ATLANTIC GRUPA d.d.

ANNUAL REPORT
31 DECEMBER 2018

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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 18. 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 2018 and together with the Group's Annual report for the year-ended 31 December 2018 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 2019 include:

- further strengthening the position of well-known regional brands
- development of distribution operations by strengthening of the existing and acquisition of new principals
- 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 2018 the Company has purchased 2,200 treasury shares for the total value of HRK 2,164 thousand (Note 18 to the separate financial statements).

Subsidiaries
The Company owns shares in following companies:

- Atlantic Trade 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 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 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. The 2018 listing of our shares on the newly opened top quotation, i.e. the Prime Market of the Zagreb Stock Exchange, confirmed our long-standing efforts to manage all business activities in line with the highest corporate governance and transparency standards.

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

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

In addition to the above, Atlantic Grupa also applies its own Code of Corporate Governance, thus improving the standards of business transparency and fully aligning them with European Union directives. The Code defines the procedures for the functioning of the Supervisory Board, Management Board and other bodies and structures responsible for decision-making, thus ensuring the avoidance of conflicts of interest, efficient internal control and an effective responsibility system. It is available on web pages of Atlantic Grupa (www.atlanticgrupa.com).

Atlantic Grupa is a signatory of the Code of Ethics in Business initiated by the Croatian Chamber of Economy. The listed Code lays down guidelines for ethical behaviour of business subjects in the Croatian economy. Such definition of ethical criteria contributes to more transparent and efficient business operations and high quality relations between economic operators in Croatia and the business environment in which they operate. By signing the Code of Ethics, its parties undertake to respect human rights, apply anti-corruption provisions, use responsible and ethical behaviour towards the other companies on the market, as well as develop high quality relations and loyal competition.

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

In 2018, Atlantic Grupa won the first award for best investor relations, organised by Poslovni dnevnik and the Zagreb Stock Exchange, at the annual conference of the Zagreb Stock Exchange. This award is given by Poslovni dnevnik as the investment community's recognition of companies with high quality communication and transparent relations with investors. In addition to being awarded for relations with investors eight times in a row, in 2018 Atlantic Grupa also received the award for the stock with the highest price increase in 2018 (Top Price Gainer).

STATEMENT OF APPLICATION OF THE CODE OF CORPORATE GOVERNANCE

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

Supervisory Board

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

The members of the Supervisory Board are:

- Zdenko Adrović, President
- Lada Tedeschi Fiorio, Vice President
- Siniša Petrović, Member
- Franz-Joseph Flosbach, Member
- Aleksandar Pekeč, 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 line with the above, in 2018 members of the Supervisory Board received remuneration in the following gross amount: Mr. Zdenko Adrović, a total of HRK 364,932.12; Ms. Lada Tedeschi Fiorio, a total of HRK 25,095.33; Mr. Siniša Petrović, a total of HRK 150,572.04; Mr. Franz Jozef Flosbach, a total of HRK 117,187.77; Mr. Aleksandar Pekeč, a total of HRK 140,067.23; and Mr. Lars Peter Håkansson, a total of HRK 144,878.01.

Supervisory Board committees

Three Committees function within the Supervisory Board, with the purpose of assisting the operation and functioning of the Supervisory Board:

- Audit Committee,
- Nomination and Remuneration Committee and
- Corporate Governance Committee.

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

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

Management Board

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

The Management Board of Atlantic Grupa operates in the following composition:

- Emil Tedeschi, President of the Management Board
- Neven Vranković, Group Vice President for Corporate Activities
- Zoran Stanković, Vice President for Finance

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 ANNUAL FINANCIAL STATEMENTS

Responsibility for the annual financial statements

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

STATEMENT

According to our best knowledge the annual audited separate financial statements for 2018, are prepared in accordance with applicable standards of financial reporting and give true and fair view of the assets and liabilities, profit and loss, financial position and operations of the Company.

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

In Zagreb, 28 March 2019

Zoran Stanković
Group Vice President for Finance

Tatjana Ilinčić
Director of Corporate Reporting and Consolidation

RESPONSIBILITY FOR THE 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 28 March 2019.

Emil Tedeschi
President and Chief Executive Officer

Zoran Stanković
Group Vice President for Finance

Neven Vranković
Group Vice President for Corporate activities

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Independent auditors' 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 2018, 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 2018 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.

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.

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Independent auditors' report (continued)

Key Audit Matter	How we addressed Key Audit Matter
Assessment of impairment of investments in subsidiaries See Note 4 Critical accounting estimates and Note 14 Investments in subsidiaries of the financial statements The Company has investments in subsidiaries with carrying amount totaling HRK 1,455,055 thousand as at 31 December 2018. The carrying amount of the investments in subsidiaries represents 89% 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. Due to the range of judgements and assumptions used in the models and impairment assessments, as well as the significant carrying amount of the investments in subsidiaries, this is an area considered to be a key audit matter.	Audit procedures included understanding of the investment impairment process and walk through of controls implemented within. We examined the methodology used by management to assess the carrying value of respective investment in subsidiaries to determine its compliance with International Financial Reporting Standards 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 (2018) actual results with the figures included in the prior year (2017) forecasts to evaluate assumptions used. 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 International Financial Reporting Standards as adopted by EU.

Other information included in The Company's 2018 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 2018 financial year are consistent, in all material respects, with the enclosed financial statements;

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

Independent auditors' report (continued)

3. Corporate Governance Statement, included in the 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 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.

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.

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Independent auditors' report (continued)

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

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

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

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

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

28 March 2019

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts expressed in thousands of HRK)	**Note**	**2018**	**2017**
Revenues	25	176,426	144,189
Other income	5	194,667	135,344
Staff costs	6	(93,248)	(73,850)
Marketing and promotion costs	7	(7,155)	(4,933)
Depreciation and amortisation	12, 13	(13,032)	(10,140)
Other operating costs	8	(63,610)	(61,631)
Other losses – net	9	(105,886)	(111,195)
Operating profit		**88,162**	**17,784**
Finance income	10	2,031	1,544
Finance costs	10	(11,358)	(14,453)
Finance costs – net	10	(9,327)	(12,909)
Profit before tax		**78,835**	**4,875**
Income tax expense	11	(2,345)	(593)
Profit for the year		**76,490**	**4,282**

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts expressed in thousands of HRK)	**2018**	**2017**
Profit for the year	**76,490**	**4,282**
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Actuarial gain/ (loss) from defined benefit plans, net of tax	24	(23)
	24	(23)
Other comprehensive income/ (loss) for the year, net of tax	**24**	**(23)**
Total comprehensive income for the year	**76,514**	**4,259**

BALANCE SHEET

AT 31 DECEMBER 2018

(all amounts are expressed in thousands of HRK)	**Note**	**31 December 2018**	**31 December 2017**
ASSETS			
Non-current assets			
Property, plant and equipment	12	13,527	17,135
Intangible assets	13	37,253	26,194
Investments in subsidiaries	14	1,455,055	1,507,183
Deferred tax assets	21	3,690	3,189
Trade and other receivables	16	11,841	1,117
		1,521,366	1,554,818
Current assets			
Trade and other receivables	16	105,493	72,982
Income tax receivable		97	1,137
Cash and cash equivalents	17	7,354	7,286
		112,944	81,405
Total assets		**1,634,310**	**1,636,223**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	18	133,372	133,372
Share premium	18	881,275	881,089
Treasury shares	18	(92)	(1,514)
Retained earnings		112,978	103,138
Total equity		1,127,533	1,116,085
Non-current liabilities			
Borrowings	20	199,846	199,710
Provisions	22	2,047	473
		201,893	200,183
Current liabilities			
Trade and other payables	19	44,850	40,133
Borrowings	20	204,006	262,309
Provisions	22	56,028	17,513
		304,884	319,955
Total liabilities		**506,777**	**520,138**
Total equity and liabilities		**1,634,310**	**1,636,223**

ATLANTIC GRUPA d.d.

STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2018

(in thousands of HRK)	**Share capital, Premium and Treasury shares**	**Retained earnings**	**Total**
At 1 January 2017	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 18)	5,605	-	5,605
Dividends relating to 2016 (Note 18)	-	(44,984)	(44,984)
At 31 December 2017	**1,012,947**	**103,138**	**1,116,085**
Comprehensive income:			
Net profit for the year	-	76,490	76,490
Other comprehensive income	-	24	24
Total comprehensive income	-	76,514	76,514
Transaction with owners			
Purchase of treasury shares	(2,164)	-	(2,164)
Share based payment (Note 18)	3,772	-	3,772
Dividends relating to 2017 (Note 18)	-	(66,674)	(66,674)
At 31 December 2018	**1,014,555**	**112,978**	**1,127,533**

ATLANTIC GRUPA d.d.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts expressed in thousands of HRK)	Note	2018	2017
Cash flows used in operating activities:			
Cash from/(used) in operations	24	18,190	(1,668)
Interest paid		(21,042)	(10,863)
		(2,852)	(12,531)
Cash flows from/(used in) investing activities			
Purchases of property, plant and equipment and intangible assets	12, 13	(20,670)	(18,082)
Proceeds from sale of property, plant and equipment		195	68
Proceeds from sale of investment in subsidiary	14	33,710	-
Investments in subsidiaries	14	(66,814)	(37,157)
Repayments of loans receivable and deposits placed - net		(6,822)	(1,036)
Dividends received		180,587	3,000
Interest received		1,053	259
		121,239	(52,948)
Cash flows (used in)/from financing activities			
Purchase of treasury shares	18	(2,164)	(7,431)
Proceeds from borrowings	20	152,173	144,800
Repayment of borrowings	20	(201,654)	(26,800)
Dividends paid	18	(66,674)	(44,984)
		(118,319)	65,585
Net increase in cash and cash equivalents		**68**	**106**
Cash and cash equivalents at beginning of year		7,286	7,180
Cash and cash equivalents at end of year	17	**7,354**	**7,286**

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 18.

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 2018 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 28 March 2019. 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 2018 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

Changes in accounting policies and disclosures

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

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

(a) Standards and Interpretations effective in the current period

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

The date of the initial application of IFRS 15 is 1 January 2018. The Company has elected to use the full retrospective approach as conveyed in IFRS 15, which means that comparative figures should be adjusted. However, the Company has performed an analysis of the effects of IFRS 15 application during the previous year and concluded that there are no significant effects which would require to be restated.

- ***IFRS 9, Financial instruments*** replaced the IAS 39 Financial instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company adopted the new standard on the required effective date. The adoption did not have significant impact on the financial statements of the Company. Further information on accounting policy is provided in Note 2.7.

- ***Amendments to IAS 40 – Transfers of Investment Property*** clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. These amendments are not relevant to the 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 Company does not have cash-settled share-based payments nor share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company’s financial statements.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- ***Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice***

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

- **Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters***

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Company's financial statements.

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

	(in thousands of HRK)
Right-of-use assets	27,942
Lease liabilities	(28,733)
Net impact on equity	791
Increase of depreciation	(9,032)
Decrease of rental costs	9,311
Operating profit	279
Increase in finance cost	(483)
Profit before tax	(204)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.3 Investments in subsidiaries

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

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

2.4 Property, plant and equipment

Motor vehicles, equipment, leasehold improvements and assets under construction are included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, if required. Historical cost includes expenditure directly attributable to the acquisition of items. Assets not yet in use are not depreciated.

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

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

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

The residual value of an asset is an estimated amount that the Company would currently obtain from disposal of the asset less estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment (continued)

The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

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

2.5 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised 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.

2.7 Financial assets

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

(a) Financial assets at amortised costs

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

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

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

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

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

This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the Management. Assets in this category are classified as current assets except derivative financial instruments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(c) Financial assets at fair value through OCI

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

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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for the financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. Financial assets at fair value through OCI are included in non-current assets unless management intends to dispose the investment within 12 months of the balance sheet date. Financial assets at fair value through OCI are carried at fair value, except investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, consequently, these are carried at cost.

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the 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 financial assets at fair value through OCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Interest income and the translation differences are recognised in the income statement, whereas other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary securities classified as financial assets at fair value through OCI and non-monetary securities classified as financial assets at fair value through OCI are recognised in other comprehensive income. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the 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 recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 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 (EIR) method, less the allowance for expected credit losses (ECLs), as described in Note 2.7.

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 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

Under IFRS 15 the Company recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expect to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.
The Company consider whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated.
The Company does not have variable considerations, significant financing components, noncash consideration nor consideration payable to customers.

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.

(d) Rental income

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

2.17 Dividend distribution

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

2.18 Value added tax

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Trade payables

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

2.20 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.

	2018	2017
Trade and other receivables	39%	35%
Trade and other payables	31%	22%
Cash and cash equivalents	93%	97%
Borrowings	10%	37%

At 31 December 2018, if the EURO had weakened/strengthened by 0.5% against the HRK with all other variables held constant, profit for the year would not significantly change due to neutral net position of EURO denominated financial assets and liabilities. As at 31 December 2017 same change in EURO to HRK would impact profit by HRK +/- 575 thousand, mainly as a result of foreign exchange gains/losses on translation of EURO denominated trade and other receivables and borrowings (Notes 16 and 20).

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. Debt 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 2018, 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 1,172 thousand lower/higher (2017: HRK 1,210 thousand lower/higher).

(b) Credit risk

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

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 20.

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 7,354 thousand (2017: 7,286 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 2018			
Trade and other payables	39,456	-	39,456
Borrowings	215,499	212,500	427,999

(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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Changes in liabilities arising from financial activities

(in thousands of HRK)	1 January 2018	Cash flow	Foreign exchange movement	Prepaid fee amortised	Other	31 December 2018
Bonds – non-current	199,710	-	-	136	-	199,846
Bonds – current	124	-	-	-	-	124
Bank borrowings - current	166,185	(44,986)	(1,000)	-	(517)	119,682
Related parties borrowings - current	96,000	(4,495)	2,153	-	(9,458)	84,200
Total liabilities	**462,019**	**(49,481)**	**1,153**	**136**	**(9,975)**	**403,852**

The other column 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 2018	31 December 2017
	(in thousands of HRK)	
Total borrowings (Note 20)	403,852	462,019
Less: Cash and cash equivalents (Note 17)	(7,354)	(7,286)
Net debt	396,498	454,733
Total equity	1,127,533	1,116,085
Total capital and net debt	**1,524,031**	**1,570,818**
Gearing ratio	**26%**	**29%**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value estimation

All financial instruments that are recognized and measured at fair value 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.

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

	2018	2017
	(in thousands of HRK)	
Dividend income – related parties (Note 25)	180,587	128,000
Rental income	1,897	1,928
Interest income – related parties (Note 25)	283	720
Interest income from cash with banks and deposit	3	34
Other	11,897	4,662
	194,667	**135,344**

NOTE 6 – STAFF COSTS

	2018	2017
	(in thousands of HRK)	
Gross salaries /i/	67,475	52,636
Public transport	553	489
Other staff costs /ii/	25,220	20,725
	93,248	**73,850**

In 2018, the average employees number was 148 (2017: 132).

/i/ Pension contributions to mandatory pension funds for the year ended 31 December 2018 amounted to HRK 9,000 thousand (2017: 7,366 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2018	2017
	(in thousands of HRK)	
Sponsorships and donations	6,689	4,567
Advertising and marketing expenses	290	78
Market research expenses	176	288
	7,155	**4,933**

NOTE 8 – OTHER OPERATING COSTS

	2018	2017
	(in thousands of HRK)	
Rentals	14,054	12,841
Maintenance and security	8,326	6,937
Intellectual services	7,174	6,992
Entertainment	6,768	7,011
Transportation services	5,987	6,012
Services from related parties (Note 25)	5,682	4,827
Telecommunication services	4,551	1,987
Travel expense and daily allowances	3,959	2,629
Supervisory Board compensation	1,222	1,270
Fuel	1,201	925
Subscriptions and membership fees	692	724
Office supplies	646	457
Insurance premiums	475	484
Taxes and contributions irrespective of operating results	219	176
Bank charges	162	152
Impairment of receivables (Note 16)	-	5,055
Other	2,492	3,152
	63,610	**61,631**

NOTE 9 – OTHER LOSSES – NET

	2018	2017
	(in thousands of HRK)	
Impairment of investment in subsidiaries	(54,515)	(110,636)
Loss from sale of subsidiaries	(50,604)	-
Gain/(loss) on sale of property, plant and equipment	8	(17)
Foreign exchange losses – net	(775)	(542)
	(105,886)	**(111,195)**

NOTE 10 – FINANCE COSTS – NET

	2018	2017
	(in thousands of HRK)	
Finance income:		
Foreign exchange gains from borrowings	2,031	1,544
	2,031	1,544
Finance costs:		
Interest expense - bonds	(6,386)	(6,386)
Interest expense - banks	(3,397)	(4,826)
Interest expense - related parties (Note 25)	(1,557)	(2,972)
Interest expense - other	(18)	(18)
Foreign exchange losses from borrowings	-	(251)
	(11,358)	(14,453)
	(9,327)	**(12,909)**

NOTE 11 – INCOME TAX

	2018	2017
	(in thousands of HRK)	
Current income tax	2,846	588
Deferred tax (Note 21)	(501)	5
	2,345	**593**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of 18% (2017: 18%) applicable to the Company's profit as follows:

	2018	2017
	(in thousands of HRK)	
Profit before taxation	78,835	4,875
Tax at 18% (2017: 18%)	14,190	878
Effect of expenses not deductible for tax purposes	23,807	25,702
Effect of income not subject to tax	(35,652)	(25,987)
Tax charge	**2,345**	**593**
Effective tax rate	2.97%	12.16%

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 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**
At 1 January 2018					
Opening net book amount	8,496	281	6,740	1,618	17,135
Additions				342	342
Transfer	71	-	499	(570)	-
Disposals	-	-	(128)	-	(128)
Depreciation	(1,813)	(108)	(1,901)	-	(3,822)
Closing net book amount	**6,754**	**173**	**5,210**	**1,390**	**13,527**
At 31 December 2018					
Cost	17,245	507	13,732	1,390	32,874
Accumulated depreciation	(10,491)	(334)	(8,522)	-	(19,347)
Net book amount	**6,754**	**173**	**5,210**	**1,390**	**13,527**

NOTE 13 – INTANGIBLE ASSETS

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Opening net carrying amount	26,194	18,428
Additions	20,328	14,039
Disposals	(59)	-
Amortisation	(9,210)	(6,273)
Closing net carrying amount	37,253	26,194
Cost	59,401	39,159
Accumulated amortisation	(22,148)	(12,965)
Closing net carrying amount	**37,253**	**26,194**

The entire amount of intangible assets relates to software.

NOTE 14 – INVESTMENTS IN SUBSIDIARIES

	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
	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 /i/	-	100%	-	53,281
Cedevita d.o.o., Zagreb, Croatia	100%	100%	132,736	132,736
Hopen Investments, BV, Netherlands /ii/	100%	100%	34,904	33,751
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%	-	-
Atlantic Multipower UK /iii/	-	100%	-	-
Atlantic Multipower Italy	100%	100%	-	-
			1,455,055	**1,507,183**

/i/ Investments disposed in 2018. Prior to the divestment, additional HRK 11,146 thousand was invested in subsidiaries.

/ii/ In order to support the working capital needs of its subsidiary, the Company has paid additional HRK 55,668 thousand in 2018. At the year-end impairment of HRK 54,515 thousand was made.

/iii/ Liquidated in 2018.

NOTE 15 – FINANCIAL INSTRUMENTS BY CATEGORY

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

	2018	2017
	(in thousands of HRK)	
Financial assets at amortised cost		
Trade receivables	60,921	48,934
Loans and deposits given	19,675	22,300
Other financial assets at amortized cost	34,510	1,636
Cash and cash equivalents	7,354	7,286
	122,460	**80,156**
Total current	110,619	79,039
Total non-current	11,841	1,117
Financial liabilities at amortised cost		
Borrowings	403,852	462,019
Trade and other payables	39,456	35,530
	443,308	**497,549**
Total current	243,462	297,839
Total non-current	199,846	199,710

NOTE 16 – TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Non-current receivables		
Deposits	1,103	1,117
Loans given	10,738	-
	11,841	**1,117**
Current receivables		
Trade receivables – related parties (Note 25)	58,578	44,638
Trade receivables	2,343	4,296
Short-term loans given – related parties (Note 25)	-	20,000
Short-term loans given	7,668	242
Accrued interest receivable – related parties (Note 25)	166	941
Other receivables /i/	36,738	2,865
	105,493	**72,982**
Total trade and other receivables	**117,334**	**74,099**

/i/ Other receivables in the amount of HRK 27,411 relate to receivable from disposal of subsidiaries. The remaining amount mostly relate to receivables from Government institutions and employees and to prepaid expenses. Due to uncertainty in collection, other receivables were impaired in 2017 in amount of HRK 5,055 thousand (Note 8).

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

	2018	2017
	(in thousands of HRK)	
Category: Loans and receivables		
Deposits	1,103	1,117
Long-term loans given	10,738	-
Trade receivables – related parties (Note 25)	58,578	44,638
Trade receivables	2,343	4,296
Short-term loans given – related parties (Note 25)	-	20,000
Short-term loan receivables	7,668	242
Accrued interest receivable – related parties (Note 25)	166	941
Other receivables	34,510	1,636
	115,106	**72,870**

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 16 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2018, trade and other receivables past due amounted to HRK 8,518 thousand (2017: HRK 12,178 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:

	2018	2017
	(in thousands of HRK)	
Less than 3 months	6,792	7,457
3 to 6 months	767	1,064
Over 6 months	959	3,657
	8,518	**12,178**

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

	2018	2017
	(in thousands of HRK)	
HRK	70,526	47,502
EUR	44,580	25,368
	115,106	**72,870**

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 17 – CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Gyro account and cash on hand	215	203
Foreign currency account	7,139	7,083
	7,354	**7,286**

Cash and cash equivalents are denominated in the following currencies:

	2018	2017
	(in thousands of HRK)	
EUR	6,863	7,085
HRK	201	188
Other currencies	290	13
	7,354	**7,286**

NOTE 18 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

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

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

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

NOTE 18 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES (continued)

The ownership structure of the Company is as follows:

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

Share based payments

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

These share options are conditional on the relevant employee's completing two years of service (vesting period). The fair value of the shares granted in 2018 is determined as of the grant date, at the estimated market price of share of HRK 1,130.00 (2017: HRK 979.94).

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

Dividend distribution

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

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

NOTE 19 – TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Trade payables	24,566	22,970
Trade payables – related parties (Note 25)	10,220	9,478
Other payables /i/	10,064	7,685
	44,850	**40,133**

/i/ Other payables are as follows:

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Gross salaries payable	5,394	4,603
Accrued expenses	3,267	2,851
Other	1,403	231
	10,064	**7,685**

Financial liabilities are denominated in the following currencies:

	2018	2017
	(in thousands of HRK)	
HRK	25,970	27,537
EUR	12,277	7,646
Other currencies	1,209	347
	39,456	**35,530**

NOTE 20 – BORROWINGS

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Long-term borrowings:		
Bonds /i/	199,846	199,710
Long-term debt	**199,846**	**199,710**
Short-term borrowings:		
Related parties /ii/ (Note 25)	84,200	96,000
Banks /iii/	119,682	166,185
Bonds /i/	124	124
	204,006	**262,309**
Total borrowings	**403,852**	**462,019**

/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.

/iii/ Short-term bank borrowings include three facilities (2017: four) 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 2018	31 December 2017
	(in thousands of HRK)	
3 to 6 months	119,682	166,185
Fixed interest rate	284,170	295,834
	403,852	**462,019**

The average effective annual interest rate relating to borrowings from banks and from related parties at the balance sheet date was 2.67% (2017: 2.31%). The effective annual interest rate relating to bonds at the balance sheet date was 3.19% (2017: 3.19%).

NOTE 20 – BORROWINGS (continued)

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

	Carrying amounts		Fair value	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Bonds	199,846	199,710	200,120	201,432
	199,846	**199,710**	**200,120**	**201,432**

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 2018	31 December 2017
	(in thousands of HRK)	
HRK	364,539	293,350
EUR	39,313	168,669
	403,852	**462,019**

NOTE 21 – DEFERRED TAX ASSETS

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	344	43
- Deferred tax assets to be recovered within 12 months	3,346	3,146
Deferred income tax assets	**3,690**	**3,189**

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 21 – DEFERRED TAX ASSETS (continued)

Deferred tax assets

(in thousands of HRK)	**Bonuses**	**Other**	**Total**
At 1 January 2017	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**
Tax credited to the income statement (Note 11)	3,142	505	3,647
Tax charged to the income statement (Note 11)	(3,146)	-	(3,146)
At 31 December 2018	**3,142**	**548**	**3,690**

NOTE 22 – PROVISIONS

(in thousands of HRK)	**Jubilee awards and termination benefits**	**Legal proceedings**	**Bonuses**	**Total**
At 31 December 2017	386	-	17,600	17,986
Analysis of total provisions:				
Non-current	351	-	122	473
Current	35	-	17,478	17,513
At 1 January 2018	**386**	**-**	**17,600**	**17,986**
Additions	87	38,529	18,970	57,586
Used during the year	(19)	-	(17,478)	(17,497)
	454	**38,529**	**19,092**	**58,075**
Analysis of total provisions:				
Non-current	413	-	1,634	2,047
Current	41	38,529	17,458	56,028
At 31 December 2018	**454**	**38,529**	**19,092**	**58,075**

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

NOTE 23 – COMMITMENTS

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

	31 December 2018	31 December 2017
	(in thousands of HRK)	
Not later than 1 year	7,725	8,904
Later than 1 year and not later than 5 years	8,957	7,569
	16,682	**16,473**

As at 31 December 2018 the Company does not have capital expenditures contracted but not yet incurred (2017: HRK 2,397 thousand for intangible assets).

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 24 – CASH GENERATED FROM OPERATIONS

	Note	2018	2017
Profit for the year		**76,490**	**4,282**
Income tax	11	2,345	593
Depreciation and amortisation	12,13	13,032	10,140
Impairment of receivables	8	-	5,055
Impairment of investment in subsidiaries	9,14	54,515	110,636
Loss on sale of investment in subsidiaries	9	50,604	-
(Gain)/loss on sale of property, plant and equipment	9	(8)	17
Unrealised foreign exchange differences – net		1,038	(1,086)
Increase in provisions	22	1,883	1,490
Share based payment	18	3,772	5,605
Interest income	5	(286)	(754)
Interest expense	10	11,358	14,202
Dividend income	5	(180,587)	(128,000)
Other non-cash items		15	(2)
Changes in working capital:			
Increase in trade and other receivables		(19,906)	(30,449)
Increase in trade and other payables		3,925	6,603
Cash from/(used in) operations		**18,190**	**(1,668)**

NOTE 25 – 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 2018 and as at 31 December 2017 and transactions recognized for years then ended are as follows:

(all amounts expressed in thousands of HRK)	Note	2018	2017
RECEIVABLES			
Current receivables			
Interest receivable			
Subsidiaries	16	166	941
Trade receivables			
Subsidiaries	16	58,568	44,628
Other entities		10	10
Short-term loans given			
Subsidiaries	16	-	20,000
LIABILITIES			
Trade and other payables			
Subsidiaries	19	10,220	9,478
Borrowings			
Subsidiaries	20	84,200	96,000
REVENUES			
Revenues			
Subsidiaries		176,426	144,189
Dividend income			
Subsidiaries	5	180,587	128,000
Interest income			
Subsidiaries	5	283	720
EXPENSES			
Other operating costs			
Subsidiaries	8	5,682	4,827
Net finance costs			
Subsidiaries	10	1,557	2,972

Management board compensation

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