ATLANTIC GRUPA d.d.

AUDITOR’S REPORT AND SEPARATE FINANCIAL STATEMENTS 31 DECEMBER 2016

Responsibility for the financial statements

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

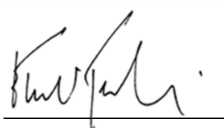
The Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

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

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

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

The accompanying financial statements were approved for issuance by the Management Board on 30 March 2017.



Emil Tedeschi
President and Chief Executive Officer

Mladen Veber
Senior Group Vice President for Business Operations

Zoran Stanković
Group Vice President for Finance

Neven Vranković
Group Vice President for Corporate activities

Independent Auditor's Report

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

Our opinion

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

What we have audited

The Company's separate financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: J. M. Gasparac, President; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

Our audit approach

Overview

Materiality	• Overall materiality for separate financial statements as a whole: HRK 13.5 million, which represents 0.8% of Total Assets.
Key audit matters	• Impairment of investment in subsidiaries

How we tailored our audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

Materiality

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

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

Overall materiality for separate financial statements as a whole	HRK 13.5 million (2015: HRK 8.5 million)
How we determined it	0.8% of total assets (2015: 0.5% of total assets)
Rationale for the materiality benchmark applied	We consider total assets to be appropriate due to the nature of the Company (holding company with corporate activities).

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Impairment of investment in subsidiaries See note 4 of the financial statements under the heading "Impairment of investment in subsidiaries" and note 14 – Investment in subsidiaries. We focused on this area due to the fact that investment in subsidiaries represents a significant position in the balance sheet in the amount of HRK 1,580,662 thousand, and the evaluation of external and internal impairment indicators include elements of judgment by management including, but not limited to evaluation of: • market value, • future plans, • changes in economic environment, and • changes in interest rates.	We performed our own assessment of the impairment indicators related to the investment in subsidiaries. While assessing impairment indicators, we have evaluated external and internal sources of information (including observable indications) by performing the following: • We compared whether the amount of each investment in subsidiary exceeds the net assets and/or market value of the related subsidiary. • We discussed with management their future plans for each significant investment. • To determine whether economic performance is not worse than expected, we compared actual results (revenue and net profit) to the budgeted results for the current year, for significant investments. • We also considered whether there were any adverse changes in market interest rates which would impact discount rates and trigger decline of value in use. We found that management used appropriate judgment in arriving at the conclusion that there are no impairment indicators related to investment in subsidiaries.

Other information

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

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

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

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

PricewaterhouseCoopers d.o.o.

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

This version of our report is a translation of the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

ATLANTIC GRUPA d.d.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts expressed in thousands of HRK)	**Note**	**2016**	**2015**
Revenues	27	119,977	119,461
Other income	5	12,801	83,930
Staff costs	6	(68,638)	(61,465)
Marketing and promotion costs	7	(4,546)	(2,180)
Depreciation and amortisation	12, 13	(5,351)	(4,752)
Other operating costs	8	(53,303)	(43,354)
Other (losses)/gains- – net	9	(194)	7,756
Operating profit		**746**	**99,396**
Finance income	10	6,213	8,108
Finance costs	10	(19,720)	(24,706)
Finance costs – net	10	(13,507)	(16,598)
(Loss)/ profit before tax		**(12,761)**	**82,798**
Income tax expense	11	25	636
(Loss)/ profit for the year		**(12,736)**	**83,434**

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

ATLANTIC GRUPA d.d.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts expressed in thousands of HRK)	**2016**	**2015**
(Loss)/ profit for the year	**(12,736)**	**83,434**
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Actuarial loss from defined benefit plans	(6)	(7)
	(6)	(7)
Items that may be subsequently reclassified to profit of loss		
Cash flow hedge	378	885
	378	885
Total other comprehensive income	**372**	**878**
Total comprehensive (loss)/ income	**(12,364)**	**84,312**

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

ATLANTIC GRUPA d.d.

BALANCE SHEET

AT 31 DECEMBER 2016

(all amounts are expressed in thousands of HRK)	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	12	17,044	16,411
Intangible assets	13	18,428	11,563
Investments in subsidiaries	14	1,580,662	1,556,029
Deferred income tax assets	23	3,194	2,915
Trade and other receivables	17	1,123	1,287
		1,620,451	1,588,205
Current assets			
Trade and other receivables	17	51,440	69,247
Income tax receivable		1,725	2,074
Cash and cash equivalents	18	7,180	2,038
		60,345	73,359
Total assets		**1,680,796**	**1,661,564**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	19	133,372	133,372
Share premium	19	881,489	881,515
Treasury shares	19	(88)	(198)
Cash flow hedge reserves	20	-	(378)
Retained earnings		143,863	201,617
Total equity		1,158,636	1,215,928
Non-current liabilities			
Borrowings	22	199,574	-
Provisions	24	285	248
		199,859	248
Current liabilities			
Trade and other payables	21	33,530	29,668
Borrowings	22	272,599	402,487
Provisions	24	16,172	12,761
Derivative financial instruments	15	-	472
		322,301	445,388
Total liabilities		**522,160**	**445,636**
Total equity and liabilities		**1,680,796**	**1,661,564**

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

ATLANTIC GRUPA d.d.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of HRK)	**Share capital (Note 19)**	**Cash flow hedge reserves**	**Retained earnings**	**Total**
At 1 January 2015	1,015,870	(1,263)	158,199	1,172,806
Comprehensive income:				
Net profit for the year	-	-	83,434	83,434
Other comprehensive income/(loss)	-	885	(7)	878
Total comprehensive income	-	885	83,427	84,312
Transaction with owners				
Purchase of treasury shares	(4,304)	-	-	(4,304)
Share based payment (Note 19)	3,123	-	-	3,123
Dividends relating to 2014 (Note 19)	-	-	(40,009)	(40,009)
At 31 December 2015	**1,014,689**	**(378)**	**201,617**	**1,215,928**
Comprehensive income:				
Net loss for the year	-	-	(12,736)	(12,736)
Other comprehensive income/(loss)	-	378	(6)	372
Total comprehensive income/ (loss)	-	378	(12,742)	(12,364)
Transaction with owners				
Purchase of treasury shares	(1,076)	-	-	(1,076)
Share based payment (Note 19)	1,160	-	-	1,160
Dividends relating to 2015 (Note 19)	-	-	(45,012)	(45,012)
At 31 December 2016	**1,014,773**	**-**	**143,863**	**1,158,636**

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

ATLANTIC GRUPA d.d.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

(all amounts expressed in thousands of HRK)	**Note**	**2016**	**2015**
Cash flows (used in)/ from operating activities:			
Cash (used in)/ generated from operations	26	(19,392)	17,340
Interest paid		(15,992)	(15,611)
		(35,384)	1,729
Cash flows (used in)/ from investing activities			
Purchases of property, plant and equipment and intangible assets	12, 13	(12,993)	(11,572)
Proceeds from sale of property, plant and equipment		218	54
Investments in subsidiaries	14	(24,633)	(2,553)
Proceeds from sale of available-for-sale financial assets		3,742	3,785
Proceeds from liquidation subsidiary		-	400
Repayments of loans receivable and deposits placed - net		(850)	(3,012)
Dividends received		17,564	78,000
Interest received		13	7
		(16,939)	65,109
Cash flows from/ (used in) financing activities			
Purchase of treasury shares	19	(1,076)	(4,304)
Dividends paid	19	(45,012)	(40,009)
Proceeds from borrowings		344,000	6,000
Repayment of borrowings		(240,447)	(30,332)
		57,465	(68,645)
Net increase/ (decrease) in cash and cash equivalents		**5,142**	**(1,807)**
Cash and cash equivalents at beginning of year		2,038	3,845
Cash and cash equivalents at end of year	18	**7,180**	**2,038**

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

NOTE 1 – GENERAL INFORMATION

Atlantic Grupa d.d. (the Company) was incorporated in the Republic of Croatia in 2002. The Company performs corporate activities such as planning entrepreneurial functions, organisation of principal activities, gathering and utilising financial assets, defining the strategy and development of business activities of the Atlantic Group (the Company and its subsidiaries, see Note 14).

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 disclosed in Note 19.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These financial statements 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 derivative financial instruments.

The preparation of 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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The Company has issued these separate financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2016 and for the year then ended in accordance with IFRS which were endorsed by the EU for the Company and its subsidiaries (the Group), which were approved by the Management Board on 30 March 2017. In the consolidated financial statements, subsidiary undertakings (listed in Note 14) and those companies in which the Group indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2016 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

(a) New and amended standards adopted by the Company

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

Certain new standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Company. None of these is expected to have significant effect on the financial statements of the Company, except for the standards stated below. The Company 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 Company 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 Company expects to apply simplified approach and record lifetime expected impairment losses on all trade receivables.
  The Company 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 Company 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.
  At this stage, the Company is not able to estimate the impact of the new rules on the Company's financial statements. More detailed assessments of the impact will be made during 2017.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The financial statements are presented in Croatian kuna (HRK), which is the Company's functional and 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. 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 costs - net'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) – net'.

2.3 Investments in subsidiaries

Investments in subsidiaries in which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations are recorded at cost less impairment losses, if any. Impairment is tested annually whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries for which an impairment loss has been recorded are tested at each reporting date for a potential reversal of impairment.

Dividend income is recognised when the right to receive payment is established.

2.4 Property, plant and equipment

Motor vehicles, equipment, leasehold improvements and assets under construction are 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. Assets not yet in use are not depreciated.

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 Company 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 are incurred.

Depreciation of motor vehicles, equipment and investments in leasehold improvements is calculated using the straight-line method to allocate their cost to residual values over their estimated useful lives, as follows:

Motor vehicles	5 years
Leasehold improvements	4 to 10 years
Equipment	2 to 10 years

The residual value of an asset is an estimated amount that the Company 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment (continued)

The residual value of an asset is nil if the Company 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 2.6).

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.

2.5 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (4 to 5 years).

2.6 Impairment of non-financial assets

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 that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

The Company classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(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.

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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 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 Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company 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 2.9.

2.8 Leases

The Company leases certain property, vehicles and equipment. Leases where the significant portion of risks and rewards of ownership are not retained by the Company 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.

2.9 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 Company 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 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 costs'.

2.10 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. Bank overdrafts are included within current liabilities on the balance sheet.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 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.

When the Company purchases its 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 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.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated 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.

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

2.13 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax law enacted at the balance sheet date in Croatia. 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 provided, using the balance sheet 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. The deferred tax liability is recognised for all taxable temporary differences associated with the acquisition of the fair value of subsidiaries’ net assets.

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 to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Employee benefits

(a) Pension obligations and post-employment benefits

The Company 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 Company has no other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company 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 Company before the ordinary retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without 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.

(c) Long-term employee benefits

The Company 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 includes 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 expenses'.

(d) Share-based compensations

Key management of the Company 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 Company'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 Company 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Provisions

Provisions for termination benefits, legal proceedings and employee benefits are recognised when: the Company 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 is a 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 discount 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.

2.16 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 Company's activities. Revenue is presented net of value-added tax.

The Company 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 Company's activities as described below.

(a) Revenue from services

Revenue from services is 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. Income from corporate governance services is recognised in the accounting period in which the services are rendered and invoiced.

(b) Interest income

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

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.17 Dividend distribution

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

2.18 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, impairment loss is recorded for the gross amount of the debtor, including VAT.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 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.

2.20 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 Company 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 Company 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 Company 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 20.

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 expenses’. 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 reclassified from other comprehensive income to profit or loss 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 reclassified from other comprehensive income to profit and loss within ‘other gains/(losses) – net’.

2.21 Mergers

The predecessor method of accounting is used to account for the merger of related companies. 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.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Management closely monitors the risk profile of the Company's operations, including the establishment of authorisation and accountability levels.

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Movements in exchange rates between the EURO and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow. The table below shows EURO denominated trade and other payables, trade and other receivables, cash and cash equivalents and borrowings as a percentage of their total balances at the balance sheet dates.

	2016	**2015**
Trade and other receivables	68%	46%
Trade and other payables	13%	10%
Cash and cash equivalents	95%	89%
Borrowings	41%	71%

At 31 December 2016, if the EURO had weakened/strengthened by 0.5% against the HRK (2015: 0.5%), with all other variables held constant, loss for the year would have been HRK 622 thousand lower/higher (2015 profit: HRK 1,021 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of EURO denominated trade and other receivables and borrowings (Notes 17 and 22).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(ii) Cash flow and fair value interest rate risk

As the Company does not have significant interest-bearing assets, the Company's income and operating cash flows are not substantially dependent of changes in market interest rates.

The Company's interest rate risk arises from long-term borrowings and bonds issued. Debt issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company 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 Company calculates the impact on profit and loss of a defined interest rate shift.

The Company 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 from floating rates to fixed rates. The Company raised long-term borrowings at floating rates and swapped them into fixed rates that are lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the Company 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.

At 31 December 2016, if the effective interest rate on borrowings had been 100 basis points higher/lower on an annual level, loss for the year would have been HRK 968 thousand higher/lower (2015 profit after tax: HRK 870 thousand lower/higher).

(b) Credit risk

The Company's assets, potentially subjecting the Company to concentrations of credit risk, primarily include cash and trade and other receivables. The Company does not have significant concentrations of credit risk, since loans and receivables mainly relate to transactions within the Group. The Company has policies that limit the amount of credit exposure to any financial institution. A detailed analysis and maximum exposure to credit risk is presented in Notes 16 and 17.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(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 Company aims to maintain flexibility in funding by keeping committed credit lines available. Trade and other payables as well as short-term borrowings are due within 12 months after the balance sheet date, while the maturity of long-term borrowings is disclosed in Note 22.

Cash flow forecasting is performed by Company finance. Company finance monitors the Company'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 Company'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 the balance sheet date the Company held cash and cash equivalents in the amount of HRK 7,180 thousand (2015: 2,038 thousand) that are expected to readily generate cash inflows for managing liquidity risk.

The next table analyses financial liabilities of the Company according to contracted maturities. The amounts stated below represent undiscounted cash flows.

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Total**
31 December 2016			
Trade and other payables	29,513	-	29,513
Borrowings	284,636	225,000	509,636

(in thousands of HRK)	**Less than 1 year**	**Total**
31 December 2015		
Trade and other payables	22,870	22,870
Borrowings	409,686	409,686
Derivative financial instruments	472	472

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company 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 balance sheet) plus derivative financial liabilities less short-term deposits and cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

The gearing ratios were as follows:

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Total borrowings (Note 22)	472,173	402,487
Derivative financial liabilities (Note 15)	-	472
Less: Cash and cash equivalents (Note 18)	(7,180)	(2,038)
Net debt	464,993	400,921
Total equity	1,158,636	1,215,928
Total capital	**1,623,629**	**1,616,849**
Gearing ratio	**29%**	**25%**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

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.

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

The fair value of derivative financial instruments is determined based on specific valuation techniques (level 3).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Company 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.

Impairment of Investments in subsidiaries

The Company performs tests on an annual basis to conclude whether there are any indicators that investment in subsidiaries suffers any impairment, in accordance with the accounting policy disclosed in Note 2.3. If any indicator of impairment exists, the Company performs impairment tests. These tests require the use of estimates such as expected growth rate, discount rate etc., that are mainly based on market conditions existing at the time when the tests are performed.

NOTE 5 – OTHER INCOME

	2016	2015
	(in thousands of HRK)	
Dividend income – related parties (Note 27)	9,500	82,080
Rental income	1,804	1,436
Interest income from cash with banks and deposit	13	7
Other	1,484	407
	12,801	**83,930**

NOTE 6 – STAFF COSTS

	2016	2015
	(in thousands of HRK)	
Gross salaries /i/	48,225	45,707
Share options granted (Note 19)	4.995	1,498
Public transport	444	368
Other staff costs /ii/	14,974	13,892
	68,638	**61,465**

At 31 December 2016, the average employees number was 129 (2015: 110).

/i/ Pension contributions to mandatory pension funds for the year ended 31 December 2016 amounted to HRK 6,978 thousand (2015: 5,866 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2016	2015
	(in thousands of HRK)	
Sponsorships and donations	2,590	2,089
Advertising and marketing expenses	1,789	91
Market research expenses	167	-
	4,546	**2,180**

NOTE 8 – OTHER OPERATING COSTS

	2016	2015
	(in thousands of HRK)	
Rentals	12,105	10,590
Transportation services	7,563	7,469
Entertainment	8,358	5,256
Intellectual services	6,015	2,590
Travel expense and daily allowances	3,437	2,552
Maintenance and security	5,368	3,705
Supervisory Board compensation	1,624	1,513
Telecommunication services	1,494	1,447
Subscriptions and membership fees	944	938
Fuel	736	853
Taxes and contributions irrespective of operating results	151	154
Bank charges	181	296
Office supplies	429	419
Insurance premiums	420	437
Impairment of receivables (Note 17)	22	19
Services from related parties (Note 27)	2,522	640
Other	1,934	4,476
	53,303	**43,354**

NOTE 9 – OTHER (LOSSES)/GAINS– NET

	2016	2015
	(in thousands of HRK)	
Gain on sale of available-for-sale financial asset	-	7,523
Gain on liquidation of subsidiary	-	400
Gain on sale of property, plant and equipment	74	15
Foreign exchange losses – net	(268)	(182)
	(194)	**7,756**

NOTE 10 – FINANCE COSTS – NET

	2016	2015
	(in thousands of HRK)	
Finance income:		
Foreign exchange gains from borrowings	6,213	8,108
	6,213	8,108
Finance costs:		
Foreign exchange losses from borrowings	(3,165)	(6,736)
Interest expense - banks	(4,528)	(7,020)
Interest expense - related parties (Note 27)	(2,754)	(2,568)
Interest expense - bonds	(9,241)	(8,373)
Interest expense - other	(32)	(9)
	(19,720)	(24,706)
	(13,507)	**(16,598)**

NOTE 11 – INCOME TAX

	2016	2015
	(in thousands of HRK)	
Current income tax	351	485
Deferred tax (Note 23)	(376)	(1,121)
	(25)	**(636)**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of 20% applicable to the Company's profit as follows:

	2016	2015
	(in thousands of HRK)	
(Loss)/ profit before taxation	(12,761)	82,798
Tax at 20%	(2,552)	16,560
Effect of expenses not deductible for tax purposes	5,318	3,425
Effect of income not subject to tax	(2,791)	(20,621)
Tax charge	**(25)**	**(636)**
Effective interest rate	0.20%	(0.77%)

The Croatian Income Tax Act is subject to different interpretations and changes in respect of certain expenses which reduce the tax base. The Management Board's interpretation of the law relating to these transactions and activities of the Company may be disputed by the relevant authorities. The Tax Authority may take a different view in interpreting the laws and judgments, and it is possible that those transactions and activities that have not been disputed in the past may be disputed now. The Tax Authority may carry out a tax audit within three years from the year in which the income tax liability for a certain financial period was established.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Leasehold Improvements	Motor Vehicles	Equipment	Assets not yet in use	Total
At 31 December 2014					
Cost	13,025	440	9,780	1,034	24,279
Accumulated depreciation	(3,840)	(136)	(5,736)	-	(9,712)
Net book amount	**9,185**	**304**	**4,044**	**1,034**	**14,567**
At 1 January 2015					
Opening net book amount	9,185	304	4,044	1,034	14,567
Additions	-	-	-	4,643	4,643
Transfer	2,105	143	1,793	(4,041)	-
Disposals	-	(31)	(8)	-	(39)
Depreciation	(1,614)	(76)	(1,070)	-	(2,760)
Closing net book amount	**9,676**	**340**	**4,759**	**1,636**	**16,411**
At 31 December 2015					
Cost	15,130	505	10,181	1,636	27,452
Accumulated depreciation	(5,454)	(165)	(5,422)	-	(11,041)
Net book amount	**9,676**	**340**	**4,759**	**1,636**	**16,411**
At 1 January 2016					
Opening net book amount	9,676	340	4,759	1,636	16,411
Additions	-	-	-	3,444	3,444
Transfer	1,637	337	2,902	(4,876)	-
Disposals	-	(84)	-	(60)	(144)
Depreciation	(1,462)	(95)	(1,110)	-	(2,667)
Closing net book amount	**9,851**	**498**	**6,551**	**144**	**17,044**
At 31 December 2016					
Cost	16,767	619	11,613	144	29,143
Accumulated depreciation	(6,916)	(121)	(5,062)	-	(12,099)
Net book amount	**9,851**	**498**	**6,551**	**144**	**17,044**

NOTE 13 – INTANGIBLE ASSETS

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Opening net book amount	11,563	6,626
Additions	9,549	6,929
Amortisation	(2,684)	(1,992)
Closing net book amount	18,428	11,563
Cost	25,120	15,579
Accumulated amortisation	(6,692)	(4,016)
Closing net book amount	**18,428**	**11,563**

NOTE 14 – INVESTMENTS IN SUBSIDIARIES

	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	Holding in %	Holding in %	*(in thousands of HRK)*	
Atlantic Trade d.o.o., Zagreb, Croatia	100%	100%	738,544	738,544
Neva d.o.o., Zagreb, Croatia	100%	100%	53,281	53,281
Cedevita d.o.o., Zagreb, Croatia	100%	100%	132,736	132,736
Hopen Investments, BV, Netherlands	100%	100%	91,017	91,017
Montana Plus d.o.o., Zagreb, Croatia	100%	100%	12,000	12,000
Fidifarm d.o.o., Zagreb, Croatia	100%	100%	525,898	525,898
Atlantic Brands GmbH, Austria /i/	100%	100%	10,973	1,028
Atlantic Brands GmbH, Germany /i/	100%	100%	16,213	1,525
			1,580,662	**1,556,029**

/i/ In 2015 the Company founded subsidiaries in Austria and Germany to strengthen own distribution and selling capacities in these countries. Additional investment of HRK 24,633 thousand in total was made into these subsidiaries throughout 2016.

NOTE 15 – FINANCIAL INSTRUMENTS BY CATEGORY

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

(in thousands of HRK)	Loans and receivables	Total
31 December 2016		
Financial assets		
Trade and other receivables (Note 17)	49,803	**49,803**
Deposits (Note 17)	1,123	**1,123**
Cash and cash equivalents (Note 18)	7,180	**7,180**
Total	**58,106**	**58,106**

(in thousands of HRK)	Other financial liabilities	Total
31 December 2016		
Financial liabilities		
Borrowings (Note 22)	472,173	**472,173**
Trade and other payables (Note 21)	29,513	**29,513**
Total	**501,686**	**501,686**

(in thousands of HRK)	Loans and receivables	Total
31 December 2015		
Financial assets		
Trade and other receivables (Note 17)	66,752	**66,752**
Deposits (Note 17)	1,287	**1,287**
Cash and cash equivalents (Note 18)	2,038	**2,038**
Total	**70,077**	**70,077**

(in thousands of HRK)	Other financial liabilities	Derivatives used for hedging	Total
31 December 2015			
Financial liabilities			
Borrowings (Note 22)	402,487	-	**402,487**
Derivative financial instruments	-	472	**472**
Trade and other payables (Note 21)	22,870	-	**22,870**
Total	**425,357**	**472**	**425,829**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS

As at 31 December 2016, financial assets classified in the category trade and other receivables that are not past due amounted to HRK 28,686 thousand (2015: HRK 55,499 thousand). Receivables not past due include receivables from related parties in the amount of HRK 21,198 thousand (2015: HRK 47,577 thousand) and the risk of non-collectability is low.

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

Credit rating	**2016**	**2015**
	(in thousands of HRK)	
BBB+ (Standard &Poor's)	6,472	597
BB+ (Standard &Poor's)	383	1,222
BBB- (Standard &Poor's)	90	164
Petty cash and other banks	235	55
	7,180	**2,038**

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

	2016	**2015**
	(in thousands of HRK)	
Trade and other receivables - external		
Counterparties without external credit rating*		
Group 2	3,087	4,444
Total unimpaired trade and other receivables	**3,087**	**4,444**

	2016	**2015**
	(in thousands of HRK)	
Long-term deposits and loans given		
Counterparties without external credit rating*		
Group 1	-	3,000
Group 2	5,524	1,765
	5,524	**4,765**

*Counterparties without external credit rating
Group 1 – new customers (less than 6 months)
Group 2 – existing customers (more than 6 months) with no defaults in the past
Group 3 – existing customers (more than 6 months) with some defaults in the past; all defaults were fully recovered.

None of the financial assets that are fully performing have been renegotiated in the last year. None of the loans to related parties is past due.

NOTE 17 – TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Non-current receivables		
Deposits	1,123	1,287
	1,123	**1,287**
Current receivables		
Trade receivables – related parties (Note 27)	38,250	49,010
Trade receivables	3,701	1,475
Short-term loans receivable	4,401	3,478
Accrued interest receivable – related parties (Note 27)	451	456
Receivables from distribution of profit – related parties (Note 27)	-	8,064
Other receivables /i/	4,637	6,764
	51,440	**69,247**
Total trade and other receivables	**52,563**	**70,534**

/i/ Other receivables mainly relate to prepaid expenses. Due to uncertainty in collection, other receivables of HRK 22 thousand were impaired (2015: HRK 19 thousand) (Note 8).

Financial assets by category are as follows (Note 15):

	2016	2015
	(in thousands of HRK)	
Category: Loans and receivables		
Deposits	1,123	1,287
Trade receivables – related parties (Note 27)	38,250	49,010
Trade receivables	3,701	1,475
Short-term loan receivables	4,401	3,478
Accrued interest receivable – related parties (Note 27)	451	456
Receivables from distribution of profit – related parties (Note 27)	-	8,064
Receivables from the sale of available-for-sale financial assets	-	3,800
Other receivables	3,000	469
	50,926	**68,039**

All non-current receivables fall due within 3 years after the balance sheet date.

The fair value of non-current receivables approximates the carrying amounts, since the contracted interest rates reflect market rates.

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2016, trade and other receivables past due amounted to HRK 21,117 thousand (2015: HRK 11,253 thousand). Almost all receivables past due relate to receivables from related parties and they were not provided for as collection is not questionable. The ageing analysis of past due but not provided for trade and other receivables by maturity periods is as follows:

	2016	**2015**
	(in thousands of HRK)	
Less than 3 months	6,359	1,640
3 to 6 months	1,936	1,823
Over 6 months	12,822	7,790
	21,117	**11,253**

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	2016	**2015**
	(in thousands of HRK)	
HRK	16,096	36,610
EUR	34,830	31,429
	50,926	**68,039**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security other than bills of exchange and promissory notes.

NOTE 18 – CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Current account and cash on hand	361	221
Foreign currency account	6,819	1,817
	7,180	**2,038**

Cash and cash equivalents are denominated in the following currencies:

	2016	2015
	(in thousands of HRK)	
EUR	6,820	1,815
HRK	344	210
Other currencies	16	13
	7,180	**2,038**

NOTE 19 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2015	**3,334,223**	**133,372**	**882,576**	**(78)**	**1,015,870**
Purchase of treasury shares	(4,743)	-	-	(4,304)	(4,304)
Share based payments	4,593	-	(1,061)	4,184	3,123
31 December 2015	**3,334,073**	**133,372**	**881,515**	**(198)**	**1,014,689**
Purchase of treasury shares	(1,300)	-	-	(1,076)	(1,076)
Share based payments	1,422	-	(26)	1,186	1,160
31 December 2016	**3,334,195**	**133,372**	**881,489**	**(88)**	**1,014,773**

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

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

NOTE 19 – SHARE CAPITAL (continued)

The ownership structure of the Company is as follows:

	31 December 2016		31 December 2015	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	322,729	9.68	325,759	9.77
AZ Obligatory pension fund	286,372	8.59	130,439	3.91
Erste Plavi Obligatory pension fund	202,328	6.07	198,178	5.94
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	38,753	1.16	38,331	1.15
Other shareholders	617,038	18.51	774,391	23.23
Treasury shares	105	0,00	227	0.01
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

Share based payments

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

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

Under the programme, 4,294 new shares have been granted in 2016 (2015: 1,331 shares) relating to the achievement of operating profit target growth, individual performance achievements and completing of necessary period of service.

The fair value of equity-settled share based payment transactions amounted to HRK 5,791 thousand (2015: HRK 2,079 thousand). Of that amount, HRK 4,995 thousand (2015: HRK 1,498 thousand) has been reported as staff costs (Note 6), relating to 3,818 shares for which vesting conditions were met in 2016 (2015: 996 shares) and HRK 796 thousand was deferred, relating to shares for which vesting which vesting conditions will be met in the next two years (476 shares, 2015: 335 shares).

The fair value of the shares granted is determined as of the grant date at the estimated market price of the share of HRK 937,89 (2015: HRK 805.22).

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

Dividend distribution

According to the decision of the Company's General Assembly from 16 June 2016, the distribution of dividend in the amount of HRK 13.50 per share, or HRK 45,012 thousand in total was approved. Dividend was paid in July 2016.

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

NOTE 20 – CASH FLOW HEDGE RESERVES

As at 31 December 2015 cash flow hedge reserves in the amount of HRK 378 thousand related to accumulated net fair value losses of floating-to-fixed interest rate swap agreements.

NOTE 21 – TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Trade payables	20,606	16,340
Trade payables – related parties (Note 27)	2,276	1,275
Other payables /i/	10,648	12,053
	33,530	**29,668**

/i/ Other payables are as follows:

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Gross salaries payable	4,017	3,736
Accrued expenses	6,324	3,528
Advances received – related parties (Note 27)	-	3,062
Other	307	1,727
	10,648	**12,053**

Financial liabilities are denominated in the following currencies:

	2016	2015
	(in thousands of HRK)	
HRK	25,622	20,288
EUR	3,697	2,376
Other currencies	194	206
	29,513	**22,870**

NOTE 22 – BORROWINGS

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Long-term borrowings:		
Bonds /i/	199,574	-
Long-term debt	**199,574**	**-**
Short-term borrowings:		
Related parties /ii/ (Note 27)	136,062	154,958
Banks /iii/	136,413	130,992
Bonds /i/	124	116,537
	272,599	**402,487**
Total borrowings	**472,173**	**402,487**

/i/ In June 2016 the Company issued corporate Bonds in amount of HRK 200 million at the price of 99,954% with a coupon of 3.125% per annum with semi-annual payment of interest and final redemption on 17 June 2021. The purpose of these Bonds is financing working capital and refinance of bonds which matured on 20 September 2016.

/ii/ Short-term borrowings from related parties include two short-term borrowing facilities. These borrowings are not secured.

/iii/ Short-term bank borrowings include four facilities which are secured with co-guarantees from the Company's subsidiaries.

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

	31 December 2016	31 December 2015
	(in thousands of HRK)	
3 to 6 months	136,413	130,992
Fixed interest rate	335,760	271,495
	472,173	**402,487**

As at 31 December 2016 the maturity of long-term borrowings was between 2 and 5 years. As at 31 December 2015 all borrowings were short-term.

The average effective annual interest rate relating to borrowings from banks and from related parties at the balance sheet date was 3.04% (2015: 2.34%). The effective annual interest rate relating to bonds at the balance sheet date was 4.84% (2015: 7.28%).

NOTE 22 – BORROWINGS (continued)

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

	Carrying amounts	Fair value
	(in thousands of HRK)	
Long-term borrowings		
Bonds	194,574	204,167
	194,574	**204,167**

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

The carrying amounts of the Company's borrowings are translated from the following currencies:

	31 December 2016	31 December 2015
	(in thousands of HRK)	
HRK	278,583	117,012
EUR	193,590	285,475
	472,173	**402,487**

NOTE 23 – DEFERRED INCOME TAX ASSETS

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Deferred income tax assets:		
- Deferred income tax assets to be recovered after 12 months	35	29
- Deferred income tax assets to be recovered within 12 months	3,159	2,886
Deferred income tax assets	**3,194**	**2,915**

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that the amounts recognised will be realised through future taxable profits of the Company. Temporary differences relate to accrued bonuses, unused vacation days and effects of interest rate swaps.

NOTE 23 – DEFERRED INCOME TAX ASSETS (continued)

Deferred tax assets

(in thousands of HRK)	**Bonuses**	**Derivative financial instruments**	**Other**	**Total**
At 1 January 2015	**1,430**	**318**	**267**	**2,015**
Tax credited to the income statement (Note 11)	2,551	-	-	2,551
Tax charged to the income statement (Note 11)	(1,430)	-	-	(1,430)
Tax charged to other comprehensive income	-	(221)	-	(221)
At 31 December 2015	**2,551**	**97**	**267**	**2,915**
Tax credited to the income statement (Note 11)	2,909	-	250	3,159
Tax charged to the income statement (Note 11)	(2,551)	-	(232)	(2,783)
Tax charged to other comprehensive income	-	(97)	-	(97)
At 31 December 2016	**2,909**	**-**	**285**	**3,194**

NOTE 24 – PROVISIONS

(in thousands of HRK)	**Jubilee awards and termination benefits**	**Bonuses**	**Total**
At 31 December 2015	**253**	**12,756**	**13,009**
Analysis of total provisions:			
Non-current	248	-	248
Current	5	12,756	12,761
At 1 January 2016	**253**	**12,756**	**13,009**
Additions	53	16,163	16,216
Used during the year	(9)	(12,240)	(12,249)
Unused amounts reversed	(4)	(515)	(519)
	293	**16,164**	**16,457**
Analysis of total provisions:			
Non-current	285	-	285
Current	8	16,164	16,172
At 31 December 2016	**293**	**16,164**	**16,457**

NOTE 25 – COMMITMENTS

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

	31 December 2016	31 December 2015
	(in thousands of HRK)	
Not later than 1 year	9,188	8,253
Later than 1 year and not later than 5 years	14,165	10,419
Later than 5 years	186	540
	23,539	**19,212**

Capital expenditure contracted at 31 December 2016 but not yet incurred amounted to HRK 1,058 thousand (2015: HRK 1,069 thousand) for intangible assets and HRK 499 thousand (2015: HRK 504 thousand) for property plant and equipment.

The Company is co-debtor and guarantor to its subsidiaries and other members of the Group in their long-term and short-term borrowings. Contingent liabilities arising from guarantees given to its subsidiaries and other members of Atlantic Group were not disclosed in the balance sheet as at 31 December 2016 and 2015, since Management believes it is not likely that they will fall into the Company's liabilities.

NOTE 26 – CASH GENERATED FROM OPERATIONS

	Note	2016	2015
Net (loss)/ profit		**(12,736)**	**83,434**
Income tax	11	(25)	(636)
Depreciation and amortisation	12,13	5,351	4,752
Impairment of receivables	8	22	19
Gain on sale of available-for-sale financial assets	9	-	(7,523)
Gain on sale of property, plant and equipment	9	(74)	(15)
Gain on liquidation of subsidiary	9	-	(400)
Unrealised foreign exchange differences – net		(2,497)	(1,351)
Increase in provisions		3,424	5,376
Share based payment		1,160	3,123
Interest income	5	(13)	(7)
Interest expense	10	16,555	17,970
Dividend income	5	(9,500)	(82,080)
Other non-cash items		85	(10)
Changes in working capital:			
Increase in trade and other receivables		(25,006)	(16,770)
Increase in trade and other payables		3,862	11,458
Cash (used in)/ generated from operations		**(19,392)**	**17,340**

NOTE 27 – RELATED PARTY TRANSACTIONS

The Company enters into transactions with the related parties as presented in Note 14 and other entities owned or controlled by the Company and ultimate controlling party.
Related party transactions that relate to balances as at 31 December 2016 and as at 31 December 2015 and transactions recognized for years then ended are as follows:

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2016**	**31 December 2015**
RECEIVABLES			
Current receivables			
Interest receivable			
Subsidiaries	17	451	456
Trade receivables			
Subsidiaries	17	38,250	49,010
Receivables from distribution of profit			
Subsidiaries	17	-	8,064
LIABILITIES			
Trade and other payables			
Subsidiaries	21	2,276	4,337
Borrowings			
Subsidiaries	22	136,062	154,958
REVENUES			
Revenues			
Subsidiaries		119,977	119,461
Dividend income			
Subsidiaries	5	9,500	82,080
EXPENSES			
Other operating costs			
Subsidiaries	8	2,522	640
Net finance costs			
Subsidiaries	10	2,754	2,568

Management board compensation

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