ATLANTIC GRUPA d.d.

ANNUAL REPORT
31 DECEMBER 2017

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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, which is comprised of the Company and its subsidiaries (as set out in the Note 14 to the separate financial statements), as well as all other companies over which the Company has control through its subsidiaries.

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. Users of these financial statements should read them together with the Group's consolidated financial statements as at (and for the year ended) 31 December 2017 and together with the Group's Annual report for the year-ended 31 December 2017 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

Probable future development of the Company

Company's goals are to ensure stable growth and long-term profitability of Atlantic Grupa. Strategic guidance for 2018 include:

- further strengthening the position of well-known regional brands
- development of distribution operations by strengthening of the existing and acquisition of new principals
- increasing of the regional HoReCa portfolio
- continued internationalisation of operations
- cost management, rationalisation and business process optimisation at all levels of business
- continuous improvements, new excellence and expertise acquisition and further investment in equipment in the quality control area
- regular fulfilment of financial liabilities with active debt and finance costs management and
- prudent liquidity risk management and continuous debt decrease

Research and development activities

Continuous investment in research and development of new products, technology, market research is necessary to ensure market competitiveness. The Company provides support to Atlantic Grupa members in the field of R&D activities by continuously following the trends, providing directions and investing in these activities.

Purchase of treasury shares

During 2017 the Company has purchased 8,583 treasury shares for the total value of HRK 7,431 thousand (Note 19 to the separate financial statements).

Subsidiaries

The Company owns shares in following companies:

- Atlantic Trade d.o.o. Zagreb, Croatia
- Neva d.o.o., Zagreb, Croatia
- Cedevita d.o.o., Zagreb, Croatia
- Hopen Investments, BV, Netherlands
- Montana Plus d.o.o., Zagreb, Croatia
- Fidifarm d.o.o., Zagreb, Croatia
- Atlantic Brands GmbH, Austria
- Atlantic Brands GmbH, Germany
- Atlantic Multipower UK, United Kingdom
- Atlantic Multipower Italy

More details of investment in subsidiaries are provided in Note 14 to the separate financial statements of the Company.

Financial instruments

Details of the exposure to financial risks are set out in the note 3 of the separate financial statements of the Company.

STATEMENT OF APPLICATION OF THE CODE OF CORPORATE GOVERNANCE

Atlantic Grupa has, since its foundation, 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.

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 conflict 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. The Code of Corporate Governance has been published on the Company's website (www.atlanticgrupa.com).

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 Zagreb Stock Exchange and complies with the obligations arising therefrom, save for the provisions whose application is impractical at the given time. In accordance with relevant regulations, Atlantic Grupa in 2017 issued a Statement of Application of the Code of Corporate Governance, thereby confirming its actions and development in accordance with the good corporate governance practice in all business segments. The Statement of Application of the Code of Corporate Governance has been published on the Company's website (www.atlanticgrupa.com) as well as on the website of the Zagreb Stock Exchange (www.zse.hr) and of the Croatian Financial Supervisory Agency – HANFA (www.hanfa.hr).
Derogations from the Code of Corporate Governance of the Zagreb Stock Exchange Inc. are the following:

15	Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, explain)	NO	The Company is currently in negotiations to introduce a service that would allow participating and voting at the general assembly of the Company by using modern communication technology.
23	Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)	NO	The remuneration for the Supervisory Board members is determined as a fixed amount, so they would be as independent as possible from the Company and those they are supervising.

Top 10 shareholders of the Company are provided in Note 19 to the separate financial statements.

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.

STATEMENT OF APPLICATION OF THE CODE OF CORPORATE GOVERNANCE

At the business conference of the Zagreb Stock Exchange and the fund industry held in October 2017, Atlantic Grupa won the award for investor relations. Atlantic Grupa is developing and acting in accordance with good practice of corporate governance and endeavours, through its business strategy, business policy and key internal acts, to contribute to transparent and efficient business and quality relationships with the business environment in which it operates, following global and European trends.

Organisation of corporate management

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 29 June 2017. 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 13.50 per share, in proportion to the number of shares held by each shareholder, election of three members of the Supervisory Board, and appointment of an independent Auditor of the Company for the year 2017. 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

The joint stock company Atlantic Grupa has a Supervisory Board consisting of seven members. In 2017, the Supervisory Board held four sessions in accordance with the previously announced Schedule posted on web pages of the Company (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr). In line with the OECD Principles of Corporative Governance and the Code's recommendations, the Supervisory Board of Atlantic Grupa is mostly composed of independent members who are not in business, family, or other connections with the company, the majority shareholder, or a group of majority shareholders, or management board members or supervisory board members of the company or the majority shareholder. Six out of the total of seven Supervisory Board members come from the ranks of independent experts.

The members of the Supervisory Board are:

- Zdenko Adrović, President
- Lada Tedeschi Fiorio, Vice President
- Siniša Petrović, Member
- Franz-Joseph Flosbach, Member
- Aleksandar Pekeč, Member
- Jean-Louis Yvon Gourbin, Member
- Lars Peter Elam Hakansson, Member

The members of the Supervisory Board have been remunerated for their work and have the right to remuneration appropriate to the period of their engagement and the tasks performed, as well as the Company's situation and business performance. In 2017, members of the Supervisory Board of Atlantic Grupa d.d. received compensation in the total gross amount of HRK 1,269,832.21.

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 are consisted of three members, of which two are appointed from the ranks of the Supervisory Board members, while one member is appointed from the ranks of top experts in the subject area.

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

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

AUDIT COMMITTEE analyzes 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 2017 in the total gross amount of HRK 45,849.76.

Internal audit

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

Internal audit informs the Audit Committee on its activities and audit plans, while its findings and recommendations help the management to improve processes, preventively eliminate potential risks or reduce risks to an acceptable level.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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 these 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 29 March 2018.

Emil Tedeschi
President and Chief Executive Officer

Mladen Veber
Senior Group Vice President for Business Operations

Zoran Stanković
Group Vice President for Finance

Neven Vranković
Group Vice President for Corporate activities

Building a better working world

Ernst & Young d.o.o.
Radnička cesta 50
10 000 Zagreb
Hrvatska / Croatia
MBS: 080435407
OIB: 58960122779
PDV br. / VAT no.: HR58960122779

Tel: +385 1 5800 800
Fax: +385 1 5800 888
www.ey.com/hr

Banka / Bank:
Erste & Steiermärkische Bank d.d.
Jadranski trg 3A, 51000 Rijeka, Hrvatska / Croatia
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Independent auditor ' s report

To the Shareholders of Atlantic Grupa d.d.

Report on the audit of the separate financial statements

Opinion

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

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

Basis for opinion

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

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

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

Other matter

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

Key audit matters

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

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

Key Audit Matter	How we addressed Key Audit Matter
Assessment of impairment of investment in subsidiaries *See notes 4 and 14 of the financial statements* The Company has investment in subsidiaries with carrying amount totaling HRK 1,507,183 thousand as at 31 December 2017. The carrying amount of the investment in subsidiaries represents 92% of total assets and the assessment of the impairment indicators represents significant area of management's judgment, regarding but not limited to, market values, future plans, changes in the economic environment and interest rate changes.	Audit procedures included understanding of the investment impairment process and of the controls implemented within. We examined the methodology used by management to assess the carrying value of respective investments in subsidiaries to determine its compliance with IFRS as adopted by EU and consistency of application. We evaluated the subsidiaries' future cash flow forecasts and the process by which they were prepared. We compared the budget inputs in the models to the approved budgets and forecast inputs in the models to management plans. We compared current year (2017) actual results with the figures included in the prior year (2016) forecasts to evaluate assumptions used.

Independent auditor ' s report (continued)

Key audit matters (continued)

Due to the range of judgements and assumptions used in the models and impairment assessments, as well as the significant carrying amount of the investment in subsidiaries, this is an area considered to be a key audit matter.	We also compared management's key assumption for long-term growth rate by comparing it to historical growth results and market data. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis, and tested the appropriateness of discount rates used in the calculation with the assistance of the specialists. We also assessed the completeness of the impairment charges. We also assessed adequacy of the disclosures in the financial statements and if these are in line with the requirements of IFRS as adopted by EU.

Other information included in The Company ' s 2017 Annual Report

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

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

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

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

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

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

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

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

Independent auditor ' s report (continued)

Responsibilities of management and Audit Committee for the financial statements

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

In preparing the 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.

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

Auditor ' s responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the 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 auditor ' s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor ' s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Independent auditor ' s report (continued)

Auditor ' s responsibilities for the audit of the financial statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

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

Consistence with Additional Report to Audit Committee

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

Provision of Non-audit Services

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

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

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

29 March 2018

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts expressed in thousands of HRK)	**Note**	**2017**	**2016**
Revenues	26	144,189	119,977
Other income	5	135,344	12,801
Staff costs	6	(73,850)	(68,638)
Marketing and promotion costs	7	(4,933)	(4,546)
Depreciation and amortisation	12, 13	(10,140)	(5,351)
Other operating costs	8	(61,631)	(53,303)
Other losses – net	9	(111,195)	(194)
Operating profit		**17,784**	**746**
Finance income	10	1,544	6,213
Finance costs	10	(14,453)	(19,720)
Finance costs – net	10	(12,909)	(13,507)
Profit/(loss) before tax		**4,875**	**(12,761)**
Income tax expense	11	(593)	25
Profit/(loss) for the year		**4,282**	**(12,736)**

ATLANTIC GRUPA d.d.

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts expressed in thousands of HRK)	**2017**	**2016**
Profit/(loss) for the year	**4,282**	**(12,736)**
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Actuarial loss from defined benefit plans, net of tax	(23)	(6)
	(23)	(6)
Items that may be subsequently reclassified to profit of loss		
Cash flow hedge, net of tax	-	378
	-	378
Other comprehensive (loss)/income for the year, net of tax	**(23)**	**372**
Total comprehensive income/(loss) for the year	**4,259**	**(12,364)**

ATLANTIC GRUPA d.d.

BALANCE SHEET

AT 31 DECEMBER 2017

(all amounts are expressed in thousands of HRK)	**Note**	**31 December 2017**	**31 December 2016**
ASSETS			
Non-current assets			
Property, plant and equipment	12	17,135	17,044
Intangible assets	13	26,194	18,428
Investments in subsidiaries	14	1,507,183	1,580,662
Deferred tax assets	22	3,189	3,194
Trade and other receivables	17	1,117	1,123
		1,554,818	1,620,451
Current assets			
Trade and other receivables	17	72,982	51,440
Income tax receivable		1,137	1,725
Cash and cash equivalents	18	7,286	7,180
		81,405	60,345
Total assets		**1,636,223**	**1,680,796**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	19	133,372	133,372
Share premium	19	881,089	881,489
Treasury shares	19	(1,514)	(88)
Retained earnings		103,138	143,863
Total equity		1,116,085	1,158,636
Non-current liabilities			
Borrowings	21	199,710	199,574
Provisions	23	473	285
		200,183	199,859
Current liabilities			
Trade and other payables	20	40,133	33,530
Borrowings	21	262,309	272,599
Provisions	23	17,513	16,172
		319,955	322,301
Total liabilities		**520,138**	**522,160**
Total equity and liabilities		**1,636,223**	**1,680,796**

ATLANTIC GRUPA d.d.

STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2017

(in thousands of HRK)	**Share capital, Premium and Treasury shares**	**Cash flow hedge reserves**	**Retained earnings**	**Total**
At 1 January 2016	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**
Comprehensive income:				
Net profit for the year	-	-	4,282	4,282
Other comprehensive loss	-	-	(23)	(23)
Total comprehensive income	-	-	4,259	4,259
Transaction with owners				
Purchase of treasury shares	(7,431)	-	-	(7,431)
Share based payment (Note 19)	5,605	-	-	5,605
Dividends relating to 2016 (Note 19)	-	-	(44,984)	(44,984)
At 31 December 2017	**1,012,947**	**-**	**103,138**	**1,116,085**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts expressed in thousands of HRK)	**Note**	**2017**	**2016**
Cash flows used in operating activities:			
Cash used in operations	25	(1,668)	(19,392)
Interest paid		(10,863)	(15,992)
		(12,531)	(35,384)
Cash flows used in investing activities			
Purchases of property, plant and equipment and intangible assets	12, 13	(18,082)	(12,993)
Proceeds from sale of property, plant and equipment		68	218
Investments in subsidiaries	14	(37,157)	(24,633)
Proceeds from sale of available-for-sale financial assets		-	3,742
Repayments of loans receivable and deposits placed - net		(1,036)	(850)
Dividends received		3,000	17,564
Interest received		259	13
		(52,948)	(16,939)
Cash flows from financing activities			
Purchase of treasury shares	19	(7,431)	(1,076)
Dividends paid	19	(44,984)	(45,012)
Proceeds from borrowings	21	144,800	344,000
Repayment of borrowings	21	(26,800)	(240,447)
		65,585	57,465
Net increase in cash and cash equivalents		**106**	**5,142**
Cash and cash equivalents at beginning of year		7,180	2,038
Cash and cash equivalents at end of year	18	**7,286**	**7,180**

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.

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 2017 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 29 March 2018. 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 2017 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 and interpretations adopted by the Company

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

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

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

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

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

recovery of some assets for more than their carrying amount. The adoption of this amendments had no material impact on the financial statements of the Company.

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

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

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

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

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

The IASB has issued a new standard for the recognition of revenue in May 2014 and amendment to IFRS 15 in April 2016. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customer. The new revenue standard will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.
Either a full retrospective application or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company will adopt the new standard on the required effective date using the full retrospective method.
During 2017, the Company performed a preliminary assessment of IFRS 15 transition effects on the main types of its arrangements under this model and has concluded that the application of IFRS 15 will not have a material impact on its financial statements.

- *IFRS 9, Financial instruments (effective for annual periods beginning on or after 1 January 2018)*

Issued in July 2014 the final version that replaced the IAS 39 Financial instruments: Recognition and Measurement, IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.
The Company has performed an impact assessment and expects no significant impact from the new classification, measurement and de-recognition rules on its financial assets and liabilities:
-The majority of Company's financial assets where the impact is expected are trade receivables and the Company will apply simplified approach and record lifetime expected impairment losses on all trade receivables based on past experience of losses incurred due to customers default. This approach will result in earlier impairment loss recognition and higher amount of the provision of trade receivables.
-No impact on financial liabilities is expected.
Changes in accounting policies resulting from applying IFRS 9 will be applied retrospectively as at 1 January 2018 but without restatement of comparative information for prior years. Any difference between the carrying amount of financial instruments measured under IFRS 9 and the carrying amount under IAS 39 will be recognised in the opening retained earnings. The total estimated adjustment to the opening retained earnings at the date of initial application is not material.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

Replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.
The standard includes two recognition exemptions for lessees - leases of ’low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.
Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs.
In 2018 the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

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

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

- *IFRS 14 Regulatory Deferral Accounts*

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

- *IFRS 17 Insurance Contracts*

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

These improvements include:

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

Clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after
(i) The beginning of the reporting period in which the entity first applies the interpretation
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.
The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on financial statements.
o IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
Addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Management anticipates that the adoption will have no material impact on the financial statements of the Company.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 using the straight-line method 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Current and deferred tax

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

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 internal rulebook. The liability recognised in the balance sheet in respect of one-off retirement payment is the present value of the defined benefit obligation at the end of the reporting period. This obligation is calculated annually by independent actuaries. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Interest costs/income arising from actuarial calculation are charged/credited to income statement within 'interest expenses'.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Employee benefits (continued)

(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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 Operating segments reporting

The Company does not report information about its operating segments in separate financial statements, as its activities are of corporate nature. Operating segments reporting is relevant from Group perspective, and are disclosed in consolidated financial statements of the Group.

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.

	2017	**2016**
Trade and other receivables	35%	68%
Trade and other payables	22%	13%
Cash and cash equivalents	97%	95%
Borrowings	37%	41%

At 31 December 2017, if the EURO had weakened/strengthened by 0.5% against the HRK (2016: 0.5%), with all other variables held constant, profit for the year would have been HRK 575 thousand higher/lower (2016 loss: HRK 622 thousand lower/higher), mainly as a result of foreign exchange gains/losses on translation of EURO denominated trade and other receivables and borrowings (Notes 17 and 21).

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.

At 31 December 2017, if the effective interest rate on borrowings had been 100 basis points higher/lower on an annual level, profit for the year would have been HRK 1,210 thousand lower/higher (2016 loss: HRK 968 thousand higher/lower).

(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 21.

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 gyro 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 7,286 thousand (2016: 7,180 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 2017			
Trade and other payables	35,530	-	35,530
Borrowings	274,188	218,750	492,938

(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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Changes in liabilities arising from financial activities

(in thousands of HRK)	1 January 2017	Cash flow	Foreign exchange movement	Prepaid fee amortized	Other	31 December 2017
Bonds – non-current	199,574	-	-	136	-	199,710
Bonds – current	124	-	-	-	-	124
Bank borrowings - current	136,413	30,000	(441)	-	213	166,185
Related parties borrowings - current	136,062	88,000	(851)	-	(127,211)	96,000
Total liabilities	**472,173**	**118,000**	**(1,292)**	**136**	**(126,998)**	**462,019**

The other column includes the effect of net settlement of receivables from distribution of profit with borrowings liabilities and also includes change in interest payable liability as the Company classifies interest paid as cash flows from operating activities.

3.3 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 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 2017	31 December 2016
	(in thousands of HRK)	
Total borrowings (Note 21)	462,019	472,173
Less: Cash and cash equivalents (Note 18)	(7,286)	(7,180)
Net debt	454,733	464,993
Total equity	1,116,085	1,158,636
Total capital and net debt	**1,570,818**	**1,623,629**
Gearing ratio	**29%**	**29%**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value estimation

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

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

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

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

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

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The 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

	2017	2016
	(in thousands of HRK)	
Dividend income – related parties (Note 26)	128,000	9,500
Rental income	1,928	1,804
Interest income – related parties (Note 26)	720	-
Interest income from cash with banks and deposit	34	13
Other	4,662	1,484
	135,344	**12,801**

NOTE 6 – STAFF COSTS

	2017	2016
	(in thousands of HRK)	
Gross salaries /i/	52,636	48,225
Share options granted (Note 19)	4,125	4.995
Public transport	489	444
Other staff costs /ii/	16,600	14,974
	73,850	**68,638**

In 2017, the average employees number was 132 (2016: 118).

/i/ Pension contributions to mandatory pension funds for the year ended 31 December 2017 amounted to HRK 7,366 thousand (2016: 6,978 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2017	2016
	(in thousands of HRK)	
Sponsorships and donations	4,567	2,590
Advertising and marketing expenses	78	1,789
Market research expenses	288	167
	4,933	**4,546**

NOTE 8 – OTHER OPERATING COSTS

	2017	2016
	(in thousands of HRK)	
Rentals	12,841	12,105
Transportation services	6,012	7,563
Entertainment	7,011	8,358
Intellectual services	6,992	6,015
Travel expense and daily allowances	2,629	3,437
Maintenance and security	6,937	5,368
Supervisory Board compensation	1,270	1,371
Telecommunication services	1,987	1,494
Subscriptions and membership fees	724	944
Fuel	925	736
Taxes and contributions irrespective of operating results	176	151
Bank charges	152	181
Office supplies	457	429
Insurance premiums	484	420
Impairment of receivables (Note 17)	5,055	22
Services from related parties (Note 26)	4,827	2,522
Other	3,152	2,187
	61,631	**53,303**

NOTE 9 – OTHER LOSSES – NET

	2017	2016
	(in thousands of HRK)	
Impairment of investment in subsidiaries	(110,636)	-
(Loss)/Gain on sale of property, plant and equipment	(17)	74
Foreign exchange losses – net	(542)	(268)
	(111,195)	**(194)**

NOTE 10 – FINANCE COSTS – NET

	2017	2016
	(in thousands of HRK)	
Finance income:		
Foreign exchange gains from borrowings	1,544	6,213
	1,544	6,213
Finance costs:		
Foreign exchange losses from borrowings	(251)	(3,165)
Interest expense - banks	(4,826)	(4,528)
Interest expense - related parties (Note 26)	(2,972)	(2,754)
Interest expense - bonds	(6,386)	(9,241)
Interest expense - other	(18)	(32)
	(14,453)	(19,720)
	(12,909)	**(13,507)**

NOTE 11 – INCOME TAX

	2017	2016
	(in thousands of HRK)	
Current income tax	588	351
Deferred tax (Note 22)	5	(376)
	593	**(25)**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 18% (2016: 20%) applicable to the Company's profit as follows:

	2017	2016
	(in thousands of HRK)	
Profit/ (Loss) before taxation	4,875	(12,761)
Tax at 18% (2016: 20%)	878	(2,552)
Effect of expenses not deductible for tax purposes	25,702	5,318
Effect of income not subject to tax	(25,987)	(2,791)
Tax charge	**593**	**(25)**
Effective interest rate	12.16%	0.20%

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 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**
At 1 January 2017					
Opening net book amount	9,851	498	6,551	144	17,044
Additions	-	-	-	4,043	4,043
Transfer	407	-	2,162	(2,569)	-
Disposals	-	(85)	-	-	(85)
Depreciation	(1,762)	(132)	(1,973)	-	(3,867)
Closing net book amount	**8,496**	**281**	**6,740**	**1,618**	**17,135**
At 31 December 2017					
Cost	17,174	507	13,432	1,618	32,731
Accumulated depreciation	(8,678)	(226)	(6,692)	-	(15,596)
Net book amount	**8,496**	**281**	**6,740**	**1,618**	**17,135**

NOTE 13 – INTANGIBLE ASSETS

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Opening net carrying amount	18,428	11,563
Additions	14,039	9,549
Amortisation	(6,273)	(2,684)
Closing net carrying amount	26,194	18,428
Cost	39,159	25,120
Accumulated amortisation	(12,965)	(6,692)
Closing net carrying amount	**26,194**	**18,428**

The entire amount of intangible assets relates to software.

NOTE 14 – INVESTMENTS IN SUBSIDIARIES

	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	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 /i/	100%	100%	33,751	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	100%	100%	10,973	10,973
Atlantic Brands GmbH, Germany /i/	100%	100%	-	16,213
Atlantic Multipower UK /ii/	100%	-	-	-
Atlantic Multipower Italy /ii/	100%	-	-	-
			1,507,183	**1,580,662**

/i/ Investment impaired in 2017.
/ii/ Purchased from the subsidiary in 2017.

In order to support the working capital needs of its subsidiary Atlantic Brands GmbH Germany, the Company has paid additional HRK 37,157 thousand in 2017.

NOTE 15 – FINANCIAL INSTRUMENTS BY CATEGORY

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

	2017	2016
	(in thousands of HRK)	
Loans and receivables		
Trade and other receivables	71,753	49,803
Deposits	1,117	1,123
Cash and cash equivalents	7,286	7,180
	80,156	58,106
Total current	79,039	56,983
Total non-current	1,117	1,123
Other financial liabilities		
Borrowings	462,019	472,173
Trade and other payables	35,530	29,513
	497,549	501,686
Total current	297,839	302,112
Total non-current	199,710	199,574

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS

As at 31 December 2017, financial assets classified in the category trade and other receivables that are not past due amounted to HRK 59,575 thousand (2016: HRK 28,686 thousand). Receivables not past due include receivables from related parties in the amount of HRK 56,816 thousand (2016: HRK 21,198 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	**2017**	**2016**
	(in thousands of HRK)	
A/Positive (Standard &Poor's)	42	77
BBB/Positive/ (Standard &Poor's)	5,968	6,395
BBB/Stable (Standard & Poor's)	212	90
BB/Positive (Standard & Poor's)	565	383
BA1 /Positive (Moody's)	478	99
Petty cash and other banks	21	136
	7,286	**7,180**

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

	2017	**2016**
	(in thousands of HRK)	
Trade and other receivables - external		
Counterparties without external credit rating*		
Group 2	2,517	3,087
Total unimpaired trade and other receivables	**2,517**	**3,087**

	2017	**2016**
	(in thousands of HRK)	
Long-term deposits and loans given		
Counterparties without external credit rating*		
Group 2	1,359	5,524
	1,359	**5,524**

*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 2017	31 December 2016
	(in thousands of HRK)	
Non-current receivables		
Deposits	1,117	1,123
	1,117	**1,123**
Current receivables		
Trade receivables – related parties (Note 26)	44,638	38,250
Trade receivables	4,296	3,701
Short-term loans given – related parties (Note 26)	20,000	-
Short-term loans given	242	4,401
Accrued interest receivable – related parties (Note 26)	941	451
Other receivables /i/	2,865	4,637
	72,982	**51,440**
Total trade and other receivables	**74,099**	**52,563**

/i/ Other receivables mainly relate to prepaid expenses. Due to uncertainty in collection, other receivables of HRK 5,055 thousand were impaired (2016: HRK 22 thousand) (Note 8).

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

	2017	2016
	(in thousands of HRK)	
Category: Loans and receivables		
Deposits	1,117	1,123
Trade receivables – related parties (Note 26)	44,638	38,250
Trade receivables	4,296	3,701
Short-term loans given – related parties (Note 26)	20,000	-
Short-term loan receivables	242	4,401
Accrued interest receivable – related parties (Note 26)	941	451
Other receivables	1,636	3,000
	72,870	**50,926**

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 2017, trade and other receivables past due amounted to HRK 12,178 thousand (2016: HRK 21,117 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:

	2017	**2016**
	(in thousands of HRK)	
Less than 3 months	7,457	6,359
3 to 6 months	1,064	1,936
Over 6 months	3,657	12,822
	12,178	**21,117**

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

	2017	**2016**
	(in thousands of HRK)	
HRK	47,502	16,096
EUR	25,368	34,830
	72,870	**50,926**

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 2017	31 December 2016
	(in thousands of HRK)	
Gyro account and cash on hand	203	361
Foreign currency account	7,083	6,819
	7,286	**7,180**

Cash and cash equivalents are denominated in the following currencies:

	2017	2016
	(in thousands of HRK)	
EUR	7,085	6,820
HRK	188	344
Other currencies	13	16
	7,286	**7,180**

NOTE 19 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

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

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

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

NOTE 19 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES (continued)

The ownership structure of the Company is as follows:

	31 December 2017		31 December 2016	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	322,729	9.68	322,729	9.68
AZ Obligatory pension fund	286,946	8.61	286,372	8.59
Erste Plavi Obligatory pension fund	202,328	6.07	202,328	6.07
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	38,860	1.16	38,753	1.16
Other shareholders	614,713	18.44	617,038	18.51
Treasury shares	1,749	0.05	105	0,00
Total	**3,334,300**	**100,00**	**3,334,300**	**100.00**

Share based payments

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

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

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

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

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

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

Dividend distribution

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

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

NOTE 20 – TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Trade payables	22,970	20,606
Trade payables – related parties (Note 26)	9,478	2,276
Other payables /i/	7,685	10,648
	40,133	**33,530**

/i/ Other payables are as follows:

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Gross salaries payable	4,603	4,017
Accrued expenses	2,851	6,324
Other	231	307
	7,685	**10,648**

Financial liabilities are denominated in the following currencies:

	2017	2016
	(in thousands of HRK)	
HRK	27,537	25,622
EUR	7,646	3,697
Other currencies	347	194
	35,530	**29,513**

NOTE 21 – BORROWINGS

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Long-term borrowings:		
Bonds /i/	199,710	199,574
Long-term debt	**199,710**	**199,574**
Short-term borrowings:		
Related parties /ii/ (Note 26)	96,000	136,062
Banks /iii/	166,185	136,413
Bonds /i/	124	124
	262,309	**272,599**
Total borrowings	**462,019**	**472,173**

/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 one non secured short-term borrowing facility (2016: two).

/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 2017	31 December 2016
	(in thousands of HRK)	
3 to 6 months	166,185	136,413
Fixed interest rate	295,834	335,760
	462,019	**472,173**

The average effective annual interest rate relating to borrowings from banks and from related parties at the balance sheet date was 2.31% (2016: 3.04%). The effective annual interest rate relating to bonds at the balance sheet date was 3.19% (2016: 4.84%).

NOTE 21 – BORROWINGS (continued)

The carrying amounts and fair value of long-term borrowings were as follows:

	Carrying amounts		Fair value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Bonds	199,710	199,574	201,432	204,167
	199,710	**199,574**	**201,432**	**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 2017	31 December 2016
	(in thousands of HRK)	
HRK	293,350	278,583
EUR	168,669	193,590
	462,019	**472,173**

NOTE 22 – DEFERRED TAX ASSETS

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	43	35
- Deferred tax assets to be recovered within 12 months	3,146	3,159
Deferred income tax assets	**3,189**	**3,194**

Deferred 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 primarily relate to accrued bonuses and unused vacation days.

NOTE 22 – DEFERRED TAX ASSETS (continued)

Deferred tax assets

(in thousands of HRK)	**Bonuses**	**Derivative financial instruments**	**Other**	**Total**
At 1 January 2016	**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**
Tax credited to the income statement (Note 11)	3,146	-	8	3,154
Tax charged to the income statement (Note 11)	(2,909)	-	(250)	(3,159)
At 31 December 2017	**3,146**	**-**	**43**	**3,189**

NOTE 23 – PROVISIONS

(in thousands of HRK)	**Jubilee awards and termination benefits**	**Bonuses**	**Total**
At 31 December 2016	**293**	**16,164**	**16,457**
Analysis of total provisions:			
Non-current	285	-	285
Current	8	16,164	16,172
At 1 January 2017	**293**	**16,164**	**16,457**
Additions	104	17,600	17,704
Used during the year	(11)	(16,164)	(16,175)
	386	**17,600**	**17,986**
Analysis of total provisions:			
Non-current	351	122	473
Current	35	17,478	17,513
At 31 December 2017	**386**	**17,600**	**17,986**

NOTE 24 – COMMITMENTS

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

	31 December 2017	31 December 2016
	(in thousands of HRK)	
Not later than 1 year	8,904	9,188
Later than 1 year and not later than 5 years	7,569	14,165
Later than 5 years	-	186
	16,473	**23,539**

Capital expenditure contracted at 31 December 2017 but not yet incurred amounted to HRK 2,397 thousand (2016: HRK 1,058 thousand) for intangible assets. As at 31 December 2016 capital expenditure contracted for property plant and equipment amounted to HRK 499 thousand.

The Company is co-debtor and guarantor to its subsidiaries and other members of the Group in their long-term and short-term borrowings. Provision has not been recognized as Management believes that the possibility of any outflow is remote.

NOTE 25 – CASH GENERATED FROM OPERATIONS

	Note	2017	2016
Profit/(loss) for the year		**4,282**	**(12,736)**
Income tax	11	593	(25)
Depreciation and amortisation	12,13	10,140	5,351
Impairment of receivables	8	5,055	22
Impairment of investment in subsidiaries	9,14	110,636	-
Loss/ (Gain) on sale of property, plant and equipment	9	17	(74)
Unrealised foreign exchange differences – net		(1,086)	(2,497)
Increase in provisions		1,490	3,424
Share based payment	19	5,605	1,160
Interest income	5	(754)	(13)
Interest expense	10	14,202	16,555
Dividend income	5	(128,000)	(9,500)
Other non-cash items		(2)	85
Changes in working capital:			
Increase in trade and other receivables		(30,449)	(25,006)
Increase in trade and other payables		6,603	3,862
Cash used in operations		**(1,668)**	**(19,392)**

NOTE 26 – 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 2017 and as at 31 December 2016 and transactions recognized for years then ended are as follows:

(all amounts expressed in thousands of HRK)	Note	2017	2016
RECEIVABLES			
Current receivables			
Interest receivable			
Subsidiaries	17	941	451
Trade receivables			
Subsidiaries	17	44,628	38,250
Other entities		10	-
Short-term loans given			
Subsidiaries	17	20,000	-
LIABILITIES			
Trade and other payables			
Subsidiaries	20	9,478	2,276
Borrowings			
Subsidiaries	21	96,000	136,062
REVENUES			
Revenues			
Subsidiaries		144,189	119,977
Dividend income			
Subsidiaries	5	128,000	9,500
Interest income			
Subsidiaries	5	720	-
EXPENSES			
Other operating costs			
Subsidiaries	8	4,827	2,522
Net finance costs			
Subsidiaries	10	2,972	2,754

Management board compensation

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