNT AND "LIMITED EDITION" PRODUCTS

Smoki, the most important brand in the SBU Snacks' portfolio, made another step forward in meeting the esthetical expectations of new generations who love this snack. Bananica improved the functionality of its packaging with the aim to increase the product quality by preserving its freshness, while the recognisability of the multi-pack was transferred to single packs.

Najlepše Želje launched a new sub-brand LOL intended for teenagers. Sweeet chocolates continued to expand their product range by launching new fruit-filled products and a crunchy treat CrunchyX, while other products were refreshed with a new attractive and simplified design. Prima sticks were also redesigned, and their portfolio widened by launching three different flavours of salty snacks made from whole-wheat flour. Additionally, new flavours of biscuits and wafers were launched, while Chipsos was refreshed with two new flavours in response to consumer expectations for constant innovation.

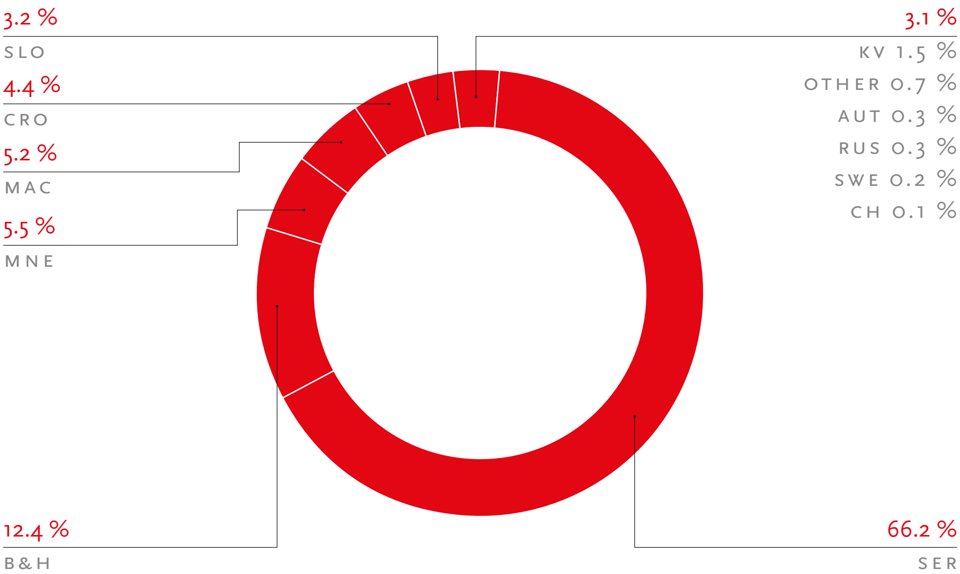
The year was marked by intensive marketing and communication activities related to our brands in all regional markets. We carried out more than 20 integrated campaigns and individual marketing activities. Other than supporting product innovations and tactical sales improvement actions, significant investments were made into developing the image of strategic brands. The campaigns "Smoki – Neka prijateljstva nikada ne prestaju" (Smoki – Some friendships never end) and „Chipsos – Mnogos dobros" (Chipsos – Very goodos) will particularly be remembered.

Innovations and responsible business conduct were confirmed by awards and prizes of the professional public, including:

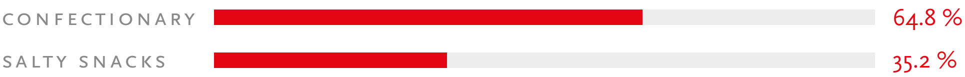
- Najlepše želje – Superior Taste Award, International Taste Quality Institute 2015, Belgium;
- Smoki – My Choice 2015, consumers award for the favourite product in the category of snacks in Serbia;
- Štark – Recognition of the company's environmental awareness in Serbia.

The record-high production and sales were ensured by a series of measures and construction works which provided the conditions for flexible organisation of the production process. This resulted in higher production capacities, while at the same time improving both product quality and safety. A majority of these works were related to air-conditioning of production and storage facilities as well as improving the raw material transport system. We should mention, among others, investments in the network of retail stores, which contributes to building the company's image with style.

SALES BY COUNTRIES



SALES BY CATEGORIES



SOURCE: INTERNAL ATLANTIC DATA

The Strategic Business Unit Pharma and Personal Care (SBU Pharma and Personal Care) includes the operations of pharmacies and specialised stores for medicinal products joined in the chain Farmacia and the production of dietary supplements, over-the-counter (OTC) medicines, cosmetics and personal care products. This Business Unit includes wholesale pharmacy operations organised under Atlantic Pharmacentar. A large number of Atlantic's brands in the segments of cosmetics, personal care products and dietary supplements are market leaders not only in Croatia but also in regional markets. Moreover, by acquiring and opening numerous pharmacies and specialised shops united under the name Farmacia, Atlantic Grupa entered and took over the leading position in the segment of pharmacy business in Croatia. The most prominent products of the Strategic Business Unit Pharma and Personal Care are the following brands: Dietpharm nutritional supplements and medical purpose products, Plidenta toothpastes, face and body cosmetics Rosal, lip care sticks Lip Balm and universal protective cream Melem. The SBU Pharma and Personal Care in 2015 generated sales revenues in the amount of HRK 510 million.

In 2015, the chain of pharmacies and specialised stores Farmacia opened 4 new units and ended the year with the total of 77 venues across the Republic of Croatia (29 specialised stores and 48 pharmacies), thus additionally strengthening its position.

The work related to counselling centres focused on sports, cardiology and paediatric counselling as well as phitoaromatherapy services continued in 2015. The Sports Counselling Centre continued its tradition of promoting and providing advice concerning a healthy and active lifestyle, while the whole institution carried out over 120 promotions and again posted an 11% growth in sports food compared to 2014.

The branding of counselling centres was continued through print campaigns and cooperation with several web portals as well as through the strengthening of the "Pharmacy-to-go" platform, whose counselling role is aimed at encouraging shopping in Farmacia's points-of-sale and strengthening of the brand Farmacia. In addition to the listed counselling platform, social network activities were intensified (Facebook and Instagram "My Farmacia"), where the daily interaction of the brand Farmacia through digital channels resulted in bringing our chain retail stores and their products and services closer to our consumers.

The Education Centre Farmacia in 2015 organised a number of educational courses for masters of pharmacy and pharmacy technicians and also became the external cooperation centre of the Faculty of Pharmacy and Biochemistry. In cooperation with the Croatian Pharmaceutical Society, Farmacia organised several public health actions related to raising awareness about hypertension, diabetes and metabolic syndrome.

MELEM

plidenta

ROSAL

FIDIFARM

DIETPHARM

farmacia

WE TAKE CARE OF YOUR BEAUTY AND HEALTH

The wholesale pharmacy organisation in 2015 confirmed itself as a reliable and quality distributor of top domestic and international brands intended for pharmacy chains and specialised shops. The strategy of exclusive distribution was continued during the year, while the portfolio was extended with two new French cosmetics brands – Phyto and Lierac.

510

MILLION HRK OF SALES REVENUE IN 2015

77

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

29

SPECIALISED STORES

48

PHARMACIES

22%

FINANCIAL MARKET SHARE OF THE BRAND DIETPHARM ON CROATIAN MARKET

The brand Dietpharm has for years been established as the dominant producer of dietary supplements in Croatia with a 22% financial market share. Fidifarm's production programme in 2015 included 92 products under the brand Dietpharm, of which 11 are market leaders in their respective segment. The product range was in 2015 extended with as much as seven new products launched in the category of dietary supplements (Centravit Energy Direct granules, Hemo Protect capsules, Omega + Olive capsules, Super Pineapple sachets, Super Plum sachets, Super Orange sachets and Super Smoothie sachets) and 2 products in the category of medicinal products (Makulin Fresh eye drops and Laxium oral powder solution). The loyalty programme that joins the most loyal consumers of the brand Dietpharm – Health Club – now has 71,000 members collecting loyalty points in over 200 sales venues.

Fidifarm's future growth and development is expected to be achieved by developing new products and increasing sales in export markets with the brand Dietpharm which is active on eleven export markets: Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Hungary, Kosovo, Slovakia, Azerbaijan, Slovenia, Russia and Albania. Albania is a new export market which was opened during 2015 and it is expected to achieve significant growth in 2016. For the assortment of dietary products and medicines, particularly for Multivita Vitamin C, the year 2015 was especially demanding due to depreciation of the Russian rouble and the declining purchasing power of the population.

ALBANIA IS A NEW EXPORT MARKET WHICH WAS OPENED DURING 2015

The portfolio under the cosmetics programme covers 8 brands across 9 cosmetics-hygiene categories and the production of private labels, primarily in the category of lip care products.

The product range of Plidenta toothpastes with a 30%* share represents the strongest segment of the cosmetics programme. In a very demanding market Plidenta made a serious turn by repositioning a part of the assortment and launched, in Croatia and Bosnia & Herzegovina, five new products in the sub-line Plidenta Healthcare, which follow the global trends of additional oral healthcare and represent a solution for the most common gums and teeth issues for which consumers seek dental help.

In 2015, Melem made significant progress in building and strengthening the brand loyalty, which was reflected in sales by posting a 20% growth, and the brand entered the Macedonian market. Another step forward was made by expanding its assortment with Melem soap products.

As regards Rosal, in 2015 most of its portfolio was redesigned and 4 new products in the category of lip and face cosmetics products were launched. In the segment of lip care products, Rosal Lip Balm holds the second position on all markets in the region. Lip Balm products are the most innovative category under the Rosal brand, known for their novelties and trendy products, which was confirmed by the successful launching of revolutionary 2in1 Lip Balm products which, in addition to lip care, also have an attractive and long-term colour, like a real lipstick.

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

8

BRANDS UNDER THE COSMETICS PROGRAMME

30%

SHARE OF THE PRODUCT RANGE OF PLIDENTA TOOTHPASTES

20%

SALES GROWTH OF BRAND MELEM

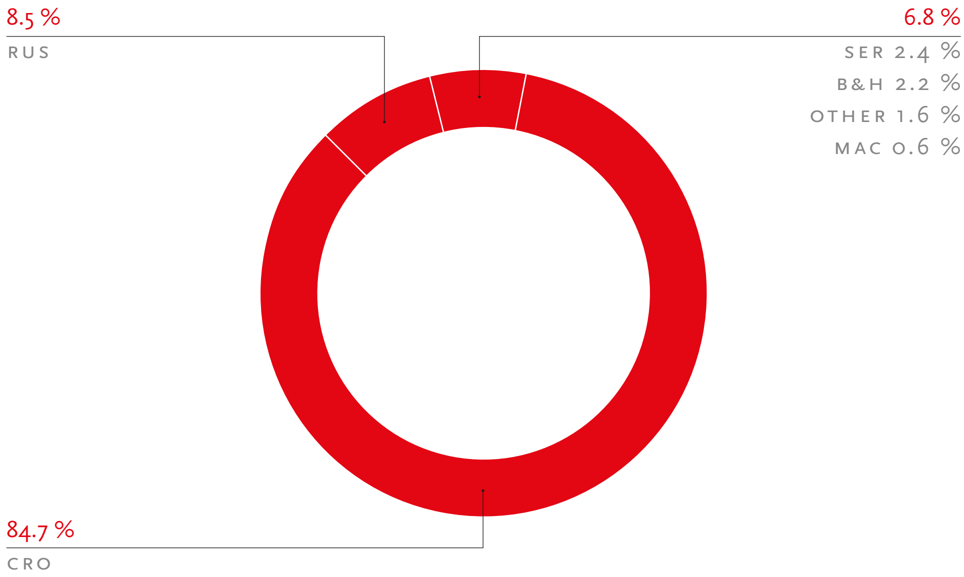
4

NEW PRODUCTS WERE LAUNCHED IN THE CATEGORY OF LIP AND FACE COSMETICS PRODUCTS

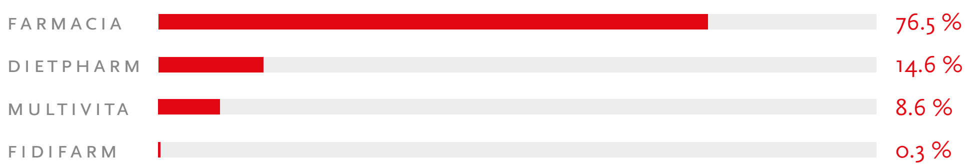
* SOURCE: AC NIELSEN RETAIL PANEL: JANUARY – NOVEMBER 2015

SALES BY COUNTRIES - PHARMA

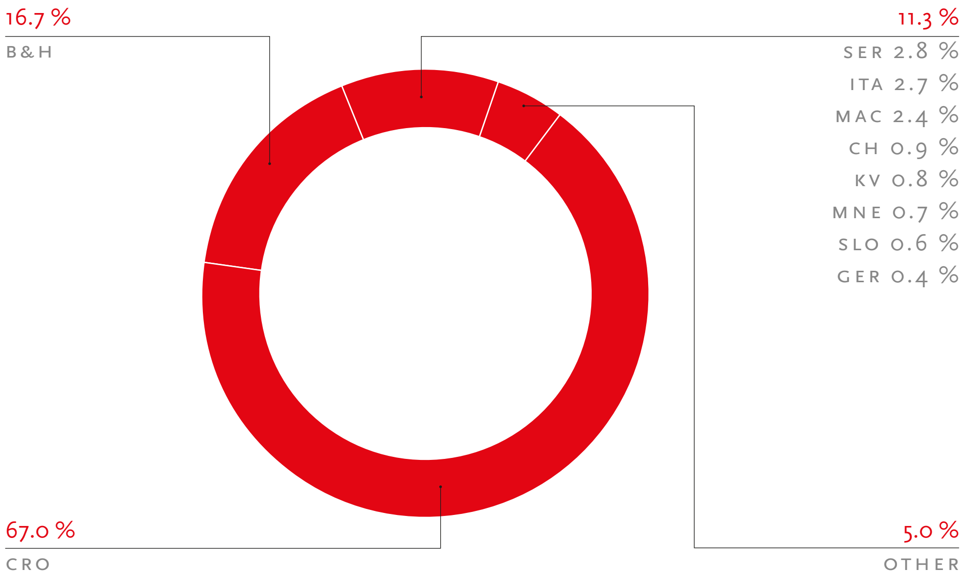
SOURCE: INTERNAL ATLANTIC DATA



SALES BY CATEGORIES - PHARMA

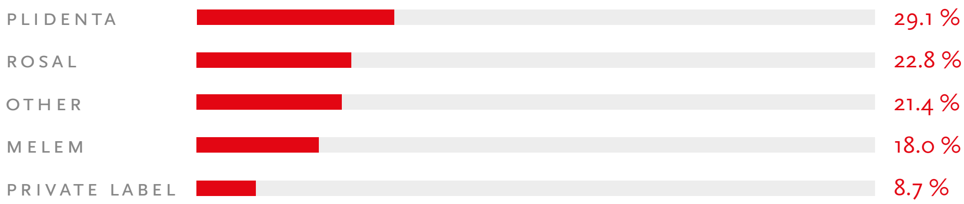


SALES BY COUNTRIES - PERSONAL CARE



SOURCE: INTERNAL ATLANTIC DATA

SALES BY BRANDS - PERSONAL CARE



The Strategic Business Unit Sports and Functional Food (SBU Sports and Functional Food) specialises in the development, production and sales of sports food and weight-loss products. Thirty nine years of tradition and a leading position in the sports food segment have resulted in the leading brands Multipower and Champ. The headquarters of the SBU Sports and Functional Food is in Hamburg and products under the core brand Multipower are leaders on the sports food market in the entire Europe.

The SBU Sports and Functional Food's production processes are certified by ISO 9001:2000 and IFS. The production plant for powder products and supplements is located in Bleckede, and in the second quarter of 2015 the SBU Sports and Functional Food started production of protein bars in Nova Gradiška. Atlantic Grupa has invested in a new plant for the production of energy bars the total value of HRK 100 million and created 83 new jobs in the first year of production and, with the planned business growth, ultimately 160 new jobs. The plant is equipped with the top technology capable of producing around 100 million protein bars a year. In the new plant construction project, the project team prepared the implementation of SAP solution for supporting business processes of the new plant which was completed in November 2014. Considering that all the necessary preconditions were realised, the technological team started test production in order to achieve full functionality of the energy bars production after the second quarter of 2015. The new plant for the production of protein bars enabled the SBU Sports and Functional Food to transfer the production of this segment from external producers into new facilities.

MULTIPOWER

SPORTS LINE Champ®

MULTABEN

FEED YOUR INNER CHAMPION

39

YEARS OF TRADITION

768

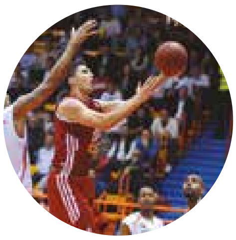
MILLION HRK OF SALES REVENUE IN 2015

41%

CAME FROM OWN BRANDS SALES

59%

CAME FROM SALES OF PRIVATE LABEL PRODUCTS



The Strategic Business Unit Sports and Functional Food started the process of restructuring during 2015 which is supposed to be finalised during the 2nd quarter of 2016 with the main focus on business simplification, cost reduction and sustainable business growth.

In line with the new strategy, the SBU's focus is on strengthening both major brands, Multipower and Champ. Historically, Multipower is positioned in sports channel and in the future the company will further develop Mass Market channel with the special focus on digital and online channel. In the next few years the SBU plans to increase its market share in core markets, Germany and Austria and further development of opportunity markets, UK and Italy. Multipower brand is positioned as top line sport food for active and professional sportsman with the highest quality of ingredients and recipes within all major segments of Sports Food category. Champ will be positioned as a mainstream entry level brand for active people and health conscious individuals.

The SBU Sports and Functional Food in 2015 recorded sales of HRK 768 million, from which 41% came from own brands sales and 59% from sales of private label products. During 2015, Multipower as focus brand kept its market share on its core markets as well as on opportunity markets. Highest growth has been achieved on our second largest market, United Kingdom.

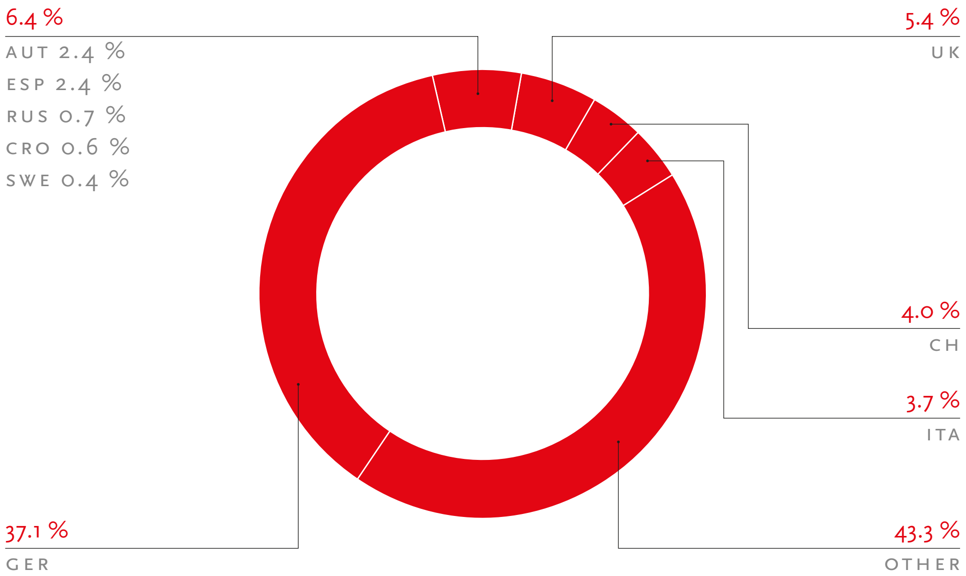
Temporary sanctions and depreciation of the Russian rouble had a significant negative effect on the markets of Russia and Commonwealth of Independent States, which experienced a decline compared to 2014.

In 2015, the best results and double digit growth was achieved with the new Multipower 100% Whey Powder in the sport channel. Mass market growth was driven by Multipower 50% protein bar. Special attention in 2015 was also given to launching a new assortment of protein powders for the consumer segment "Sculptor". The launch of this new line with extensive marketing support happened in April 2015. It was a very successful initiative in 2015.

From the marketing aspect, as the leading sports food producer in Europe, the activities of the SBU Sports and Functional Food will be directed toward increasing brand value of Multipower and Champ. Therefore, SBU will redesign complete Multipower assortment, introduce new products into Endurance segment developed together with one of the leading triathlon athletes, Jan Frodeno. New bars with the highest protein content will be launched in spring 2016 and rest of the bar assortment will be renewed in September. Multipower powders will be supported by all year engaging online campaign where significant resources would be employed. Further, Champ will be rebranded during spring 2016 and all the recipes will be upgraded in bars as well as in powders. A big campaign will support this relaunch.

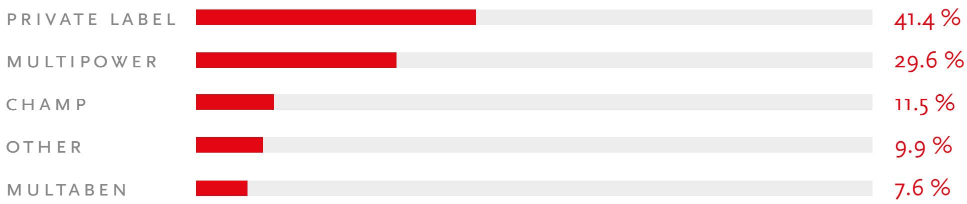
The cooperation with the largest private label buyer (the revenues realised in 2015 amounted to HRK 350 million) will be in the biggest part discontinued in March 2016. Atlantic Group will continue to develop new products and take steps to renew cooperation in the previous size. At the same time, the active negotiations with new potential partners for the production of private label sales in the segment of Sports and Functional Food will be continued, due to the comparative advantages of the company as a long-standing expertise, professional research and development team and modern and efficient plants for the production of energy bars.

SALES BY COUNTRIES



SOURCE: INTERNAL ATLANTIC DATA

SALES BY BRANDS



Despite many challenges, the Strategic Business Unit Savoury Spreads (SBU Savoury Spreads) recorded 14.2% higher sales in 2015, generated by organic growth as well as consolidated results of the acquired company Foodland.

Argeta marked the year with a new modern design which separates it from the competition. Together with the redesign, a new practical can-opening system for all 95g cans was introduced, while a new production line for aluminium packaging was commissioned in Bosnia and Herzegovina. An extensive media campaign was carried out, aimed at ensuring the smooth introduction of new packaging on the market, while repeating the campaign "Odobrile mame" (Approved by Moms) in which mums approved the new design and simple opening, as they two years ago confirmed Argeta's quality.

Among other products launched in 2015, we should mention the new improved recipe for liver pâté, which makes it more competitive with other pork liver pâtés. The youngest member of the family is the savoury spread Sardina Adriatica, with which Argeta entered the segment of sardine spreads and responded to the competitive challenge in the segment of fish spreads, with regard to both taste and price. One more innovation is the 114g chicken spread, offered as a temporary product in particular markets. As a mandatory holidays indulgence of the senses, we offered three new flavours in the Argeta Exclusive Chef's Selection.

Due to the innovations and support of marketing-sales campaigns, Argeta retained its position in regional markets, whereas value market shares remained almost unchanged in Slovenia, Bosnia & Herzegovina and Serbia, while in Croatia Argeta achieved a 5% higher market share. We consider this to be a great success considering the extremely aggressive price competition. Argeta was even more successful in markets outside the region, like Austria, where it achieved the best ever market share and became the most sold pâté on the market. The highest ever market share was also achieved in Switzerland, were Argeta managed to get closer to the market leader. Further, Argeta posted a significant growth in Sweden, United Kingdom and the United States of America.

Montana in 2015 launched two new sandwich formats, maxi triangle for the hungriest and mini triangle for children. A new line of baguette "super tasty" sandwiches and a new triangle sandwich specifically developed for gas stations were also launched in Croatia. Finally, Montana entered into partnership with two significant retail chains, all of which enabled an 8% growth in the Croatian market. In Slovenia a high 19% growth was recorded, mostly in the HoReCa channel.

ARGETA

montana+

538

MILLION HRK OF SALES REVENUE IN 2015

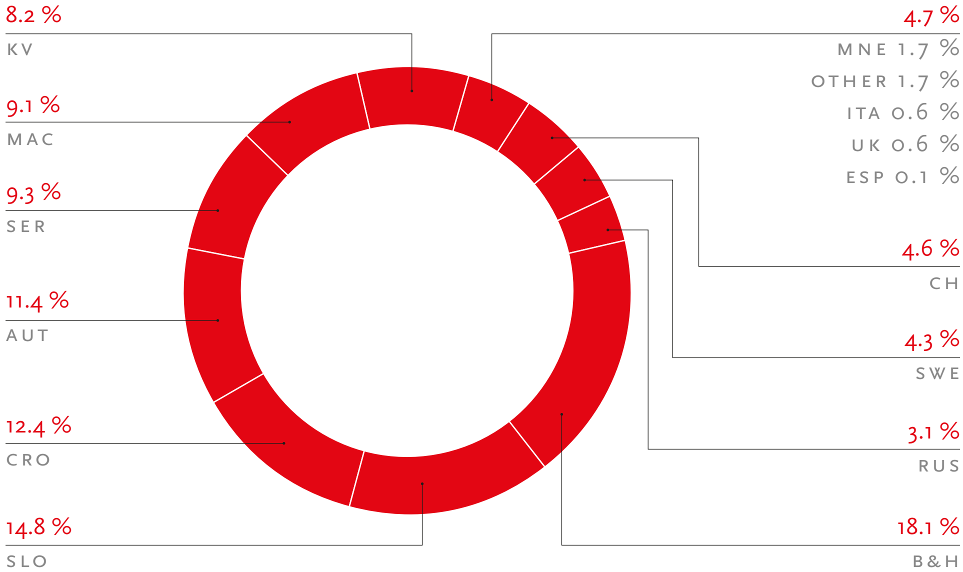
14.2%

SALES GROWTH COMPARED TO 2014

THE GOOD SIDE OF BREAD

SOURCE: INTERNAL ATLANTIC DATA

SALES BY COUNTRIES



SALES BY CATEGORIES - ARGETA

SALES BY CATEGORIES - MONTANA


Granny's Secret
Ajvar Classic
Balkan Specialty
200g
Net

BUSINESS UNIT
GOURMET

In 2015, the SBU Savoury Spreads included several more recognisable brands of the company Foodland d.o.o. with production plants in Igros at the base of the Kopaonik mountain range due to Atlantic Grupa's acquisition of the company. Moreover, due to high expectations for Granny's Secret in the context of extending and strengthening the portfolio on the markets beyond Southeast Europe, near the end of 2015 the strong focus on that brand was ensured by separating the listed product portfolio and operations in a separate Business Unit Gourmet.

The most important part of the product range under the brand Granny's Secret includes delicacies such as savoury spreads and sauces (Ajvar relish, Pindjur relish, ketchup, pasta sauces) and sweet spreads (jams, jellies, sweets) and natural syrups and juices made from fresh fruits and vegetables. Vegetables and fruits selected for the production are the yield of the untouched nature of the broader area of Kopaonik and the local farms. All products are made with the highest percentage of fruit and vegetables and prepared in a traditional way, without additives or preservatives. Production at the Foodland plants is set up in accordance with the high standards of the worldwide HCCP certificates, ISO 9001 and BRC.

In 2015, the company's sales amounted to HRK 42 million. Own brands Granny's Secret and Amfissa accounted for 90% of sales (of which Granny's Secret two thirds and Amfissa one third), while one tenth of sales was generated by the production of private labels. During 2015 the company's integration into Atlantic Grupa's business processes was completed and its product range was optimised by focusing on own brands. Finally, an investment cycle was initiated for the purpose of increasing production capacities and product quality in line with the growth strategy.

42

MILLION HRK OF SALES REVENUE IN 2015

90%

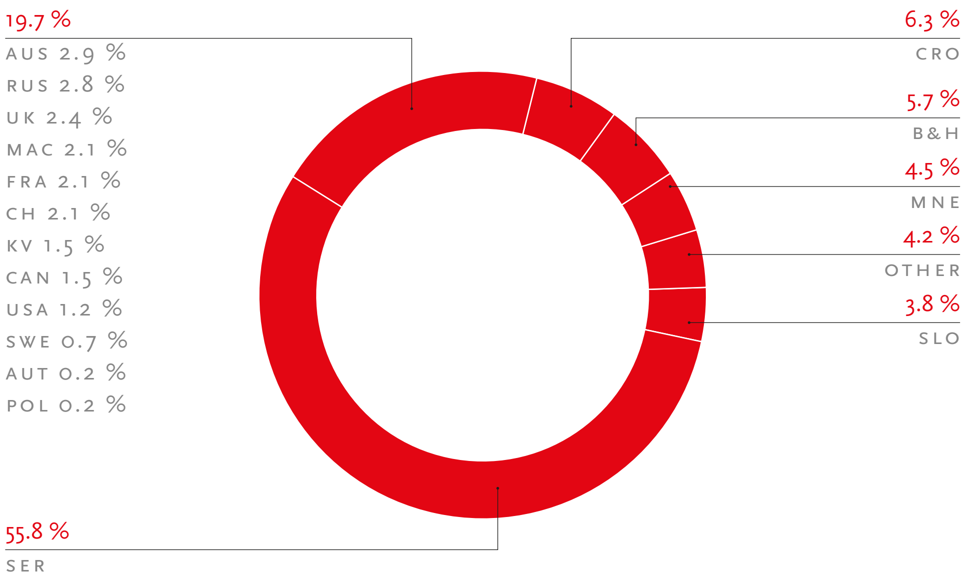
OF SALES GO TO OWN BRANDS – GRANNY'S SECRET AND AMFISSA

2/3

OF SALES REVENUE HOLDS GRANNY'S SECRET

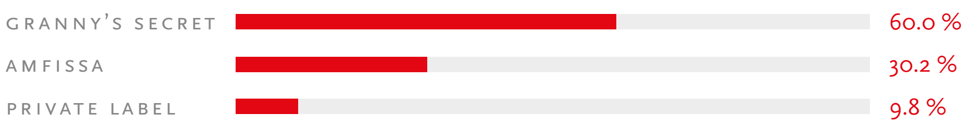
FOOD FOR THE SOUL

SALES BY COUNTRIES



SOURCE: INTERNAL ATLANTIC DATA

SALES BY BRANDS

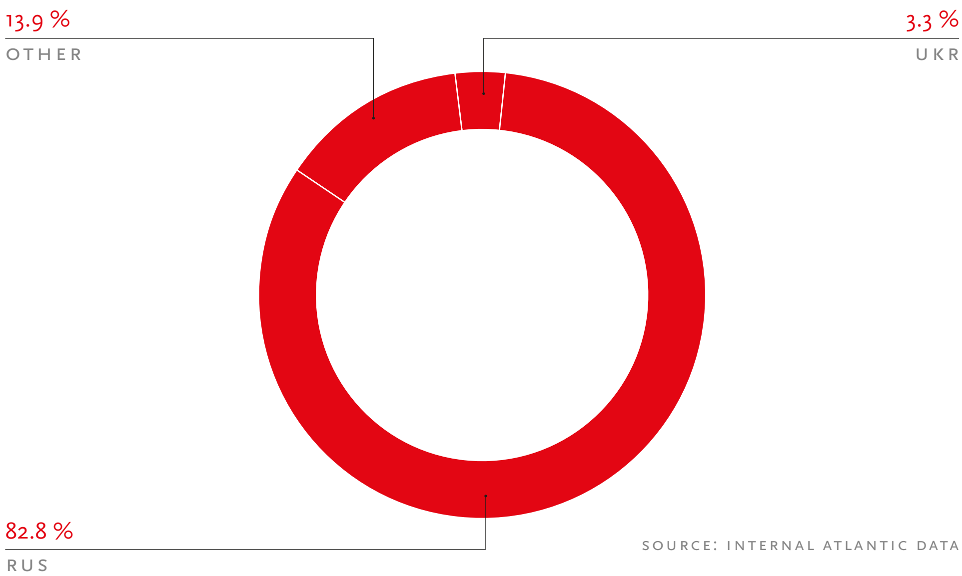


Despite an unfavourable macroeconomic environment, depreciation of the Russian rouble and reduced purchasing power, the Business Unit Baby Food is experiencing positive developments in the Russian market. The good results are most visible in the category of kids' cereals, where the fourth market position was kept retained a 9% value market share, preserving the customers' loyalty in a turbulent period.

Among the significant preconditions for ensuring sustainable market growth in Russia were finalising the redesign of baby food Bebi and the new communication strategy focusing on the brand's strong tradition on the national level. The mother and child symbol carries the message of maternal love and care. The placement of this symbol on all packaging together with the redesign and a print campaign increased the brand recognisability and loyalty.

Other than improving the core product portfolio, our efforts were directed at the growing niche market segment of cereals in which 4 new products were launched, supported by free tastings and special product offers. The mandatory product selection was introduced in all retail chains in order to ensure shelf space and improve profitability, while continuing to implement the new commercial policy which provided clear standards for all distributors in Russia.

SALES BY COUNTRIES



SOURCE: INTERNAL ATLANTIC DATA

FROM THE FIRST DAY OF LIFE

SALES BY BRANDS

THE STRATEGIC DISTRIBUTION UNITS AND DISTRIBUTION UNITS have a highly developed know-how in the fields of key client management, product category management, supply chain management, trade marketing and sales improvement, which is continuously adapted to market trends. The primary activity of the Strategic Distribution Units and Distribution Units is distribution of the entire product range from Atlantic's own production and the portfolio of external principals, divided into seven units: Croatia, Slovenia, Serbia, Macedonia, CIS, International Markets, and HoReCa Channel. Distribution in BiH and Montenegro is organised in cooperation with the partner company Ataco.

SDU CROATIA

The SDU Croatia has shown a double-digit revenue growth of 11.1% that amounted to HRK 938.3 million. At the same time, EBITDA grew by impressive 53.6% through capturing market opportunities for assuring sustainable volume growth (PY +12.0%). The performance was challenged with the continuation of market concentration (Lidl, Kaufland, Spar, Plodine) and acquisitions (Mercator and Kozmo by Agrokor), resulting in higher pressure on terms & conditions. At the same time, the mentioned trade market challenges were neutralised by savings in operating expenses, as a result of process optimisation and efficiency improvements.

The following activities specifically contributed to over-achieving the sales results from the previous year:

- Introduction of "season sales organisation" with a primary focus on beverages execution resulted in improving the category by +6% vs. PY (double faster growth than average growth).
- In terms of physical availability, manifested in numeric and weighted distribution levels of brands represented in the Atlantic's trade portfolio, in the majority of cases outperformed the targeted competition.
- The category context dictates the level of competitiveness. Although overall non-food categories are highly competitive and volume delivery is under bigger promotional pressure, with careful adjusting and monitoring we have managed to deliver substantial growth towards our customers through brands that deliver actual category growth. The complexity of nurturing food categories overall was dependent on their respective category maturity stage and brand penetration levels that dictated the dynamics of support.
- Re-opening the cooperation with KA Kaufland at midyear 2015.
- Horizontal trade market growth is supported through continued capital investments primarily related to installation of the new Coffee2Go equipment and maintenance of the existing Cold Drink Equipment positions.

As regards the developments in key market shares and market categories, Argeta grew by 20% due to the successful introduction of new products and design innovations, together with covering unaddressed distribution potentials, and similar was with coffee that grew by 34% compared to 2014. Snacks improved their sales through deeper distribution together with marketing promotions and introduced umbrella sales incentive, while Cedevita improved its market share as result of increased marketing support in the category development, improved products and on-shelf visibility.

The excellent results from the principal Ferrero (growth by 12%) were achieved by consecutively good execution of promo activities across the market and partial value influence of a price increase at the beginning of the year, while Unilever growth resulted from a solid innovation pipeline and developed marketing activity plan per channel. Wrigley had lower performance due to overall underperformance of the whole chewing gum category (the whole category fell by 7%) and due to the absence of premium positions in ex-Mercator outlets & additional positions in Konzum.

As a final note, overall business health improvement is shown through the continuous optimisation of Trade Receivable (-12 days vs previous year) that is a direct result of strict credit policy execution. In addition, we introduced the project for improvement of sales forecast accuracy & aligned demand planning process whose main aim is further improvement of the working capital through optimised inventory stock levels.

11.1%
OF REVENUE GROWTH OF SDU CROATIA

12%
OF EBITDA GROWTH COMPARED TO 2014

20%
ARGETA GREW COMPARED TO 2014

34%
COFFEE SEGMENT GREW COMPARED TO 2014

12%
OF GROWTH OF THE PRINCIPAL FERRERO COMPARED TO 2014

SDU SERBIA

8.5%

OF REVENUE GROWTH OF SDU SERBIA

52.0%

MARKET SHARE OF TURKISH COFFEE IN SERBIA

21.4%

MARKET SHARE OF CHOCOLATES IN SERBIA

In view of the still unfavourable macroeconomic environment in Serbia, followed by the population's reduced purchasing power and declining consumption in certain product categories, the Strategic Distribution Unit Serbia (SDU Serbia) achieved excellent business results reflected in a +8.5% growth in net revenue compared to 2014.

The position of the leading supplier of Turkish coffee was retained with a 52%* market share, while in the segment of chocolates Najlepše Želje reached a record-high market share of 21.4%*. As the result of Atlantic Grupa's acquisition of Foodland, the SDU Serbia is distributing its products from 1 February 2015, which provided a significant incentive for the posted growth in sales. In 2015, the SDU Serbia's distribution portfolio was joined by new international principals, such as Rauch and Del Castello, while continuing the successful cooperation with principals L'Oreal, Alkaloid, etc.

The SDU Serbia' was reorganised during 2015 by dividing the sales organisation into division teams (4 division teams – beverages, food, non-food and traditional trade). The advantages of this reorganisation are improved focus of the teams on brands from their division, efficient implementation of field activities and readiness to accept new principals. In addition, the logistics on this market were supported by the dynamic transport routing project by using the Skytrack system.

SDU INTERNATIONAL MARKETS

6-30%

OF REVENUE GROWTH OF SDU INTERNATIONAL MARKETS

8-15%

OF REVENUE GROWTH OF THE SEGMENTS OF SNACKS, BEVERAGES AND SAVOURY SPREADS

The results of the Strategic Distribution Unit International Markets (SDU International Markets) in 2015 show a mixture of strong sales growth between 6 and 30% on the markets like Spain, United Kingdom, Switzerland, Sweden, Austria and Australia and a decline on the German market. This growth is primarily based on higher sales in the already existing sales venues (Argeta became the most sold pâté in Austria), increasing the distribution range of consumer goods (Donat Mg and Cedevita in Austria), successful launching of new products (sports and functional food segment in Spain and United Kingdom) and adding new brands to the Distribution Unit's portfolio. The drop in sales in Germany was caused by optimising the production portfolio of sports and functional food in the segment of consumer goods, in parallel with growth in the specialised sales channel and successful launching of new products. The segments of Snacks, Beverages and Savoury Spreads posted significant growth between 8 and 15% and, analysed by brands, the highest growth was achieved by Donat Mg (11%) and Argeta (8%).

In 2015, the SDU International Markets made a significant step forward in changing the distribution model by using the route-to-market strategy. The SDU took over the portfolio of sports and functional food in the specialised sports channel from the external distributor, concluded cooperation with a new distributor in the ethno channel for the DACH region (Germany, Austria, Switzerland), and changed the consumer goods distributor in Switzerland. With the aim to provide full support to the Atlantic Grupa's portfolio and seize the opportunities offered by these markets, Atlantic Grupa established new operating companies in Germany and Austria that will take over the distribution activities in these markets. Consequently, significant investments in the strengthening of local teams are planned for these companies.

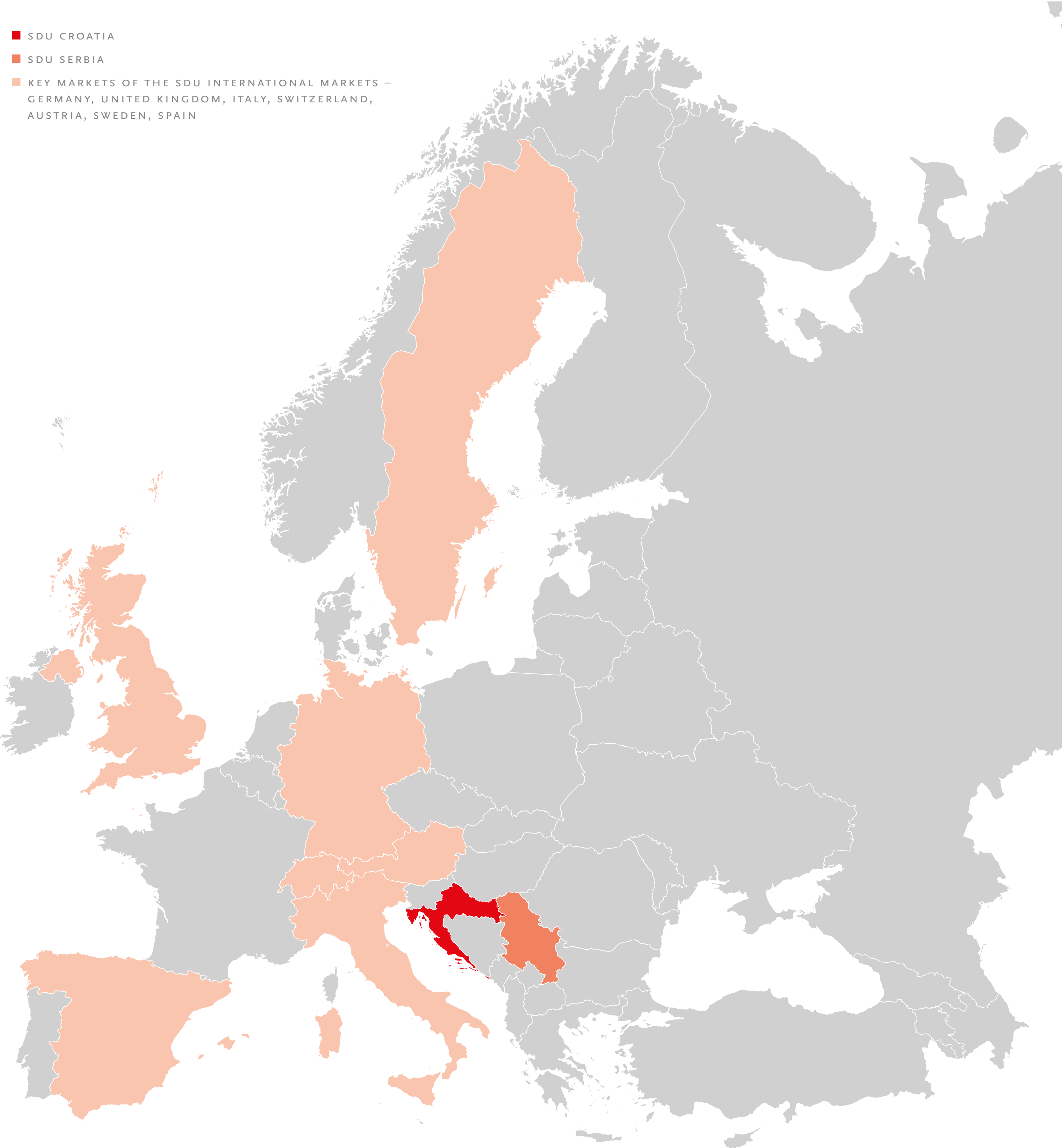
* AC NIELSEN RETAIL PANEL, JANUARY – NOVEMBER 2015 (PERCENTAGE MOVEMENTS ON AN ANNUAL LEVEL)

STRATEGIC DISTRIBUTION UNITS
AND DISTRIBUTION UNITS

SDU CROATIA

SDU SERBIA

KEY MARKETS OF THE SDU INTERNATIONAL MARKETS – GERMANY, UNITED KINGDOM, ITALY, SWITZERLAND, AUSTRIA, SWEDEN, SPAIN



SDU HORECA

17.1%

OF REVENUE GROWTH OF SDU HORECA

660

NEW BARCAFFÈ ESPRESSO VENUES

The focus of the Strategic Distribution Unit HoReCa, which operates in Croatia, Serbia, Slovenia and Macedonia, was on the growth policy which in 2015 provided for excellent sales results. A 17.1% revenue growth was spurred by significantly better sales of own brands, improved sales of the existing principals and by agreements signed with new principals. Double-digit growth rates were achieved in all countries, while the two strongest markets are still Slovenia and Croatia, and the main revenue driver is the instant vitamin drink Cedevita in 19g bags.

The coffee business within this Distribution Unit was expanded with the assortment of 1.5-litre milks for baristas available on all markets and made in cooperation with Vindija from Varaždin. The development of the espresso segment was continued by Barcaffè entering 660 new venues across the region.

In this business segment, the year 2015 saw the signing of the agreement on distribution of Rauch in Serbia, owing to the excellent results achieved in Croatia and Slovenia, as well as the agreement with the company SABMiller on distributing its beer brands, Pilsner Urquell, Kozel Premium and Kozel Dark, in Croatia. The SDU HoReCa proactively considers new potentials and sales opportunities in the HoReCa channel to meet competitive market demands and increase business efficiency.

SDU CIS

550

RETAIL VENUES WITH GRANNY'S SECRET PRODUCTS

5

NEW PRODUCT LAUNCHES BY BRAND BEBI

The effect of unfavourable macroeconomic trends was partially compensated by efforts of the sales team in the Strategic Distribution Unit Commonwealth of Independent States (CIS) aimed at increasing the availability of Atlantic Grupa's products on the market.

At the same time, we actively managed sales prices and with a price increase managed to partly compensate for unfavourable currency movements (particularly for Argeta and Bebi), as well as prepared detailed scenarios in the case of significant fluctuations of the Russian rouble in the future. Products under the brand Granny's Secret may from 2015 be found in over 550 retail venues, while the distribution of Argeta was significantly improved. The brand Bebi successfully launched five new products and posted a significant growth in retail sales, surpassing the planned results. The constantly growing brand recognisability, improvement of distribution and better visibility at points of sale by providing premium shelf places give the brand Donat Mg further possibilities for development in 2016.

The high birth rate and growing economics provide new opportunities for further development of the company's activities on the CIS market, where the focus will continue to be on strengthening operations. In line with the above, Atlantic Grupa participated in organising the first conference for 30 Russian distribution companies, where it clearly communicated its single commercial policy for all distributors.

STRATEGIC DISTRIBUTION UNITS
AND DISTRIBUTION UNITS

- SDU HORECA –
  CROATIA, SERBIA, SLOVENIA
  AND MACEDONIA
- SDU CIS –
  ARMENIA, BELARUS, KAZAKHSTAN,
  KYRGYZSTAN, MOLDOVA, RUSSIA,
  TAJIKISTAN, TURKMENISTAN, UKRAINE
  AND UZBEKISTAN

DU SLOVENIA

The Distribution Unit Slovenia (SDU Slovenia) has in 2015 affirmed itself as one of the three leading distributors of high-quality consumer goods in Slovenia whose distribution portfolio is constantly growing. In order to facilitate operations and adjustment to ever-growing market demands, the DU Slovenia in 2015 upgraded information technologies – such as upgraded electronic invoicing towards state-owned companies. The year 2015 was also marked by the reorganisation of brand operations management and key account management functions in order to prepare the organisation for further growth of the portfolio and future requirements of the market.

Along with the distribution of brands from own production programme, the DU Slovenia in 2015 operated as an authorised distributor of renowned international brands, including:

- Ferrero,
- Hipp,
- Unilever,
- Italfood,
- Rauch,
- Orangina,
- BIC,
- Stock,
- Schwartau,
- Corny.

DU MACEDONIA

DU MACEDONIA IS PRESENT IN

3,264

RETAIL OUTLETS,

190

GAS STATIONS,

1,524

CAFES AND

239

PHARMACIES ACROSS MACEDONIA

The Distribution Unit Macedonia (DU Macedonia) in 2015 remained one of the three leading distributors of consumer goods in Macedonia. The distribution portfolio is extremely well-accepted by consumers and clients, comprising high-quality products of internal and external principals. Along with the distribution of brands from Atlantic Grupa's own production programme, the DU Macedonia is an authorised distributor of international brands, including:

- Ferrero,
- Monster,
- Nescafe,
- Aleva,
- The Bakers.

All this above mentioned principals, together with internal principals, represent a strong portfolio present in every retail outlet in Macedonia. Statistically, the DU Macedonia is present in 3,264 retail outlets, 190 gas stations, 1,524 cafes and 239 pharmacies across Macedonia. This strong presence at points-of-sale led to 5% better results compared to the previous year. The 2015 sales results, compared to 2014, were achieved primarily by Argeta and the best ever sales of Soko Štark and Ferrero in Macedonia.

In addition, the 2015 turnover growth was supported by the sales of new product categories, like chips and products under the brand Granny's Secret. Our policy of 24-hour delivery in Macedonia worked flawlessly with two locations in Skopje, divided into the retail warehouse and HoReCa/Pharma warehouse. Together with distribution in the HoReCa segment and central functions, the Atlantic Grupa's operating company in Macedonia employs 145 high-quality workers.

STRATEGIC DISTRIBUTION UNITS
AND DISTRIBUTION UNITS

QUALITY CONTROL

6%

DECREASE IN THE TOTAL NUMBER OF COMPLAINTS COMPARED TO 2014

15%

DECREASE IN THE NUMBER OF JUSTIFIED COMPLAINTS COMPARED TO 2014

For five consecutive years Atlantic Grupa has been working on the organisation of quality control in order to balance the goals and results of business units and maximise the satisfaction of consumers of our products. The processes of quality control in Atlantic Grupa are organised through independent quality assurance departments within the company's operating structure, and directed according to balanced goals from the corporate level.

Such organisational structure enables the following:

- coordinated monitoring of legislation,
- implementation of best practices,
- optimal improvement and use of expert knowledge in the field of microbiological, chemical and other hazards,
- centralised supplier management in view of the quality of input materials,
- good and coordinated cooperation with other business processes,
- specialisation of the quality assurance system according to specific issues of individual Strategic Business Units in the product segments of beverages, savoury spreads, sweet and salty snacks, children's and sports food, cosmetics and medicines,
- traceability and maintenance of a high quality level in transport, storage and distribution to customers.

From the beginning of developing a new product and during the improvement of an existing one, we endeavour to achieve a standard high quality of Atlantic Grupa's products which is recognisable to customers.

The achievement of complex goals in the field of quality control requires a proactive and coordinated involvement of experts from the processes of new product development, procurement, legal affairs and quality assurance. The following factors have an important role in the production of health-safe products: selection of source materials (non-toxic, allergen-free, GMO-free, aligned with the REACH regulation, etc.), quality control of all input materials and ingredients, monitoring of all production and distribution phases, quality assurance of finished products and monitoring customer satisfaction.

In 2015, our experts shared their experiences in an internal professional conference that covered the following topics:

- new risks related to falsification of food raw materials (food fraud),
- new microbiological risks (viruses) and their control,
- new knowledge in the field of micotoxins,
- argument-based risk assessment and control measures,
- service quality management, which directly affects the product quality (transport, hygiene services).

In addition, several trainings were organised within the internal programme for improving functional knowledge in the field of quality and product safety management systems, with a primary focus on service quality management.

The efficiency of the quality assurance process is assessed on the basis of achieving target values for key indicators: the number of consumer complaints and the number of product recalls.

The results of key performance indicators for 2015 at the level of entire Atlantic Grupa show:

- decrease in the total number of complaints in relation to 2014 by more than 6%;
- decrease in the number of justified complaints in relation to 2014 by more than 15%;
- stable results as regards the aspect of product conformity, expressed in the number of preventive product recalls or non-conformities identified in inspections.

In 2015, our primary focus was on improving quality control processes within new companies Atlantic Multipower Croatia and Foodland. We continued to upgrade the competence of local teams by regular focused trainings, using knowledge and experience of corporate experts, colleagues from the business segment of savoury spreads and from the plant in Bleckede, Germany.

The results demonstrate the successful performance of these activities in 2015:

- only three justified complaints for products manufactured in the plant of Atlantic Multipower Croatia;
- decrease in the total number of complaints concerning the brand Multipower from 5.4 ppm* (2014) to 4.3 ppm* (2015) (*ppm = complaints per 1,000,000 units sold);
- efficient management of occasional non-conformities of products under brands Granny's Secret and Amfissa with controlled and quick market response that ensured complete health safety of all products on all target markets.

Pleased with the results, we will continue improvements in 2016 with a primary focus on Foodland's factory with the goal of further investments into control equipment and expert knowledge.

Significant support for these excellent results was provided by the prevention programme for control of food hazards, which is managed at the Group level in order to summarize all experiences of the expert team. Monitoring is focused on input materials and adjusted to the supplier's risk assessment – it implies the control of pesticide residues, heavy metals, allergens, microtoxins, alkaloids, PAHs and dioxins, nitrates, pharmacologically active substances and contamination by migration of substances from primary packaging. As a novelty, in 2015 we tested fatty acid ester content in high-fat products. Laboratory testing of input materials, semi-finished products and finished products are carried out in three central laboratories specialised for chemical, sensory and microbiological tests with state-of-the-art measurement equipment. The accuracy of measurement results is regularly verified by the method of international interlaboratory testing. Depending on the type of contaminants, such tests are outsourced to accredited and specialised laboratories.

The activities in the field of quality assurance are supported by advanced IT solutions: the SAP QM module was implemented in the Slovenian market and in some legal entities in Croatia, while other locations use internal IT solutions on similar platforms according to the same model.

Further progress in 2015 was made in the fields of safety management and product quality in food-related distribution operations, where at the end of the year we started to implement the good practices already present in our established markets within the Zone East (such as the defined quality of storage services, transparent and strictly defined procedures for managing complaints and crisis situations, etc.) into business processes in new markets and distribution centres within the Zone West.

ZORAN STANKOVIĆ

GROUP VICE PRESIDENT FOR FINANCE

ATLANTIC GRUPA ended the year 2015 with strong revenues and net profitability growth, thus achieving the announced expectations for eight years in a row. Despite challenging macroeconomic conditions, reflected in a slower economic activity, lower personal consumption, depreciation of the Russian rouble and Serbian dinar, and negative movements in some of the main categories for Atlantic Grupa's products, we recorded growth in categories of both own and principal brands. This confirms our focus on continuous deleveraging, which is reflected in a 16% decrease in interest expense and a lower net debt to EBITDA ratio of 3.0 at the end of 2015. It is worth noting a strong cash flow from operating activities, which is 5.6% higher than in the previous year.

A significant challenge in our 2015 operations was related to the extreme volatility of currencies, primarily the Russian rouble and, in lesser extent, the Serbian dinar. Profitability was further affected by significant growth in prices of raw coffee in the global commodity markets as well as the strengthening of the US dollar. Atlantic Grupa largely compensated the negative effects of higher prices of raw coffee and stronger dollar by active hedging. We expect that currency pressures will continue in 2016 and plan to mitigate them by continuous monitoring of operating costs, management of financial and operating risks, liquidity management and, where applicable, active hedging.

With regard to risk management and liquidity maintenance, Atlantic Grupa is continuously monitoring the major buyers' risk level and payment process and limiting the exposure to risky buyers.

Atlantic Grupa continues to be an active participant in the Croatian capital market and holds the sixth place according to the total turnover of shares at the Zagreb Stock Exchange, which is a result of its transparent corporate management system, excellent business results, stable ownership structure and the free float of 38%.

SALES PROFILE BY STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

5.4

BILLION HRK OF SALES REVENUE IN 2015

5.6%

GROWTH COMPARED TO 2014

(HRK 000)	2015	2014	2015/2014
SBU Beverages	**666,075**	638,817	4.3%
SBU Coffee	**1,084,926**	1,026,680	5.7%
SBU (Sweet and Salted) Snacks	**631,553**	614,426	2.8%
SBU Savoury Spreads	**538,231**	471,385	14.2%
SBU Sports and Functional Food	**768,428**	779,075	(1.4%)
SBU Pharma and Personal Care	**509,615**	493,345	3.3%
SDU Croatia	**938,311**	844,252	11.1%
SDU Serbia	**1,175,100**	1,083,149	8.5%
SDU International markets	**589,913**	582,426	1.3%
DU Slovenia	**761,868**	725,487	5.0%
Other segments*	**780,058**	820,504	(4.9%)
Reconciliation**	**(3,038,766)**	(2,961,173)	n/a
Sales	**5,405,312**	5,118,373	5.6%

In **2015**, Atlantic Grupa **recorded sales of HRK 5.4 billion**, which is a 5.6% growth compared to the previous year. The growth was mainly result of the growth in sales in the Strategic Distribution Units Croatia and Serbia, Strategic Business Unit Coffee, Strategic Business Unit Savoury Spreads (due to organic growth, but also to consolidated results of the acquired company Foodland d.o.o.) and the Distribution Unit Slovenia. If the effect of the Foodland acquisition is excluded, sales grew by 4.8%, and if the effects of the Foodland acquisition and unfavourable exchange rate movements (the Russian rouble and the Serbian dinar) are excluded, sales record a 6.6% growth compared to 2014. Unfavourable exchange rate movements are reflected in the average depreciation of the Russian rouble of 33.7% and the average depreciation of the Serbian dinar of 3.3% compared to the same period of the previous year.

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

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

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

- The **STRATEGIC BUSINESS UNIT BEVERAGES** owes the sales growth to the increase in sales of vitamin instant drinks in all three segments: retail, HoReCa channel and on-the-go segment. The growth was also supported by the redesign of the Cedevita packaging, new HoReCa packaging, new flavours introduced, and it was additionally boosted by excellent tourist season and favourable weather conditions. The Cockta brand in the carbonated soft drinks category recorded growth due to launching a new flavour, Cockta Black Tonic, and the growth in sales in the HoReCa channel; Cedevita candies recorded a sales growth due to Cedevita Kids Puc Puc powdered candies. The growth of the above mentioned categories significantly exceeded the decrease in sales of the waters category under the Kala brand in the Croatian market (due to delisting of unprofitable products) and a slight decrease in functional waters under the Donat Mg brand, which largely compensated for the decrease in the Russian market by the increase in sales in the markets of Slovenia and Croatia. Loss of a portion of revenues on the Russian market was caused by unfavourable economic situation and the temporarily suspended distribution in Russia due to negotiations with the key buyer, which were successfully concluded in April.

- The sales growth in the **STRATEGIC BUSINESS UNIT COFFEE** is primarily a consequence of the double-digit increase in sales in the markets of Croatia and Bosnia and Herzegovina, and a considerable growth was also recorded by two largest markets in this business unit, Serbia and Slovenia. Of significant markets, a slight sales decrease was recorded only in Macedonia, due to aggressive competition in terms of prices. In the Croatian market, despite the significant volume and value drop of the overall market category*, Barcaffè continues to record excellent results, increasing its volume and value market shares in the Turkish coffee category (2.3% greater value market share compared to the same period of the previous year*), and it holds the third position in the market, with a 13.3% share*, which is a value growth of 34%.

- The record high level of sales of the **STRATEGIC BUSINESS UNIT SNACKS** is primarily a consequence of the double-digit increase in sales of chocolate under the Najlepše želje brand and the increase in sales of the Chipsos brand in the chips category, where the growth is recorded by all regional markets except Montenegro. The market of Croatia records double-digit growth rates mainly due to the increase in sales of chips under the Chipsos brand, and sales of flips under the Smoki brand, and it should be noted that the double-digit growth was recorded in the biscuits category as well. In the markets of Bosnia and Herzegovina and Serbia, Smoki recorded sales growth, despite the double-digit volume and value drops of the flips category. Chipsos grew in the Serbian market despite the category drop of 12%* in 2015, and in Serbia, Najlepše želje recorded the greatest market share ever, of 26.9%*.

- The **STRATEGIC BUSINESS UNIT SAVOURY SPREADS** recorded growth due to increased sales on the regional markets (Croatia, Bosnia and Herzegovina, Kosovo, Serbia, and Slovenia) and international markets, primarily of Switzerland and Sweden, which significantly exceeded the decrease in the market of Russia. The Croatian market saw volume and value market growth, recording an increase in market shares of 3.5% and 4.9%*, respectively, while in Switzerland and Austria the largest market shares ever are recorded, and Argeta holds the second and first position in the market, respectively. Better sales results were also a consequence of the new visual identity and "easy peel" packaging.

- The decrease in sales of the **STRATEGIC BUSINESS UNIT SPORTS AND FUNCTIONAL FOOD** is primarily a consequence of the decrease in sales of the Champ and Multaben brand, while the increase in sales was recorded in the private labels segment. The most significant drop was recorded in the German market, partly compensated by the increase in sales in the markets Switzerland and Spain.

- The **STRATEGIC BUSINESS UNIT PHARMA AND PERSONAL CARE** records an increase in sales primarily due to the increase in sales of the pharmacy chain Farmacia, i.e. the increase in OTC sales of the existing locations, opening of four new specialised units and the growth in sales of Melem (from the Neva's range), which significantly exceeded the drop in sales of

* AC NIELSEN RETAIL PANEL, JANUARY–NOVEMBER 2015 (PERCENTAGE MOVEMENTS ON YTD LEVEL)

the Multivita range in Russia. However, even if the effect of opening new locations is excluded, the pharmacy chain Farmacia records a 5.7% sales growth compared to the same period of the previous year.

- The **STRATEGIC DISTRIBUTION UNIT CROATIA** in the absolute amount recorded the highest growth in sales among segments, while relatively it grew by 11.1% as a result of (i) the increase in sales from the distribution of principal brands Hipp, Ferrero, Unilever, Johnson&Johnson and Rauch, and (ii) the increase in sales of own brands, primarily Barcaffè, Argeta, Cedevita and Chipsos.

- The **STRATEGIC DISTRIBUTION UNIT SERBIA** recorded the excellent sales increase by 8.5%. This is a result of the increase in sales of own brands, primarily in the coffee category under Grand kafa and Bonito brands (holding 52%* of the Turkish coffee market in Serbia), the chocolate category under the Najlepše želje brand, the savoury spreads category under the Argeta brand, the integration of Foodland and the beginning of the distribution of new principals (Rauch and Del Castello). If the beginning of the distribution of products from the Foodland and Rauch portfolios and the effect of the dinar exchange rate are excluded, the Strategic Distribution Unit Serbia records an 8.0% growth in sales.

- The sales growth of the **STRATEGIC DISTRIBUTION UNIT INTERNATIONAL MARKETS** is a consequence of the increase in sales primarily in the markets of Austria, Switzerland, the United Kingdom and Kosovo, primarily in the Savoury spreads segment (due to the organic growth of Argeta and the consolidation of Foodland), the Beverages segment (Donat Mg functional beverage) and the Snacks segment, that fully compensated for the decrease in sales in the Sports and functional food segment.

- The **DISTRIBUTION UNIT SLOVENIA** records the highest growth due to the growth in sales of coffee under the Barcaffè brand, and beverages (primarily Donat Mg functional waters and Cedevita vitamin instant drinks) and great results of sales of the principal Ferrero.

- **OTHER SEGMENTS** recorded a decrease due to the decrease in sales of the Business Unit Baby Food, Strategic Business Unit Sports and Functional Food and the SDU CIS.

- The **DISTRIBUTION UNIT MACEDONIA** records a growth in sales due to the Snacks segment (increase in Najlepše želje chocolates), increase in sales of Argeta and Granny's Secret and the increase in sales of the principal Ferrero.

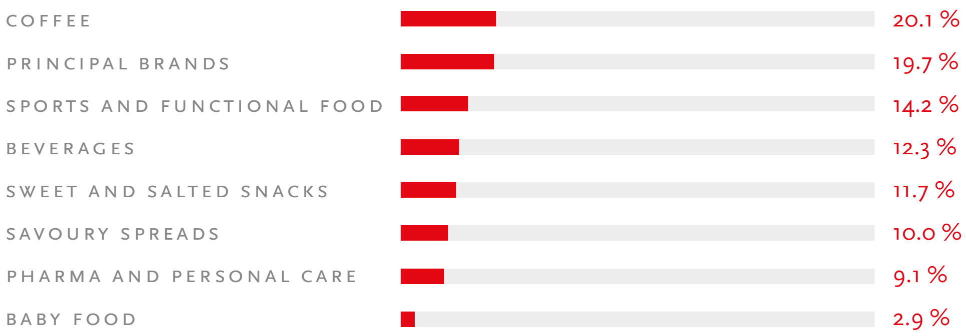
- The **STRATEGIC DISTRIBUTION UNIT HORECA** records a significant 17.1% increase in sales, whereby all regional markets (Croatia, Serbia, Slovenia and Macedonia) record double-digit growth. Analysed by segments, the growth in sales is primarily a consequence of the growth in sales of Cedevita and coffee and the increase in revenues from the distribution of external principals.

- The significant decrease in sales of the **BUSINESS UNIT BABY FOOD** and the **STRATEGIC DISTRIBUTION UNIT CIS**, caused by the decrease in almost all categories, is a result of the continued political instability and economic crisis in Ukraine, unfavourable macroeconomic climate in Russia and strong depreciation of the Russian ruble, with its average depreciation of 33.7% compared to the previous year. Within the Strategic Distribution Unit CIS, the market of Ukraine records 67.1% lower sales compared to 2014, while the most significant CIS market, Russian, decreased by 15.3%. As mentioned above, the drop in sales of the Donat Mg brand is a consequence of the temporarily suspended distribution during negotiations with the key buyer, and it should be noted that the negotiations were successfully concluded in April.

* AC NIELSEN RETAIL PANEL, JANUARY–NOVEMBER 2015 (PERCENTAGE MOVEMENTS ON YTD LEVEL)

SALES DYNAMICS IN 2015

SALES PROFILE BY SEGMENTS



SALES PROFILE BY MARKETS

(in HRK millions)	2015	% of sales	2014	% of sales	2015/2014
Croatia	**1,409.0**	26.1%	**1,285.1**	25.1%	9.6%
Serbia	**1,256.3**	23.2%	**1,145.2**	22.4%	9.7%
Slovenia	**855.0**	15.8%	**809.1**	15.8%	5.7%
Bosnia and Herzegovina	**381.7**	7.1%	**357.3**	7.0%	6.8%
Other regional markets*	**325.2**	6,0%	**312.7**	6,1%	4,0%
Key European markets**	**603.4**	11,2%	**584.5**	11,4%	3,2%
Russia and CIS	**237.1**	4.4%	**289.6**	5.7%	(18.1%)
Other markets	**337.6**	6.2%	**334.9**	6.5%	0.8%
Total sales	**5,405.3**	100.0%	**5,118.4**	100.0%	5.6%

* Other regional markets: Macedonia, Montenegro, Kosovo

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

9.6%

SALES GROWTH FOR CROATIAN MARKET

9.7%

SALES GROWTH FOR SERBIAN MARKET

5.7%

SALES GROWTH FOR SLOVENIAN MARKET

- The **CROATIAN MARKET** recorded a strong growth in sales of 9.6% due to: (i) an increase in sales of own brands, primarily Cedevita in the vitamin instant drinks category, Barcaffè in the Coffee category, Argeta in the Savoury spreads category and the pharmacy chain Farmacia, and (ii) an increase in sales of the existing principals, especially Hipp, Ferrero, Rauch and Unilever.

- The **MARKET OF SERBIA** recorded 9.7% higher sales as a result of: (i) the integration of the acquired company Foodland d.o.o., (ii) the increase in sales of coffee under the Grand kafa brand, (iii) the increase in sales of own brands, primarily Najlepše želje in the chocolate category, and (iv) the beginning of distribution of new principal Rauch that was not distributed in the same period of the previous year. If the distribution of the new principal, the effect of the Foodland acquisition and the effect of the dinar exchange rate are excluded, the market of Serbia still records a significant sales growth.

- The 5.7% sales growth in the **SLOVENIAN MARKET** was generated by the increase in sales of: (i) Barcaffè coffee supported by the innovative Black&Easy product, (ii) the functional waters category with the Donat Mg brand, (iii) the vitamin instant drinks category with the Cedevita brand, and (iv) the increase in sales of the principal brand Ferrero.

6.8%

SALES GROWTH FOR MARKET OF BOSNIA & HERZEGOVINA

- The 6.8% sales growth in the **MARKET OF BOSNIA AND HERZEGOVINA** is a result of the increase in sales of (i) the Grand Kafa brand in the Coffee segment, (ii) the Cedevita brand in the vitamin instant drinks category, (iii) the increase in sales of Argeta in the Savoury spreads category, and (iv) sales of products from the Foodland portfolio.

- **OTHER REGIONAL MARKETS*** achieved higher sales due to the increase in sales in the markets of Macedonia and Kosovo, while the market of Montenegro recorded a slight decrease in sales. Analysed by categories, the growth is recorded by the Granny's Secret product range, Argeta in the Savoury spreads segment, Cedevita in the Beverages segment, Najlepše želje in the Snacks segment and Ferrero in the principal brands segment (distributed in the market of Macedonia).

- The growth in the **KEY EUROPEAN MARKETS**** is a consequence of the increase in sales in the markets of Switzerland, Austria, the United Kingdom, Spain and Sweden, which annulled the decrease in sales in the markets of Germany and Italy. Analysed by segments, the decrease in sales is recorded by Champ and Multaben brands from the Sports and functional food segment, which was compensated by the increase in sales of Multipower and the private label in the Sports and functional food segment and Argeta in the Savoury spreads category.

- The **MARKET OF RUSSIA AND THE COMMONWEALTH OF INDEPENDENT STATES** records a significant drop in sales due to the political instability in Ukraine and Russia. The most significant decrease was recorded by the following brands: (i) Bebi in the baby food segment, (ii) Donat Mg in the functional waters category (temporarily suspended distribution due to negotiations with the key buyer), and (iii) Multipower in the sports and functional food segment. As a consequence of the difficult economic and political situation in Ukraine, the total sales of Atlantic Grupa in the Ukrainian market dropped by 67.1% compared to the previous year and in 2015 they amount to HRK 6.7 million.

- **OTHER MARKETS** record a modest increase in sales due to sales of products from the Foodland portfolio and the pharma and personal care segment, which compensated for the decrease in sales of products from the sports and functional food segment and the coffee segment.

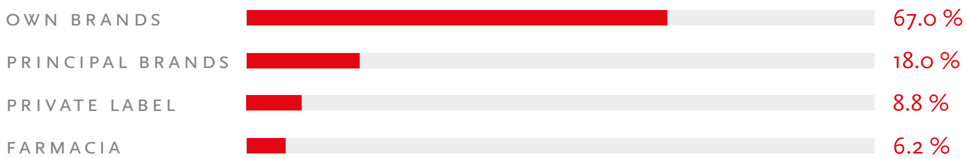
* Other regional markets: Macedonia, Montenegro, Kosovo

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

SALES PROFILE BY PRODUCT CATEGORY

2015

2014



In 2015, **OWN BRANDS** recorded sales of HRK 3,529.3 million, which is a 2.9% growth compared to 2014, due to the increase in sales of the following brands: (i) Barcaffè and Grand Kafa brands in the Coffee segment, (ii) Cedevita in the Beverages segment, due to the redesign and excellent tourist season supported by favourable weather conditions, (iii) Argeta in the Savoury spreads segment, (iv) Najlepše želje and Chipsos brands in the Snacks segment, and (v) the integration of the Foodland's portfolio. On the other hand, lower sales were recorded by: (i) brands in the Sports and functional food segment (the most significant drop was recorded by the Champ brand), and (ii) Bebi in the Baby food segment. Excluding the effect of the integration of Granny's Secret and Amfissa brands following the acquisition of Foodland d.o.o., own brands recorded an increase in sales of 1.6%. If the negative effect of the decrease in sales of own brands from the sports and functional food segment and the negative effect of the decrease in sales in the markets of Russia and the CIS are excluded, own brands record a 4.5% growth.

PRINCIPAL BRANDS recorded sales of HRK 1,066.8 million, which is a remarkably high growth of 15.8%, achieved due to the increase in sales of the existing principals, primarily Ferrero in the markets of Croatia, Slovenia and Macedonia, Hipp and Rauch in the market of Croatia, and Alkaloid, L'Oreal and Rauch in the market of Serbia.

With sales of HRK 472.8 million, **PRIVATE LABELS** record a 4.9% growth compared to 2014, due to the growth in sales of private labels in the sports and functional food segment.

The pharmacy chain **FARMACIA** recorded sales of HRK 336.4 million, which is a 6.8% growth compared to 2014, primarily due to OTC sales. During 2015, four new specialised stores were opened and as at December 31st 2015, the pharmacy chain Farmacia consisted of 48 pharmacies and 29 specialised stores. Owing mostly to the newly opened specialised stores, the share of OTC sales grew from 58% in 2014 to 61% of Farmacia's total sales, while the share of prescription drug sales dropped from 41% in 2014 to 38% in 2015. Excluding the effect of newly opened locations during 2015, the pharmacy chain Farmacia recorded a 5.7% increase in sales.

2.9%

SALES GROWTH BY OWN BRANDS COMPARED TO 2014

15.8%

SALES GROWTH BY PRINCIPAL BRANDS COMPARED TO 2014

4.9%

SALES GROWTH BY PRIVATE LABELS COMPARED TO 2014

6.8%

SALES GROWTH BY PHARMACY CHAIN FARMACIA COMPARED TO 2014

ATLANTIC GRUPA'S PROFITABILITY

(in HRK millions)	2015	2014	2015/2014
Sales	**5,405.3**	5,118.4	5.6%
EBITDA	**567.3**	597.0	(5.0%)
EBIT	**404.0**	440.7	(8.3%)
Net profit/(loss)	**242.5**	213.4	13.6%
Profitability margins			
EBITDA margin	**10.5%**	11.7%	-117 bp
EBIT margin	**7.5%**	8.6%	-114 bp
Net profit margin	**4.5%**	4.2%	+32 bp

13.6%

HIGHER NET PROFIT IN 2015 FOR ATLANTIC GRUPA

In 2015, Atlantic Grupa recorded a 5.0% lower **EBITDA**. The growth achieved in the majority of business units as a result of siginificant growth in revenues was completely annuled by (i) restructuring costs in the Sports and functional food segment, (ii) consolidation of the acquired company Foodland, (iii) decrease of sales and pressure on profit margins in CIS countries, (iv) investments in setting up the distribution companies in Germany and Austria, and (v) increase in costs of some of the main raw materials.

Additional positive effect on EBIDTA amounting to HRK 23.8 million resulted from the sale of tea business.

In 2015, Atlantic Grupa recorded an 8.3% lower **EBIT** due to the EBIDTA decrease and also the increase in depreciation of 4.5% (following the investment in the energy bars factory and the acquired company Foodland).

Due to a significant decrease in foreign exchange losses, from HRK 62.2 million to HRK 9.2 million, and the decrease in interest expense of 16%, Atlantic Grupa recorded a 13.6% higher net profit in 2015. Following the purchase of a minority share in Cedevita in 2014, profit attributable to minority interests has been significantly reduced, whereby net profit after minorities increased by 21.1%.

ATLANTIC GRUPA

OPERATING EXPENSES STRUCTURE

(in HRK millions)	2015	% of sales	2014	% of sales	2015/2014
Cost of goods sold	**1,483.8**	27.5%	**1,405.2**	27.5%	5.6%
Change in inventory	**1.2**	0.0%	**(30.0)**	(0.6%)	n/a
Production materials	**1,729.2**	32.0%	**1,559.7**	30.5%	10.9%
Energy	**62.3**	1.2%	**61.2**	1.2%	1.6%
Services	**374.1**	6.9%	**359.2**	7.0%	4.2%
Staff costs	**767.8**	14.2%	**704.4**	13.8%	9.0%
Marketing and selling expenses	**332.8**	6.2%	**331.6**	6.5%	0.4%
Other operating expenses	**196.6**	3.6%	**186.4**	3.6%	5.5%
Other gains/(losses), net	**(64.0)**	(1.2%)	**(6.3)**	(0.1%)	n/a
Depreciation and amortisation	**163.3**	3.0%	**156.3**	3.1%	4.5%
Total operating expenses	**5,047.0**	93.4%	**4,727.9**	92.4%	6.7%

The growth in **cost of goods sold** of 5.6% is a consequence of the increased sales, whereby its share in sales revenue remained unchanged.

Costs of **production materials** increased by 10.9% in 2015, primarily as a result of the increase in prices of raw coffee, but also due to higher sales. During 2015, prices of raw coffee in the global commodity markets, depending on the type of raw coffee, were 14% to 29% higher. However, by continuous hedging, in 2015 Atlantic Grupa reduced the effects of higher prices of raw coffee on its purchase price and in that way largely avoided the negative effect of higher prices of raw coffee in the global commodity markets on its results. The positive impact on total expenses came from other raw materials, especially sugar, powdered milk, fat and oil and packaging expenses, which annulled the higher prices of cocoa.

Costs of services grew by 4.2% as a consequence of higher IT investments (licence lease, maintenance) as a consequence of the SAP system implementation and the SALMEX project development.

Staff costs grew by 9.0% due to a higher number of employees as a result of employment related to the opening of the new energy bars factory in Nova Gradiška (83 employees) and the integration of the company Foodland d.o.o. As at 31 December 2015, Atlantic Grupa had 5,387 employees (3,986 in 2014), of which 155 employees relate to Foodland d.o.o.

Marketing expenses insignificantly increased primarily due to savings made in the Pharma and personal care, Beverages and Coffee segments, that fully compensated for the increase in marketing expenses in the Savoury spreads segment.

Other operating expenses are higher by 5.4%, primarily due to a higher inventory write-off, mostly related with restructuring in Sports and functional food segment.

Other (gains)/losses – net: Gains were realised primarily on financial (forward) instruments in the coffee segment and from the sale of tea business.

OPERATING RESULT OF STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(in HRK millions)	2015	2014	2015/2014
SBU Beverages	**156.4**	126.7	23.4%
SBU Coffee	**211.4**	225.8	(6.4%)
SBU (Sweet and Salted) Snacks	**97.9**	98.5	(0.6%)
SBU Savoury Spreads	**99.6**	105.9	(6.0%)
SBU Sports and Functional Food	**(11.4)**	16.0	(171.1%)
SBU Pharma and Personal Care	**42.8**	49.0	(12.7%)
SDU Croatia	**23.2**	15.6	48.9%
SDU Serbia	**31.8**	28.4	11.9%
SDU International markets	**4.3**	14.8	(71.1%)
DU SLOVENIA	**42.1**	36.4	15.7%
Other segments*	**(130.7)**	(120.0)	(8.9%)
Group EBITDA	**567.3**	597.0	(5.0%)

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

SBU BEVERAGES The growth in profitability is primarily a result of a better sales mix (increase in sales of vitamin instant drinks in profitable channels and HoReCa), lower costs of production materials as a result of the price of sugar and control of other costs despite sales growth.

SBU COFFEE The decrease in profitability is a result of a significant increase in costs of raw material, i.e. raw coffee, and the unfavourable dollar exchange rate, which were largely compensated for by active hedging.

SBU SNACKS The slight decrease in profitability is a consequence of the depreciation of the dinar and increased investment in price discounts, required to keep the market shares despite intense competition and drop in some categories.

SBU SAVOURY SPREADS The decrease in profitability due to the consolidation of the Foodland portfolio and the new Argeta packaging. Excluding the negative effect of Foodland, the profitability of the Savoury spreads segment is at the same level as in 2014.

SBU SPORTS AND FUNCTIONAL FOOD Significant decrease in profitability is primarily caused by restructuring costs amounting to HRK 12.6 million and by lower sales of own brands, write-offs and consultancy costs associated to reorganization and restructuring.

SBU PHARMA AND PERSONAL CARE The slight decrease in profitability is a result of increased investments in price discounts, and the increase in staff costs and rental costs following the opening of new specialised stores.

SDU CROATIA The increase in profitability arises from the increase in sales of coffee, vitamin instant drinks and principals brands and lower costs due to process optimization and efficiency improvement.

SDU SERBIA The increase in profitability is a consequence of the increase in sales that fully annulled the negative effects of the Serbian dinar depreciation.

SDU INTERNATIONAL MARKETS The decrease in profitability is a consequence of the sales infrastructure development i.e. new jobs, primarily in Germany and Austria, and the decrease in sales in the Sports and functional food segment.

DU SLOVENIA The growth in profitability is a result of increased sales and improved gross profit margin based on the product mix.

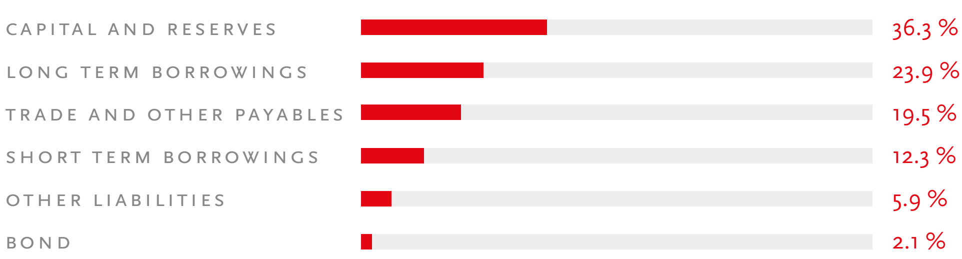
OTHER SEGMENTS The DU Macedonia recorded a mild increase in profitability as a result of a better sales mix. The growth in profitability of the SDU HoReCa is a result of the improved profitability in all markets (Serbia, Croatia, Slovenia and Macedonia) following the improvement of gross profitability resulting from the product mix. The decrease in profitability of the BU Baby Food is a result of the adverse economic situation and political instability in Ukraine and the strong depreciation of the rouble. The costs attributable to support services are higher compared to the previous year due to staff costs increase.

FINANCIAL INDICATORS IN 2015

(in HRK millions)	2015	2014
Net debt	**1,678.1**	1,927.7
Total assets	**5,294.6**	5,274.3
Total Equity	**1,945.3**	1,755.1
Current ratio	**1.3**	1.5
Gearing ratio	**46.3%**	52.3%
Net debt/EBITDA	**3.0**	3.2
Interest coverage ratio	**5.4**	4.7
Capital expenditure	**115.5**	190.1
Cash flow from operating activities	**470.8**	445.7

Among key determinants of the Atlantic Grupa's financial position in 2015, the following should be pointed out:

- Atlantic Grupa's continuous focus on deleveraging is reflected in (i) the decrease in net debt of HRK 249.7 million compared to 2014, to HRK 1,678.1 million, (ii) the decrease of the gearing ratio to 46.3%, (iii) the decrease in the ratio of net debt and EBITDA to 3.0 times, and (iv) the increase in the coverage of interest expense by EBITDA to 5.4 times.
- The Atlantic Grupa's equity and liabilities structure as at 31 December 2015 is as follows:



OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENT

The company's capital expenditure in 2015 significantly decreased compared to the same period of the previous year and amounted to HRK 108.1 million.

Other significant investments in the period:

- **SBU Beverages** – the project of new Cedevita vending machines that are coming on the market in the first half of 2016, the new product Cockta Black Tonic development project, the upgrade of palletising line and investment in the adaptation of production lines;
- **SBU Coffee** – the purchase of a line for the Turkish coffee production, adaptation of equipment for coffee roasting, the purchase of a grinder, automation of palletising and transportation of coffee and the purchase of espresso machines and C2GO machines;
- **SBU Snacks** – reconstruction of the production equipment and purchase of tools for the production of Bananica, adaptation of production lines, investment in the production facilities and administration building infrastructure;
- **SBU Pharma** – investment in equipment adaptation and refurbishment of specialised stores;
- The **SAP system** upgrade, the **SALMEX project** development, **IT infrastructure and business applications** development.

Cash flow from operating activities amounted to HRK 470.7 million, which is 5.6% higher than in 2014.

Within the cash flow statement, borrowings amounted to HRK 125.5 million and are significantly reduced from HRK 293.1 million in the previous year, taking into account the investments made in 2014 for the factory in Nova Gradiška. Compared to the previous year, repayment of long-term borrowings significantly increased, in accordance with the strategy of decreasing financial debt, and in 2015 they amounted to HRK 462.2 million.

According to the decision of the General Assembly held as at 30 June 2015, the dividend distribution was approved in the amount of HRK 12.00 per share, i.e. a total of HRK 40 million. The dividend was distributed in July 2015.

MANAGEMENT'S VIEW ON MACROECONOMIC EXPECTATIONS

Despite high unemployment, low personal consumption and low level of investments, the Croatian economy in 2015, after a long negative period, showed the first signs of recovery. Atlantic Grupa's management expects positive trends in the Croatian economy to continue in 2016. Since the recovery is not sufficiently strong to have a significant positive impact on the labour market, management expects that the economy will continue to be hindered by unemployment and poor domestic demand.

In other countries of the region, management expects a modest economic growth in 2016. The Slovenian economy continues to grow and we expect that this will have a positive impact on the decrease in unemployment and the increase in consumption. Growth in the Serbian market will be limited by further restructuring of the public sector, while significant depreciation of the Serbian dinar is not expected. A growth is also expected in Bosnia and Herzegovina, following the increase in exports due to the recovery of foreign trade partners from the European Union.

After positive indicators in 2015, Atlantic Grupa's management expects the positive growth trend to continue. The main drivers of the eurozone growth in 2016 will be lower prices of liquid fuels, measures by the European Central Bank, increased domestic demand.

After negative 2015, management expects the Russian economy to further decline with the continued negative trends in personal consumption, primarily due to further depreciation pressures on the ruble, while the desired stability might be encouraged by the oil price stabilisation.

ATLANTIC GRUPA'S MANAGEMENT STRATEGIC GUIDANCE FOR 2016

In 2016, management will focus on (i) stronger internationalisation of brands with international potential (Multipower, Argeta, Donat Mg, Bebi, Cedevita, Granny's Secret), (ii) strengthening the position of regional brands (Cockta, Cedevita, Smoki, Grand Kafa, Barcaffè, Najlepše želje, Chipsos), (iii) active development of the regional HoReCa portfolio, and (iv) further restructuring of the business unit Sports and functional food.

Special efforts will be placed into listing and positioning of own brands into retail channel in Germany and Austria and on marketing activities on those markets.

In addition, Atlantic Grupa's management in 2016 expects lower average prices of raw coffee in the global commodity markets coupled with the unfavourable effect of the EUR/USD exchange rate. Management plans to largely annul these pressures by active hedging and continuous cost management and business processes optimisation.

Additional pressures on operations arise from discontinuation of cooperation with the biggest private brand buyer in Sports and functional food (with whom was realized HRK 350 million of annual sales in 2015), continuation of crisis in Russia and Ukraine and further depreciation of rouble.

Management's expectations for 2016 are as follows:

(in HRK millions)	2016 Guidance	2015	2016/2015
Sales	**5,400**	5,405	(0.1%)
EBITDA	**475**	567	(16.3%)
EBIT	**310**	404	(23.3%)
Interest expense	**100**	106	(5.4%)

In 2016, we expect capital expenditure in the amount of approximately HRK 150 million.

The expected effective tax rate in 2016 should be at the level of the statutory tax rate for Croatia.

BUSINESS ENVIRONMENT RISK

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

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

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

Business transactions of any company are influenced by macroeconomic risks, but the extent of their impact depends primarily on the level of cyclicity of the industry in which a company operates. Despite its relatively diversified business model, Atlantic Grupa operates in a stable non-cyclical food industry. Considering that the sales of Atlantic Grupa's production and distribution portfolio are influenced by macroeconomic variables like personal consumption, the level of disposable personal income and trends in retail trade, the company continuously monitors the aforementioned macroeconomic factors despite the expected improvement in macroeconomic trends in 2016.

INDUSTRY AND COMPETITION RISKS

CONSUMER GOODS INDUSTRY AND RETAIL (PHARMACIES) Despite unfavourable macroeconomic developments in the first half of 2015, the consumer goods industry in the segment of food products in Croatia is considered interesting mostly due to inelastic product demand since such products are necessary to fulfil basic needs. When considering the development of the consumer goods industry, it is precisely the market liberalisation and globalisation which opened the gates to global producers and retail chains, which in the end resulted in a stronger market competition, more diverse product offer, increase of product quality, establishment of global manufacturing standards and opening of new distribution channels. In such conditions, domestic manufactures can only compete through continuous investment in research and development of new production lines, technological development, marketing in order to improve the brand recognition, and human resources.

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

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

Certain segments of the consumer goods industry, particularly the segment of food products, are influenced by the factors which companies cannot control, like volatile prices of commodities (coffee, sugar, cacao, etc.) on global markets, weather conditions or the tourist season efficacy. Considering that within the company raw coffee is the most significant individual commodity by value, special attention is given to planning procurement of raw coffee, following trends in global markets, stock level management and risk management concerning price changes of raw coffee in global markets. Despite significant growth of prices of raw coffee in the global commodity markets during 2015, Atlantic Grupa has successfully neutralised the effect of price volatility of raw materials on its operating results by using available hedging instruments. A lower average price of raw coffee in the global commodity markets is expected in 2016 compared to 2015, as well as negative effects of the stronger dollar, which the management plans to largely compensate by active hedging, continuous cost management and optimisation of business processes. Certain segments of this industry are of seasonal character, which makes quality management of working capital an extremely important component of ensuring regular business operations of companies. Additionally, a relatively low level of cyclicity of the consumer goods industry makes it attractive to a large number of companies, which in turn results in a larger number of competitors in the market. Furthermore, since there is no significant market leader, there is a risk of new competitors entering the market.

Atlantic Grupa operates in the consumer goods industry segment that includes food products with added value and, accordingly, it uses activities like investing in research and development, investing in technology and closely monitoring market trends and consumer preferences to maintain high market shares in the listed segment. The portfolio of Atlantic Grupa includes a wide range of brands with leading market positions in the region in the segments of coffee, savoury spreads, snacks and beverages. Considering that some of the listed segments are exposed to strong competitive pressures by local and multinational companies, Atlantic Grupa in 2015 continued to actively manage its own brands.

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

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

COMPETITION RISK

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

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

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

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

BUSINESS RISK

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

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

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

BUSINESS PARTNERSHIP DEPENDENCE In previous years Atlantic Grupa developed strong partnerships with both domestic and international producers of brands within the distribution portfolio of Atlantic Grupa and continues to realise good collaboration with principals of the new brands in the company's distribution portfolio. Although a loss of exclusive distribution rights to a particular product would have a certain impact on the business performance of Strategic Distribution Units, the risk of that has been greatly reduced in recent years due to the significant expansion of the distribution portfolio. Moreover, in 2015 Atlantic Grupa continued to expand its distribution portfolio by adding new categories and expanding the existing ones to new markets or new distribution channels. Atlantic Grupa is continually monitoring developments in the brand market with the purpose of concluding new business partnerships. The continuous expansion of the distribution portfolio enables the company to quickly adjust to new conditions in the case of termination of cooperation with any of its present partners. A significant part of Atlantic Grupa's revenues (8.8%) is generated by the production of private labels. The largest share of revenues is generated in the segment of Sports and Functional Food, of which three quarters are related to one buyer, but the cooperation agreement in question expires in March 2016. Atlantic Grupa continues to actively negotiate with new potential partners for the production of private labels in the segment of Sports and Functional Food as well as to take steps in order to renew the cooperation with the largest current buyer in the same scope, taking into account the company's comparative advantages, such as a long-standing expertise, expert R&D team and modern and efficient plants for the production of energy bars. Close business cooperation with leading domestic retail chains is at the very nature of distribution activities. However, a distributor's dependence on major retail chains may result in additional costs of retaining the partnership in the form of additional discounts, longer payment terms and similar activities. Although Atlantic Grupa has developed good business cooperation with a majority of domestic retail chains, which in turn are the company's major buyers, its dependence on any individual buyer is at an appropriate level. In the case of termination of partnership, or bankruptcy of one of the more important buyers, the impact on business results of Strategic Distribution Units could be significant. However, with the continuous monitoring of the buyers' risk level and payment process and the resulting limitation of exposure to risky buyers, the company aims to reduce the risk to its own operations in the case of termination of partnership or bankruptcy of one of its major buyers. Moreover, Atlantic Grupa strives to reduce the dependence of distribution on retail chains by developing the "alternative distribution channels" like the HoReCa channel (catering), outlets for sales of technical goods and the pharmacy channel.

FINANCIAL RISKS

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

ABBREVIATIONS

CEFTA	Central European Free Trade Agreement
CIS	Commonwealth of Independent States (ex-Soviet Union countries)
DDD	Disinfection, Disinsection, Deratisation
DEG	erman Investment and Development Corporation
DPS	Dividend per Share
EBIDTA	Earnings before Interest, Depreciation, Taxes and Amortisation
EBIT	Earnings before Interest and Taxes
EBRD	European Bank for Reconstruction and Development
EMS	Environmental Management System
EPS	Earnings per share
ERP	Enterprise Resource Planning
EV	Enterprise value
FSSC	Food Safety System Certification
GDP	Gross domestic product
GHP	Good Hygienic Practices
GMO	Genetically Modified Organism
GMP	Good Manufacturing Practices
GRI	Global Reporting Initiative
HACCP	Hazard Analysis and Critical Control Point
HoReCa	Hotel Restaurant Caffe
HRIS	Human Resources Information System
HZZO	Croatian Health Insurance Fund
IFS	International Food Standard
KAM	Key Account Management
KPI	Key Performance Indicators
OTC	Over The Counter
PAH	Polycyclic Aromatic Hydrocarbons
PET	Polyethylene Terephthalate
PPS	Price per Share
SBU	Strategic Business Unit
SDU	Strategic Distribution Unit
UEPS	Serbian Marketing Communications Association
ZSE	Zagreb Stock Exchange

AUDITOR'S REPORT
AND CONSOLIDATED
FINANCIAL STATEMENTS

ATLANTIC GRUPA d.d.
31 DECEMBER 2015

pwc

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Atlantic Grupa d.d. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2015 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Report on Other Legal and Regulatory Requirements

We have read the accompanying Annual Report of the Group for the year ended 31 December 2015 set out on pages 1 to 117. We have verified that the information included in the Annual Report which describes matters that are also presented in the consolidated financial statements is consistent, in all material respects, with the consolidated financial statements referred to above.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 30 March 2016

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts expressed in thousands of HRK)	**Note**	**2015**	**2014**
Revenues	5	5,450,955	5,168,639
Cost of trade goods sold		(1,483,783)	(1,405,210)
Change in inventories of finished goods and work in progress		(1,166)	29,964
Material and energy costs		(1,791,442)	(1,620,958)
Staff costs	6	(767,779)	(704,437)
Marketing and promotion costs	7	(332,773)	(331,605)
Depreciation, amortisation and impairment	2.24, 13, 13a, 14	(163,297)	(156,330)
Other operating costs	8	(570,722)	(545,645)
Other gains/(losses) - net	9	63,986	6,284
Operating profit		**403,979**	**440,702**
Finance income	10	84,287	16,013
Finance costs	10	(199,170)	(204,025)
Finance costs - net	10	(114,883)	(188,012)
Profit before tax		**289,096**	**252,690**
Income tax expense	11	(46,573)	(39,289)
Profit for the year		**242,523**	**213,401**
Attributable to:			
Owners of the parent		242,291	200,012
Non-controlling interests		232	13,389
		242,523	213,401
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		72.67	59.99
- diluted		72.67	59.99

The consolidated financial statements were approved by the Management Board of Atlantic Grupa d.d. in Zagreb on 30 March 2016.

President of the Management Board

Emil Tedeschi

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts expressed in thousands of HRK)	Note	2015	2014
Profit for the year		**242,523**	**213,401**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/ gains from defined benefit plan		(1,260)	130
		(1,260)	**130**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences	22	(7,777)	(34,064)
Cash flow hedges	22	(2,052)	29,544
		(9,829)	**(4,520)**
Other comprehensive loss for the year, net of tax		**(11,089)**	**(4,390)**
Total comprehensive income for the year		**231,434**	**209,011**
Attributable to:			
Owners of the parent		231,208	195,606
Non-controlling interests		226	13,405
Total comprehensive income for the year		231,434	209,011

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2015

(all amounts expressed in thousands of HRK)	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,083,566	1,099,289
Investment property		1,748	1,363
Intangible assets	14	1,797,791	1,804,518
Deferred income tax assets	25	37,066	41,224
Available-for-sale financial assets	17	959	942
Trade and other receivables	18	83,695	22,657
		3,004,825	2,969,993
Current assets			
Inventories	19	603,491	582,247
Trade and other receivables	18	1,192,314	1,169,343
Prepaid income tax		16,018	12,249
Derivative financial instruments	15	12,728	22,687
Deposits	18	305	275
Cash and cash equivalents	20	365,692	417,588
		2,190,548	2,204,389
Non-current assets held for sale	13a	99,196	99,874
Total current assets		2,289,744	2,304,263
TOTAL ASSETS		**5,294,569**	**5,274,256**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	881,515	882,576
Treasury shares	21	(198)	(78)
Reserves	22	(26,264)	(19,635)
Retained earnings		954,325	756,497
		1,942,750	1,752,732
Non-controlling interests		2,558	2,332
Total equity		1,945,308	1,755,064
Non-current liabilities			
Borrowings	24	1,309,180	1,776,406
Deferred income tax liabilities	25	176,677	181,155
Derivative financial instruments	15	472	8,698
Other non-current liabilities		3,460	25
Provisions	26	54,475	51,936
		1,544,264	2,018,220
Current liabilities			
Trade and other payables	23	988,554	881,451
Borrowings	24	742,032	578,482
Derivative financial instruments	15	5,091	4,713
Current income tax liabilities		17,034	7,675
Provisions	26	52,286	28,651
		1,804,997	1,500,972
Total liabilities		3,349,261	3,519,192
TOTAL EQUITY AND LIABILITIES		**5,294,569**	**5,274,256**

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2014	1,015,953	(15,363)	622,613	1,623,203	51,292	1,674,495
Comprehensive income:						
Net profit for the year	-	-	200,012	200,012	13,389	213,401
Other comprehensive (loss)/income	-	(4,536)	130	(4,406)	16	(4,390)
Total comprehensive income	-	(4,536)	200,142	195,606	13,405	209,011
Transaction with owners:						
Acquisition of non-controlling interests (Note 28)	-	-	(30,984)	(30,984)	(62,365)	(93,349)
Share based payment (Note 21)	419	-	-	419	-	419
Purchase of treasury shares (Note 21)	(502)	-	-	(502)	-	(502)
Transfer	-	264	(264)	-	-	-
Dividends relating to 2013 (Note 21)	-	-	(35,010)	(35,010)	-	(35,010)
Balance at 31 December 2014	**1,015,870**	**(19,635)**	**756,497**	**1,752,732**	**2,332**	**1,755,064**
Comprehensive income:						
Net profit for the year	-	-	242,291	242,291	232	242,523
Other comprehensive (loss)/income	-	(9,823)	(1,260)	(11,083)	(6)	(11,089)
Total comprehensive income	-	(9,823)	241,031	231,208	226	231,434
Transaction with owners:						
Share based payment (Note 21)	3,123	-	-	3,123	-	3,123
Purchase of treasury shares (Note 21)	(4,304)	-	-	(4,304)	-	(4,304)
Transfer	-	3,194	(3,194)	-	-	-
Dividends relating to 2014 (Note 21)	-	-	(40,009)	(40,009)	-	(40,009)
Balance at 31 December 2015	**1,014,689**	**(26,264)**	**954,325**	**1,942,750**	**2,558**	**1,945,308**

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

ATLANTIC GRUPA d.d.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts expressed in thousands of HRK)	**Note**	**2015**	**2014**
Cash flows from operating activities:			
Cash generated from operations	29	616,475	622,107
Interest paid		(102,705)	(123,509)
Income tax paid		(42,949)	(52,879)
		470,821	445,719
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets		(115,534)	(190,100)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		4,470	6,481
Proceeds from sale of available-for-sale financial assets		3,785	-
Acquisition of subsidiary – net of cash acquired	28	(5,295)	(5,332)
Loans granted and deposits placed		(37,629)	(49,946)
Repayments of loan and deposits granted		6,161	45,460
Interest received		4,637	4,511
		(139,405)	(188,926)
Cash flows used in financing activities			
Purchase of treasury shares	21	(4,304)	(502)
Proceeds from borrowings, net of fees paid		125,532	293,101
Repayments of borrowings		(462,186)	(322,782)
Acquisition of interest in a subsidiary from non-controlling interests	28	-	(93,349)
Dividends paid to Company shareholders	21	(40,009)	(35,010)
		(380,967)	(158,542)
Net (decrease)/ increase in cash and cash equivalents		**(49,551)**	**98,251**
Exchange losses on cash and cash equivalents		(2,345)	(5,997)
Cash and cash equivalents at beginning of year		417,588	325,334
Cash and cash equivalents at end of year	20	**365,692**	**417,588**

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 and the savoury spread brands Argeta and Granny's secret. Additionally, the Group has a wide range of personal care product portfolio, owns the leading Croatian producer of vitamins, minerals, supplements and OTC drugs as well as the leading pharmacy chain in Croatia under the Farmacia brand. Furthermore, the Group manufactures and distributes the leading European brand in sports nutrition - Multipower and has a strong foothold on the Russian and CIS markets with its baby food portfolio under the Bebi brand. With its own distribution network in Croatia, Slovenia, Serbia and Macedonia, the Group also distributes a range of products from external partners (Unilever, Ferrero, Wrigley, Johnson & Johnson, Duracell and others). The Group has manufacturing plants in Croatia, Slovenia, Serbia, Bosnia and Herzegovina, Macedonia and Germany with firms and representative offices in 12 countries. The Group exports its products to more than 40 markets worldwide.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended standards for annual reporting period commencing 1 January 2015 which were endorsed by the EU and which are relevant for the Group's financial statements:

- Annual Improvements to IFRSs – 2010 – 2012 Cycle comprising changes to seven standards (IFRS 1, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38).
- Annual Improvements to IFRSs – 2011 – 2013 Cycle comprising changes to four standards (IFRS 2, IFRS 3, IFRS 13 and IAS 40)
- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Group. None of these is expected to have significant effect on the consolidated financial statements of the Group, except for the standards stated below. The Group plans to adopt new standards on their effective date as of and when endorsed by the EU.

- *IFRS 9, Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

  IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

  The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

  IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

  During 2015, the Group has performed high-level impact assessment and expects no impact from the new classification, measurement and de-recognition rules on its financial assets and liabilities. The Group expects to apply simplified approach and record lifetime expected impairment losses on all trade receivables.

  The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

  Entities will have a choice of full retrospective application, or prospective application with additional disclosures.
  Management is currently assessing the impact of the new rules of IFRS 15 and has identified the following areas that are likely to be affected:
  - Consignment sales where recognition of revenue will depend on the passing of control rather than the passing of risks and rewards
  - The balance sheet presentation of rights of return, which will have to be grossed up in the future (separate recognition of the right to recover the goods from the customer and the refund obligation).

  At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. More detailed assessments of the impact will be made over the next twelve months.

- *IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)*
  The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases of finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

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

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

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

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

(b) Mergers

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

(c) Transactions with non-controlling interests

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

(d) Disposal of subsidiary

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

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

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets.

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

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

(b) Distribution rights

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

(c) Brands

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

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

(d) Computer software

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

(e) Licences

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

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

2.8 Financial assets

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

(a) Loans and receivables

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

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

(b) Available-for-sale financial assets

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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

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

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

2.9 Leases

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

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

2.10 Inventories

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and other receivables

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

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax

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

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

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

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

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Long-term employee benefits

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

(d) Share-based compensation

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

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

(e) Short-term employee benefits

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

2.17 Provisions

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

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

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

(a) Sales of products and trade goods – wholesale

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

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

(b) Sales of goods - retail

The Group operates a pharmacy and specialised stores.

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

(c) Sales of services

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

(d) Interest income

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Dividend distribution

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

2.20 Value added tax

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

2.21 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.22 Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Trade payables

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

2.24 Investment property

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Investment property is derecognized when it either has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Transfers are made to or from investment property only when there is a change in use. The carrying amount approximates fair value. Investment property is held for long term rental yields and is not occupied by the Group. Depreciation expense related to investment property amounted to HRK 52 thousand in 2015 (2014: HRK 311 thousand).

2.25 Comparatives

In order to ensure comparability, operating results of segments for the year ended 31 December 2014 have been restated according reporting logic applied in 2015.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO, Serbian dinar (RSD), Russian Ruble (RUB) and to a lesser extent the US dollar (USD). The depreciation of the Serbian dinar against EURO in 2015 resulted in HRK 3,226 thousand foreign currency losses from financing activities (2014: HRK 32,538 thousand) and depreciation of Russian ruble had a direct negative impact on the Group's 2015 results of HRK 10,050 thousand (2014: HRK 26,741 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 2015 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	411,234	342,703	56	40,787
Cash and cash equivalents	130,711	87,382	7,449	6,204
Trade and other payables	(420,658)	(134,645)	(59,789)	(5,473)
Borrowings	(1,773,869)	(34)	(8,872)	-
Net balance sheet exposure	**(1,652,582)**	**295,406**	**(61,156)**	**41,518**

31 December 2014 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	375,707	280,463	34	40,210
Cash and cash equivalents	235,693	48,215	502	6,724
Trade and other payables	(375,186)	(101,037)	(44,819)	(4,576)
Borrowings	(2,090,240)	-	(7,717)	-
Net balance sheet exposure	**(1,854,026)**	**227,641**	**(52,000)**	**42,358**

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 9,067 thousand lower (2014: HRK 8,510 thousand lower), mainly due to the EUR denominated borrowings, and other comprehensive income would be HRK 14,521 thousand higher (2014: HRK 14,136 thousand higher), due to the translation differences arising on consolidation of subsidiaries whose local currency is EUR.

In the event of a rise of 1% in the RSD against HRK, assuming all other variables remain constant, the profit after tax for the year would have been HRK 185 thousand lower (2014: HRK 110 thousand higher) and other comprehensive income would be HRK 4,928 thousand higher (2014: HRK 4,200 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 2015, 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 interests 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 2015, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2014: 100 basis points), the profit after tax would have been lower/higher by HRK 8,643 thousand (2014: HRK 7,921 thousand), mainly as a result of increased/decreased interest expense.

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

(c) Liquidity risk

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

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

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

At 31 December 2015, the Group held cash and cash equivalents in the amount of HRK 365,692 thousand (2014: HRK 417,588 thousand) and short-term deposits in the amount of HRK 305 thousand (2014: HRK 275 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 2015			
Trade and other payables	928,651	-	928,651
Borrowings (excluding finance lease)	799,461	1,410,337	2,209,798
Finance lease liabilities	417	-	417
Derivative financial instruments	5,091	472	5,563

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Total**
31 December 2014			
Trade and other payables	821,890	-	821,890
Borrowings (excluding finance lease)	647,460	1,957,520	2,604,980
Finance lease liabilities	1,341	226	1,567
Derivative financial instruments	4,713	8,698	13,411

3.2 Capital risk management

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

The gearing ratios were as follows:

	2015	2014
	(in thousands of HRK)	
Total borrowings (Note 24)	2,051,212	2,354,888
Derivative financial instruments (Note 15)	(7,165)	(9,276)
Less: Short-term deposits and Cash and cash equivalents (Note 18 and 20)	(365,997)	(417,863)
Net debt	1,678,050	1,927,749
Total equity	1,945,308	1,755,064
Total capital	**3,623,358**	**3,682,813**
Gearing ratio	**46%**	**52%**

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

3.3 Fair value estimation

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

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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

The fair value of derivative financial instruments and of available-for-sale financial instruments is determined based on specific valuation techniques (level 3).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

(a) Deferred income tax asset recognition

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

(b) 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:

Operating segment *(in thousands of HRK)*	**Goodwill**	**Licences**	**Brands**
SBU Beverages	91,119	-	72,510
SBU Coffee	62,665	-	239,599
SBU (Sweet and Salted) Snacks	213,066	-	139,678
SBU Savoury Spreads	140,596	-	248,495
SBU Pharma and Personal Care	198,848	158,082	-
BU Baby food	22,154	-	28,915
SDU Croatia	35,516	-	-
SDU Serbia	50,907	-	-
DU Slovenia	26,045	-	-
DU Macedonia	5,919	-	-
	846,835	**158,082**	**729,197**

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

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 2015**	**After-tax discount rate 2014**
SBU Beverages	7.5%	8.2%
SBU Coffee	8.0%	8.6%
SBU (Sweet and Salted) Snacks	8.9%	9.4%
SBU Savoury Spreads	8.4%	8.6%
SBU Pharma and Personal Care	8.0%	9.1%
BU Baby food	9.5%	10.8%
SDU Croatia	7.7%	8.0%
SDU Serbia	9.2%	9.4%
DU Slovenia	5.7%	6.7%
DU Macedonia	10.3%	9.6%

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. Compared to 2014, after-tax discount rates in 2015 are lower across segments, based on changed market conditions - primarily lower risk-free rates based on reduced sovereign yields across markets.

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

	2015	**2014**
Barcaffe	5.0%	4.0%
Grand Kafa	5.0%	4.0%
Najlepše želje	6.0%	8.0%
Bananica	5.0%	5.0%
Smoki	7.0%	8.0%
Argeta	8.0%	8.0%
Donat	8.0%	8.0%
Cockta	5.0%	5.0%
Bebi	3.0%	3.0%
Bakina tajna	3.0%	-
Licences	4.5%	4.8%

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 13,795 thousand was recognised (2014: HRK 18,278 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 an 15.2% decrease of the recoverable amount of cash generating units. Despite the decrease, the net recoverable amount of cash generating units would still exceed the carrying value.

NOTE 5 – SEGMENT INFORMATION

The business model of the Group is organized through six strategic business units which have been joined by business unit Baby food and five strategic distribution units, which have been joined by distribution units Slovenia and Macedonia:

- SBU Beverages,
- SBU Coffee,
- SBU (Sweet and Salted) Snacks,
- SBU Savoury Spreads,
- SBU Sports and Functional Food,
- SBU Pharma and Personal Care
- SDU Croatia,
- SDU International,
- SDU Serbia,
- SDU HoReCa,
- SDU CIS,
- BU Baby food,
- DU Slovenia,
- DU Macedonia.

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

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

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

Sales of individual SBUs represents the market sales made to third parties (either directly through SBUs 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)*	**2015**	**2014**
SBU Beverages	666,075	638,817
SBU Coffee	1,084,926	1,026,680
SBU (Sweet and Salted) Snacks	631,553	614,426
SBU Savoury Spreads	538,231	471,385
SBU Sports and Functional Food	768,428	779,075
SBU Pharma and Personal Care	509,615	493,344
SDU Croatia	938,311	844,252
SDU International markets	589,913	582,426
SDU Serbia	1,175,100	1,083,149
DU Slovenia	761,868	725,487
Other segments	780,058	820,505
Reconciliation	(3,038,766)	(2,961,173)
Total	**5,405,312**	**5,118,373**

Operating results	**For the year ending 31 December 2015**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	156,350	39,077	117,273
SBU Coffee	211,416	22,520	188,896
SBU (Sweet and Salted) Snacks	97,918	22,250	75,668
SBU Savoury Spreads	99,614	17,384	82,230
SBU Sports and Functional Food	(11,372)	9,333	(20,705)
SBU Pharma and Personal Care	42,770	12,690	30,080
SDU Croatia	23,183	6,275	16,908
SDU International markets	4,276	593	3,683
SDU Serbia	31,765	2,734	29,031
DU Slovenia	42,086	4,157	37,929
Other segments	(130,730)	26,284	(157,014)
Total	**567,276**	**163,297**	**403,979**

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results	**For the year ending 31 December 2014**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	126,720	41,615	85,105
SBU Coffee	225,809	19,370	206,439
SBU (Sweet and Salted) Snacks	98,469	19,062	79,407
SBU Savoury Spreads	105,942	14,088	91,854
SBU Sports and Functional Food	15,985	4,911	11,074
SBU Pharma and Personal Care	48,988	20,196	28,792
SDU Croatia	15,565	5,722	9,843
SDU International markets	14,795	598	14,197
SDU Serbia	28,393	3,390	25,003
DU Slovenia	36,379	3,314	33,065
Other segments	(120,013)	24,064	(144,077)
Total	**597,032**	**156,330**	**440,702**

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:

	2015	**2014**
	(in thousands of HRK)	
Serbia	969,944	944,960
Slovenia	962,849	988,634
Croatia	764,432	769,174
Other	185,880	202,402
Total geographically allocated non-current assets	**2,883,105**	**2,905,170**

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2015 (in thousands of HRK)	2015 %	2014 (in thousands of HRK)	2014 %
Croatia	1,408,968	26.1	1,285,068	25.1
Serbia	1,256,268	23.2	1,145,249	22.4
Slovenia	855,040	15.8	809,083	15.8
Bosnia and Herzegovina	381,733	7.1	357,305	7.0
Macedonia, Montenegro, Kosovo	325,165	6.0	312,745	6.1
Germany, Italy, United Kingdom	396,752	7.3	405,297	7.9
Russia and CIS countries	237,115	4.4	289,608	5.7
Other markets	544,271	10.1	514,018	10.0
Total sales by markets	**5,405,312**	**100.0**	**5,118,373**	**100.0**

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

Analysis of revenue by category	2015 (in thousands of HRK)	2015 %	2014 (in thousands of HRK)	2014 %
Sales by type of products				
Own brands	3,529,320	64.7	3,430,839	66.4
Principal brands	1,066,789	19.6	921,584	17.8
Pharmacy	336,424	6.2	315,150	6.1
Private label	472,779	8.7	450,800	8.7
Total sales by type of products	**5,405,312**	**99.2**	**5,118,373**	**99.0**
Other income /i/	45,643	0.8	50,266	1.0
Total revenues	**5,450,955**	**100.0**	**5,168,639**	**100.0**

/i/ Other income mainly comprise of interest and rental income.

NOTE 6 – STAFF COSTS

	2015	2014
	(in thousands of HRK)	
Gross salaries /i/	682,950	634,801
Public transport	17,031	15,975
Termination benefits	3,394	4,676
Share options granted (Note 21)	1,498	780
Other staff costs /ii/	62,906	48,205
	767,779	**704,437**

At 31 December 2015, the average employees number was 5,285 (2014: 5,152).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2015 amounted to HRK 104,516 thousand (2014: HRK 97,963 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2015	2014
	(in thousands of HRK)	
Marketing and promotion costs - external	282,541	271,026
Marketing and promotion costs - related parties (Note 30)	13,966	13,456
Sponsorships and donations	36,266	47,123
	332,773	**331,605**

NOTE 8 – OTHER OPERATING COSTS

	2015	2014
	(in thousands of HRK)	
Transportation costs	132,688	133,641
Maintenance	97,474	95,341
Rentals (Note 27)	96,572	88,019
Non-production material	27,772	28,708
Fuel	18,360	20,635
Provision for impairment of inventories (Note 19)	27,571	22,007
Intellectual services	21,186	20,814
Taxes and contributions not related to operating results	17,218	19,210
Travel expense and daily allowances	18,675	16,142
Non-production services	14,390	12,624
Telecommunication services	12,353	13,962
Entertainment	17,106	15,042
Bank charges	9,770	9,441
Provision for impairment of trade receivables (Note 18)	20,603	11,156
Provision for impairment of other receivables (Note 18)	381	613
Production services	8,362	6,821
Supervisory Board fees	1,513	1,445
Royalties	1,520	1,408
Collection of receivables previously provided for (Note 18)	(12,589)	(3,336)
Other – related parties (Note 30)	2,532	2,854
Other	37,265	29,098
	570,722	**545,645**

NOTE 9 – OTHER GAINS/(LOSSES) – NET

	2015	2014
	(in thousands of HRK)	
Gain/(loss) on sale of property, plant and equipment	1,005	947
Gain on sale of available-for-sale financial assets	7,523	-
Fair value gains/(losses) on financial assets	42,257	2,423
Gain on sale of tea business	23,782	-
Foreign exchange gains/(losses) – net	(5,418)	2,489
Other gains/ (losses) – net	(5,163)	425
	63,986	**6,284**

NOTE 10 – FINANCE COSTS – NET

	2015	2014
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	84,287	16,013
	84,287	16,013
Finance costs		
Foreign exchange loss on borrowings	(93,506)	(78,164)
Interest expense on bank borrowings	(39,038)	(46,918)
Interest expense on bonds	(8,373)	(8,344)
Interest expense on provisions for employee benefits	(1,218)	(1,505)
Interest expense on borrowings – related parties (Note 30)	(57,035)	(69,094)
	(199,170)	(204,025)
Finance costs - net	**(114,883)**	**(188,012)**

NOTE 11 – INCOME TAX

	2015	2014
	(in thousands of HRK)	
Current income tax	47,947	42,180
Deferred tax (Note 25)	(1,374)	(2,891)
	46,573	**39,289**

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:

	2015	2014
	(in thousands of HRK)	
Profit before taxation	**289,096**	**252,690**
Income tax calculated at domestic tax rates applicable to profits in the respective countries	87,517	46,339
Tax effects of:		
Adjustments in respect of prior years	(32)	(151)
Income not subject to tax	(43,589)	(11,867)
Expenses not deductible for tax purposes	24,485	24,219
Effect of utilized tax incentives	(9,391)	(3,843)
Utilisation of previously unrecognized tax losses	(12,809)	(17,452)
Tax losses for which no deferred tax assets were recognised	1,766	4,935
Effect of utilized tax losses	2,933	4,073
Effect of tax rate change	21	-
Origination and reversal of temporary tax differences	(4,328)	(6,964)
Tax expense	**46,573**	**39,289**

The weighted average effective tax rate was 16.1% (2014: 15.5%). The increase compared to the previous year primarily arises from a different level of tax loss utilization.

During 2015, the Tax Authority continued to perform two tax inspections in the Group's subsidiaries.
In February 2015, the Ministry of Finance, Tax Authorities issued a tax resolution for one of the subsidiaries. Currently, litigation process is under way in this case at the Administrative Court who made a resolution to suspend the enforcement until the procedure before the Administrative Court is complete. Management is of the view that it has a strong case against the Tax Authorities in this matter.
In January 2016, the Ministry of Finance, Tax Authorities issued a tax resolution for the second of the subsidiaries. Currently, a tax appeal has been submitted to the second-instance body of the Ministry of Finance. At this moment, it is uncertain whether any liability will be imposed to the Group.
In both cases described above, the Management considers these events as contingent liabilities. The most likely outcome is that they will not result in outflows of economic benefits for the Group. However, based on the complexity of the litigation, there are uncertainties relating to the amount and timing. The maximum exposure that the Group could be expected to settle if legal proceeding would be unfavorable amounts to HRK 28,900 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.

	2015	**2014**
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	242,291	200,012
Weighted average number of ordinary shares in issue	3,334,053	3,334,239
Basic earnings per share *(in HRK)*	72.67	59.99

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 2013					
Cost	92,682	787,784	1,678,909	28,513	2,587,888
Accumulated depreciation	-	(360,971)	(1,166,070)	-	(1,527,041)
Net book amount	**92,682**	**426,813**	**512,839**	**28,513**	**1,060,847**
At 1 January 2014					
Opening net book amount	92,682	426,813	512,839	28,513	1,060,847
Additions	-	-	-	181,167	181,167
Transfer	1,117	9,469	83,910	(94,496)	-
Disposals	-	(182)	(5,351)	-	(5,533)
Depreciation	-	(20,417)	(102,805)	-	(123,222)
Transfer to assets held for sale	-	(463)	-	-	(463)
Liquidation of subsidiary	(357)	(1,619)	(449)	-	(2,425)
Foreign exchange differences	6	(3,473)	(7,039)	(576)	(11,082)
Closing net book amount	**93,448**	**410,128**	**481,105**	**114,608**	**1,099,289**
At 31 December 2014					
Cost	93,448	790,011	1,700,614	114,608	2,698,681
Accumulated depreciation	-	(379,883)	(1,219,509)	-	(1,599,392)
Net book amount	**93,448**	**410,128**	**481,105**	**114,608**	**1,099,289**
At 1 January 2015					
Opening net book amount	93,448	410,128	481,105	114,608	1,099,289
Additions	-	-	-	92,212	92,212
Transfer	731	61,898	106,983	(169,612)	-
Disposals	-	(1,785)	(1,660)	-	(3,445)
Depreciation	-	(23,673)	(107,474)	-	(131,147)
Transfer to assets held for sale	-	(1,406)	-	-	(1,406)
Transfer to investment property	(420)	(13)	-	-	(433)
Acquisition of subsidiary	3,412	25,731	4,914	-	34,057
Foreign exchange differences	(329)	(1,822)	(2,608)	(802)	(5,561)
Closing net book amount	**96,842**	**469,058**	**481,260**	**36,406**	**1,083,566**
At 31 December 2015					
Cost	96,842	862,741	1,768,925	36,406	2,764,914
Accumulated depreciation	-	(393,683)	(1,287,665)	-	(1,681,348)
Net book amount	**96,842**	**469,058**	**481,260**	**36,406**	**1,083,566**

Property, plant and equipment with a net book value of HRK 248,952 thousand as at 31 December 2015 (2014: HRK 277,677 thousand), have been pledged as collateral for borrowings (Note 24).

Property, plant and equipment include assets leased under a finance lease with a net book value of HRK 2,184 thousand (2014: HRK 23,496 thousand).

NOTE 13a – NON-CURRENT ASSETS HELD FOR SALE

	2015	2014
	(in thousands of HRK)	
Opening net book amount	99,874	99,133
Classified as held for sale during the year	1,406	463
Impairment charge	(1,770)	-
Foreign exchange differences	(314)	278
Closing net book amount	**99,196**	**99,874**

Non-current assets held for sale relate to the property of Droga Kolinska d.d. and Atlantic Trade Zagreb d.o.o. An active program to complete the sale plan is in place. Part of assets was sold in January 2016, which resulted in impairment charge to the assets fair value less cost to sell amount.

Assets in the amount of HRK 87,733 thousand (2014: HRK 88,402 thousand) have been pledged as collateral for borrowings (Note 24).

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	**Goodwill**	**Licences**	**Brands**	**Rights**	**Software**	**Total**
At 31 December 2013						
Cost	868,162	204,437	823,577	-	124,620	2,020,796
Accumulated amortisation and impairment	-	(34,226)	(34,592)	-	(100,955)	(169,773)
Net book amount	**868,162**	**170,211**	**788,985**	**-**	**23,665**	**1,851,023**
At 1 January 2014						
Opening net book amount	868,162	170,211	788,985	-	23,665	1,851,023
Foreign exchange differences	(25,576)	-	(9,935)	56	(12)	(35,467)
Additions	-	-	-	-	8,933	8,933
Acquisition of subsidiary	-	-	-	16,000	-	16,000
Liquidation of subsidiary	(3,174)	-	-	-	-	(3,174)
Amortisation	-	-	(3,726)	(2,400)	(8,393)	(14,519)
Impairment charge /i/	-	(9,788)	(8,490)	-	-	(18,278)
Closing net book amount	**839,412**	**160,423**	**766,834**	**13,656**	**24,193**	**1,804,518**
At 31 December 2014						
Cost	839,412	204,437	812,466	16,066	134,848	2,007,229
Accumulated amortisation and impairment	-	(44,014)	(45,632)	(2,410)	(110,655)	(202,711)
Net book amount	**839,412**	**160,423**	**766,834**	**13,656**	**24,193**	**1,804,518**
At 1 January 2015						
Opening net book amount	839,412	160,423	766,834	13,656	24,193	1,804,518
Foreign exchange differences	(4,929)	-	(3,813)	(55)	545	(8,252)
Additions	-	-	-	837	14,850	15,687
Acquisition of subsidiary	12,352	288	3,224	-	302	16,166
Amortisation	-	-	(3,688)	(3,192)	(9,653)	(16,533)
Impairment charge /i/	-	(2,629)	(11,166)	-	-	(13,795)
Closing net book amount	**846,835**	**158,082**	**751,391**	**11,246**	**30,237**	**1,797,791**
At 31 December 2015						
Cost	846,835	204,725	811,655	16,851	144,391	2,024,457
Accumulated amortisation and impairment	-	(46,643)	(60,264)	(5,605)	(114,154)	(226,666)
Net book amount	**846,835**	**158,082**	**751,391**	**11,246**	**30,237**	**1,797,791**

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

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

Intangible assets with a net book value of HRK 665,732 thousand as at 31 December 2015 (2014: HRK 682,900) 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:

	2015	**2014**
	(in thousands of HRK)	
Loans and receivables		
Trade and other receivables	1,212,288	1,127,647
Short-term deposits	305	275
Cash and cash equivalents	365,692	417,588
	1,578,285	1,545,510
Available-for-sale financial assets		
Available-for-sale financial assets	959	942
Derivatives used for hedging		
Derivative financial instruments	12,728	22,687
Total financial assets	**1,591,972**	**1,569,139**
Total current	1,507,318	1,545,540
Total non-current	84,654	23,599
Other financial liabilities		
Borrowings	2,050,795	2,353,321
Trade and other payables	927,506	821,890
	2,978,301	3,175,211
Finance leases		
Finance leases	417	1,567
Derivatives used for hedging		
Derivative financial instruments	5,563	13,411
Financial liabilities at fair value through profit or loss		
Contingent consideration	4,581	-
Total financial liabilities	**2,988,862**	**3,190,189**
Total current	1,675,774	1,405,085
Total non-current	1,313,088	1,785,104

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 2015, financial assets classified as trade and other receivables and short-term deposits that are not past due amounted to HRK 1,054,087 thousand (2014: HRK 929,267 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	**2015**	**2014**
	(in thousands of HRK)	
A-1/Stable (Standard &Poor’s)	7,770	7,304
A-2/Negative (Standard &Poor’s)	154,043	110,659
A-3/Stable (Standard &Poor’s)	161,377	238,282
B/Stable (Standard &Poor’s)	6,468	31,676
B/Negative (Standard &Poor’s)	5,365	6,551
BA2 /Stable (Moody’s)	23,724	3,037
Petty cash and other banks	6,945	20,079
	365,692	**417,588**

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:

	2015	**2014**
	(in thousands of HRK)	
Trade receivables		
Counterparties without external credit rating*		
Group 1	19,632	31,628
Group 2	733,943	624,816
Group 3	170,975	192,099
Total unimpaired trade receivables	**924,550**	**848,543**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2015	2014
	(in thousands of HRK)	
Other receivables		
Counterparties without external credit rating*		
Group 2	52,638	21,360
Total unimpaired other receivables	**52,638**	**21,360**

	2015	2014
	(in thousands of HRK)	
Loans and long-term deposits		
Counterparties without external credit rating*		
Group 1	3,591	-
Group 2	55,441	49,586
Group 3	17,562	9,503
	76,594	**59,089**

	2015	2014
	(in thousands of HRK)	
Short-term deposits		
A-3/Stable	305	275
	305	**275**

***** 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 2015 and 2014, there were no impairment provisions on available-for-sale financial assets.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2015	2014
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	59,513	22,378
Other non-current receivables	24,182	279
	83,695	22,657
Current receivables		
Trade receivables /ii/	1,083,056	1,047,198
Loans receivable and deposits /i/	17,081	36,711
Other receivables /iii/	92,177	85,434
	1,192,314	1,169,343
Short-term deposits /v/	305	275
	1,276,314	**1,192,275**

	2015	2014
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	76,594	59,089
Trade receivables	1,083,056	1,047,198
Other receivables	52,638	21,360
Short-term deposits	305	275
	1,212,593	**1,127,922**

/i/ Loans receivable and deposits are as follows:

	2015	2014
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	2,323	1,801
Loans	69,272	45,704
Current portion	(12,082)	(25,127)
	59,513	22,378
Current receivables		
Loans – related parties (Note 30)	1,210	7,651
Loans	3,789	3,933
Current portion of non-current receivables	12,082	25,127
	17,081	36,711
	76,594	**59,089**

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

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ Trade receivables are as follows:

	2015	2014
	(in thousands of HRK)	
Gross trade receivables	1,089,043	1,094,274
Trade receivables – related parties (Note 30)	90,761	93,396
Provision for trade receivables	(96,748)	(140,472)
	1,083,056	**1,047,198**

/iii/ Other receivables are as follows:

	2015	2014
	(in thousands of HRK)	
Receivables from government institutions	37,716	33,317
Outstanding advances	2,603	4,847
Factoring receivables	9,001	11,697
Prepaid expenses	9,879	6,363
Interest receivable	137	502
Receivables from the sale of available-for-sale financial assets	3,800	-
Other receivables – related parties (Note 30)	86	117
Other	28,955	28,591
	92,177	**85,434**

/iv/ Due to uncertainty in collection, other receivables of HRK 381 thousand were impaired (2014: HRK 613 thousand), (Note 8).

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

As of 31 December 2015, trade receivables in the amount of HRK 96,748 thousand (2014: HRK 140,472 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:

	2015	2014
	(in thousands of HRK)	
Up to 3 months	4,321	254
3 to 6 months	766	689
Over 6 months	91,661	139,529
	96,748	**140,472**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2015, trade receivables in the amount of HRK 158,506 thousand (2014: HRK 198,655 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2015	2014
	(in thousands of HRK)	
Up to 3 months	133,584	141,189
3 to 6 months	14,288	55,949
Over 6 months	10,634	1,517
	158,506	**198,655**

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

	2015	2014
	(in thousands of HRK)	
EUR	411,234	375,707
HRK	343,649	360,040
RSD	342,703	280,463
Other	115,007	111,712
	1,212,593	**1,127,922**

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

	2015	2014
	(in thousands of HRK)	
As at 1 January	140,472	144,308
Acquisition of subsidiary	2,667	-
Provision for receivables impairment (Note 8)	20,603	11,156
Collected amounts reversed (Note 8)	(12,589)	(3,336)
Receivables written off	(53,790)	(8,706)
Exchange differences	(615)	(2,950)
As at 31 December	**96,748**	**140,472**

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

Other long-term receivables in the amount of HRK 23,901 thousand relate to consideration receivable from the sale of tea business. These are secured with pledge on trademarks sold. Other than that, trade and other receivables are not secured by any collateral except with bills of exchange and promissory notes.

NOTE 19 – INVENTORIES

	2015	2014
	(in thousands of HRK)	
Raw materials and supplies	179,544	169,275
Work in progress	18,472	16,734
Finished goods	219,013	223,909
Trade goods	186,462	172,329
	603,491	**582,247**

As of 31 December 2015, inventories of HRK 27,571 thousand (2014: HRK 22,007 thousand) were impaired and fully provided for, due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2015	2014
	(in thousands of HRK)	
Current account and cash on hand	97,569	107,403
Foreign currency account	219,457	113,274
Deposits up to three months /i/	48,666	196,911
	365,692	**417,588**

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

Cash and cash equivalents are denominated in the following currencies:

	2015	2014
	(in thousands of HRK)	
EUR	130,711	235,693
HRK	97,689	107,508
RSD	87,382	48,215
Other	49,910	26,172
	365,692	**417,588**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2014	3,334,278	133,372	882,597	(16)	1,015,953
Purchase of treasury shares	(500)	-	-	(502)	(502)
Share based payments	445	-	(21)	440	419
31 December 2014	**3,334,223**	**133,372**	**882,576**	**(78)**	**1,015,870**
Purchase of treasury shares	(4,743)	-	-	(4,304)	(4,304)
Share based payments	4,593	-	(1,061)	4,184	3,123
31 December 2015	**3,334,073**	**133,372**	**881,515**	**(198)**	**1,014,689**

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 ownership structure of the Company is as follows:

	31 December 2015		**31 December 2014**	
	Number of shares	**%**	**Number of shares**	**%**
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	325,759	9.77	324,000	9.72
EBRD	199,301	5.98	284,301	8.53
Erste Plavi Obligatory pension fund	198,178	5.94	111,560	3.35
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	38,331	1.15	37,624	1.13
Other shareholders	705,529	21.16	709,763	21.28
Treasury shares	227	0.01	77	-
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

Dividend distribution

According to the decision of the Company's General Assembly from 18 June 2015, the distribution of dividend in the amount of HRK 12.00 per share, or HRK 40,009 thousand in total was approved. Dividend was paid in July 2015.

In 2014 the distribution of dividend in the amount of HRK 10.50 per share, or HRK 35,010 thousand in total was approved. Dividend was paid in July 2014.

NOTE 21 – SHARE CAPITAL (continued)

Share based payments

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

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

Under the programme, 1,331 new shares have been granted in 2015 (2014: 465 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 2,079 thousand (2014: HRK 780 thousand). Of that amount, HRK 1,498 thousand (2014: HRK 780 thousand) has been reported as staff costs (Note 6), relating to 996 shares for which vesting conditions were met in 2015 (2014: 465 shares) and HRK 581 thousand was deferred, relating to shares for which vesting which vesting conditions will be met in the next two years (335 shares).

The fair value of the shares granted is determined as of the grant date at the estimated market price of the share of HRK 805.22 (2014: HRK 880.00).

In 2015 Management Board members and top management have received 4,593 shares in total. Out of this number, 3,650 shares related to award for the extraordinary performance on special projects subject to specific restrictions which include restriction to trade the shares within 5 years from the grant date and vesting condition which includes 5 years of service within the Group. The fair value of one share at the award grant date amounted to HRK 630.00 and it has been determined based on external valuation report, taking into consideration trading restriction of the shares as described above. The rest of shares related to shares granted in 2014 and 2013. In 2014 Management Board members and top management have received 445 shares relating to shares granted in 2012.

NOTE 22 – RESERVES

(in thousands of HRK)	Reserves /i/	Translation reserves /ii/	Cash flow hedge reserve /ii/	Total
At 1 January 2014	**5,707**	**4,106**	**(25,176)**	**(15,363)**
Foreign exchange differences	-	(34,080)	-	(34,080)
Transfer to retained earnings	264	-	-	264
Cash flow hedge	-	-	29,544	29,544
At 31 December 2014	**5,971**	**(29,974)**	**4,368**	**(19,635)**
Foreign exchange differences	-	(7,771)	-	(7,771)
Transfer from retained earnings	3,194	-	-	3,194
Cash flow hedge	-	-	(2,052)	(2,052)
At 31 December 2015	**9,165**	**(37,745)**	**2,316**	**(26,264)**

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

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

NOTE 23 – TRADE AND OTHER PAYABLES

	2015	2014
	(in thousands of HRK)	
Trade payables	797,560	719,901
Trade payables – related parties (Note 30)	5,645	808
Other payables	185,349	160,742
	988,554	**881,451**

Other payables recorded as at 31 December are as follows:

	2015	2014
	(in thousands of HRK)	
Gross salaries payable	49,771	45,490
Liabilities to state institutions	9,618	13,219
Accrued expenses	75,494	60,066
Vacation accrual	15,864	15,774
Termination benefits payable	514	852
Deferred income	8,359	8,787
Dividend payable (Note 30)	146	112
Other	25,583	16,442
	185,349	**160,742**

Financial liabilities are denominated in the following currencies:

	2015	2014
	(in thousands of HRK)	
EUR	420,658	375,186
HRK	293,199	288,879
RSD	134,645	101,037
Other	80,149	56,788
	928,651	**821,890**

NOTE 24 – BORROWINGS

	2015	2014
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /i/	279,041	305,129
Related parties /ii/ (Note 30)	1,030,139	1,356,457
Bonds /iii/	-	114,594
Finance lease	-	226
Long-term debt	**1,309,180**	**1,776,406**
Short-term borrowings:		
Financial institutions /i/	331,480	315,251
Related parties /ii/ (Note 30)	293,598	260,557
Bonds /iii/	116,537	1,333
Finance lease	417	1,341
	742,032	**578,482**
	2,051,212	**2,354,888**

/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). As at 31 December 2015, EUR 16.6 million of the committed line was unused (31 December 2014: EUR 19.3 million).

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

/ii/ Borrowings from EBRD (2014: EBRD and DEG) are disclosed separately since this financial institution own shares of the Company (Note 21) and is therefore considered as related party.

/iii/ Final redemption of bonds issued in September 2011 in amount of HRK 115 million at the price of 99.375% and with a coupon of 6.75% per annum is on 20 September 2016.

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

NOTE 24 – BORROWINGS (continued)

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

	2015	2014
	(in thousands of HRK)	
Fixed interest rate	144,457	156,352
Up to 3 months	1,129,189	1,284,026
3 to 6 months	777,566	914,510
	2,051,212	**2,354,888**

The maturity of long-term borrowings is as follows:

	2015	2014
	(in thousands of HRK)	
Between 1 and 2 years	516,490	551,989
Between 2 and 5 years	792,690	1,224,417
	1,309,180	**1,776,406**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 3.65% (2014: 3.80%). The effective annual interest rate related to bonds at the balance sheet date was 7.28% (2014: 7.26%).

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

The carrying amounts and fair value of long-term borrowings as at 31 December 2014 were as follows:

	Carrying amounts	Fair value
	(in thousands of HRK)	
Long-term borrowings		
Financial institutions	1,661,586	1,661,548
Bonds	114,594	122,579
Finance lease	226	226
	1,776,406	**1,784,353**

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

NOTE 24 – BORROWINGS (continued)

The carrying amount of short-term borrowings approximates their fair value.

Gross finance lease liabilities – minimum lease payments:

	2015	2014
	(in thousands of HRK)	
No later than 1 year	417	1,341
Later than 1 year and no later than 5 years	-	226
	417	1,567
Present value of finance lease liabilities	**417**	**1,567**

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

	2015	2014
	(in thousands of HRK)	
HRK	268,261	254,140
EUR	1,773,869	2,090,240
USD	8,872	7,717
Other	210	2,791
	2,051,212	**2,354,888**

NOTE 25 – DEFERRED INCOME TAX

	2015	2014
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	23,232	31,760
- Deferred tax assets to be recovered within 12 months	13,834	9,464
	37,066	41,224
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(173,521)	(176,067)
- Deferred tax liabilities to be recovered within 12 months	(3,156)	(5,088)
	(176,677)	(181,155)
Deferred tax liabilities - net	**(139,611)**	**(139,931)**

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

The Group did not recognise deferred income tax assets of HRK 63,069 thousand (2014: HRK 64,788 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 recognised in respect of these losses as it is not certain that future taxable profit will be available for utilisation of the temporary differences. Losses amounting to HRK 296,439 thousand (2014: HRK 337,080 thousand) expire over the next five years, while the losses in the amount of HRK 18,908 thousand (2014: HRK 13,619 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	Tax losses	Provisions	Other	Total
At 1 January 2014	9,744	6,874	31,294	47,912
(Charged)/credited to the income statement (Note 11)	(4,443)	(284)	2,197	(2,530)
(Charged)/credited to other comprehensive income	-	(4)	(2,330)	(2,334)
Exchange differences	46	(136)	(1,734)	(1,824)
At 31 December 2014	**5,347**	**6,450**	**29,427**	**41,224**
(Charged)/credited to the income statement (Note 11)	1,002	1,209	(4,603)	(2,392)
(Charged)/credited to other comprehensive income	-	77	(923)	(846)
Exchange differences	(180)	(30)	(710)	(920)
At 31 December 2015	**6,169**	**7,706**	**23,191**	**37,066**

NOTE 25 – DEFERRED INCOME TAX (continued)

Deferred tax liabilities

(in thousands of HRK)	**Fair value gains**	**Fair value uplifts of assets acquired in business combinations**	**Other**	**Total**
At 1 January 2014	-	177,755	3,623	181,378
Charged/(credited) to the income statement (Note 11)	-	(4,283)	(1,138)	(5,421)
(Charged)/credited to other comprehensive income	3,897	-	-	3,897
Acquisition of subsidiary	-	2,327	-	2,327
Exchange differences	16	(825)	(217)	(1,026)
At 31 December 2014	**3,913**	**174,974**	**2,268**	**181,155**
Charged/(credited) to the income statement (Note 11)	-	(2,223)	(1,543)	(3,766)
(Charged)/credited to other comprehensive income	(1,729)	-	-	(1,729)
Acquisition of subsidiary	-	477	1,230	1,707
Exchange differences	(13)	(696)	19	(690)
At 31 December 2015	**2,171**	**172,532**	**1,974**	**176,677**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal proceedings**	**Warranties**	**Other provisions**	**Total**
At 31 December 2014	46,899	29,330	2,693	1,665	80,587
Analysis of total provisions:					
Non-current	31,622	18,802	-	1,512	51,936
Current	15,277	10,528	2,693	153	28,651
At 1 January 2015	**46,899**	**29,330**	**2,693**	**1,665**	**80,587**
Additions	35,613	3,138	2,660	9,967	51,378
Used during year	(14,268)	(2,322)	(2,686)	(322)	(19,598)
Acquisition of subsidiary	597	406	-	-	1,003
Unused amounts reversed	(6,814)	(604)	-	-	(7,418)
Interest expense	1,218	-	-	-	1,218
Exchange differences	(307)	(81)	(9)	(12)	(409)
At 31 December 2015	**62,938**	**29,867**	**2,658**	**11,298**	**106,761**
Analysis of total provisions:					
Non-current	32,397	20,575	-	1,503	54,475
Current	30,541	9,292	2,658	9,795	52,286

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 2015.

Employee benefits

This provision comprises estimated long-term employee benefits relating to termination 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 2016. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 2,080 thousand that will be paid out within the following year from the balance sheet date.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2015 but not yet incurred amounted to HRK 23,855 thousand (2014: HRK 20,532 thousand) for property, plant and equipment and HRK 3,741 thousand for intangible assets (2014: HRK 1,456 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:

	2015	**2014**
	(in thousands of HRK)	
Not later than 1 year	44,869	47,205
Later than 1 year and not later than 5 years	102,531	85,997
Over 5 years	1,665	930
	149,065	**134,132**

NOTE 28 – BUSINESS COMBINATIONS

/i/ In December 2014, the Group signed an agreement for the acquisition of the company Foodland d.o.o. from Serbia, whose main activity is the production of healthy food from selected ingredients with the recognizable brand "Bakina tajna". In January 2015, the Commission for Protection of Competition in Republic of Serbia approved the takeover of Foodland d.o.o.

Details of the net assets acquired, goodwill and purchase consideration are as follows:

Net assets acquired:

(in thousands of HRK)	Fair value recognised on acquisition
Property, plant and equipment (Note 13)	34,057
Brand (Note 14)	3,224
Software (Note 14)	284
Inventories	10,832
Trade and other receivables	16,312
Cash and cash equivalents	1,194
Borrowings	(41,757)
Trade and other payables	(22,982)
Provisions (Note 26)	(1,003)
Deferred tax liability (Note 25)	(1,707)
Total identifiable net assets acquired	**(1,546)**
Add: goodwill (Note 14)	12,352
Net assets acquired	**10,806**

Purchase consideration:

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

Cash flow on acquisition:

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

As part of an agreement for the acquisition, a contingent consideration has been agreed. There will be additional cash payments to previous owner of Foodland d.o.o. if sales targets in following three years are achieved. As at reporting date, the fair value of contingent consideration was determined based on discounted cash flows taking into consideration the probability of meeting performance targets.
The non-current part of contingent consideration (HRK 3,436 thousand) is classified as Other non-current liabilities and current part (HRK 1,145 thousand) is classified as Trade and other payables.

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

NOTE 28 – BUSINESS COMBINATIONS (continued)

/ii/ In September 2015 the Group acquired 100% interest and obtained control over the company Salubritas d.o.o., Split, Croatia. Upon acquisition, the acquired company was merged to subsidiary Farmacia - specijalizirana prodavaonica d.o.o.

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

(in thousands of HRK)	Fair value recognised on acquisition
Licences (Note 14)	288
Software (Note 14)	18
Trade and other payables	(42)
Total identifiable net assets acquired	**264**
Add: goodwill (Note 14)	nil
Net assets acquired	**264**

Cash flow on acquisition:

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

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

/iii/ During the year ended 31 December 2014, the Group acquired non-controlling interests and became the sole owner of the subsidiaries Cedevita d.o.o. and Atlantic Multipower UK Ltd.

The effect of changes in ownership interest in the above mentioned subsidiaries on the equity attributable to owners of the company during the year is summarised as follows:

(in thousands of HRK)	
Carrying amount of non-controlling interests acquired	62,365
Consideration in kind, net of tax	(93,349)
Excess of consideration paid recognized in equity	**(30,984)**

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2015	2014
Net profit		**242,523**	**213,401**
Income tax	11	46,573	39,289
Depreciation, amortisation and impairment	13, 13a, 14, 2.24	163,297	156,330
Gain on sale of property, plant and equipment	9	(1,005)	(947)
Gain on sale of available-for-sale financial assets	9	(7,523)	-
Gain on sale of tea business	9	(23,782)	-
Provision for current assets		48,555	33,777
Foreign exchange differences - net		41,676	26,091
Increase/ (decrease) in provision for risks and charges - net	26	26,174	(8,851)
Fair value (gains)/losses on financial assets	9	(42,257)	(2,423)
Share based payment	21	3,123	419
Interest income		(4,637)	(4,511)
Interest expense	10	105,664	125,861
Other non-cash items, net		5,591	4,532
Changes in working capital:			
Increase in inventories		(39,049)	(67,025)
Increase in current receivables		(38,153)	(15,553)
Increase in current payables		89,705	121,717
Cash generated from operations		**616,475**	**622,107**

NOTE 30 – RELATED PARTY TRANSACTIONS

The Group enters into transactions with the following related parties: shareholders and other entities owned or controlled by shareholders (‘other entities’).

Related party transactions that relate to balances as at 31 December 2015 and as at 31 December 2014 and transactions recognised for years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2015	2014
RECEIVABLES			
Current receivables			
Other entities	18	92,057	101,164
LIABILITIES			
Borrowings			
Shareholders	24	1,323,737	1,617,014
Trade payables			
Shareholders	23	146	112
Other entities	23	5,645	808
		5,791	920
REVENUES			
Sales revenues			
Other entities		465,682	443,032
Other revenues			
Other entities		1,277	1,285
EXPENSES			
Marketing and promotion costs	7		
Other entities		13,966	13,456
Other operating costs	8		
Other entities		2,532	2,854
Finance cost - net	10		
Shareholder		57,035	69,094
Purchases of property, plant and equipment			
Other entities		11,000	-

Management board compensation

In 2015 members of the Management Board received total gross amount of HRK 15,970 thousand relating to salaries, bonuses and supervisory board compensation in respect of operating companies (2014: HRK 10,379 thousand).

NOTE 31 – AUDITORS’ FEES

PricewaterhouseCoopers d.o.o., the auditor of the Group’s financial statements has rendered services in the amount of HRK 3,942 thousand (2014: HRK 3,255 thousand). These services relate to the audits and reviews of the financial statements, consultancy services and agreed upon procedures in relation to financial covenants calculation.

NOTE 32 – SUBSIDIARIES

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

	2015	2014
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 (acquired in 2015)	100%	-
- Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- o.o.o. Atlantic Brands, Russia	100%	100%
- Grand Prom d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Grand Prom d.o.o., Bosnia and Herzegovina	100%	100%
- Droga Kolinska d.o.o.e.l., Macedonia	100%	100%
- Atlantic Brands d.o.o., Serbia	100%	100%
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., Macedonia	75%	75%
- Bionatura bidon vode d.o.o., Croatia	100%	100%
- Atlantic Multipower d.o.o., Croatia	100%	100%
Fidifarm d.o.o., Croatia	100%	100%
- Atlantic Pharmacentar d.o.o., Croatia	100%	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	100%
Montana Plus d.o.o., Croatia	100%	100%
Atlantic s.r.l., Italy (liquidated in 2015)	-	100%
Hopen Investments, BV, Netherlands	100%	100%
- Atlantic Multipower GmbH & CO OHG, Germany	100%	100%
- Atlantic Multipower UK Ltd, Great Britain	100%	100%
- Sport Direct Ltd, Great Britain	100%	100%
- Atlantic Multipower Srl, Italy	100%	100%
- Atlantic Multipower Iberica, Spain	100%	100%
- AKTIVKOST Handelsgesellschaft mbH, Germany	100%	100%
- Atlantic Management GmbH, Germany	100%	100%
Atlantic Brands GmbH, Germany (founded in 2015)	100%	-
Atlantic Brands GmbH, Austria (founded in 2015)	100%	-

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