ATLANTIC GRUPA

Creating flavours you love

ANNUAL REPORT

2019


BEVERAGES
COFFEE
SNACKS
PHARMA AND PERSONAL CARE
SAVOURY SPREADS
CEDEVITA
barcaffè
Najlepše želje
farmacia
ARGETA
Cockta
grand KAFA
Smoki
DIETPHARM
montana
Donat Mg
Bonito prava kafa
Bananica
Bebi
Bakina Tajna
Kala
Integrino
Amfissa

Summary of **key financial indicators**

(in HRK million)	2019	2019 w/o MSFI 16	2018	2019 BEZ MSFI 16/2018
Revenues	5,506.4	5,506.4	5,330.6	4.8%
Sales	5,431.7	5,431.7	5,255.5	3.4%
EBITDA*	778.7	688.5	545.9	26.1%
EBITDA margin*	14.3%	12.7%	10.4%	
Normalised EBITDA*	721.8	631.6	565.6	11.7%
Normalised EBITDA margin*	13.3%	11.6%	10.8%	
EBIT*	500.4	494.0	366.8	34.7%
EBIT margin*	9.2%	9.1%	7.0%	
Normalised EBIT*	443.5	437.1	386.5	13.1%
Normalised EBIT margin*	8.2%	8.0%	7.4%	
Neto profit	390.4	394.2	244.2	61.4%
Net profit margin*	7.2%	7.3%	4.6%	
Normalised net profit*	333.5	337.3	261.7	28.9%
Normalised net profit margin*	6.1%	6.2%	5.0%	
Net debt*	922.7	547.1	862.9	-37.0%
Normalised net debt/EBITDA*	1.3	0.9	1.5	-43.5%
Cash flow from operating activities	586.4	506.4	462.1	9.6%
Capital expenditures*	225.2	225.2	140.6	60.2%
Market capitalization as at 31.12.*	4,334.6	4,334.6	3,867.8	12.1%
EV*	5,262.7	4.887,1	4,734.6	3.2%
Normalized EPS* (in HRK)	99.6	100.8	78.4	28.4%
Price per share as at 31.12. (in HRK)	1,300.0	1,300.0	1,160.0	12.1%
DPS (in HRK)	32.0	32.0	20.0	60.0%

The comparative period has been adjusted to the reporting for 2019 except in the part which refers to the implementation of IFRS 16 – Leases

* Certain financial measures are not defined under International Financial Reporting Standards (IFRS). For more details on the APMs (Alternative Performance Measures) used, see the document "Definition and reconciliations of Alternative Performance Measures".

EMIL TEDESCHI

PRESIDENT OF THE MANAGEMENT BOARD OF ATLANTIC GRUPA

Letter of President of the Management board to shareholders

ATLANTIC GRUPA ended the year 2019 with historically highest revenue and historically highest profitability, as well as with an announcement of strategic priorities for the following period. The year was exceptionally successful for us, and we concluded it as a stable, financially prosperous and low-leveraged company with strengthened management and a clear vision for the future.

Unfortunately, the emergence of a new coronavirus in the first quarter of the current year appears not only as an aggravating circumstance for operating the business, but above all as a threat to human health in our wider environment. In this context, it should be noted that Atlantic Grupa is taking all available measures to prevent infection, with continued concern for the viability of our business and broader economic activities in the long term.

Business operations in 2019 were marked by continued growth in revenues and profitability in most business segments and markets. We have also continued with our strategy of divesting non-core business operations by completely exiting the Sports and Functional Food segment (in April, Atlantic Grupa and the company Genuport Trade from Hamburg concluded the agreement on the sale of the company Tripoint with the brands Multipower, Champ and Multaben) and the food supplements segment (in October, Atlantic Grupa and PharmaS Group concluded the agreement on the sale of the company Fidifarm with the brand Dietpharm, and of the brand Multivita).

At the same time, we are focusing more strongly on areas that represent our key growth drivers and the cornerstone for our future transformation. To this end, in December Atlantic Grupa entered into a strategic partnership with Vivas cafés in the Croatian market, where there is potential for us to achieve more significant growth in the coffee category, and from which we expect to be a growth driver in the HoReCa segment. Following the excellent results achieved by expanding the distribution portfolio in the region a year earlier, new distribution agreements that were signed at the beginning of the year in Macedonia (Ficosota and Beiersdorf) and with Saponia and Kandit in Serbia and Slovenia confirm our continued focus on developing distribution operations. At the end of March, Atlantic Grupa also opened a new logistics-distribution centre near Velika Gorica that features modern equipment and will secure adequate logistics support during the long term development of distribution operations. In the same warehouse, in cooperation with the company Gideon, we also implemented and put into operation highly sophisticated logistics robots. We are especially pleased with the fact that the capital market has recognised our overall performance, as we have seen not only record-breaking values of our shares but also of dividends per share, and in 2019 we won the award, this time a silver one, given by the Zagreb Stock Exchange, for investor relations and we were also awarded for overall contribution to the capital market development.

We have defined our strategic priorities for the next three to five years, which can be divided into four main areas: 1) strengthening the foundations: we continue to strengthen and improve a leading position in the coffee segment, primarily through revitalising the fresh ground coffee segment and developing the out-of-home consumption segment. Additionally, we continue to strengthen consumer experience in the categories of savoury spreads, flips. chocolate and fruity soft drinks. In order to ensure sustainable growth and the expected contribution of brands with a rich tradition, investments in their marketing needs and the associated system capacities will be increased. 2) growth: this area covers activities aimed at bringing new sources of growth, namely focused internationalisation that remains an important strategic priority; on-the-go consumption in a wide portfolio of coffee, beverages and snacks; new opportunities, i.e. creating new brands and generally new sources of revenue, which also means recognising new opportunities in existing markets. 3) improvements, which are related to consolidating the portfolio, i.e. focusing overall resources on the defined priorities, as well as to aligning all business processes, culture and goals in the company with the aim of increasing business efficiency. 4) maintaining the position of the leading regional distributor by focusing on strategic priorities and bringing in the largest principals, as well as leadership in the pharmacy business in Croatia by continuing to invest in expertise and quality of service. Additionally, we are preserving our continued focus on potential mergers and acquisitions.

For the purpose of ensuring implementation of the defined priorities and sustainability of the strategic vision, we have also expanded the company's Management Board, which now has six members. In its new composition, the Management Board, in addition to the proven managerial capacity confirmed by its historically successful results, further strengthened the business expertise in the relevant areas of the company's operations (distribution, production and brand management) and strategic thinking of Atlantic Grupa's development.

Corporate profile of Atlantic Grupa

ABOUT THE COMPANY

ATLANTIC GRUPA is a vertically integrated multinational company whose business activities incorporate R&D, production and distribution of fast moving consumer goods in South-East Europe, the West European markets, Russia and the Commonwealth of Independent States (CIS). Since the company's inception in early 1990's, Atlantic Grupa pursued a growth strategy based on the combination of organic growth and almost 50 acquisitions of different sizes, of which most prominent ones are those that had the character of transformational acquisitions, namely the acquisition of companies Cedevita and Droga Kolinska.

Today, Atlantic Grupa is a company with: (i) HRK 5.4 billion in sales revenues, (ii) 14 modern production plants (in Croatia, Slovenia, Serbia, Bosnia and Herzegovina and Macedonia), (iii) developed regional distribution infrastructure and (iv) 8 brands s above HRK 120 million, high market shares and consumer recognisability. Atlantic Grupa has a well-balanced presence in South-East Europe accounting for 91.5% of total sales, while 8.5% refers to the company's presence in West Europe, CIS countries and other countries. The Group's business operations are organised through the system of business units that monitor the operations related to specific product groups from the company's production portfolio and distribution units. After divesting the last portion of business operations related to the Sports and Functional Food segment in April 2019, Atlantic Grupa's business operations concerning the company's product portfolio were, during the remainder of 2019, organised through Strategic Business Units - Beverages, Coffee, Snacks, Savoury Spreads, and Pharma and Personal Care. With the beginning of 2020, Donat Mg will be separated from SBU Beverages and continue to operate as a standalone business unit. From the beginning of 2019, the company's distribution operations are organised through five distribution units and the global distribution account management. The markets in which Atlantic Grupa provides a complete distribution service are Strategic Distribution Units Croatia, Serbia, Slovenia and Distribution Units Macedonia and Austria, while the markets which we dominantly manage through our distribution partners have been grouped into a single distribution area, Global Distribution Account Management. At the beginning of 2020, the Distribution Unit (DU) Russia will be separated from it, continuing to operate as part of Atlantic's own distribution operations.

We are one of the leading food and beverage manufacturers in South-East Europe with prominent coffee brands - Grand Kafa and Barcaffé, range of beverage brands - Cockta, Donat Mg, Cedevita, Kala and Kalnička, portfolio of sweet and salted snacks brands - Smoki, Najlepše Želje and Bananica, and the brand Argeta in the segment of savoury spreads. Additionally, Atlantic Grupa owns the leading pharmacy chain in Croatia under the Farmacia brand. At the end of 2019, continuing the corporate strategy of divesting non-core business operations, Atlantic Grupa divested Dietpharm, which under the its leadership grew into the leading Croatian producer of vitamins, minerals, supplements and OTC drugs. Furthermore, with its own distribution network in Croatia, Slovenia, Serbia, Macedonia and Austria, Atlantic Grupa also distributes a range of products from external partners on an exclusive basis.

COMPANY HISTORY

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

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

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

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

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

In 2015, Atlantic Grupa acquired the company Foodland with its recognisable brand Bakina Tajna and a range of top-quality products; in the same year, a new factory of energy bars from the product range of Sports and Functional Food in the Industrial Park Nova Gradiška started its operations.

In 2016, distribution companies in Germany and Austria were established for the purpose of facilitating the marketing of a targeted group of Atlantic Grupa's products in those markets.

In line with the decision on focusing the company's future business operations on key brands, as well as on major categories, i.e. those with a strong growth and sustainability potential, the restructuring and simplification of operations of the business unit Sports and Functional Food was carried out in 2017, under which the strategic partnership was concluded with the respectable Belgian company Aminolabs, to which two production facilities were sold – one in Bleckede (Germany) and one in Nova Gradiška (Croatia), together with associated contracts for service production on behalf of third parties (private label).

The disinvestment of non-core business operations of Atlantic Grupa was continued in 2018 when we reorganised the distribution operations in the German market, which were entirely assumed by the company' long-standing distribution partner in that market and by selling the company Neva, with its renowned cosmetic brands Melem, Plidenta and Rosal, to the respectable company Magdis.

In April 2019, through the sale of the brands Multipower, Champ and Multaben, we divested the last portion of business activities in the Sports and Functional Food segment, and retained their distribution in the markets of Croatia, Austria, Italy and Serbia. Continuing with the said corporate strategy of divesting "non-core" business operations and portfolio internationalisation, at the end of the year we reorganised the business segment of Pharma and Personal Care through the sale of the brands Dietpharm and Multivita to the company PharmaS Grupa. Additionally, at the end of the year Atlantic Grupa divested business operations of distributing bottled water for dispensers by selling the company Bionatura Bidon Vode, retaining the brand Kala and the overall operations related to the water bottling plant.

Finally, in line with the Atlantic's strategy focused on taking a leading position in the Croatian coffee market and expanding into the growing segment of out of home consumption, the year was concluded by entering into a strategic partnership with the network of Vivas cafés, which counts almost 300 coffee shops and bars.

NATIONAL COMPANY

1991. Incorporation of Atlantic Trade and the development of consumer goods distribution
Establishing cooperation with the company Wrigley and Mars

1992. Opening of the distribution centre Split

1994. Opening of distribution centres Osijek and Rijeka

1996. Cooperation with Gillette/Duracell

1997. Investment in the Ataco distribution system in BiH

1998. Launch of Montana, the first Croatian ready-made sandwich with prolonged freshness

1999. Establishing cooperation with Johnson & Johnson

REGIONAL COMPANY

2001. Start up of a distribution company Atlantic Trade d.o.o. Serbia

Acquisition of Cedevita d.o.o.

Establishing cooperation with Ferrero

2002. Incorporation of Atlantic Grupa d.o.o.

2003. Acquisition of Neva d.o.o.

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

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

Acquisition of the brand Melem

EUROPEAN COMPANY

2005. Acquisition of a German sports food producer Haleko/Multipower

2006. Establishing a representative office in Moscow
Transformation of Atlantic Grupa into a joint-stock company

2007. Acquisition of Fidifarm d.o.o.

Acquisition of Multivita d.o.o.

Listing of Atlantic Grupa d.d. shares on the Official Market of the Zagreb Stock Exchange

2008. Acquisition of pharmacies and forming of the pharmacy chain Farmacia

2010. Acquisition of Droga Kolinska d.d.

Acquisition of Kalničke Vode Bio Natura d.d.

2013. Establishing cooperation with Unilever

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

2016. Establishing distribution companies in Austria and Germany

2017. Strategic partnership with Aminolabs

2018. Savoury spread Argeta No 1 in Europe

Atlantic Grupa d.d. the first company listed on the prime market of the Zagreb Stock Exchange

Sale of Neva d.o.o.

2019. Sale of the brands Multipower, Champ and Multaben from the Sports and Functional Food's portfolio through the sale of the company Tripoint GmbH

Sale of the Dietpharm brand through the sale of the company Fidifarm d.o.o. and of the brand Multivita from the Pharma and Personal Care's portfolio

Divestment of the distribution of bottled water for dispensers through the sale of the company Bionatura Bidon Vode d.o.o.

Strategic partnership with the network of Vivas cafés

Representative offices and facilities **in 8 countries**

OFFICE + PRODUCTION FACILITY

–

Croatia
Bosnia and Herzegovina
Macedonia
Slovenia
Serbia

OFFICE

–

Austria
Montenegro
Russia

Organisational structure

The business organisation of Atlantic Grupa in 2019 operated within two basic segments:

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

Business operations of Atlantic Grupa in 2019 may be followed through business activities of special business units related to individual product type, and special sales units which cover all major markets as well as strategic sales channels.

After divesting the last portion of business operations related to the Sports and Functional Food segment in April 2019, Atlantic Grupa's business operations concerning the company's product portfolio were, during the remainder of 2019, organised through five Strategic Business Units (SBU) - Beverages, Coffee, Snacks, Savoury Spreads, and Pharma and Personal Care.

From the beginning of 2019, the company's distribution operations are organised through five distribution units and the global distribution account management. The markets in which Atlantic Grupa provides a complete distribution service are Strategic Distribution Units (SDU) Croatia, Serbia, Slovenia and Distribution Units (DU) Macedonia and Austria, while the markets which we dominantly manage through our distribution partners have been grouped into a single distribution area, Global Distribution Account Management.

During 2019, after revising overall business practices and defining the strategy and corporate priorities, areas that represent the cornerstone for the company's future transformation, as well as its key growth drivers, were identified and in 2020 the company's organisational structure will be adjusted accordingly.

Thus, Atlantic Grupa's strategic priorities include a targeted internationalisation of brands Argeta and Donat Mg, which is reflected by the brand Donat Mg being, from the beginning of 2020, separated from SBU Beverages and continuing to operate as a standalone Business Unit (BU) Donat Mg. The intention is that this will enable Donat to focus on the brand's specific functionality, as well as its international expansion to new markets and strengthening its position on the market. As regards the business unit Global Distribution Account Management, whose activities are focused on those international markets where Atlantic does not have its own distribution, a standalone Distribution Unit (DU) Russia will be separated from it and will, from the beginning of 2020, operate as part of Atlantic's own distribution operations.

Each business unit has its own internal organisational structure which is, depending on its activity and business volume, composed of organisational areas: business units, organisational units and departments.

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

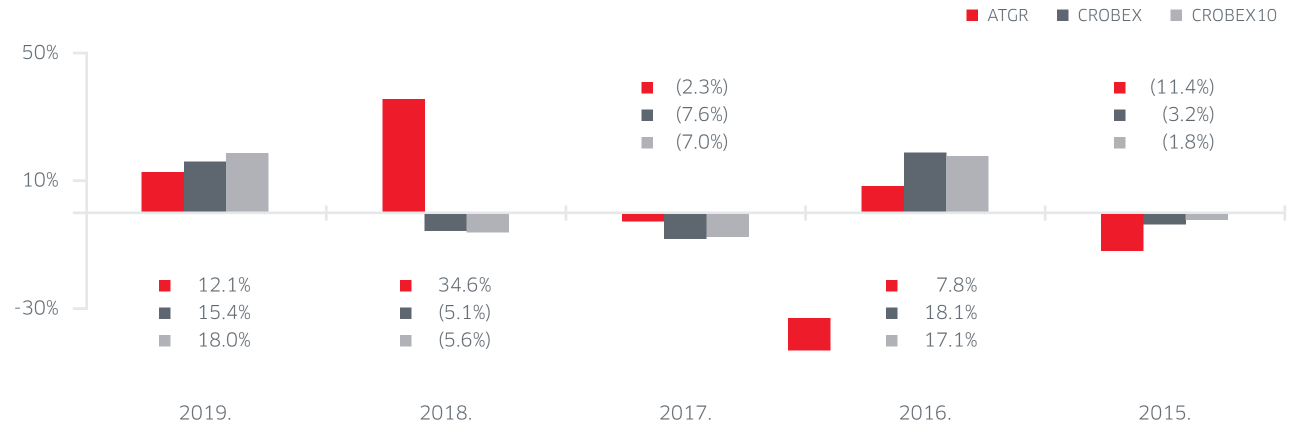
- **Corporate Activities,**
- **Finance, Procurement and Investments,**
- **Corporate Strategy and Development,**
- **Transformation and Information Technology.**

The strategic corporate function Corporate Activities includes the following departments: Secretariat General, People and Culture, Corporate Communications, Corporate Legal Affairs, Quality Management and Asset Management, and Corporate Services. The strategic corporate function Finance, Procurement and Investment includes the following units: Corporate Reporting and Consolidation, Central Purchasing, Investments and Operational Excellence, Central Finance and Corporate Controlling, Corporate Tax, Corporate Treasury and Investor Relations.

The Department for Corporate Strategy and Development deals with Atlantic Grupa's long-term strategy, monitoring its implementation, and growth through M&A activities and strategic partnerships, as well as through development of new areas or brands with potential for the company's growth. The Department for Transformation and Information Technology is responsible for managing information communication technology required for maintaining and improving Atlantic Grupa's operations, level of service and competitiveness.
In addition to the above, the organisational structure also includes the support function of Internal Audit, which operates as an independent function that reports to the Supervisory Board of Atlantic Grupa.

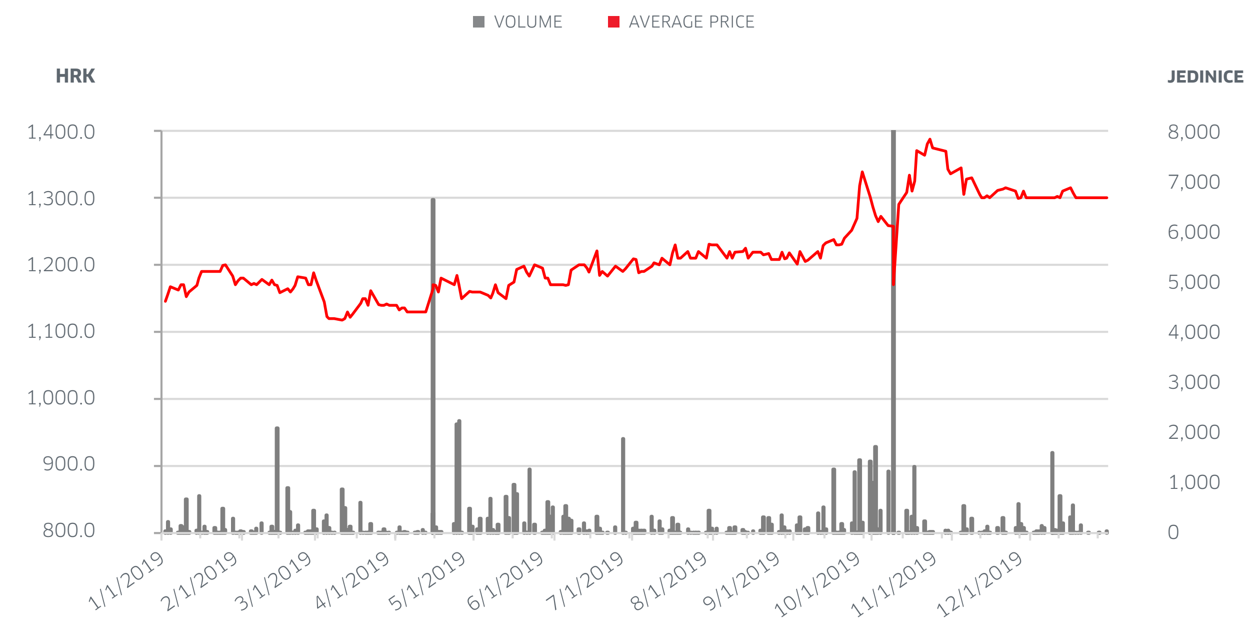
Performance on the **croatian capital market** in 2019

The year 2019 was characterised by quite volatile trading dynamics, whereas the second half of the year mostly showed a positive trend, primarily as a result of the increased interest of investors for another issuer's share, which to some extent spilled over to the rest of the market. Indices posted a double-digit growth, whereas CROBEX10 increased by +18%, and CROBEX by +15.36%. At the same time, the Atlantic Grupa's share recorded a 12.1% growth.



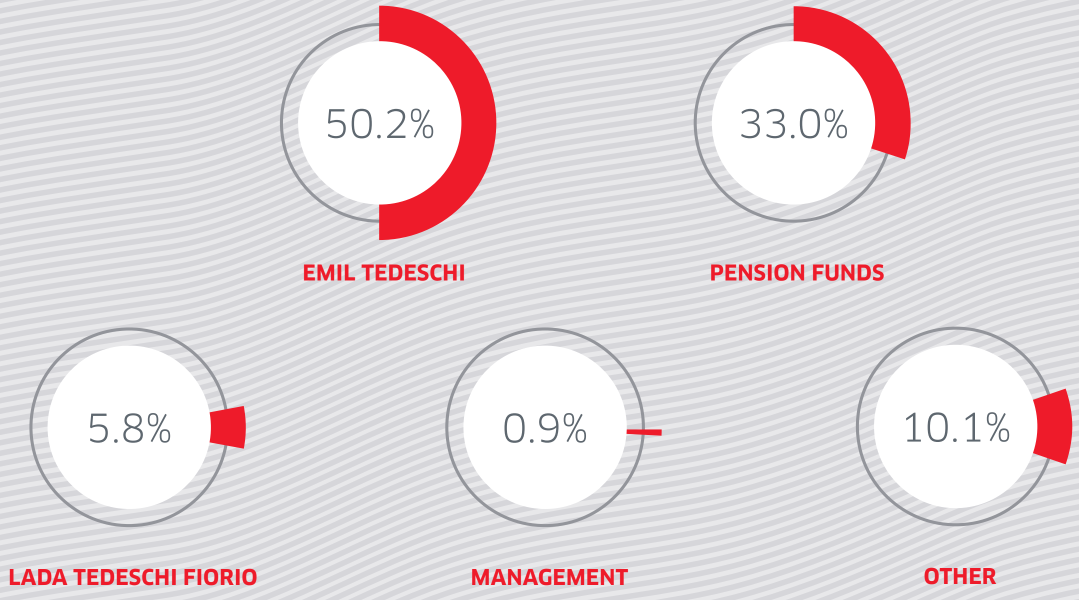
The average daily turnover amounted to HRK being 585.0 thousand, or even 34.1% more than in 2018. Among the components of CROBEX10, Atlantic Grupa holds the fourth place with the average market capitalization of HRK 4,334.6 million. In October 2019, the Atlantic Grupa's share recorded the historically highest level of market capitalization since its listing in November 2007. According to the total turnover in 2019, the Atlantic Grupa's share holds the eighth place compared to all the shares quoted on the Zagreb Stock Exchange, with a turnover of HRK 64.8 million.

MOVEMENTS IN THE AVERAGE PRICE AND VOLUME OF THE ATLANTIC GRUPA'S SHARE IN 2019

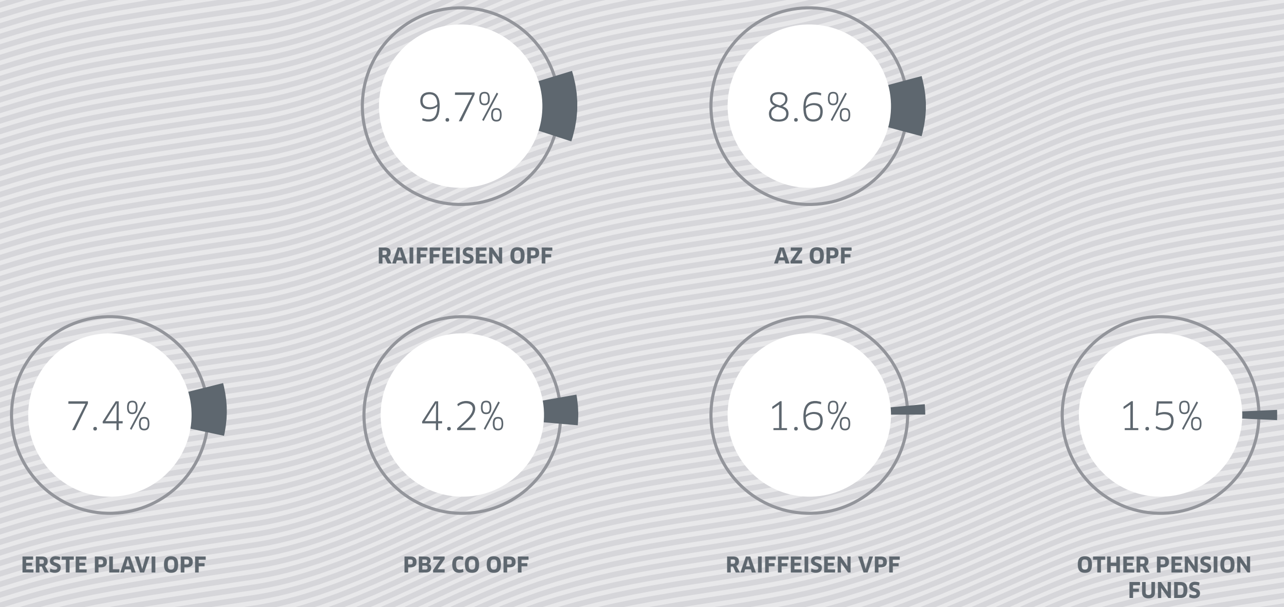


OWNERSHIP STRUCTURE ON 31 DECEMBER 2019

Atlantic Grupa has a stable ownership structure: 50.2% of the company is owned by Emil Tedeschi, 5.8% by Lada Tedeschi Fiorio, and 33.0% of Atlantic Grupa is owned by pension funds. Under the category Management, board members have 30,211 shares (Neven Vranković 20,386, Srećko Nakić 5,969, Zoran Stanković 3,758 and Enzo Smrekar 98). Under the category Others, Member of the Supervisory Board Siniša Petrović has 176 shares. Additionally, Member of the Management Board Neven Vranković has 150,000 bonds of Atlantic Grupa.



PENSION FUNDS SHARE (33,0%)



OVERVIEW OF TOP 10 SHAREHOLDERS OF ATLANTIC GRUPA D.D. ON 31 DEC 2019.

SHAREHOLDER	NO. OF SHARES	% OWNERSHIP
EMIL TEDESCHI	1,673,819	50.2%
RAIFFEISEN OBLIGATORY PENSION FUND, CATEGORY B	322,729	9.7%
AZ OBLIGATORY PENSION FUND, CATEGORY B	286,946	8.6%
ERSTE PLAVI OBLIGATORY PENSION FUND, CATEGORY B	246,926	7.4%
LADA TEDESCHI FIORIO	193,156	5.8%
PBZ CO OBLIGATORY PENSION FUND, CATEGORY B	139,359	4.2%
PBZ D.D./JOINT CUSTODIAL ACCOUNT	71,956	2.2%
RAIFFEISEN VOLUNTARY PENSION FUND	52,077	1.6%
PBZ D.D./STATE STREET CLIENT ACCOUNT	30,545	0.9%
PBZ D.D./THE BANK OF NEW YORK AS CUSTODIAN	23,182	0.7%

According to the decision of the Company's General Assembly held on 27 June 2019, the dividend distribution was approved in the amount of HRK 32.00 per share, i.e. a total of HRK 106.6 million. The dividend was distributed in July 2019.

In line with the Decisions on authorising the Company's Management Board to acquire treasury shares and the Decisions on excluding pre-emption rights upon acquiring new shares, which were adopted at the General Assembly of Atlantic Grupa d.d. on 30 June 2014, the Company in 2019 acquired a total of 11,441 treasury shares (7,000 treasury shares in the total nominal amount of HRK 280,000.00, representing 0.21% of the Company's share capital, were acquired on 15 April 2019, 2,205 treasury shares in the total nominal amount of HRK 88,200.00, representing 0.07% of the Company's share capital, were acquired on 25 April 2019, and 2,236 treasury shares in the total nominal amount of HRK 89,440.00, representing 0.07% of the Company's share capital, were acquired on 09 October 2019).

The above acquisitions were executed by trading on the Zagreb Stock Exchange and information on acquisitions were published 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).

The purpose of these acquisitions of treasury shares is the realisation of management and employee remuneration in line with the Stock Option Programme and the Remuneration Policy of Atlantic Grupa d.d. After the Programme was realised by assigning treasury shares to the Company management and employees, i.e. on 31 December 2019, the Company has 5,010 treasury shares in the total nominal amount of HRK 200,400.00, which represent 0.15% of the Company's share capital.

INVESTOR RELATIONS IN 2019

Since its listing on the stock market, Atlantic Grupa every year won one of the awards for investor relations, and this year is the winner of the Second Prize for Best Relations with Investors, organised for the tenth year in a row by Poslovni dnevnik in cooperation with the Zagreb Stock Exchange. This award stands as a sign of recognition by the investment community of companies that have fair and transparent investor relations. Furthermore, we are particularly proud of the award by the Zagreb Stock Exchange for the company's extraordinary contribution to capital market development.

Moreover, in 2019 Atlantic Grupa participated in various investor conferences, both in the country and abroad, and held a large number of meetings with domestic and foreign investors.

NEVEN VRANKOVIĆ
Group Vice President for Corporate Activities

Statement of the Group Vice President **for Corporate Activities**

ATLANTIC GRUPA is a successful business system which takes equal pride in its achieved business results, as well as in the culture we are building and values we are promoting, both among our employees and in the community where we work. The core of our corporate culture is respecting individual diversity and fostering cooperation and synergies between the different business segments. Organisational changes, strategic guidelines and the new People and Culture strategy in 2019 reflect our ambition to always be better. Today, more than ever, we are aware there is no successful business strategy that is not centred on people. The main determinants in the focus of the new People strategy were also defined in that context, namely simplicity of organisational design with the consumer at its heart, selection and promotion of authentic leaders who insist on personal accountability and consideration of employees as individuals who need opportunities for growth and development. Many programmes developed within the system are aimed at developing human resources and careers within the company, performance management, appropriate rewarding of excellent results and retention of key employee categories. Quality is at the heart of all our activities, regardless of whether it concerns relations with employees, activities related to high production and quality control standards or concern for the environment.

With regard to the latter, we can say that, within our consistent Environmental Management System (EMS), concern for the environment was raised from a local to the corporate level with the key focus on sustainability and protecting the future. i.e. activities grouped in three dimensions – environment and energy efficiency, people and society, and governance. The sustainable environmental management system is based on a well-considered and economical use of natural sources, reduction of waste and lower consumption of energy and water. The international ISO 14001 environmental management system certificate shows that our Environmental Management System complies with the best practice standards, while the reports issued since 2014 in accordance with the Global Reporting Initiative (GRI) guidelines show that we are a steadily progressive regional company in respect of the criterion of transparency. Furthermore, it is worth mentioning that, since its foundation, Atlantic Grupa has 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, and we are also a signatory of the Code of Ethics in Business and in 2007 we joined the UN initiative Global Compact.

Finally, it is also worth noting that Atlantic Grupa, as a part of the wider community, is aware of the importance and need for making its own impact on the improvement of general social conditions, promotion of correct values and the need to invest a part of its own profits into the community. In addition to a wide range of donor projects, our sponsorship activities are also notable, especially when it comes to the promotion of sports and healthy lifestyle for youth and adults. The largest sustained, structured and comprehensive arrangement in this sense we are investing in supporting basketball, where the last year was marked by the transformation and relocation of the professional team headquarters of what is now BC Cedevita Olimpija to Ljubljana for the purpose of ensuring regional and European recognisability. However, even more than the results of professionals, our impact on the community is realized through the basketball academy BC Cedevita Junior attended by over one thousand children and youth, through which we are trying to promote correct values among the new generations. Atlantic Grupa is also an active participant in a number of humanitarian actions, whether through internal programmes that engage our employees or by supporting a series of organisations and associations involved in protecting and helping vulnerable social groups.

ATLANTIC GRUPA ANNUAL REPORT 2019

Corporate management of Atlantic Grupa

IMPLEMENTING THE PRINCIPLES OF CORPORATE MANAGEMENT

Considering that the shares of Atlantic Grupa d.d. are quoted on the Zagreb Stock Exchange, Atlantic Grupa applies the valid Code of Corporate Governance of the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency (Hanfa).

During 2019, Atlantic Grupa continued to comply with the Code of Corporate Governance of the Zagreb Stock Exchange and HANFA, which was applied since 01 January 2011 and is available on the website of the Zagreb Stock Exchange (www.zse.hr), thus operating in accordance with good practice of corporate governance in all segments of our business operations.

Under the internal Rules for Remuneration of Supervisory Board Members, the issue of their remuneration is defined differently than in the Code of Corporate Governance of the Zagreb Stock Exchange and HANFA, namely 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 valid Code of Corporate Governance of the Zagreb Stock Exchange and HANFA, 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). Additionally, 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.

Furthermore, we are aware of their importance and promote 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.
The proportion of women at the senior management of Atlantic Grupa, below the Management Board, is at the time of this report at 52% out of all managers of Atlatic Grupa.

The internal control and risk management system is an integral and important component of our business operations, and its elements, as specified below, as well as the description of the functioning of, and method of exercising voting rights at, the General Assembly, composition and functioning of the Management Board and Supervisory Board and their committees, as well as information on the Company's shareholders, are an integral part of this Corporate Governance Statement.

ORGANISATION OF CORPORATE MANAGEMENT IN ATLANTIC GRUPA

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

GENERAL ASSEMBLY

The General Assembly is a body in which shareholders accomplish their rights in Company matters. 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 2019, two sessions of the General Assembly were held. 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 27 June 2019. 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 32.00 per share, in proportion to the number of shares held by each shareholder, election of Anja Svetina Nabergoj as a member of the Supervisory Board, granting an authorisation to the Management Board to acquire treasury shares, exclusion of the existing shareholders' pre-emption rights upon disposal of treasury shares, and appointment of an independent Auditor of the Company for the year 2019. At the session of the General Assembly held on 17 October 2019, the decision on the election of Monika Elisabeth Schulze as a member of the Supervisory Board was adopted. All decisions from the meetings held by the General Assembly were made in line with legal regulations and are available on web pages of Atlantic Grupa (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr).

SUPERVISORY BOARD OF ATLANTIC GRUPA

The joint stock company Atlantic Grupa has a Supervisory Board consisting of seven members. In 2019, the Supervisory Board held four sessions in accordance with the previously announced Schedule posted on web pages of the Company (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr). The attendance percentage of the Supervisory Board members at these Sessions was 96.15%. In line with the OECD Principles of Corporative Governance and recommendations in the 2010 Code of Corporate Governance of the Zagreb Stock Exchange and HANFA, that was applied during the business year 2019, as well as the new the Code of Corporate Governance of the Zagreb Stock Exchange and HANFA that is applied from 01 January 2020, 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. The members of the Supervisory Board are:

ZDENKO ADROVIĆ
President

ZDENKO ADROVIĆ, one of the leading experts in Croatian financial industry, is the director and one of the founders of the Croatian Banking Association. He was Chairman of the Management Board of Raiffeisenbank Austria d.d in the period 1996 - 2014, which in his term of office developed into one of the leading financial institutions and received several awards from the Croatian Chamber of Economy as the most successful bank in Croatia. Prior to his current position, he was the Executive Vice President responsible for the treasury and liquidity at Privredna Banka Zagreb, where he also worked as the Investment Banking Sector Manager and Deputy General Manager. He is a member of the Croatian Parliament's Finance and State Budget Committee since 2017, and a member of the National Competitiveness Council since 2018. In the period 2008 - 2016 he was a member of the Executive Board of the Croatian Employers Association, and in the period 2004 - 2013 a member of the Management Board of the Croatian Chamber of Economy. In addition to the above, he was a member of the Supervisory Board in Pliva d.d. in the period 1999 - 2006. He graduated from the Faculty for foreign trade, University of Zagreb, where he also earned his M. Sc. degree in corporate finance. He also continued his professional specialisation at universities in USA and UK.

SINIŠA PETROVIĆ
Vice President

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

ANJA SVETINA NABERGOJ
Member

DR. ANJA SVETINA NABERGOJ is Lecturer at Hasso Plattner Institute of Design at Stanford University and Associate Professor at the School of Economics and Business, University of Ljubljana. She finished her undergraduate studies, completed International Full Time Master Program in Business Administration (IMB) and earned her PhD at the Faculty of Economics, University of Ljubljana. For the last 10 years she has been developing pedagogy for teaching innovation processes and nurturing creative mindsets to management in leading global corporations. She is the founding member of the Research as Design Team at Stanford University and member of the Advisory Board of The Stanford Catalyst for Collaborative Solutions. She has contributed chapters to books published by Edward Elgar, Routlege and Cambridge University Press.

MONIKA ELISABETH SCHULZE
Member

MONIKA ELISABETH SCHULZE is the Global Head of Customer&Digital Experience at the company Zurich Insurance Group with focus on building strong businesses in the context of massive industry transformation and digital disruption. Before joining Zurich Insurance, Monika run her own business as a strategic business consultant. In the last two positions at Unilever she served as Vice President for Brand Development Europe and as Business Director for Foods with P&L responsibility in Hungary. She has a Master of Business Administration degree from the University of Hamburg. Monika is Board Member of the company Schloss Wachenheim, a sparkling wine producer in Europe, and Board Observer at CoverWallet, a New York based digital firm.

FRANZ-JOSEF FLOSBACH
Member

FRANZ-JOSEF FLOSBACH obtained an industrial engineer degree at the Technische Universität Darmstadt, in 1973. He had spent most of his working life, since 1975, in the DEG-Deutsche Investitions und Entwicklungsgesellschaft mbH. DEG promotes private businesses in emerging and developing countries, and since 2001 is a subsidiary of the German KFW - Bankengruppe, Frankfurt. Mr. Flosbach has been assigned a number of executive tasks – management audit (including responsibility for the investments in Asia, the Arabian countries, South-East Europe, English speaking Africa); business planning and controlling (including successful implementation of the SAP System); business development and portfolio management in Sub-Saharan Africa; consultancy activities for "Deutsche Mittelstand", Programmes of the European Community (ECIP, CDI, JOPP), Foreign Promotion Agencies, and Stability Pact for South-Eastern Europe. Furthermore, he was responsible for DEG's Business in East and South East Europe, Caucasus, Central Asia, Turkey and Near East, which icnludes about 30 countries, 1.5 billion Euro investment, about 110 portfolio companies, 200 – 500 million new commitments per year. Prior to his career in DEG, he worked as a Senior Consultant at the Treuhand-Vereinigung AG/Coopers & Lybrand GmbH, today PriceWaterhouseCoopers (PWC) with a special focus on Merger & Acquisition activities. Mr. Flosbach has special knowledge in the following areas: financing - project financing, providing long term loans, equity; mergers and acquisitions; restructuring and privatisation; advisory service; risk management; corporate governance. Likewise, he has a profound country and sector know how. At present he serves as a member of three Supervisory Boards, two Audit Committees (as chairman) and one Risk Committee (as chairman) in renowned companies in the region, of which two are banks. Mr. Flosbach is since 1999 a Member of the "Südosteuropa Gesellschaft", München.

ALEKSANDAR PEKEČ
MEMBER

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

LARS PETER ELAM HÅKANSSON
MEMBER

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

The members of the Supervisory Board have been remunerated for their work and have the right to remuneration 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 2019 members of the Supervisory Board received remuneration in the following gross amount: Mr. Zdenko Adrović, a total of HRK 364,932.12; Ms. Siniša Petrović, a total of HRK 175,667.36; Anja Svetina Nabergoj, a total of HRK 77,631.58; Monika Schulze, a total of HRK 30,000.00; Mr. Franz Jozef Flosbach, a total of HRK 117,074.75; Mr. Aleksandar Pekeč, a total of HRK 148,008.47 and Mr. Lars Peter Håkansson, a total of HRK 221,881.05.

Member Anja Svetina Nabergoj, on 19 July 2019, concluded the Agreement on the provision of educational services for the Company's employees. Pursuant to the Companies Act the Supervisory Board closely examined the stated engagement and after the careful review and satisfactory explanations, provided its unanimous authorization thereto.

SUPERVISORY BOARD COMMITTEES

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

THE CORPORATE GOVERNANCE COMMITTEE defines a system of mechanisms for ensuring a balance between the rights of shareholders and the needs of management to direct and manage the company's operations. It provides a framework to establish the company's objectives and define the funds required to achieve those objectives as well as to monitor their implementation and efficacy. The Committee is chaired by Siniša Petrović, while Nina Tepeš was appointed as a member from the ranks of external experts. The Committee held four sessions throughout 2019, whereby the attendance percentage of its members was 100%.

THE NOMINATION AND REMUNERATION COMMITTEE proposes candidates for the Management Board, Supervisory Board and senior management personnel as well as contents of contracts with the members of Management Board, structure of their compensation and compensation of the Supervisory Board's members. The Committee is chaired by Aleksandar Pekeč, Lars Peter Elam Håkansson was appointed as a member from the ranks of the Supervisory Board and Zoran Sušanj as a member from the ranks of external experts. The Committee held four sessions throughout 2019, whereby the attendance percentage of its members was 100%.

THE AUDIT COMMITTEE analyses in detail the financial reports, provides support to the company's accounting and establishes good and quality internal control within the Company. It monitors the integrity of financial information of the company, particularly the accuracy and consistency of accounting methods used by the Company and the Group to which it belongs, including the criteria for consolidation of financial reports of the companies that belong to the Group. Also, the Committee assess the quality of the internal control and risk management system, with the aim of properly identifying, publicizing and managing the major risks to which the company is exposed to. The Committee is chaired by Franz-Josef Flosbach, Marko Lesić was appointed as a member from the ranks of external experts, while Zdenko Ardović was appointed as a member from the ranks of the Supervisory Board by becoming a member of the Committee on 01 November 2019. Ms. Lada Tedeschi Fiorio was a member of the Committee until the end of her term of office as a member of the Supervisory Board, i.e. until 30 September 2019. The Committee held two sessions throughout 2019, whereby the attendance percentage of its members was 83.33%.

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 2019, Mr. Marko Lesić received remuneration in the total gross amount of HRK 13,330.86, Ms. Nina Tepeš in the total gross amount of HRK 26,478.24 and Mr. Zoran Sušanj in the total gross amount of HRK 25,146.24.

ZDENKO ADROVIĆ,
President of the Supervisory Board

Report of the Supervisory Board **on the corporate governance**

In the course of 2019 the Supervisory Board has performed supervision of the Company's activities in line with the decisions adopted by the Company's General Assembly.

The Management Board and the Supervisory Board work closely together for the good of the Company and maintain a regular contact. The Supervisory Board was duly informed by the Management Board of all business events of greater importance, the course of business operations, revenues and expenditures, as well as of the general status of the Company. The Management Board regularly submitted to the Supervisory Board quarterly, semi-annual and annual written reports on business operations to which the Supervisory Board had no objections and which were unanimously adopted.

Also, the Management Board keeps the Supervisory Board fully and regularly informed on corporate strategy, planning, business developments, the risk management, compliance, any deviations in the business developments from original plans, as well as on significant business transactions involving the Company and its affiliates. The Management Board regularly submits to the Supervisory Board reports prescribed by the Law, while in between the meetings, the Management Board duly informs the Supervisory Board on the important developments regarding the business operations of the Company.

The Supervisory Board conducted self-assessment of profiles and competencies of its members and members of its Committees. The self-assessment was conducted by the President of the Supervisory Board, with the assistance of its respective Committees, without the engagement of external auditor.

As for its composition, Supervisory Board has set itself the following objectives when issuing recommendations for appointments for its members. Supervisory Board operates in optimal number of 7 members, in such way that its members as a group possess the knowledge, ability and expert experience required to properly perform its tasks considering, as well, the aspect of diversity by supporting an appropriate degree of women's representation. In view of the Company's strategy directed to internationalization, the Company benefits from candidates with an international background. Conflicts of interest are avoided in considerations for the appointments to the Supervisory Board.

The Supervisory Board concluded that the Supervisory Board and its Committees work well, have balanced composition and necessary expertise complementary to the requirements of the Company's business. Evaluation of members of the Supervisory Board and its Committees confirmed that each individual contributes effectively, demonstrating commitment to the role and her/his time for this duty.

Administrative support for the preparation of Supervisory Board Sessions is provided by the Company Secretary in the efficient and timely manner.

The Supervisory Board set the target of the proportion of women in the Supervisory Board and the Management Board of Atlantic Grupa d.d. to be reached in the following five-year period. The target is minimum 25% out of the total members of the respective Board. The Management Board and the Supervisory Board has to be composed in such a way that its members as a group possess the knowledge, expertise, experience and availability required to properly perform their tasks. At Atlantic Grupa, the diversity is treated with special attention, as one of the fundamental principles on which the Company builds its success and progress. In order to ensure that women are taken into consideration for vacant positions in the Supervisory Board and the Management Board, the Supervisory Board shall endorse the course that Atlantic Grupa has set on diversity. Therefore, the Supervisory Board resolves to consider the aspect of diversity in addition to the necessary expertise of a candidate when issuing recommendations for future appointments to the Management Board and the Supervisory Board. The Supervisory shall report on the progress of the implementation of the target on the annual basis.vati na godišnjoj razini.

MANAGEMENT BOARD OF ATLANTIC GRUPA

The Management Board of Atlantic Grupa is composed of six members. Until 30 September 2019 the Management Board consisted of the President of the Management Board, Group Vice President for Corporate Activities and Group Vice President for Finance, Procurement and Investment, when it was extended to six current members by including the Group Vice President for Corporate Strategy and Development, Group Vice President for Distribution and Group Vice President for Savoury Spreads, Donat Mg and International Expansion. Strengthening the Management Board is a logical continuation of the process of defining the corporate strategy and priorities for the company's further development, which was started in 2018. Through the revision of overall business practices and definition of the strategy and corporate priorities we have identified areas that represent the cornerstone for the company's future transformation, as well as its key growth drivers, to which the entire organisational structure and the organisation of the Management Board were adjusted accordingly.
The Management Board of Atlantic Grupa operates in the following composition:

EMIL TEDESCHI

President of
the Management Board

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

LADA TEDESCHI FIORIO

Group Vice President for Corporate Strategy
and Development

LADA TEDESCHI FIORIO manages the processes and teams dealing with Atlantic Grupa's strategy and growth through M&A activities and development of new areas or products with potential for the company's growth. Before her appointment to the Atlantic's Management Board in 2019, she served as the Vice President of the Supervisory Board of Atlantic Grupa. She began her career in Atlantic in 1997 as the Deputy Director for Finance. As the Vice President for Business Development, she had an important role in the IPO process in 2007 and in negotiations during different Atlantic's acquisition and sale processes. Before her career in Atlantic, she acquired business experience in multinational companies, Wrigley in Germany and Mars Masterfood in the United Kingdom, the Netherlands, Poland and the United Arab Emirates. She received her bachelor's degree in economics at Universita' commerciale L. Bocconi in Milan, and continued her professional specialisation at the London Business School.

NEVEN VRANKOVIĆ

Group Vice President
for Corporate Activities

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

ZORAN STANKOVIĆ

Group Vice President for Finance, Procurement and Investment

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

SREĆKO NAKIĆ

Group Vice President for Distribution

SREĆKO NAKIĆ has began his career in Atlantic in 1994 in the sales organisation. In his various roles within distribution areas, he developed recognisable trade excellence as the core competence of Atlantic Grupa, which resulted in long term cooperation with strong international principals - Beiersdorf, Duracell, Ferrero, HIPP, Johnson & Johnson, Mars, Rauch, Red Bull, Unilever, etc. He was one of the key contributors in Cedevita's launch in HoReCa and OTG segment, and from 2010 to 2014 had a significant role in the successful integration of Droga Kolinska into Atlantic. As the Vice President for Distribution, he is responsible for overall distribution business operations, covering all markets with focus on expansion and overall growth. He enhanced his professional growth with relevant educational programs in institutions such as IEDC Bled School of Management.

ENZO SMREKAR

Group Vice President for Savoury Spreads, Donat Mg and International Expansion

ENZO SMREKAR has joined Atlantic Grupa with the acquisition of Droga Kolinska in 2010. where he was Chief Operating Officer at the time of transaction. Prior to that, he spent 18 years working for leading international companies such as Philip Morris, Diageo and LVMH. From 2010 onwards he had a key role in the successful integration of Droga Kolinska into Atlantic Grupa, as member of the board of Droga Kolinska and General Manager of the Strategic Business Unit Savoury Spreads. He finished MBA at the IEDC Bled, owns Coaching and Mentoring certificate from the Oxford Brookes University, he is a Supervisory Board member in several companies, as well as President of the Slovenian Ski Association, Association President at AmCham Slovenia and the Slovenian Association of Advertisers and Vice President of the Slovenian National Olympic Committee.

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REMUNERATION POLICY FOR MANAGEMENT BOARD MEMBERS

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

- **monthly salary** for board members, set in the gross amount,
- **annual bonus** (bonus remuneration) per year of contract duration, set in the defined percentage of the realised principal annual gross salary, provided that at least 90% of the AG's consolidated EBITDA plan for the business year is realised. The amount of the annual salary supplement (bonus) is defined according to the realisation of the business objective, which consists of assessing the realisation of the profit objective and direct sales to external buyers (third party) of the AG's consolidated plan,
- **life insurance policy** for the members of the Management Board contracted by Atlantic Grupa at the reputable insurance companies, with the annual premium of up to HRK 8,250,
- **personal accident insurance policy** with the annual premium of up to HRK 8,300,
- **voluntary health insurance policy** that includes the Management Board members, with which Atlantic Grupa, as the insurance contractor, with an annual premium of up to HRK 7,500 per person, provides a quality health treatment through an annual comprehensive health examination, any required specialist medical tests with the application of most contemporary and efficient medical devices and equipment in specialised polyclinics with the best health experts,
- **right to use an official vehicle,** right to compensation of all costs incurred by the Management Board member while performing his/her functions.

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

- **confidentiality clause** – board members are obliged to keep confidential the Company's business secrets during and after their employment, regardless of the reasons for employment termination. The obligation of confidentiality extends to business secrets of AG's associated companies as well,
- **no-competition clause** – binds a board member to a period of one year from the date of receiving severance pay,
- **contract penalty** – in case of breaking the no-competition clause, any board member shall be liable to pay the contract penalty in the amount of twelve average net monthly salaries paid to that board member in the period of three months before contract termination,
- **prohibition of participation of any board member in the ownership and/or management structure,** whether directly or indirectly, in any company which is in market competition with Atlantic Grupa and associated companies, or in a company with which Atlantic Grupa and associated companies have business cooperation, as well as to act as an advisor or consultant in such companies, regardless of being paid or not for such activities,
- **other activities,** except those performed for Atlantic Grupa's associated companies, regardless of being paid or not for such activities, including the membership in supervisory boards, advisory bodies, etc. may be performed by a member of the Management Board only on the basis of prior approval of the Management Board of Atlantic Grupa,
- **employment, contract duration and termination periods** – board members are employed for an indefinite period in Atlantic Grupa or its associated companies, and the contract on performing the function of a board member is concluded for the period of 3 years, with the possibility of termination in accordance with the periods prescribed by law,
- severance pay – severance pay is contracted in the amount of twelve (12) average monthly gross salaries paid to that board member in the period of three months prior to contract termination. The obligation of severance payment occurs in a case of contract termination by Atlantic Grupa in the period of its duration, unless the contract is terminated due to reasons caused by the fault of the board member.

The President of the Management Board of Atlantic Grupa d.d., **Emil Tedeschi,** in 2019 received total remuneration in the gross amount of HRK 4,481,866.27, of which the amount of HRK 2,749,490.00 as the fixed part of the salary, the amount of HRK 1,482,948.00 as the variable part of the salary, and the amount of HRK 249.428,27 as other receipts in kind. The fixed salary represents 61.35%, variable part of the salary represents 33.09% and other receipts in kind represents 5.57% in total remuneration received.

Neven Vranković, the Group Vice President for Corporate Activities, in 2019 received total remuneration in the gross amount of HRK 3,126,136.29, of which the amount of HRK 1,788,290.00 as the fixed part of the salary, the amount of HRK 1,261,014.65 as the variable part of the salary (paid in company shares), and the amount of HRK 76,832.09 as other receipts in kind. The fixed salary represents 57.21%, variable part of the salary represents 40.34% and other receipts in kind represents 2.45% in total remuneration received.

Zoran Stanković, the Group Vice President for Finance, in 2019 received remuneration in the gross amount of HRK 3,019,439.76, of which the amount of HRK 1,734,290.01 as the fixed part of the salary, the amount of HRK 1,227,990.01 as the variable part of the salary (paid in company shares), and the amount of HRK 57,159.74 as other receipts in kind. The fixed salary represents 57.44%, variable part of the salary represents 40.67% and other receipts in kind represents 1.89% in total remuneration received.

Lada Tedeschi Fiorio, the Group Vice President for Corporate Strategy and Development, in 2019 received, from the date of starting her term of office as a member of the Management Board, i.e. from 01 October 2019, remuneration in the gross amount of HRK 427,241.01 of which the amount of HRK 420,000.00 as the fixed part of the salary, and the amount of HRK 7,241.01 as other receipts in kind. The fixed salary represents 98.31% and other receipts in kind represents 1.69% in total remuneration received.

Srećko Nakić, the Group Vice President for Distribution, in 2019 received, from the date of starting his term of office as a member of the Management Board, i.e. from 01 October 2019, remuneration in the gross amount of HRK 430,520.22, of which the amount of HRK 422,541.63 as the fixed part of the salary, and the amount of HRK 7,978.59 as other receipts in kind. The fixed salary represents 98.15% and other receipts in kind represents 1.85% in total remuneration received.

Enzo Smrekar, the Group Vice President for Savoury Spreads, Donat Mg and International Expansion, in 2019 received, from the date of starting his term of office as a member of the Management Board, i.e. from 01 October 2019, remuneration in the gross amount of HRK 355,586.25, of which the amount of HRK 320,276.83 as the fixed part of the salary, the amount of HRK 12,603.28 as the variable part of the salary, and the amount of HRK 22,706.14 as other receipts in kind. The fixed salary represents 90.07%, variable part of the salary represents 3.54% and other receipts in kind represents 6.39% in total remuneration received.

STRATEGIC MANAGEMENT COUNCIL

Since its establishment in early 2012, the Strategic Management Council operates as a multifunctional body that discusses vital strategic and operational corporate issues, business analysis, priority definition, supervision of strategic plans, coordination between organisational units and key decision making. The Council includes the following members: President of the Management Board, Group Vice President for Corporate Activities, Group Vice President for Finance, Procurement and Investment, Group Vice President for Corporate Strategy and Development, Group Vice President for Distribution, Group Vice President for Savoury Spreads, Donat Mg and International Expansion, Managing Directors of Strategic Business Units, Managing Directors of Strategic Distribution Units, Senior Executive Directors of Distribution Business Development, Corporate Legal Affairs, Quality Management and Asset Management, Transformation and Information Technology and Corporate Key Accounts Management, Secretary General, as well as Executive Directors of the Business Unit Central Purchasing, People and Culture, Corporate Controlling, Central Marketing and Innovation, and Corporate Strategy and New Growth.

BUSINESS COMMITTEES

THE SOCIAL RESPONSIBILITY COMMITTEE contributes to the implementation of principles of sustainable development in the company's everyday operations, monitors its status and starts initiatives for the improvement of corporate social responsibility. The Social Responsibility Committee is headed by the Company's Secretary General, while its members are: Executive Director of People and Culture, Director of Corporate Communications and Director of Corporate Quality Management.

INTERNAL AUDIT IN 2019

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 eventual 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.

In 2019, seventeen audits were performed in the following areas: GDPR compliance, planning process, credit control, R&D process, marketing ad hoc research costs. These audits resulted in a total of 108 special actions to improve operation and reduce specific risks to an acceptable level.

The internal audit department at the end of the 2019 has implemented a digital tool to monitor the realization of recommendations that enables a faster communication and easier process management.

Corporate social responsibility

SPONSORSHIPS AND DONATIONS

In its broader sense, corporate social responsibility is a determinant of Atlantic Grupa's actions. Through its sponsorships and donations, the company aims to promote the values shared with its social environment, namely passion, responsibility and growth. There is a multitude of activities and support that the company provided in 2019 to different associations, organisations and actions, of which some are listed below.

SPORT

- **BC CEDEVITA OLIMPIJA**
- **BC CEDEVITA JUNIOR**
- **ATP UMAG**
- **FC HAJDUK**
- **JAKA REMEC- BMX EXTREME RIDER**
- **LJUTIĆI**

BASKETBALL

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BASKETBALL SCHOOLS ARE ORGANIZED IN ZAGREB'S ELEMENTARY SCHOOLS

In 2019, the flagship of all Atlantic's basketball sponsorships underwent significant changes. The Basketball Club Cedevita from Zagreb and the Basketball Club Petrol Olimpija from Ljubljana decided to merge into a single club - BC Cedevita Olimpija, thus starting a pan-regional basketball project. The clubs merged as equal partners, with Atlantic Grupa and Petrol as the main sponsors. The new club is seated at the renowned Stožice Arena in Ljubljana. "This is the first time that two professional clubs from two countries are merging, it is a novelty in Europe, for which we are particularly excited. It is common for NBA franchises to change their headquarters, and although this is an avant-garde move for Europe today, we see moving to Ljubljana and merging with BC Petrol Olympia as a logical step for the time ahead of us. We can say that we are building on the foundations laid in this region more than 40 years ago by Krešimir Ćosić, who managed to be the coach of Olimpija Ljubljana and to play for Zadar", commented the President of the Management Board of BC Cedevita, Emil Tedeschi.
The Basketball Club Cedevita Junior remains active in Zagreb, relying primarily on younger players and coaches and competing in the Croatian Championship in all age categories. BC Cedevita Junior continues best practices that BC Cedevita used in working with young people, further developing the basketball school and fully utilising the capacities of the Cedevita Basketball Arena. The club and academy actively work in 24 basketball schools organised in Zagreb's elementary schools, thus ensuring both the future of this sport and the option of a healthy and useful free time activity. All training during the season is extended by organising a summer camp in Veli Lošinj, where basketball school participants and other guests have an opportunity to enjoy the sea and basketball.

OTHER SPORTS

As regards major sponsorships in an extensive array of company interests, we should note the support to ski sports, so Atlantic Grupa again this year sponsored the Slovenian skiing national team, the ski jumping competition in Planica, as well as very talented Zrinka Ljutić, the slalom and giant slalom winner of the strongest children's alpine skiing competition. When it comes to other sports, Atlantic recognised the value of major tennis events such as the ATP tournament in Umag and the WTA tournament in Bol, Brač, while it also supports the work of a Croatian tennis club iTeam. Atlantic Grupa readily provided its support in 2019 to the table tennis club Malinska, which is achieving extraordinary results, as well as to outstanding individuals such as the rower Damir Martin, gymnast Tin Srbić and BMX extreme rider Jaka Remec. Football should not be neglected, so Atlantic's sponsorship activities also covered FC Hajduk and the youth team of FC Dinamo. Biathlon, cycling and regatta races also have their special place, while ballooning is among what can be called more exotic sports sponsored by Atlantic. The balloon club Zagreb, which promotes ballooning, organises festivals and ballooning rallies, has provided us with one of visually more impressive experiences in a whole series of attractive and popular sports we appreciate and support.

VALUE DAY

That Atlantic employees truly enjoy helping other is reflected in their high participation in Value Day, where since 2012 employees are participating in a number of humanitarian actions aimed at improving the conditions in their local community and working environment. In 2019, more than 1,200 Atlantic employees participated in over 60 different activities in eight countries, where they again had an opportunity to show their positive spirit and values they invest in everything they do. They have passionately, creatively and responsibly assisted their local communities and each other through different forms of help: cleaning their workspaces and the environment, gardening, painting, cleaning and by donating blood.

EVERY DAY IS VALUE DAY

"Programme for the Soul" that was implemented in 2017, supporting the humanitarian actions of our employees not only for Value Day, but throughout the year, continued for the second year in a row. Atlantic Grupa understands the importance of the community it operates in, and supports the good deeds of its employees that affect the well-being of our community and represent our corporate values.

For every financial support provided by its employees to an organisation that was part of Value Day, Atlantic Grupa will participate with its own donation in the amount of 50% of the donated sum.

Identifying the community's needs and Atlantic employees' willingness to act is supported by Atlantic Grupa with an additional day off: for every two days of volunteer work in an organisation that was part of Value Day, the employees will receive an extra day off for volunteering.

VALUE DAY
EVERY

CULTURE AND KNOWLEDGE

- YAMMATOVO
- SARAJEVO FILM FESTIVAL
- EXIT FESTIVAL
- TEATAT ULYSSES
- MUSICOLOGY
- LEAPSUMMIT

In 2019, Atlantic Grupa supported Sarajevo Film Festival (SFF) as a central cultural manifestation in the region, not only as a Festival sponsor, but also as the supporter of the campaign ""Svi smo mi iz istog filma" (We're All From the Same Movie)". Atlantic Grupa and Sarajevo Film Festival have, in line with their long-standing cooperation and friendship, in 2019 provided film lovers with an opportunity to, by posting a heart motive on social networks, become part of the large art mosaic "The Biggest Heart of Sarajevo", which was given to Mirsad Purivatra, the Festival Director, for celebrating the 25th birthday of the Festival.

In addition to supporting the art of film-making, Atlantic Grupa is always looking to support the best music projects, so in 2019 it continued to sponsor Yammatovo with Cockta as the main brand of this music event, the Musicology Project with Barcaffé organised in Serbia, Slovenia and Croatia, as well as Novi Sad's Exit Festival.

When youth and knowledge are concerned, Atlantic has for the third year in a row supported the largest gathering of the so called changemakers in this part of Europe by presenting at the LEAP Summit career opportunities offered by the company. LEAP Summit was attended by more than 3 thousand participants from more than 35 countries and 103 lecturers. Four different stages were used to hold parallel discussions on innovation, entrepreneurship, digital technologies, career development and inspiration and motivation.

Sustainable development and environmental protection in 2019

Sustainable development in Atlantic Grupa follows the global sustainability objectives by respecting our core values: Passion, Growth, Openness and Care. The main focus of the integrated environmental and energy management system is still to raise the waste management efficiency and improve energy efficiency. As regards emissions, aware of the importance of wastewater treatment in particular companies in Serbia and Bosnia & Herzegovina, we are intensively and continuously working on improving our relevant systems.

Atlantic Grupa fosters the culture of creativity and stimulates its employees to offer innovative proposals for improvements in the field of environmental protection. We are striving to establish "greener" production processes and ecological products that consume less energy, generate less waste and are more environmentally friendly.

In order to involve as much employees of Atlantic Grupa as possible in our sustainability thinking, at the end of the last year we launched the Wind of Change challenge, which was used to generate proposals for sustainable solutions in the fields of energy, raw material procurement, packaging and waste. The basis and inspiration for the Wind of Change challenge named "Sustainability" were our corporate values of Openness to new ideas, perspectives and suggestions, and Care for each other, the company and the environment.

ENERGY AND WATER CONSUMPTION

Under the integrated quality management. policy in the field of energy, we have defined that, by selecting environmentally acceptable technologies and services, managing energy-related risks and stimulating energy efficiency improvement activities, we will continuously protect and positively impact the environment.

A few examples of technological improvements made in 2019 at our individual plants are provided below:

- in the production plant of Atlantic Štark, division Foodland, installation of a cooling water recirculation system on the tunnel pasteurizator and vacuum boilers with the cooling system according to the ESCO model was carried out, LED lamps were replaced and sensors in sanitary facilities installed;
- in the production plant of Atlantic Štark in Ljubovija, the process of reconstruction of the boiler room and replacement of the use of fuel oil with liquefied petroleum gas on the production line and in the boiler room was initiated;
- in the production plant of Atlantic Štark in Belgrade, a new boiler, cooling tower and blast cabinet were procured, the pipeline was insulated and the burner combustion regulated;
- in the production plant in Skopje, solar tubes and automatic doors were installed, while five roller doors were installed in the warehouse;
- in the production plant of Atlantic Grand Bijeljina, activities aimed at increasing the burner efficiency were performed;
- in the production plant of Atlantic Droga Kolinska in Rogaška Slatina, the blower was upgraded and the water filtering regime changed;
- in the production plant of Atlantic Droga Kolinska in Mirna, the cooling generator was replaced;
- in the production plant of Atlantic Droga Kolinska in Ljubljana, additional insulation of the building was performed;
- in the production plant of Atlantic Cedevita in Planinska and of Montana Plus, activities for eliminating unnecessary energy consumption were carried out, as well as energy-related inspections and tests.

ENVIRONMENTALLY FRIENDLY PRODUCTS

In Atlantic Grupa we are aware that, by carefully selecting source and packaging materials, we can reduce negative environmental impacts throughout the life cycle of our products.

Several projects are currently underway with a view to finding solutions for disposable packaging and the use of recycled and recyclable packaging materials. When it comes to managing the brands of Atlantic Grupa, we are continuously working on their improvement in terms of sustainable development, from which we can point out a few good practice examples.

After carrying out of a Life Cycle Assessment (LCA) for specific Argeta products, on the basis of which we calculated their environmental impacts throughout the value chain that were used for planning improvements, we organised workshops focused on finding creative solutions to place the brand as high as possible on the sustainability ladder.

Another example worth noting is the sustainable management of the source of natural mineral water Donat Mg. At our bottling plant, we use only as much natural mineral water as it flows out of its own source, while continuous monitoring of groundwater levels ensures that the water level remains unchanged. In this way, we are ensuring that the water source is available to future generations. Sound management provides us with high-quality, pristine resource rich in minerals and natural CO2, thus avoiding overexploitation and maintaining the renewability of the resource in question. Special attention is given to reducing adverse environmental impacts and developing bottling technologies that use 100% recycled PET packaging (rPET). In line with European regulations, from 2025 Donat Mg bottles will contain at least 25% rPET.

On its way towards sustainable development, the brand Barcaffé launched a product Barcaffé Bio, the first brand of roasted and ground organic coffee in its portfolio. This is also a product that will in 2020 get new packaging, an aluminium-free, bio-based foil. It consists of 70% renewable sources and has a lower weight, resulting in a 63% reduction in greenhouse gas (CO2) emissions during its production. Furthermore, we initiated activities related to finding the most environmentally friendly solution for a recyclable on-the-go coffee cup.

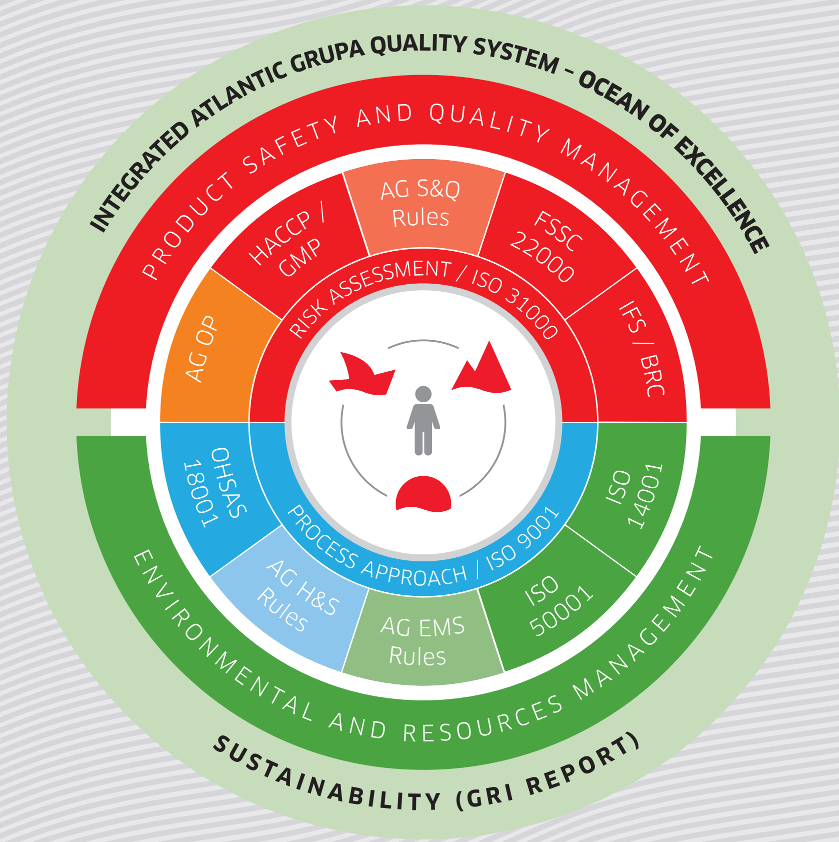
WASTE AND WASTE WATERS

A greater shift towards sustainability, especially from the perspective of circular economy, can be found in the context of waste management for the waste generated in the yards of our production plants. The long search for opportunities related to jute waste from the coffee programme finally yielded results. In a pilot project initiated in cooperation with the Pulp and Paper Institute, we managed to turn jute into paper. The next step is to find a solution for processing the entire quantity of jute waste and to find a user for paper made of jute. Additionally, Atlantic Droga Kolinska in Izola procured a press and a larger eco-station for chemicals in the wastewater treatment plant.

Here are a few examples of implemented waste management improvements:

- in the production plant of Atlantic Cedevita in Apatovac, we installed a sludge dehydration device for the wastewater treatment plant;
- in the production plant in Skopje, a paper baling press and stretch foils were procured to raise the quality of separate waste collection;
- in the production plant of Atlantic Štark in Belgrade, the recycling yard was renovated and the process of separating an additional type of waste from manufacturing was initiated. That waste is sent to composting, which is a new branch in the recycling market;
- in the distribution centre Šimanovci, a recycling yard was established and metal containers for municipal waste procured;
- in the production plant of Atlantic Grand, the quantity of separately collected waste was, in the last quarter of the year, reduced due to the new method of packaging raw coffee, which reduced the quantity of waste packaging from raw coffee by more than 60%;
- in the production plant of Atlantic Grand in Bijeljina, the waste storage overhang was constructed.

Integrated **process management system** in 2019



In the field of developing quality systems, the year 2019 was marked by several key projects:

1. new certifications in 2019 and preparation for new certifications in 2020;
2. control system improvement;
3. system digitalisation;
4. improving knowledge and competences of persons carrying out audits.

1. New certifications and preparation for new certifications in 2020

In the first quarter of 2019, we successfully confirmed the process of implementing new energy efficiency systems in the following sites:

- Atlantic Štark Belgrade (ISO 50001)
- Atlantic Štark Ljubovija (ISO 50001)
- Atlantic Argeta Sarajevo (ISO 50001).

Additionally, Farmacia, a pharmacy chain with over 90 locations, is certified according to ISO 9001, thus confirming its alignment with the highest standards of pharmacy practice and integrating it into the quality system management of Atlantic Grupa.

AG INTEGRATED CERTIFICATION (2019)

LEGAL ENTITY (LOCATION)	MARKET	PROCESS MANAGEMENT STANDARD	FOOD SAFETY SYSTEM CERTIFICATION	FOOD SAFETY STANDARD	ENVIRONMENTAL MANAGEMENT STANDARD	EnMS	HALAL	BIO	OTHER
ATLANTIC GRUPA	CRO	ISO 9001			ISO 14001	ISO 50001			
CEDEVITA (PLA)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001			
CEDEVITA (AP)	CRO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001			
MONTANA	CRO	ISO 9001		HACCP	ISO 14001				
ATLANTIC TRADE	CRO	ISO 9001		HACCP	ISO 14001	ISO 50001		BABY FOOD AND TEAS	
ATLANTIC DROGA KOLINSKA	SLO	ISO 9001			ISO 14001	ISO 50001			
ATLANTIC DROGA KOLINSKA (IZOLA)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001	ARGETA	BARCAFFÈ BIO 200 g	ARGETA TUNA/ MSC
ATLANTIC DROGA KOLINSKA (MIRNA)	SLO	ISO 9001		HACCP	ISO 14001	ISO 50001			
ATLANTIC DROGA KOLINSKA (ROGAŠKA)	SLO	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001			
AT LJUBLJANA	SLO							PRE-PACKAGED ORGANIC FOOD	
ATLANTIC BRANDS AUSTRIA	AUT	ISO 9001		HACCP	ISO 14001	ISO 50001			
ATLANTIC ARGETA	BIH	ISO 9001	FSSC 22000	HACCP	ISO 14001	ISO 50001	ARGETA		
ARGETA	BIH	ISO 9001	FSSC 22000	HACCP	ISO 14001				
ATLANTIC GRAND PROM (BIJELJINA)	BIH	ISO 9001		HACCP	ISO 14001				
ATLANTIC SOKO ŠTARK (BEOGRAD)	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001				
ATLANTIC SOKO ŠTARK (LJUBOVIJA)	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001				
ATLANTIC SOKO ŠTARK (PALANAČKI KISELJAK)	SER	ISO 9001		HACCP	ISO 14001				
ATLANTIC GRAND PROM (BEOGRAD)	SER	ISO 9001	FSSC 22000	HACCP	ISO 14001				
ATLANTIC SOKO ŠTRAK (FOODLAND)	SER	ISO 9001	FSSC 22000	HACCP					
ATLANTIC BRANDS	SER	ISO 9001		HACCP	ISO 14001				
ATLANTIC GRAND SKOPJE	MAC	ISO 9001		HACCP	ISO 14001				
ATLANTIC TRADE (SKOPJE)	MAC	ISO 9001		HACCP	ISO 14001				

2. Control system improvement

The methodology of unannounced internal audit procedures was implemented. All sites certified according to FSSC 22000 in 2019 were subject to an announced internal audit. Unannounced internal audit procedures confirmed the system's high operational level and its functionality in day-to-day operations. A total of 90 internal audit procedures were performed in 2019, of which 10% were unannounced.
The supplier auditing system was improved and the criteria for evaluating suppliers were clearly defined.

3. System digitalisation

When it comes to quality systems, the key digitalisation project in 2019 was related to building a document generation and management tool for quality systems at the level of entire Atlantic Grupa. This tool enabled standardisation across all document categories at both corporate and local level. The goal is to provide every Atlantic Grupa user with easy access to information.

4. Improving knowledge and skills

All activities in 2019 were followed by continuous work of the competent staff on improving their knowledge and functional skills within the organised educational programme "Functional Lab Quality". Over 4,000 participants attended different forms of internal training for developing specific knowledge related to the process approach and quality systems, namely: good hygienic practices, process management, production and distribution quality assurance, environmental and energy management, efficiency of internal audit procedures, non-conformity management and other workshops on different topics.

Special attention is given to training new personnel in performing energy efficiency audits and promoting a new generation of personnel trained for performing FSSC 22000 audits.

ATLANTIC GRUPA

Supply chain

Atlantic Grupa offers many opportunities and possibilities for cooperation to its suppliers. Our supply chain consists of both large multinational business corporations and local suppliers. From some of the suppliers we procure products and services in significant amounts, while with others we cooperate on an occasional basis. In 2019, Atlantic Grupa cooperated with more than 4,000 suppliers.

Although we collaborate with a large number of suppliers, we constantly need to enrich the database of our suppliers with new vendors capable of contributing to the creation of satisfaction of our users and consumers by their higher quality, more innovative, functional and more competitive products or services. To ensure constant product enhancements, we continuously evaluate our suppliers and stimulate them to improve their own efficiency and to develop innovative products and technologies. In order to improve and ease the process of identification, development and on-boarding of innovations from supply market, Atlantic Grupa 2 years ago established the Supplier Enabled Innovations program. Within this program, the suppliers, both incumbent and those that would like to start cooperation with Atlantic Grupa, have a chance to work together with the professionals from Atlantic Grupa on shaping, developing and commercializing various innovative ideas, concepts and products, that might be applied and brought to the market. During the last two years, several workshops were organised within this program, with suppliers of packaging and raw materials which are dedicated to innovation. The result of the workshops are concepts and ideas that could be applied to Atlantic Grupa's brands or products, some of which are further developed and implemented. The ideas that are selected for further implementation refer to more sustainable packaging – increase of recycled materials in PET bottles, introducing recyclable polymer foils and disposable cups, switching to much lighter plastic caps, etc.

Our relations with suppliers are built on the criteria of professionalism, transparency and fair relationship, by fully respecting both the legal requirements and high ethical and moral standards. In the same manner we would also like to build relations with suppliers sharing our values and promoting equal standards with their partners they make business and stay in contact with.

Therefore, we are actively looking for suppliers sharing our values and business principles, as well as promoting the implementation of high standards in the environment within which they work.

These standards, first of all, include:

- Abiding by laws, including banning bribing or receiving bribes or personal premiums for making deals or realisation of cooperation,
- Respecting human rights and workers' rights,
- Protection of health and personal security of their employees,
- Banning child labour,
- Prohibiting discrimination based on race, religion, sex or any other criteria as also prohibiting sexual harassment,
- Abiding by valid laws and standards of environmental protection, animal and plant species

Basic principles for procurement and relations with suppliers are defined in the Purchasing Guidelines, the fundamental document of the purchasing organisation of Atlantic Grupa, which is followed by the procedures, manuals and instructions describing in detail the specific areas of purchasing activities in Atlantic Grupa's operating companies. The Guidelines foresee that Atlantic Grupa's purchasing organisation takes only such actions and practices that ensure sustainable sourcing and procuring by helping reducing waste, improving environmental impact and protecting human and labour rights.

In this respect, several activities were taken during 2019 in cooperation with our suppliers, such as shifting the part of the sourcing of hens from standard cage-based hens farms to cage-free farming, or replacing multi-layer 50 kg sugar bags with 1000 big bags, as well as with the delivery of sugar in bulk, or recycling jute bags for green coffee instead of putting them into waste.

The purchasing organisation of Atlantic Grupa is committed to select only such suppliers that comply with these standards for conducting the business with our company. Monitoring standards and performance of our suppliers is challenging, but crucial to protect our business and our company's reputation, and, most importantly, our consumers who use our products. The common model for monitoring the Atlantic Grupa's suppliers was defined and established in 2014. The system includes unique criteria for approval, evaluation and auditing of selected suppliers, while intensive work was performed on the data collection and processing system, as well as on the evaluation and monitoring model based on the risk management model. In order to streamline a whole process of collecting, monitoring and evaluating suppliers' documentation on quality standards and certificates, Atlantic Grupa implemented in 2017 an on-line tool called Ecratum. This tool enables Atlantic Grupa to have a central repository of all required suppliers' documentation related to necessary quality standards and practices, such as FSSC 22000/ IFS/BRC, HACCP or GMP, ISO 9001, ISO 14001, ISO 50001. By this time, the vast majority of vendors have started using Ecratum as a platform to share such certificates and documents with us, which contributes to the transparency of business operations and of the criteria for selecting suppliers.

The evaluation of suppliers is conducted once a year, and is generally based on two main criteria: quality and commercial terms and conditions. The evaluation based on quality of delivered materials and suppliers' quality systems is performed in the Quality Assurance Department.

Aimed at improving two-way communication, Atlantic Grupa encourages the existing and potential suppliers to use the online supplier portal available at the company's website. The portal contains information on goods and services which Atlantic Grupa is procuring, selection and awarding contracts procedures, etc. In addition, the portal provides the suppliers with the opportunity to share their suggestions for improving the relationship with Atlantic Grupa, the quality and functionality of products and services, and other aspects of cooperation.

Sustainability **risk management**

The corporate culture that Atlantic Grupa nurtures is reflected in our Quality Policy, confirming our commitment to the principles of sustainable development, economic efficiency, environmental responsibility and social responsibility. This means that, beyond complying with national laws and international standards, we are developing internal procedures and policies concerning the most material issues for our company as well as for our stakeholders, as we take into account local and global sustainability trends. Having high quality standards as our fundamental commitment, we are operating in ways that generate shared value for the community and help protect the environment for future generations.

In addition to macroeconomic conditions that largely dictate the trends in the consumption goods industry, in particular personal consumption as a component of the GDP, our company must consider major global risks such as the financial crisis causing the recession in Europe as well as in the region. While climate change and resource scarcity increasingly affect our business and social environment, we made a big step toward sustainability by expanding our concern for the environment from a local approach to the corporate level within a consistent Environmental Management System (EMS) based on three main pillars: environment and energy efficiency, people and society, and governance. With the consumers' expectations constantly growing, the development of the consumer goods industry is also largely influenced by the ability of companies to adapt to consumer needs and market trends, which in turn requires investments in research and development, innovation and technology. Finally, as a company, we are best positioned to create shared value by promoting healthy lifestyles to our consumers and the community in which we operate.

In response to the main challenges, our sustainability commitments are deeply implemented in our core business:

- Risk control is implemented in the process of designing and developing or improving product when it comes to the use of raw materials, components or substances that may jeopardize or jeopardize human health. In Atlantic Grupa, procedures with the purpose to assure safety and conformity of any new or improved product are in place. There are many internal demands that must be followed in terms of legal and sustainable aspects in order to assure the production of safe foods. Furthermore, we are committed to developing new product recipes in order to improve our products and support healthy eating habits of our consumers.
- When conceptualising, planning and designing new products, in addition to the aforementioned, the environmental aspect and the sustainable development aspect also have to be taken into account. Through the careful selection of raw materials and packaging materials, we can reduce environmental impacts throughout the entire life cycle of the product – from raw materials to final disposal of the waste packaging after the use of the product.
- The extension of the principle of sustainable development is reflected in the relationship with our suppliers. By including environmental criteria in the process of selecting suppliers, we have expanded environmental care along our supply chain.

A few examples of applying these principles are provided below.

The strategy implemented by Atlantic Grupa in recent years, which focuses on reducing the environmental footprint, is showing significant results. In terms of production capacity, the amount of waste the company generates as part of its manufacturing and distribution activities has decreased by 18 percent over the last four years. In the same period, the amount of waste that loads landfills is halved. An excellent example as well is the reduction of water consumption by 5 percent over the last three years, which is the amount of water that could fill 10 Olympic pools. In addition to self-raising the ladder, it is also important to encourage partners and consumers to act responsibly towards the environment.

ATLANTIC GRUPA

Argeta has made a big step by moving from classic to aluminium packaging, reducing its carbon footprint and waste. In the coffee category, Barcaffé boasted innovations in packaging production, consisting of 70 percent renewable sources and a reduction in the weight of packaging, resulting in a 63 percent reduction in greenhouse gasses emission. Taking care of the sustainability of natural resources is a guiding principle in the Donat Mg brand strategy, which is filled with as much natural mineral water as it flows out of its own source, and continuous monitoring of groundwater levels ensures the availability of resources to future generations. An innovation that is being intensively worked on in Donat is the development of filling in 100% recycled plastic packaging. Cedevita, in turn, has announced that it is moving to new packaging in 2020, reducing packaging waste by 180 tonnes and carbon footprint by 269 tonnes of CO_2 emissions annually. Sustainability aspects have traditionally been linked to the Cockta brand, which is special in its authentic taste based on plant extracts and natural CO_2, and boasts that it contains neither artificial flavours nor caffeine.

We have integrated our commitment to corporate social responsibility into our business activities based on external initiatives, and we are actively participating in their further expansion to markets where we operate.

In 2007, Atlantic Grupa joined the United Nations Global Compact by committing to support the ten universally accepted principles with respect to human rights, labour, environment and anti-corruption. The UN Global Compact and Global Reporting Initiative (GRI) signed an agreement in May 2010 to align their work in advancing corporate responsibility and transparency. According to this agreement, GRI is developing its reporting guidelines to integrate UNGC issue areas, while the UNGC adopts GRI Guidelines as the recommended reporting framework for the businesses that have joined this world's largest corporate responsibility platform.

Atlantic Grupa in Serbia is one of the founding members of the Responsible Business Forum – the first and only network of companies in Serbia dedicated to social responsibility – whose activities contribute to further development of socially responsible projects and exchange of experience on the current practice. In the period 2013–2015, a representative of Atlantic Grupa held a position in the Governing Board of that Forum.

In Croatia, Atlantic Grupa is a member of The Croatian Business Council for Sustainable Development (HR BCSD) since 2005. The said business association gathers companies in a joint mission of seeking solutions for growth, by balancing business success, social well-being and environmental protection.

Human resources
in 2019

People strategy in Atlantic Grupa has three main directions currently employed by the People and Culture Department: simplicity of organisational design and processes with the consumer at its heart, selection and promotion of authentic leaders who insist on personal accountability and building relationships with employees as individuals who are provided with opportunities for growth and development. Key people strategy implementation principles are simplicity, impact and humanisation.

In 2019, the Department in charge of taking care of the company employees underwent reorganisation in order to provide greater support to the business. Fostering a credo that our people are not just a resource but rather are investors who have made the conscious decision to put their energy, time and knowledge into the continued development of Atlantic Grupa, the Department has adopted a new name: People&Culture, to better reflect Atlantic's strategic guideline focusing on people. With the desire to additionally award our employees, we implemented the ESOP programme as an option that was accepted by 126 employees.

People&Culture contributes to the achievement of diverse dimensions of organisational effectiveness. Some of the most important dimensions are the gaining and maintaining of competitive advantage, as well as the fostering of positive organisational culture amongst all employees. A good and strong corporate culture is a key factor that leads to the company being more than "just a workplace" for its people, to the products being more than just "a need", to contributions to the community and society being more than "just a donation". Consequently, Atlantic Grupa places emphasis on communication and promotion of corporate culture. Communication is conducted through various internal and external communication channels (intranet, corporate website, LinkedIn profile, office layouts, etc.) and also through various inspirational programmes and the fact that all HR processes are interconnected and have a strong link with company values – Growth, Passion, Openness and Care.

GROWTH:
CREATING NEW VALUE

Because we always aspire for more we have an appetite for a steady and stable growth. We are stepping out of our comfort zone, always hungry for the next challenge, we strive to see our brands, markets and profits grow and our employees develop.

CARE:
CREATING A BETTER ENVIRONMENT

We are a company that cares - we take care of each other, we care about the well-being of our colleagues, we care about business relationships and we care what kind of world we are going to leave to the generations that come after us.

PASSION:
CREATING WITH ENTHUSIASM

It's not just what we do, it's how we do it. Like a special spice, the passion we put into our work makes us stand out and accomplish better results. Dedication is the secret ingredient that we use to make our products better and our future brighter.

OPENESS:
CREATING BETTER WITH OPEN MINDS

Whatever we do, we never stop being curious, always fearless (you can learn even from mistakes!) and thirsty for new ideas and new experiences. We embrace diversity, and different opinions knowing that they will lead us to better solutions of everyday tasks and challenges.

During the last year we put a strong emphasis on well-being, providing care for our colleagues as complete persons, not just as employees or as workers. Aware that the workplace is not the only factor comprising their personality, but that numerous other aspects, such as private life, personal interests, desires, perspectives and worldviews also play important roles, we approach each colleague holistically, taking into account everything that, together, makes their personality.

Be Well programmes appreciate the diversity of people's needs. They support the integrity of a person, nourish the fulfilment of living. We have conceptualised and implemented a range of initiatives in four pillars that, when in balance, comprise a wholesome individual: Atlantic Body - free medical checks for all employees, over 20 independent sports clubs organised with the support of Atlantic Grupa, sports weekend; Atlantic Mind - personal finances, healthy lifestyle, mental health workshops and education; Atlantic Soul - Value Day (volunteering), solidarity help for employees, Creative Impulse, free 1st day of school for all parents of first-graders, kids at work; Atlantic Spirit: flex time and place, sabbatical, engagement survey.

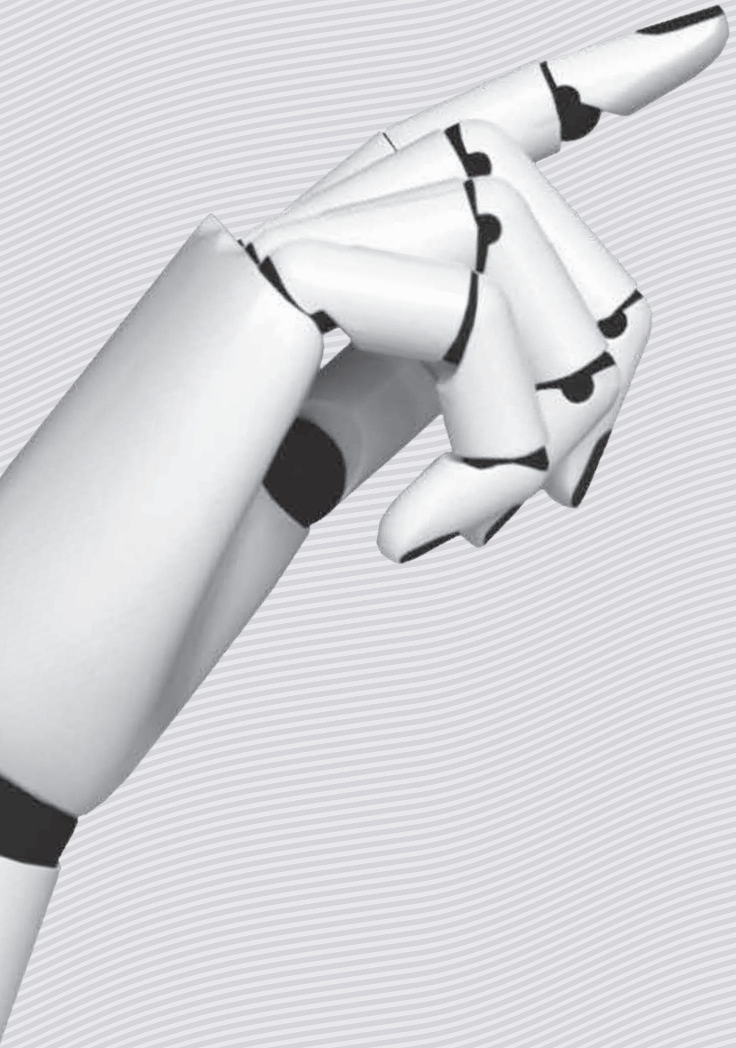
For this investment in people, and the results it brought, Atlantic Grupa was recognised with the Comeleon award by an international jury for the Be Well programme as the best in the field of organisational culture and organisational transformation. Furthermore, the results of the fifteenth consecutive survey of first choice employers carried out by the portal MojPosao by more than 20,000 participants confirmed that Atlantic Grupa is amongst the TOP 5 most attractive employers in Croatia according to public opinion in 2019. According to the results of "Zlata Nit" (Golden Thread) awards, organised by the Slovenian Dnevnik, Atlantic Grupa was selected as the best employer in 2019, while Nataša Bazjak Cristini, Regional HR Director, received the award for the Best HR Manager of the Year from the Slovenian HR Association.

In Serbia we are in the TOP 10 Top of the Mind employers by independent research as carried out by Deep Dive. Five awards were received in Best Employer Branding in Croatia, amongst which is a Grand Prix for successful strategic management in this area as well as strong capacity for cross-functional cooperation in delivery of the same.

Underlining outstanding quality in people management Atlantic Grupa achieved 99% of the points in CEP certification for excellence in people strategy, recruitment and selection, performance management, talent and development and employee relationships. This high certification result was achieved in all markets where Atlantic Grupa operates, placing us as No. 1 Employer Partner (poslodavac partner) in the region.

The Talent and Development Department offered an array of digital education throughout 2019. DOT Native ensured all employees built up essential consumer centricity and marketing skills, while SquaredOnline provided marketing experts with an advanced strategic management overview. Access to the LinkedIn Learning platform provided wider development opportunities, enabling employees to gain knowledge from a vast range of education for professional and private development. At the Learning Disruption conference, Atlantic was rightfully recognised amongst the TOP 3 companies in the region for successful digital transformation in the area of education.

Since 2012, the mandatory Atlantic Leader Academy for newly hired or promoted managers has provided a basic set of managerial skills but, as we know, learning never stops. The Atlantic School for Managers, which started in 2019 encompasses simpler and lighter, extra curriculum workshops, inspirational lectures and education on current trends. These help our leaders in further managerial development, staying up to date with global streams and personal growth.



Information technologies in 2019

In the field of digital transformation, 2019 marked another year of major technologically influenced developments in all major segments of the organisation. The AG approach to digital transformation aims to achieve process automation, advanced data usage, strengthening operational excellence, increasing overall efficiency, reducing operating costs, higher service level through higher speed & accuracy, as well as better customer experience and engagement with a particular focus on creating an environment that will adopt and use new technologies.

Associated activities were structured through two streams of action: line IT department activities where majority of infrastructural projects are executed and through the agenda of Digital Council, body of senior leaders responsible for digital transformation in their fields of responsibility, where development of IT systems landscape brings majority of business improvements.

Successful implementation was ensured by heavy involvement of the Department for Transformation and Information Technology with prescribed project management methodology, dedicated project steering committees and clearly set project targets, supported by the toolkit of MS Portfolio and Project Management Solution.

For the area of IT infrastructure, 2019 was the year of full utilisation of Atlantic Grupa's private cloud, network enhancements in capacity and speed and infrastructure consolidation projects. The Unified Communication project was successfully driven to the closure with all Atlantic Grupa offices now benefiting from the IP-based voice, video and general data exchange based collaboration with associated cost reduction by termination of „classical" telephony. User's experience with IT services as a focus topic was managed and improved via additional investment and development of IT Service Management tools.

Special attention was kept on IT security topic with additional enhancements and investments in that field.

Business needs driven IT systems development made 2019 a busy year.

Core system area of ERP was marked by successful go-live of SAP ERP in SDU Serbia. Implementation lasted through most of 2019 and covered not only SAP but the whole distribution business IT ecosystem.Production companies took another efficiency project onboard with the first implementation of the Group solution for Power Management through the Schneider system.

In logistics and warehousing, multiple technology driven projects brought increased customer service level, significant gains in internal efficiency or support for the further business growth: shipment digitalisation in SDU Croatia, Warehouse Management System implementation in SDU Macedonia, while 3PL (3rd party logistics) enabled new warehouse in Velika Gorica to operate as a fully functional 3PL provider. Cooperation with Gideon Brothers company for new generation autonomous robots was a successful entry into next generation logistics.

Several projects related to business planning process were implemented throughout the year, using IBM Planning Analytics as the standard Atlantic corporate planning platform. At the same time, strong emphasis on analytics and reporting capabilities on both local and corporate level continued in 2019. Standardized group analytics solution was further rolled out to additional markets; additional machine learning and AI experts strengthened Atlantic Grupa's internal IT team.

In the fields of marketing and sales, Atlantic Grupa launched 2 webshops under brands of Barcaffé and Farmacia, while the process of new product development was standardised and digitised through Microsoft technologies based solution.

Financial domain focused on process automation> 8 processes were robotised via first implementation of RPA technology, whereas treasury management was enhanced with the implementation of a dedicated tool.

Internal user's experience was a strong focus of HR field, where e-learning solution and first implementation of chatbot technology for better employee service delivered attractive solutions for such agenda.

In fact, process optimisation was the focus topic for the whole company. During 2019, Atlantic Grupa has started a comprehensive design and reengineering of business processes in preparation for the transition to SAP S/4HANA. The aim of the project is to harmonize and standardize processes from an end-to-end perspective, design improved processes building on best practices and leveraging new technology. The project is planned to finish by summer 2020.

Business operations of Atlantic grupe

STRATEGIC BUSINESS UNITS

Strategic Business Units produce and develop brands which have, through continuous development of new and innovation of existing products, secured leading market positions not only in Croatia and the region, but also in European Union and CIS markets. After divesting the last portion of business operations related to the Sports and Functional Food segment in April 2019, Atlantic Grupa's business operations concerning the company's product portfolio were, during the remainder of 2019, organised through Strategic Business Units - Coffee, Beverages, Snacks, Savoury Spreads, and Pharma and Personal Care.

Strategic business unit **Coffee**

The Strategic Business Unit Coffee (SBU Coffee) has again this year successfully addressed all challenges and retained its leading positions in the region. Atlantic Grupa is the leading coffee producer in the region and a market leader in the category of roasted and ground coffee in Slovenia, Serbia, Bosnia & Herzegovina and Macedonia. Key business strengths are strong brand portfolio, product and regional know/how, flexible business operations and high quality product portfolio in the categories of roasted and ground, instant and espresso coffee. The leading brands of SBU Coffee are Barcaffé, Grand Kafa and Bonito.

SBU Coffee, as Atlantic Grupa's largest business unit, in 2019 generated sales revenues in the amount of HRK 1,136 million, which represents 21% of the Group's total turnover, that is, 23,416 tonnes of coffee sold in 2019, which makes us the dominant leader in the region.

Key markets in 2019 were Serbia and Slovenia, accounting for 47% and 28% of sales, respectively, followed by Bosnia and Herzegovina (10%) Croatia (7%) and Macedonia (6%). Exports to other markets in 2019 posted a record-setting result with a 9.1% value growth compared to the previous year. We have achieved record results and growth in key segments across most markets, which is in line with the goals of the overall business strategy. Sales in coffee categories are dominated by roasted and ground coffee, followed by espresso coffee, instant coffee, and Black 'n' Easy, which is continuously growing every year.

In Serbia, Atlantic Grand retained its leading position in the segment of roasted and ground coffee with a 53.5% market share. In the category of roasted and ground coffee, Grand Kafa retained its position of the number one brand with a 35.5%[1] market share, while Bonito was the number two brand with a 17.9%[1] market share. Grand Black 'n' Easy, with a 10% volume growth compared to 2018, achieved market share growth, in terms of both volume and value, despite the entry of competitors in the market.

In Slovenia, Atlantic Grupa retained its leading position in the coffee market. Barcaffé remained the leader in the segment of roasted and ground coffee with a 77.8%[1] market share. Barcaffé Black 'n' Easy recorded strong volume growth of 46% compared to 2018, resulting in a record-high market share of 16.2%[1] in November in the category Black Cup.

In Croatia, the brand Barcaffé in 2019 shared the second market position in the category of roasted and ground coffee, and in November achieved a record market share of 20.2%[1]. Barcaffé Black 'n' Easy retained its stable market share during the year despite the entry of competitors in the market and realized a 16% volume growth compared to 2018.

Barcaffé Espresso recorded a 9% value growth compared to 2018, and it is present in 3,500 HoReCa facilities across the region, which is a number that will be significantly increased in the coming years. Positive sales results were achieved through portfolio mix transformation, a new visual identity visible in the product packaging redesign, and standardised materials for branding HoReCa facilities.

In line with new consumption trends, SBU Coffee is strongly developing Barcaffé&Go, a modern and trendy concept that provides freedom of movement together with excellent quality of Barcaffé Espresso. A 5% volume growth was recorded in 2019, which translates into outstanding 13 million drinks sold through Barcaffé&Go and partner sales concepts (Kava na poti Petrol and Mminute Mercator).

Both the growth of market shares and retention of leading positions were facilitated by strong marketing campaigns and numerous activations in all markets, as well as the development of new products and rebranding of existing ones.

With the aim of reviving and modernising the category of roasted and ground coffee, SBU Coffee launched a regional communication campaign called "To je kava" (That's Coffee). This year SBU Coffee offered its consumers a completely new experience of enjoying coffee in the form of Fresh Corners in the markets of Croatia, Slovenia and Serbia. The category's modernisation was also influenced by the redesign of the

[1] Source: AC Nielsen

23,416
TONNES OF COFFEE SOLD

THE SBU COFFEE GENERATED SALES OF HRK
1,136
MIILION

entire Grand Kafa portfolio, which received a new design in elegant, matt packaging. The category of roasted and ground coffee was enriched with new products, Grand Kafa Strong and Barcaffè Single Plantation.

SPP Kava prateći svjetske trendove konzumacije kave ove godine je ušla u novu kategoriju hladne kave sa brendom Barcaffè Lattiato i tri ukusa: Irish Cream, Vanilla i Toffee Caramel, koji su ispunili očekivanja i bili dobro prihvaćeni na većini regionalnih tržišta.

Following global trends in coffee consumption, this year SBU Coffee entered into a new category of cold brew coffee with the brand Barcaffè Lattiato in three flavours: Irish Cream, Vanilla and Toffee Caramel, which met the expectations and were well received in most regional markets.

The first e-commerce platform within Atlantic Grupa was developed in SBU Coffee for the market of Croatia, namely for Barcaffè Perfetto capsules in October 2019. In this way, through our and external partner online platforms in some months we reached a share in the total sales of capsules of up to 10%.

In 2019, Black 'n' Easy augmented its current portfolio with a new product – Black 'n' Easy Milk. A new creative platform "Prava turska, spremna za minut" (Real Turkish, ready in a minute) was successfully launched this year. According to the AdTracker measurement criteria, the TV advertisement in this campaign was evaluated as a best practice example within Atlantic Grupa. In the market of Serbia, Grand Black 'n' Easy also won an IAB MIXX award for the best digital video campaign of the year.

In 2019, the Barcaffè espresso family was joined by Barcaffè Divino Single Origin India, super-premium blend, while for retail purposes Barcaffè espresso launched three new products - Barcaffè Esperto, Classico and Cremoso.

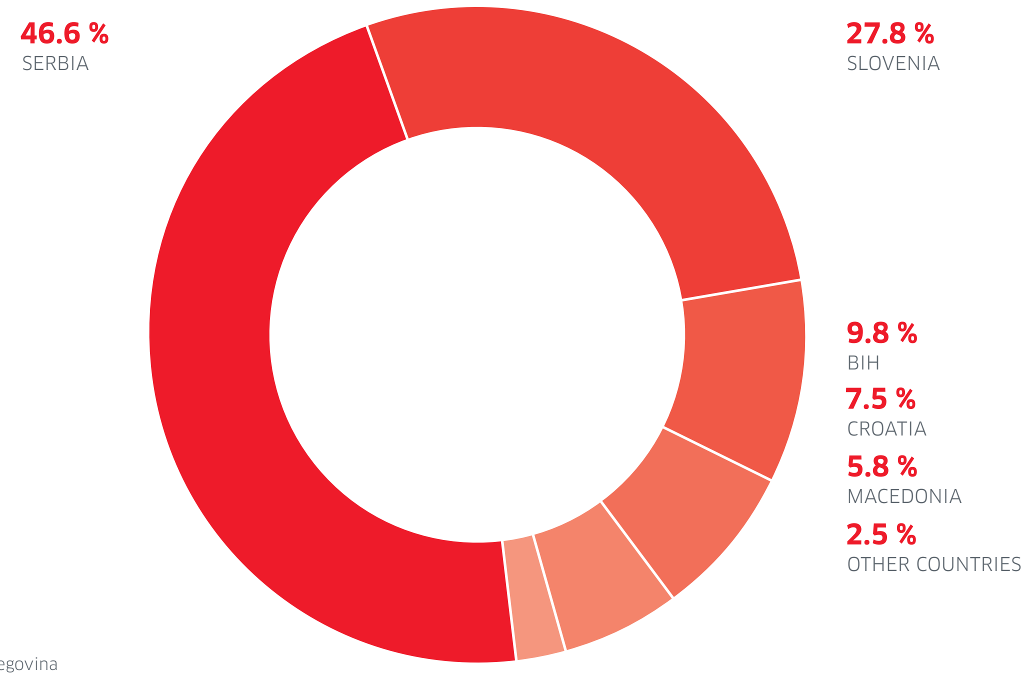
In the espresso category, Barcaffè is building the position of a regional leader and expert in the category by launching a regional campaign Barista Cup, the first regional latte art competition. The quality of Barcaffè blends was recognised at the International Coffee Tasting competition in Milan organised by the International Institute of Coffee Tasters, where Barcaffè espresso won two gold medals for its blends Barcaffè Tradizione and Barcaffè Prestigio.

In 2019, capital expenditure in the amount of HRK 30 million was focused on production-related technological innovations and market development. As part of our strategic focus on growing categories, in 2019 we invested into new production facilities, lines and equipment which, in addition to increasing operational efficiency, resulted in the creation of new jobs.

The raw coffee market in 2019 experienced a decline in raw coffee prices compared to the previous year, primarily due to a record harvest in Brazil. The lower price of raw coffee was partially neutralised by the stronger dollar, which ultimately resulted in a 5% decrease in the average price compared to the previous year. Highly volatile prices of raw coffee and of the U.S. dollar indicate the dynamic business conditions for SBU Coffee.

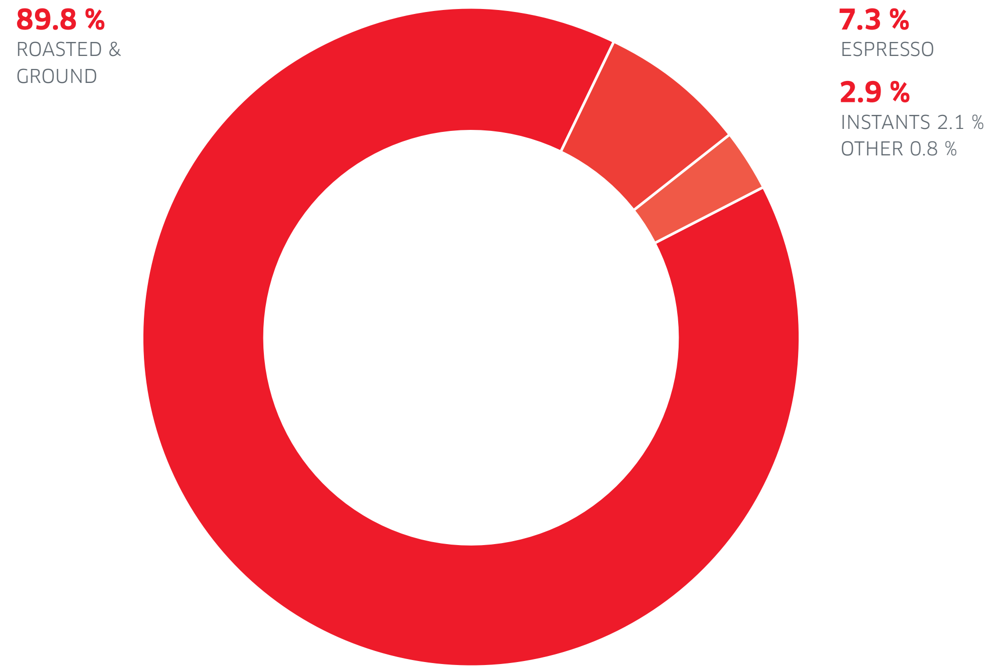
With solid foundations in the defined strategy, SBU Coffee continues to maintain its leading market positions in the category of roasted and ground coffee, while at the same time focusing on achieving higher shares in the growing categories of espresso coffee and instant coffee, as well as in the on-the-go segment.

SALES BY COUNTRIES



BIH Bosnia and Herzegovina

SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic business unit **Beverages**

The Strategic Business Unit Beverages (SBU Beverages) is continuously achieving successful business results due to the flawless quality and competitiveness of its brands: Cedevita, Cockta, Donat Mg, Kala, Kalnička, Jupi, Tempel and Karađorđe. The wide assortment of products under these brands and different product categories, such as instant vitamin drinks, beverages, carbonated and non-carbonated water and candies, is realised in four production facilities, two in Croatia, and one in Slovenia and Serbia.

In 2019, SBU Beverages generated sales revenues in the amount of HRK 747.8 million, which is a 5.2% increase compared to the previous year. The majority of sales still comes from countries in the region (90.6%), with the highest share of 37.5% in the Croatian market. As regards the sales structure according to brands, Cedevita accounts for 43.9% of sales, followed by Donat Mg with 25.6%, Cockta 20.3%, waters 6.0%, pressed candies 3.4% and 0.8% accounting for the rest of the assortment. Sales growth was achieved in the retail channel (by 5.5%) and HoReCa channel (by 2.7%) in which, prior to delisting the segment of HoReCa waters, organic growth amounted to 4%.

Sales growth in the region was spurred by growth in the markets of Croatia (5%), Slovenia (4.2%), Serbia (3.2%) and BiH (4.7%). These results were realised primarily due to excellent growth in sales of the redesigned Cockta, which in the second year from its launch on those four regional markets achieved a 16.6% growth. The trend of higher sales compared to 2018 was continued in the markets of Russia and Ukraine. Sales in Russia grew by 16.6%, while sales in Ukraine grew by 34.2%, primarily owing to the brand Donat Mg. Sales growth was also achieved in the markets of Austria, Italy, Germany, Sweden, the USA and Belarus.

The total sales of Cedevita brands in 2019 recorded a 3.8% growth compared to 2018, whereas the highest growth of 5.8% was achieved in the HoReCa channel, 2.3% in the sales of at-home instant drinks, while the sale of the OTG segment remained at the last year's level.

Even after 50 years of popularity, Cedevita continues to confirm its status of a market leader. By strategic repositioning of the brand and its continuous growth, Cedevita confirms that it can successfully compete with leading regional brands in the overall category of beverages. The proof of this lies in a certainly commendable leading position in Croatia and Slovenia in the category of soft fruit drinks[2]. This year was certainly special for Cedevita. Not only did it celebrate its 50th birthday, but also launched a new creative platform. It is a manifest communication called "Okus Generacije CE" (The Taste of Generation CE), which was inspired by Cedevita consumers. The CE generation is the only generation that does not identify with their year of birth, but with a positive state of mind, emphasizing that the essence of life is found in sharing moments with others. The success of the company Cedevita was also confirmed by the award "Zlatna kuna" (Golden Kuna) given by the Croatian Chamber of Economy, which is a valuable recognition of successful business results, as well as of its contribution to the Croatian economy as a whole.

In 2019, the total sales of Cockta grew by 14.6% compared to 2018, which was the first year of launching the new design. The last year's growth of Cockta in the HoReCa channel was this year continued in the retail segment, where the overall growth in this segment amounted to 25.9% compared to 2018. Following the trends and the growing consumption of beverages in cans, at the beginning of spring 2019 Cockta launched a 330 ml can, which is different but still retains its now recognisable design that defies the rules of this category.

Considering the fast growing trend of consumption of sugar-free carbonated drinks and a healthier lifestyle, a new product Cockta Free was launched at the beginning of 2019. Cockta Free achieved excellent results in a short period, especially in the retail channel where it contributed to the brand's significant sales growth. This positive result is attributed primarily to the quality taste, which was well accepted by consumers of Cockta Original as well as consumers in the sugar-free cola category. This is followed by adequate positioning through a "one brand" strategy, which means that Cockta Original and Free share the same marketing USP – the identical legendary taste based on plant extracts. In other words, by laun-

[2] Source: AC Nielsen

CEDEVITA

Cockta

Donat Mg

Kala

KALNIČKA

~

THE SBU BEVERAGES GENERATED SALES OF HRK

747.8

MILLION

25.9%

HIGHER SALES OF COCKTA IN THE RETAIL SEGMENT COMPARED TO 2018

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ching Cockta Free we provided consumers with a choice of enjoying the legendary taste with or without sugar. Finally, the success of Cockta Free is also attributed to its attractive and authentic design. This is the first white label in the category of carbonated soft drinks in the region, with which we have once again brought something new and different to the market. At the digital marketing conference, the expert jury, which evaluated a total of 132 projects, honoured Cockta with four WEBSI awards: general online - Cockta Legends, best digital campaign - "Tvoja Cockta, tvoja stvar" (Your Cockta, your thing), best global digital project - Cockta Legends, and content marketing - Cockta Legends.

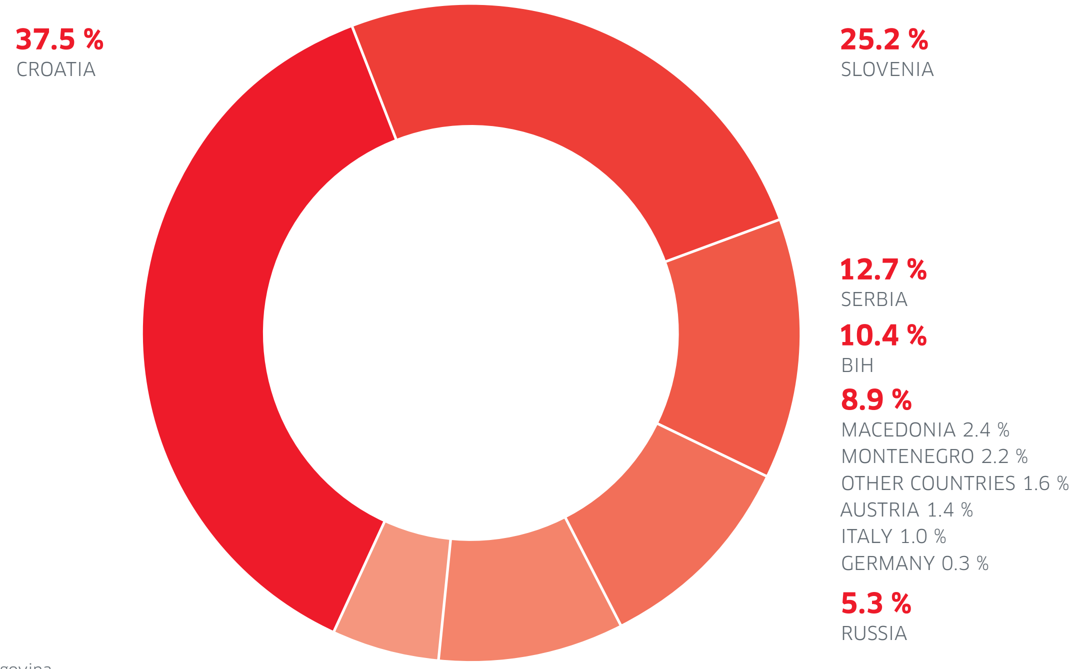
In 2019, the sales of Donat Mg increased by 3.5% compared to 2018. This growth was primarily spurred by higher sales in the markets of Russia and Italy. In 2019, Donat continued to increase awareness of the brand through the communication platform "Tajna briljantne probave" (The secret of brilliant digestion). Additionally, the Donat Mg Detox programme was refreshed with a new digital platform designed to attract younger consumers. Donat Mg Detox web interface recorded a 23% higher annual turnover, and since the launch of the Detox programme three years ago, we have gained 86,000 participants in the Detox community and processes. The Donat Mg team continues to invest in and maintain medical marketing activities for the purpose of informing professionals, as well as their clients, about the positive effects of Donat Mg. At the Slovenian digital communications festival - Diggit 2019, Donat Mg received a Grand Prix award for digital marketing strategy, and also received a special recognition for communication via social media for the activation of Donat Mg Detox content.

Furthermore, during 2019 accredited audit firms, through both announced and unannounced (in Apatovac and Rogaška) annual audits, confirmed the high level of quality and environmental management systems in compliance with the strict international standards (ISO 9001, 14001, HACCP, FSSC 22000, ISO 50001). SBU Beverages continues to develop and improve the processes of minimizing negative environmental impacts by reducing water and energy consumption and reducing waste generation during handling of source and raw materials, which raised ecological awareness and responsibility of employees to a new level.

The decline in sugar prices on the global and EU markets during 2018 continued in 2019 as well. This positive price trend resulted in more favourable contracted and realized white sugar prices in 2019. Consequently, the overall financial impact of source materials was significantly more favourable than in the previous year. With regard to packaging, there were no significant price changes compared to 2018.

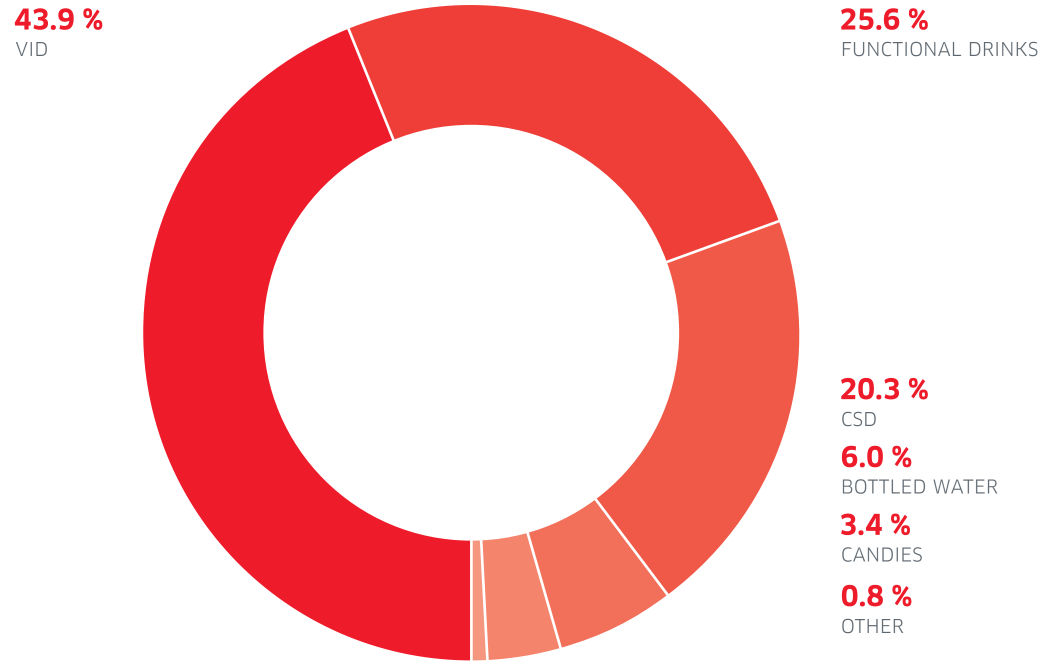
In addition to constant investments in improving production sites and conditions, several capital investments in the production equipment in the amount of HRK 30 million should be noted. The largest individual investment is in an additional production line in the VIn/HoReCa segment and completion of the investment in Cedevita's new production line in the OTG segment, for which we received incentives in the previous year.

SALES BY COUNTRIES



BIH Bosnia and Herzegovina

SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic business unit **Snacks**

The Strategic Business Unit Snacks (SBU Snacks) operates under the legal name Atlantic Štark d.o.o. with 1,130 employees in two production plants in Serbia (Belgrade and Ljubovija).

The sweet production programme includes the categories of chocolate products, cookies, tea biscuits and wafers, while the salty production programme consists of snacks such as extruded products (flips) and salty long-lasting biscuits (sticks).

The SBU Snacks' record-setting trend of higher sales in previous years was this year limited by unfavourable macroeconomic conditions and political barriers in the market of Serbia. The imposing of 100% customs on exports of goods to Kosovo, as well as the failure to reach a commercial agreement with the discounter Lidl, negatively affected the expected sales. Further, the strategic commitment to exit the chips category points to the fact that SBU Snacks would in normal conditions, even without these challenges, record a slight decline is sales in 2019. Regardless of limitations in Serbia, real growth compared to 2018 was achieved on the markets of Slovenia, BiH and Macedonia.

Analysed by geography, there were no significant changes, so the domicile market of Serbia remained dominant with a 66% value share. There were also no significant changes in the production programme structure. Sales growth was achieved by strategic brands of chocolates and flips, maintaining their status of the most important categories with a total value share of 63%.

In the context of interpreting sales results, it is worth noting the project "Trade Excellence" as support to sales improvement in the channel of independent retailers in the market of Serbia, where a team of 35 sales promoters was focused on positioning the product portfolio of SBU Snacks in 2,700 sales venues.

Specific activities were carried out in order to enhance business processes, such as merging certain production lines, rotating managers, implementing competence and efficiency improvement measures, and structural reorganisation of marketing and technological functions by forming a new sector Marketing and Innovation, which utilises a multidisciplinary approach to more flexibly respond to current and strategic business challenges.

During 2019, production included 445 products, while 20 new recipes were launched. Moreover, an exceptionally large number of "Limited Edition" products was developed (over 50), including both discount products for sales improvement and limited series for upgrading the brand image.

The key determinants in the production programme management are reflected in the redesign of strategic brands by enhancing their visual appearance, adjusting it to modern consumer population while retaining focus on the brands' recognisable visual elements, launching new recipes under the principle "inspired by" in response to the consumers' curiosity and the current trend of synchronized combining of different flavours, textures and types of products, and co-branding – a symbiosis of specific brands.

The redesigning of one of the oldest Štark brands, Smoki, has been successively performed for years. Now a step forward in modern graphic design has been taken by introducing the so called "smoki shape" element, which emphasizes the recognisable shape of the primary product. Smoki Fun, a sub-brand with a special visual identity, was extended with new products that come with unexpected mixture of flavours in an innovative sharing packaging. The concept "Smoki Fun Challenge Mix" has been adequately adjusted to the target group by promoting the sub-brand's core values: sociability, surprise, charm.

When it comes to the redesign of Prima sticks, a mild form of the redesign was applied, preserving a strong link to the previous graphic solution, primarily its range of colours. The brand's improved visual identity still keeps its focus on illustrating the product, but provides more successful solutions in terms of flavour distinction, also by introducing a novelty – displaying the percentage of peanuts as a unique selling point of filled salty sticks.

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NEW RECIPES LAUNCHED DURING 2019

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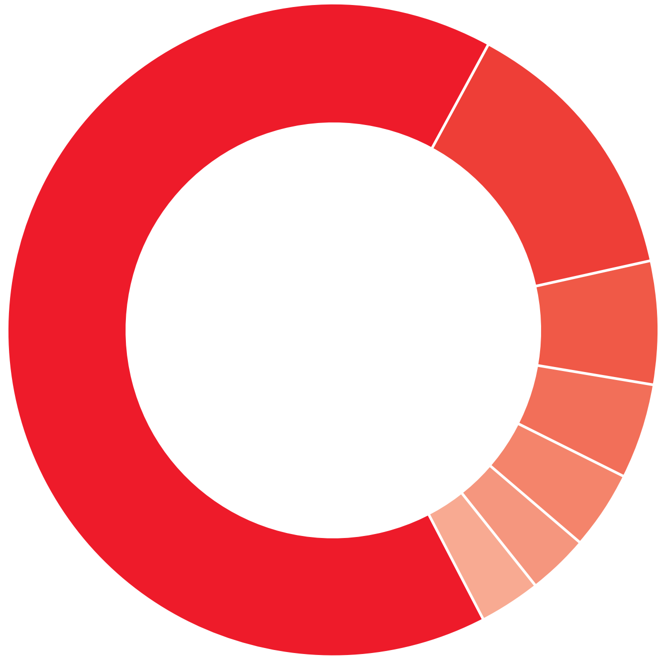
A multistructural concept of sweets was applied in the category of chocolates, combining chocolate with other categories like biscuits and wafers. Products were launched in bigger, gift-friendly packaging in line with the essence of the brand "take care of yourself or others through unexpected sweet pleasure". As the principal characteristic of the brand Najlepše Želje, care was emphasized through more active participation in celebrating the last year's World Care Day by organising PR & digital events for influencers who were introduced to the empire of chocolate in a direct way in the R&D laboratory, through workshops and opportunity to make personalised sweets.
By changing the form of the sub-brand Najlepše Želje Plus, the visual attractiveness of this chocolate was improved, and by launching seasonal products under the principle "inspired by ...refreshing cider drinks", it also obtained an opportunity for consumption in warmer weather conditions.

In the last year, approximately 40 individual and integrated marketing campaigns were implemented to support the launching of novelties or to contribute to long-term brand strengthening. In addition to standard forms of market communication, particular use was made of the Štark's retail channel. The possibility of direct contact with consumers and organisation of "in-house" events are an excellent opportunity for connecting the brand and consumers through memorable moments: Rubby Day (promotion of a new type of chocolate), Halloween, activations with Santa Clause (Instagram booth), etc.

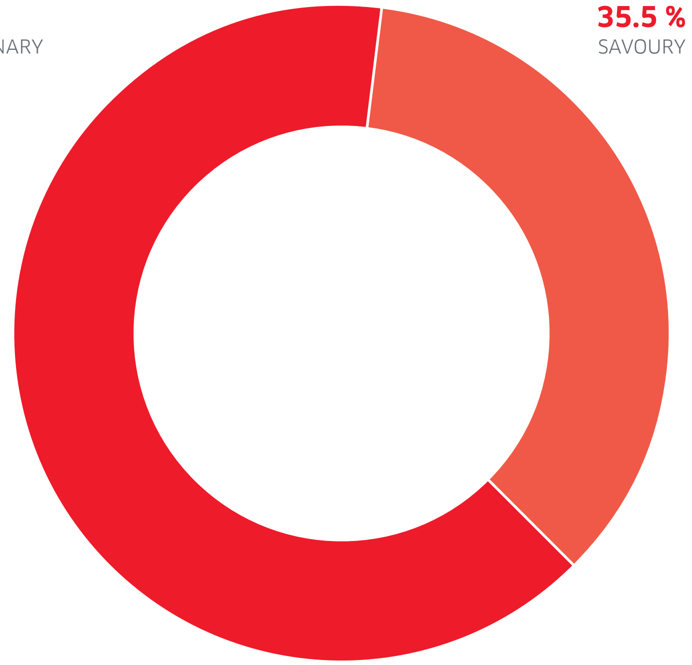
The capital expenditure in 2019 amounted to HRK 39.5 million with focus on improving the production conditions in strategic categories. The most notable individual investments are related to: improving the primary and secondary packaging system on the Smoki line, new production line for desserts that also increased the production capacity of the brand Bananica, and complete replacement of the fuel used by the production plant Ljubovija, an investment which was recognised as ecological awareness of the company that exercises environmental responsibility, which was confirmed by the certificate for the standard Energy Management ISO 50001:2011.

SALES BY COUNTRIES

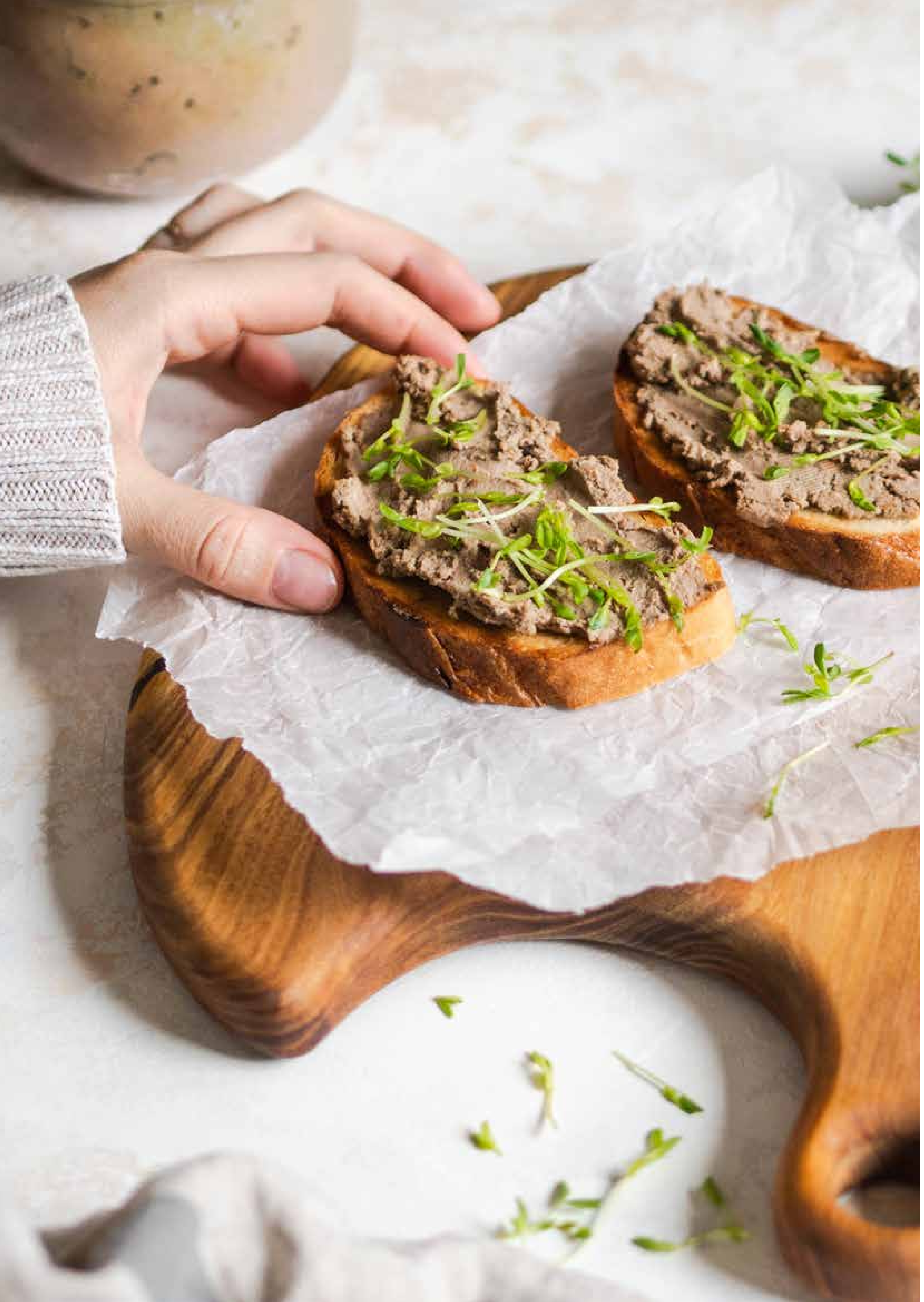


BIH Bosnia and Herzegovina

SALES BY CATEGORIES



Source: Internal Atlantic Data



Strategic business unit
Savoury spreads

The year 2019 was another successful one for Argeta. We achieved a 7.7% growth and the number of cans produced grew to 140 million per year, which means that 5 cans of Argeta pâté are opened every second. Argeta has successfully maintained market leader status in pâté category in the region, as well as in Austria and Switzerland. We are especially proud that we have gained volume leadership and strengthened our #1 market position in Croatia against strong local players. Furthermore, Argeta reached two important milestones – for the first time it surpassed 1500 tons of pâté sold in Slovenia, and a whopping 3400 tons in Bosnia and Hercegovina – an all-time high! In Slovenia and Bosnia and Herzegovina the consumption of Argeta pâté is 1,6kg and 1,4kg per capita respectively. Besides maintaining and strengthening Argeta's position in the region, record market shares were achieved in the past 7 years in all regional markets. Argeta's success was greatly extended to international markets where record shares were achieved in Switzerland, Germany, Netherlands and Sweden. On these markets, marketing activities largely focused on encouraging "first trial" and emphasizing Argeta's position as No.1 pâté in Europe (this recognition is based on Nielsen Retail Measurement data for the Meat Pâté/Spread category). These good results can also be attributed to a significant expansion of distribution in modern retail. Moreover, Argeta continued its breakthrough to the Polish market where it gained positive feedback from consumers and claimed a premium position amongst a plethora of competition. Argeta also received positive first impressions in a highly developed Spanish market where activities started at the end of 2019. In the USA and Canada, Argeta aims to strengthen its position and broaden the target market. In accordance with the internationalization strategy, Argeta is now present in 33 markets and planning on expanding its reach even further in the future.

In terms of Argeta's portfolio, "local taste" pâtés have been launched in Slovenia, Bosnia and Herzegovina, Serbia, Macedonia, Croatia and Kosovo. They were a result of spring campaigns where, in each of the participating countries, consumers were asked to vote for their favourite of the two suggested flavours created according to local tastes and preferences under the slogan "Sometimes you can do things your way". The winning pâtés were launched on their respective markets in autumn 2019. These campaigns had a massive response from consumers, reached high engagement levels and strengthened brand loyalty with a customer centricity approach. Moreover, hummus-based spreads that were already present on Slovenian, Croatian and Serbian markets, were successfully launched in Bosnia and Herzegovina in 2019, with a range of three different flavours. In the Junior segment, a new series of Junior Adventures e-books has been launched with many improvements in the user experience field. Junior Adventures are interactive e-books created in cooperation with developmental psychologists that offer edutainment stories for children aged 4-9, which also reflect Argeta's brand values of sustainability, socializing and bonding, spending quality time together, enticing empathy and environmental concern.

The Croatian and Slovenian markets celebrated another milestone – a 10-year anniversary of the Argeta Exclusive range, during which Argeta produced 11 different exciting flavours in cooperation with top chefs from Slovenia and Croatia with an aim of making the finest culinary experiences accessible to anyone who values quality, good taste and gourmet flavours. This jubilee was accompanied by special brand activities including a limited-edition duo-pack containing two of the most loved pâtés from the past Argeta Exclusive editions and with a view on the future, a long-term, socially responsible initiative Argeta Exclusive Academy where every year support and education will be provided for two young aspiring chefs, one from Slovenia and one from Croatia.

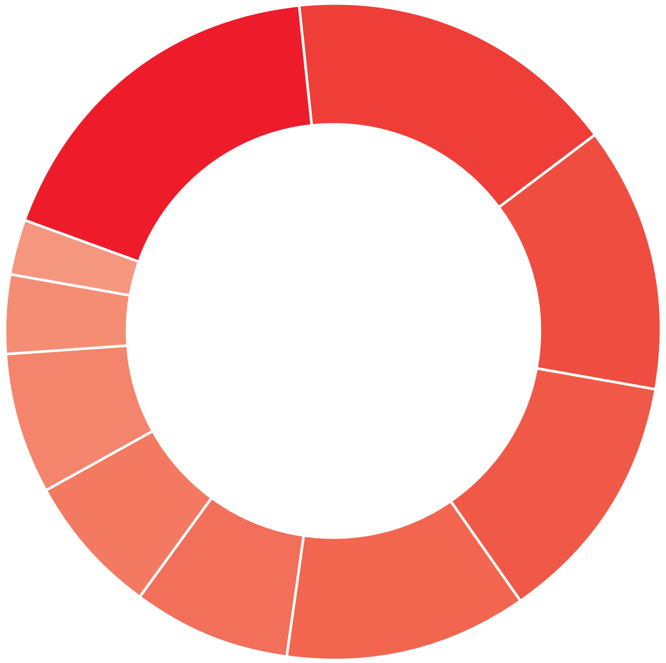
In 2019 Argeta was also recognised for its achievements by the wider marketing community. Argeta was acknowledged for its hummus-spreads campaign with an Effie award and two gold Semplers. It also got an Effie award for its long-term Junior strategy. Argeta was acknowledged for its digitalization efforts in terms of both the website and Junior e-books with various awards. It also received a gold Sempler for the VR CHEF experience, a VR culinary workshop done for the Argeta Exclusive range in cooperation with famous Chef Luka Košir. Additionally, Argeta was awarded the title of 'Most Efficient Brand' by Effie Slovenia. Droga Kolinska was awarded as well with the title of 'advertiser of the year' by the Slovenian Advertising Chamber (SOZ).

5 CANS
OF ARGETA PATE ARE OPENED
EVERY SECOND

In terms of price fluctuations, we have noted a moderate price increase of key raw materials compared to 2018. The biggest increase of the price increase index has been noted for packaging (transport packaging, product packaging).

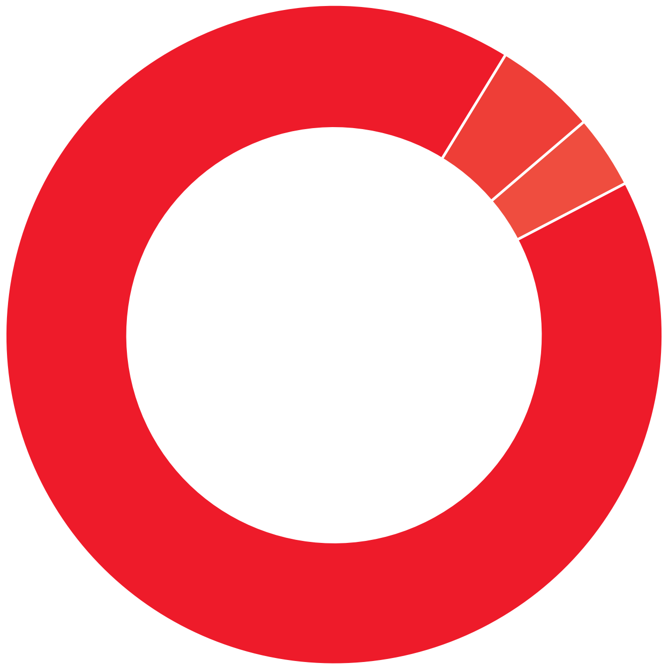
The capital expenditure in 2019 amounted to HRK 25 million. In accordance with established strategic goals, the biggest share of capital expenses in 2019 was dedicated to modernizing the production line and upgrading packaging machines.

SALES BY COUNTRIES



BIH Bosnia and Herzegovina

SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic business unit **pharma and personal care**

In 2019, the Strategic Business Unit Pharma and Personal Care (SBU Pharma and Personal Care) achieved total sales revenues of HRK 655 million, which is a 1.1% increase compared to the previous year. At the end of 2019, the company Fidifarm and the brand Multivita were, as part of the programme on focusing on core business operations, divested to PharmaS Group..

In 2019, Farmacia continued to open new retail locations and improve the operations of existing ones. A total of four new retail locations were opened: a pharmacy in Rakovec in the Zagreb County and one in Mandre on the island Pag, and two new specialised stores - in Pula and Zagreb. One additional unit was, through an acquisition, added to the pharmacy chain Farmacia as preparation for moving into the premises of the former specialised store in the shopping centre Avenue Mall Zagreb. At the end of 2019, Farmacia consisted of 52 pharmacies and 38 specialised stores. Total revenues of Farmacia amounted to HRK 453 million, which is a 9.8% increase compared to the previous year.

Farmacia decided to prove its quality in daily work processes, provision of complete pharmacy care in line with the individual needs of clients, and differentiation from other pharmacy institutions by providing unique additional services for clients in the form of specialised counselling centres, through an independent external evaluation.

The successful certification according to the requirements of ISO 9001 of Farmacia's pharmacies and specialised stores in 2019 has proven the effective management of processes and business changes, supervision of the provision of pharmacy service, all for the purpose of customer satisfaction, as well as meeting their needs and expectations. With its ISO 9001 certificate, Farmacia further distinguished itself from other pharmacy institutions, demonstrating the quality of its operations and the team spirit of all employees in order to achieve efficient application of quality criteria.

Farmacia continued to create and produce multibrand sets where, in collaboration with suppliers, it provides its end customers with a unique experience of getting to know and use products tailored in terms of their packaging, seasonality and price. The year 2019 was characterised by numerous "out of pharmacy" projects aimed at further raising awareness about a healthy lifestyle – for example, through counselling on sun skin care and the importance of sports activities in daily life.

ISO 9001
WITH ISO 9001 CERTIFICATE, FARMACIA DISTINGUISHED ITSELF FROM OTHER PHARMACY INSTITUTIONS

FARMACIA GENERATED SALES OF
453
WHICH IS
9.8%
HIGHER COMPARED TO 2018

Special attention was drawn by the first issue of the magazine Farmacia on the go, which successfully integrated the best aspects of offline and online projects, while the year was ended with the launching of Farmacia web shop. Other than offering shopping from the comfort of one's own home, this online experience also informs our customers about the unique services and a carefully selected product portfolio.

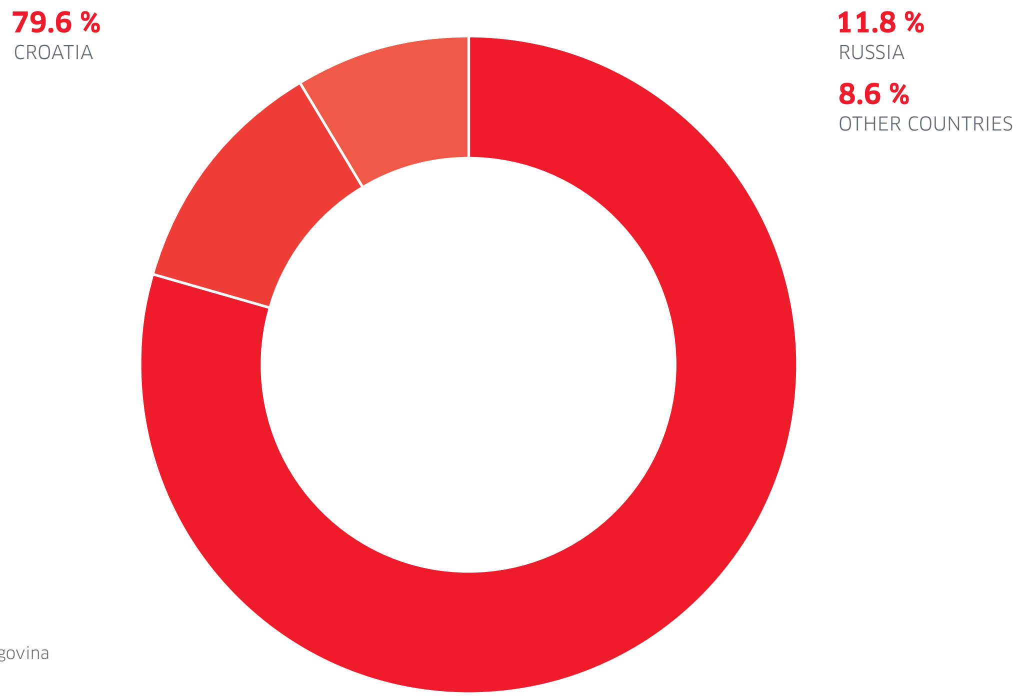
In 2019, the Farmacia Sports Counselling Centre "Kreni" (Go) Farmacia moved its limits towards users through year-round collaborations with racing clubs and schools, providing education on the importance of nutrition, knowing the needs and justification of using food supplements, and raising awareness of users on the importance of moving and preventive care in order to preserve health and enhance performance.

With its already well-known visual identity, the Farmacia Sports Counselling Centre links the user with the expertness of the pharmacy team, which becomes a partner of every active and amateur athlete and an indispensable source of advice. All of the above is provided from the perspective of a pharmacist and the pharmacy team in cooperation with a kinesiologist, which is a unique concept in the region based on leading scientific guidelines in the field of sports nutrition.

Fidifarm, which was sold near the end of the year, during 2019 achieved its objective of market consolidation in Croatia and the region in terms of maintaining the brand stability. The leading position on the Croatian market of food supplements with the brand Dietpharm was retained. Numerous innovations and launching of new products throughout the year have certainly contributed to this.

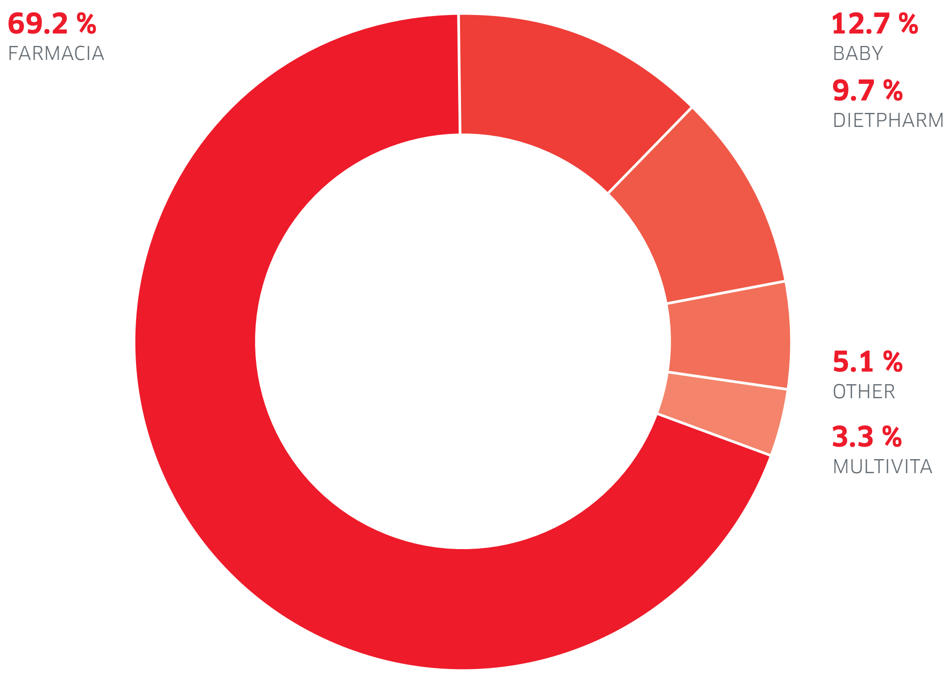
Operations of the Business Unit Bebi (BU Bebi) were merged into SBU Pharma and Personal Care in 2018. While most of Russian market segments still struggle with reduced purchasing power and decrease in value and volume, baby food category also showed negative dynamic in cereals segment in terms of value and volume. By very definition of the categories and reconfirmed with market researches - consumers are still rarely cutting spending on children but purchasing power is becoming very sensitive to the price which lead producers to have aggressive and permanent price promotions. For BU Bebi 2019 was a year of consolidation with modest sales increase of Bebi cereals comparing to the same period last year. The best results reached most important markets for cereals; Russia and Ukraine, while whole CIS declined mainly because of problems with Tajikistan distributer. Bebi team actively worked with main social media in the region which helped to achieve sales growth during advertising periods and built brand perception as safe, healthy product that babies like.

SALES BY COUNTRIES



BIH Bosnia and Herzegovina

SALES BY CATEGORIES



Source: Internal Atlantic Data

Strategic distribution units and Distribution units

The Strategic Distribution Units and Distribution Units have a highly developed know-how in the fields of distribution, key client management, product category management, supply chain management, trade marketing and sales improvement, which is continuously adapted to market trends. The primary activity of the Strategic Distribution Units and Distribution Units is to provide sales and distribution services for the entire product range from Atlantic's own production and the portfolio of external principals. The sales and distribution in BiH and Montenegro are organised in cooperation with the partner company Ataco.

STRATEGIC DISTRIBUTION UNIT CROATIA

In 2019, the Strategic Distribution Unit Croatia (SDU Croatia) generated sales in the amount of HRK 1,369 million and recorded a 8.2% growth compared to 2018. The continued focus on the best possible route to market coverage, extended product portfolio, and focus on improving the efficiency of internal logistics processes, along with new more competitive seasonal team recruitment models, resulted in a strong revenue growth, all of which together ensure a sustainable growth trend over the years. Indicative results show continuous sales growth compared to 2018, both in the retail segment (8.9%) and in the HoReCa channel (4.4%).

HIGHEST GROWTH OF
15%
ACHIVED IN THE DISCOUNT CHANNEL

The number of retail outlets has reduced by 6.3%, while the Atlantic Trade coverage grew from 90% to 92%, once again confirming its strategic direction of being the distributor with the deepest reach in the market. The market continuously shows an increased relevance of bigger formats (Hypers and Supers) due to deliberately increased promotion driven by the shopping footprint. The strategic imperative of market activity is the focused provision of an optimised product portfolio, while understanding the potential of a particular sales format. The sales results achieved in individual sales channels in 2019 show the following trends:

- the highest growth of 15% was realized in the **discount channel**, mostly due to the growth of the channel itself, and also because of improved trade marketing activities and inclusion of new products/product groups;
- an above-average growth of 12% was also realized in the **pharmacy channel**, primarily because of a higher number of retail locations within the channel and launching of new non-nutrition initiatives;
- the **kiosk channel** is the only channel that recorded lower sales (3%) due to the issues our partners are faced with on the labour market and the continuation of the process of closing unprofitable locations.

The HoReCa business performance growth was achieved through the successful Cockta redesign, consumer loyalty to the Cedevita brand, and an expanded professional service support for Barcaffé espresso customers. The HoReCa business segment continues to proactively seek new channels and portfolio opportunities in order to meet the market demands.

The main growth generators in 2019 were:

1) Growth in sales revenues of the key product categories:
   - **Fererro** as a result of launching new products with strong marketing support
   - **Mars** as a consequence of continuous focus on achieving the targeted depth and quality of distribution processes through all sales channels throughout the year
   - **Beverages** due to seasonal marketing initiatives and excellent sales of Cockta as a result of launching new packaging and the sugar-free flavour
   - **Savoury Spreads** due to substantial organic growth as a result of strong marketing initiatives and in-store activations.

2) The brands showed the capacity to, with adequate use of trade marketing tools, successfully optimise investments in customers.

3) At the beginning of 2019, a step forward in terms of infrastructure was made by starting operations of the newly built central warehouse in Velika Gorica. The significant increase in warehousing capacity resulted in optimisation of all key logistics operations, thus also contributing to increasing the quality of service provided to customers. The discharge centre for our suppliers and providers of such services was successfully established in all warehouses.
   The prerequisites for further standardization of logistics processes and testing of new technological solutions were achieved. Some of the digital transformation projects completed in 2019 were focused on increasing productivity and improving the logistics process flow, such as implementing the Yard Management System for control of inbound trucks and the Layout Optimisation Tool for achieving more effective commissioning route in order processing.

4) The horizontal trade market growth was supported by capital investments in the new coffee and cold beverages equipment.

STRATEGIC DISTRIBUTION UNIT SERBIA

6.6%

GROWTH IS GENERATED BY PRODUCTS FROM SPP SAVOURY SPREADS

The Strategic Distribution Unit Serbia (SDU Serbia) generated sales of HRK 1,264 million, which represents a 0.8% growth compared to 2018. The highest growth was recorded by products from SBU Beverages (3.2%) and from SBU Savoury Spreads (6.6%), as well as by products from principal brands Beam Suntory and Rauch.

The beginning of the year was marked by successful implementation of SAP ERP into all operations of Atlantic Brands.

The advancement and constant maintenance of Štark product portfolio positions in the channel of independent retailers was realized through the project "Trade Excellence". A team of sales promoters was focused exclusively on the SBU Snacks' product portfolio with clear goals to improve impulse positions and secondary display locations, increase Smoki's market share, further improve and preserve market positions of chocolates, biscuits and wafers while implementing a loyalty programme in over 2,700 top-quality sales venues.

Najlepše Želje in 2019 reached a 100% weight distribution according to Nielsen data, thus becoming a second Atlantic brand after Smoki to achieve such a result.

The excellent result of direct distribution of Red Bull in 2018 were further improved in 2019 by distributing to more than 11,000 delivery points in both sales channels.

Nielsen recorded a numeric distribution growth in the market of Serbia for most of our brands, in particular Argeta (6%), Cedevita VIN (8%) and Cedevita GO (6%). This growth is a result of diversifying small format distribution.

Near the end of the year, a new distribution agreement was signed with the leading regional detergent manufacturer Saponia and the confectionery industry Kandit that ensures business growth in 2020.

STRATEGIC DISTRIBUTION UNIT SLOVENIA

5.8%

GROWTH IS GENERATED BY HORECA CHANNEL IN SBU SLOVENIA

The Strategic Distribution Unit Slovenia (SDU Slovenia) in 2019 stabilised its operations and affirmed itself as the largest distributor of consumer goods in Slovenia. Net revenues recorded a 3.7% organic growth compared to 2018, the retail channel posted a 3.4% growth, while the HoReCa channel posted a 5.8% growth.

In terms of consumers, the Slovenian market posted a slight 2% growth. This is a result of price pressures by the fast-growing "hard discount" retail channel, which represents 25% of the retail market, and the consumers' habits of purchasing consumer goods when they are on sale. In terms of physical availability, reflected in numeric and weighted distribution levels of brands in the SDU Slovenia's portfolio, all results were better than planned and better than the targeted competition.

Despite slower growth compared to the Slovenian GDP growth, SDU Slovenia recorded sales growth in specific categories that was higher than the growth of the consumer goods market:

- Argeta in the category of savoury spreads
- Cedevita in the category of instant vitamin drinks
- Ferrero in the category of chocolate products and pralines
- Rauch in the category of fruit juices and beverages
- Cockta in the category of cola products
- Hipp in the category of food for babies and children under 3 years of age.

The growth in sales achieved in these categories is organic growth, which is faster than the growth of markets in which particular brands are present, meaning stronger brands and higher market shares in their respective categories compared to the competition.

Special focus in 2019 was placed on the optimisation of logistics costs. In order to control these costs, this was followed by the optimisation of logistics processes while maintaining an equal or better level of product distribution.

In 2019, SDU Slovenia worked intensively on acquiring new principals or brands for its distribution. At the end of 2019, this resulted in the signing of an exclusive distribution agreement with the household detergent (Ornel, Faks, Arf) manufacturer Saponia and the chocolate manufacturer Kandit, both from Osijek. The signing of the agreement with Saponia ensures the strengthening of the SDU Slovenia's portfolio in the non-food segment.

This excellent result was achieved, on one hand, through continuous control of operating costs and the collection process and constant use of sales opportunities and, on the other, through dedicated work of the SDU Slovenia's highly motivated team.

DISTRIBUTION UNIT MACEDONIA

31.3%

SALES GROWTH IS GENERATED BY DU MACEDONIA COMPARED TO 2018

In 2019, the Distribution Unit Macedonia (DU Macedonia) achieved significant growth and increased the company's income with aligned profitability growth. DU Macedonia became Number 1 (one) distributor company of consumer goods in Macedonia by turnover. With a wide-ranged and diversified portfolio of high-quality products, our company satisfies a broad range of consumer needs. Besides the familiar and famous internal brands, DU Macedonia distributes a portfolio of well-known international companies - Ferrero, Hipp, Ficosota, Beiersdorf.

In comparison with 2018, DU Macedonia achieved sales revenues growth of 31.3%, which is a result of the excellent organisation, as well as the Atlantic Grupa passionate way of doing work. During 2019, we have expanded our portfolio and started distribution of two new principals - Ficosota (Savex, Semana, Teo, Milde, Feya, Puffies) and Beiersdorf (Nivea, Atrix, Labello), but we also remain focused on developing the ones we have and strengthening their power on the domestic market. SBU Coffee has the biggest share in our sales (23% from our total portfolio), followed by SBU Savoury Spreads (20%) and Ferrero (16%) - which experiences new expansion on the Macedonian market every year.

Organisationally, our delivery from three warehouses in different locations, divided in Retail, HoReCa and Pharma segment, is done with own and outsourced logistic transportation. During 2019, our supply chain was improved with implementation of WMS (warehouse management system).

Every day, 206 employees organised in different departments by function, including the HoReCa segment, are focused on the development and promotion of the brands we distribute and our company.

Continuous focus on the current portfolio growth through improvement of service satisfaction and reaching excellence in execution puts DU Macedonia on the map of strong global and regional brands as a prospective distribution partner.

In the future, we expect further growth of income and improvement of operational efficiency with new brands and the existing ones.

DISTRIBUTION UNIT AUSTRIA

During the year 2019, the Distribution Unit Austria (DU Austria) recorded a 10% growth in total sales versus the previous year. The growth is coming from almost all brands, with the most significant growth drivers being Argeta and principal brands.

39.5%

ARGETA ACHIEVED HISTORICAL RECORD OF 39.5% MARKET SHARE

DU Austria has also recorded a positive result in profits for the first time since its founding in 2016, which was driven by sales growth and cost optimisation.

The brand with the highest share in total market sales and the category market leader remains Argeta. According to Nielsen YTD June 2019 report, in comparison to 2018, Argeta has further grown in market share and has reached historical record of a total 39.5% market share.

This growth was the result of strong increase in baseline rotation supported by new product launches - Argeta Sardine and Argeta Exclusive, which will also remain in the focus for 2020.

The retail channel remains a sales channel with the biggest share in total sales of the Distribution Unit Austria and continues to grow through new launches, as well as existing and new customers. The most significant growth in 2019 was recorded for the customer SPAR.

In 2020, we are expecting further increase in sales and profits.

GLOBAL DISTRIBUTION ACCOUNT MANAGEMENT

In 2019, Atlantic Grupa continued to grow in all key markets of Europe and in Australia, while the region of Central and Eastern Europe, the USA and Canada recorded slightly lower sales compared to sales in the previous year. The total sales of Global Distribution Account Management amounted to HRK 378 million, which is a 2.1% growth compared to the previous year.

In the region GENCH (Germany, Switzerland) and Benelux (Netherlands, Belgium and Luxembourg), the group recorded the highest growth in Germany and Benelux, while the biggest contributor to growth on both markets was the brand Argeta with 13% higher sales compared to 2018 in Germany, and 9% higher sales compared to 2018 in Benelux. The German growth comes from improved distribution in the mass market, while the Belgian market entry contributed to Benelux's growth. The growth in Switzerland was in line with expectations and an improved distribution index for the key brand Argeta in Migros and Coop was achieved.

In the region covering other Western European countries, Australia and Asia, Atlantic Grupa recorded significant sales growth in France, Ireland and Australia. By individual brands, the largest growth contributor was Argeta, the coffee brand Grand in Australia and Donat Mg in Italy. In Australia, the collaboration with a distributor was established, ensuring high quality focus on the Group's brands. Donat Mg continued to grow on the Italian market and recorded 14% higher sales compared to 2018.

The key market in the region of Central and Eastern Europe is Kosovo, whose growth slowed down at the end of 2018. The reason behind this slowdown is that the Government of Kosovo increased customs duties for products from Serbia and Bosna and Herzegovina, which most negatively affected the sales of Štark products. The highest growth in the region has been recorded in Bulgaria, while the biggest contributor to this growth was the brand Grand, and in Albania where the biggest contributor was the brand Štark.

In 2019, Russia and CIS region, despite all challenges, continued their improvement trend. The foundations build in 2018 allowed the achieving of good business results, especially with Donat and Argeta. The economic stabilization and rubble appreciation help a lot in securing margins and overall profitability. As everywhere in the globe, the competition in Russia and CIS region is increasing and companies are fighting for the consumers. To overcome competition pressure, the Distribution Unit focuses on strategic priorities; brand enhancement and building a strong team.

Quality **control**

The processes of quality control in Atlantic Grupa are organised through independent quality assurance departments within the company's operating structure, and directed according to balanced goals from the corporate level. Quality control departments exchange good practices between themselves, and are each year given realistic, but challenging goals, while their activities are optimised without increasing product-related risks.

Such organisational structure enables the following:

- coordinated monitoring of legislation,
- designing of unique corporate processes and adaptation to specificities of individual production programmes in the implementation phase,
- optimal improvement and use of expert knowledge in the field of microbiological, chemical and other hazards,
- centralised supplier management in view of the quality of input materials and services,
- good and coordinated cooperation with other business processes.

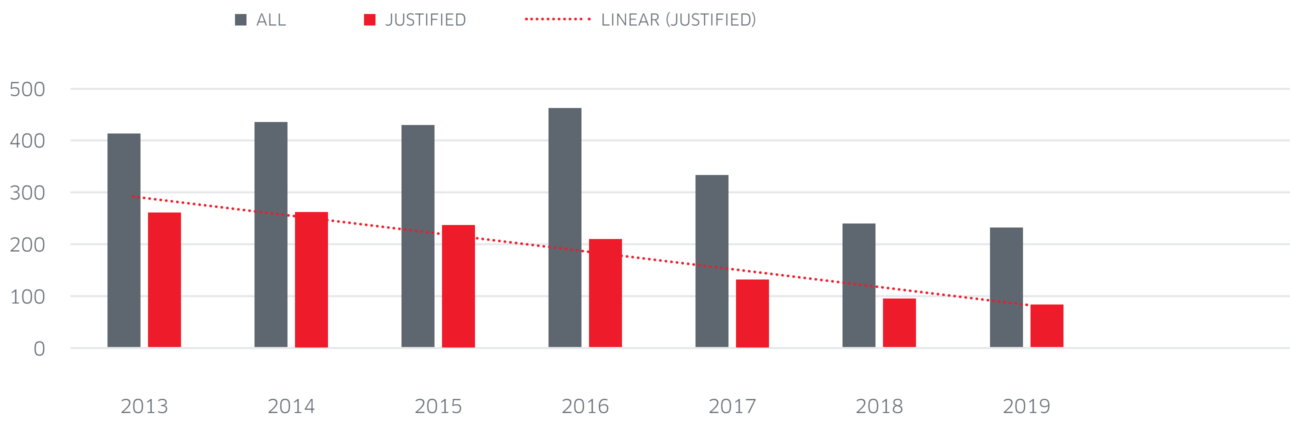
The following factors have an important role in the production of health-safe products: regular analysis of new risks, selection of source materials (non-toxic, allergen-free, GMO-free, etc.), quality control of all input materials and ingredients, monitoring of all production and distribution phases, quality assurance of finished products and monitoring customer satisfaction. The standard high quality of Atlantic Grupa's products, which is recognisable to customers, starts from the beginning of developing a new product or during the improvement of an existing one.

The most important novelties that were introduced during 2019 in all our production facilities are as follows:

- the entire system was upgraded according to the requirements of FSSC 22000 v.5 and the requirements of IFS Food v.6.1,
- the supplier management system was audited and its methodology supplemented. The methodology for auditing suppliers of source materials, packaging materials, subcontracted production and services was clearly defined. Additionally, the tool for proposing the auditing of suppliers of source materials, packaging materials and subcontracted production based on risk analysis was improved by including additional parameters, which resulted in a better selection of suppliers that should be subject to auditing, all for the purpose of enhancing joint cooperation,
- the supplier management process for suppliers of services that could affect food safety was redefined by specifying the persons responsible for specific markets and their responsibilities, all for the purpose of achieving better cooperation with suppliers and higher quality of services,
- with regard to control of food fraud risks, the methodology for packaging materials was extended, thus achieving compliance with all global standards,
- the level of product label control in the process of their approval was raised, and the tool AWA started to be used in day-to-day operations.

Many other improvements that are constantly introduced in line with suggestions of our employees responsible for food safety show their efficiency through excellent results of key performance indicators, such as the number of consumer complaints and the number of product recalls. In 2019, all products on the market were 100% safe (no recalls were performed), while one series of Montana sandwiches was preventively recalled due to doubts concerning its non-conformity. Great efforts were invested in collecting reactions and comments of our consumers through the call centre. Attention is given to all types of complaints, which are analysed, and then appropriate measures are implemented in order to achieve consumer satisfaction.

CONSUMER COMPLAINTS - TOTAL AND NUMBER OF JUSTIFIED, TREND 2013– 2019



The trend of monitoring market complaints is showing excellent results of continuous decrease in the total number of complaints in recent years.

Within the internal programme for improving functional knowledge in the field of quality control, "Functional Lab Quality", we continued implementing the regular training plan. During 2019, we organised:

- a joint quality assurance conference for the production, distribution and central laboratories,
- several training courses for FSSC 22000 internal staff on implementing the auditing process and training courses on IFS Food v.6.1 basics,
- several training courses for more specialised operational teams within our staff concerning the management of specific risks in the food chain.

The prevention programme for health safety control implemented in 2019 according to the drop-down menu of samples covered acrylamide, allergens, pesticide residues, heavy metals, microtoxins, dioxins, alkaloids, antibiotics, PAHs, radioactivity, nitrates, non-compliant colourings, nitrosamines and specific migration of substances from primary packaging. The prevention programme for food fraud detection covered more than twenty different materials, mostly of animal origin, and different types of oils. Several new quick identification methods were implemented for the purpose of fraud detection with regard to sugar, starch and powdered milk.

Laboratory testing of input materials, semi-finished products and finished products are carried out in three central laboratories specialised for chemical, sensory and microbiological tests with state-of-the-art measurement equipment. In 2019, the premises of microbiological and chemical laboratories within the production facility of Atlantic Štark in Belgrade were completely renovated.

As regards the product safety and quality management process in distribution operations with focus on internal and external principals, additional improvements in sanitary-technical requirements were achieved in 2019 in all distribution facilities. At the new warehouse of Atlantic Trade on the site LDC Velika Gorica, we achieved compliance with the strictest requirements of global quality standards, and we also initiated the project "digitalisation of quality systems in distribution operations". The project was successfully completed, and in 2020 we started with digital monitoring of safety and quality prerequisites and control measures.

Financial operations of Atlantic Grupa

Statement of the group Vice President **for finance**

ZORAN STANKOVIĆ
Group Vice President for Finance

The year 2019 was an exceptionally successful year, in which we recorded record-high sales of HRK 5,431.7 million and record-high normalised earnings before interest, taxes, depreciation and amortisation (EBITDA*) of HRK 631.6 million. The one-off profit realised by the sales of non-core business operations amounted to HRK 56.9 million, while the implementation of the new IFRS 16 – Leases increased EBITDA* by additional HRK 90.2 million, which resulted in the total EBITDA* of HRK 778.7 million. The revenue growth was recorded in almost all business and distribution units, whereas all regional markets also recorded growth. It should be noted that, for the twelfth year in a row, Atlantic Grupa continued to successfully execute its set and publicly announced business plans.

The year 2019 was also marked by the continued disinvestment of non-core business operations. At the beginning of April, Atlantic Grupa divested the last portion of Sports and Functional Food that included the brands Multipower, Champ and Multaben. Furthermore, two transactions were concluded at the end of the year. The company Fidifarm, which is the owner of the leading Croatian food supplements brand Dietpharm, and the brand Multivita were sold to the company PharmaS, and Atlantic Grupa also sold the distribution of bottled water for dispensers, as the main activity of the company Bionatura Bidon Vode d.o.o. These disinvestments have enabled Atlantic Grupa to further strengthen its focus on areas that represent key growth generators (food, beverages, pharmacy business) and the basis of transformation for the future, which includes a targeted internationalisation of brands that have proven their international potential and the use of distribution development to leverage business growth.

Atlantic Grupa continuously manages financial and business risks, fulfils its obligations in a timely manner and provides for the company's long term financial stability. Consequently, this year we also recorded the lowest debt level since the acquisition of Droga Kolinska in 2010 which, measured as the net debt to EBITDA ratio, was 0.9 at the end of 2019. This year we initiated a major project related to improvement and standardization of key business processes with the final medium-term objective of maximum standardization of all key information systems, and are concurrently working on a number of business digitalisation initiatives that will allow for more efficient business processes, and a faster and more reliable overview of our operations and the business environment.

We are especially satisfied with the fact that the capital market recognises our overall result, so in this year we recorded the historically highest share price, but also the record-high amount of dividend per share. Furthermore, the investment community has for years recognised our efforts to ensure the highest level of transparency and the highest corporate governance standards and, as a result, we won the investor relations award and the award of the Zagreb Stock Exchange for an extraordinary contribution to the capital market development.

The beginning of 2020 is marked by the occurrence of the novel corona virus (COVID 19) which during the first trimester spread to Europe, and to the rest of the region at the beginning of March, and this has largely had effects on normal economic trends. On the day of the issuance of this report the business operations of Atlantic Grupa are conducted for the most part without hindrance, in other words we don't have concrete, materially significant negative effects on the operations, and in the part where they do exist, they are entirely counterbalanced by the positive effects of sales results of the specific segments such as Farmacia, Savoury Spreads, Coffee and the portfolio of Baby Food, Personal Care and Food overall, be it from our production portfolio or portfolios of our principals. The Management of Atlantic Grupa is carefully following the development of this situation and is taking all available measures for the prevention of infection, implementing continual care for sustaining our business operations and wider business activities in the longer term.

* Certain financial measures are not defined under International Financial Reporting Standards (IFRS). For more details on the APMs (Alternative Performance Measures) used, see the document "Definition and reconciliations of Alternative Performance Measures".

Sales dynamics
in 2019

SALES PROFILE BY STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	2019	2018	2019/2018
SBU Coffee	**1,136.0**	1,123.6	1.1%
SBU Beverages	**747.8**	711.1	5.2%
SBU Savoury Spreads	**726.6**	674.7	7.7%
SBU (Sweet and Salted) Snacks	**674.6**	687.6	(1.9%)
SBU Pharma and Personal Care	**655.0**	648.0	1.1%
SDU Croatia	**1,368.6**	1,265.3	8.2%
SDU Serbia	**1,263.9**	1,253.4	0.8%
SDU Slovenia	**941.6**	907.9	3.7%
Global distribution network management	**378.5**	370.6	2.1%
Other segments*	**401.7**	413.6	(2.9%)
Reconciliation**	**-2,862.5**	-2,800.2	n/p
Sales	**5,431.7**	5,255.5	3.4%

The comparative period has been adjusted to the reporting for 2019

In 2019, Atlantic Grupa recorded sales of HRK 5.4 billion, which is a 3.4% growth compared to the same period of the previous year. The revenue growth was recorded in almost all business and distribution units due to excellent results of the majority of own as well as principal brands. If we exclude the effect of revenues of the Strategic Business Unit Sports and Functional Food, the segment that was fully disinvested at the beginning of April 2019, and the effect of the absence of sales of the Neva range in part in which the distribution was discontinued, the revenue growth would be 5.4%***. A more detailed review of sales of individual SBU and SDU is available in the chapter Business operations of Atlantic Grupa.

Atlantic Grupa records sales by business segments in a way that sales of individual Strategic Business Units and Business Units represent the total sales to third parties in the markets (either directly from a Strategic Business Unit (SBU) or Business Unit (BU), or through a Strategic Distribution Unit (SDU), Distribution Unit (DU) or Global Distribution Account Management (GDAM)), while sales of Strategic Distribution Units, Strategic Distribution Regions and Distribution Units include both sales of external principals' products and sales of own products. Comparative period has been adjusted to reflect current period reporting.

* Other segments include SBU Sports and functional food, DU Austria, DU Macedonia and business activities not allocated to business and distribution units (headquarters and support functions in Serbia, Slovenia, Bosnia and Herzegovina and Macedonia) which are excluded from the reportable operating segments.

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

*** Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see the attached document „Definition and reconciliation of Alternative Performance Measures"

SALES PROFILE BY SEGMENTS

2019

PRINCIPAL BRANDS	27.5 %
COFFEE	20.9 %
BEVERAGES	13.8 %
SAVOURY SPREADS	13.4 %
SWEET AND SALTED SNACKS	12.4 %
PHARMA & PERSONAL CARE	11.5 %
SPORTS AND FUNCTIONAL FOOD	0.5 %

2018

PRINCIPAL BRANDS	25.5 %
COFFEE	21.4 %
BEVERAGES	13.5 %
SAVOURY SPREADS	12.8 %
SWEET AND SALTED SNACKS	13.1 %
PHARMA & PERSONAL CARE	11.6 %
SPORTS AND FUNCTIONAL FOOD	2.1 %

SALES PROFILE BY MARKETS

(in HRK millions)	2019	% of sales	2018	% of sales	2019/2018
Croatia	**1,885.2**	34.7%	**1,735.7**	33.0%	8.6%
Serbia	**1,291.3**	23.8%	**1,275.4**	24.3%	1.2%
Slovenia	**943.1**	17.4%	**908.7**	17.3%	3.8%
Bosnia and Herzegovina	**430.3**	7.9%	**421.7**	8.0%	2.0%
Other regional markets*	**419.3**	7.7%	**351.9**	6.7%	19.2%
Key European markets**	**220.5**	4.1%	**275.2**	5.2%	(19.9%)
Russia and CIS	**156.5**	2.9%	**178.3**	3.4%	(12.2%)
Other markets	**85.5**	1.6%	**108.6**	2.1%	(21.3%)
Total sales	**5,431.7**	100.0%	**5,255.5**	100.0%	3.4%

* Other regional markets: Macedonia, Montenegro, Kosovo
** Key European markets: Germany, Switzerland, Austria, Sweden
The comparative period has been adjusted to the reporting for 2019

- The **MARKET OF CROATIA** recorded an 8.6% sales growth following the increase in sales of: (i) own brands, with the biggest growth recorded by Barcaffe in the roast and ground coffee category, Donat, Cockta and Cedevita brands in the beverages segment, Argeta in the savoury spreads segment, Smoki in the snacks segment and Dietpharm in the pharma and personal care segment, (ii) the pharmacy chain Farmacia, and (iii) external principals, among which the biggest growth was recorded by Ferrero, Unilever, Asahi, Philips and the new principal Mars.

- The **MARKET OF SERBIA** recorded a mild sales growth due to the increase in sales of own brands led by: (i) Grand kafa in the coffee segment (ii) Cockta in the beverages segment, (iii) Argeta in the savoury spreads segment, and (iv) Smoki and Najlepše želje in the snacks segment. Among principal brands, growth comes from Rauch and the new principal Red Bull.

- The increase in sales on the **MARKET OF SLOVENIA** is based on the increase in sales of all product categories, led among own brands by: (i) roast and ground coffee under the Barcaffe brand, (ii) vitamin instant drink under the Cedevita brand and redesigned Cockta, (iii) savoury spreads under the Argeta brand, and (iv) flips under the Smoki brand. Among principal brands Ferrero, Rauch and Hipp stand out.

- The 2.0% sales growth in the **MARKET OF BOSNIA AND HERZEGOVINA** was recorded due to the increase in sales of: (i) savoury spreads under the Argeta brand, (ii) chocolate under the Najlepše želje brand and flips under the Smoki brand from the snacks product range, (iii) beverages under the Cedevita and Cockta brands, and (iv) the Dietpharm brand in the pharma and personal care segment.

- The significant increase in sales of 19.2% in **OTHER REGIONAL MARKETS** was recorded due to the double-digit increase in sales in the market of Macedonia and the increase in the market of Montenegro, which compensated for the decrease in the market of Kosovo, primarily caused by the significant increase in customs duties on imports of goods from Serbia and Bosnia and Herzegovina to Kosovo. If the effect of sales of products from the snacks segment in the market of Kosovo is excluded, Other regional markets would record a 22.1% growth.

- The **KEY EUROPEAN MARKETS** record a decrease in sales primarily due to the decrease in sales in the market of Germany as a consequence of disinvesting the Strategic Business Unit Sports and Functional Food which was partly compensated by the growth of Argeta in the savoury spreads segment. The markets of Austria and Switzerland record growth primarily due to the increase in sales in the savoury spreads segment under the Argeta brand and flips under the Smoki brand. If the sales of brands from the Strategic Business Unit Sports and Functional Food in the market of Germany are excluded, the Key European markets would record a 1.5% growth.

- The decrease in sales in the **MARKET OF RUSSIA AND THE COMMONWEALTH OF INDEPENDENT STATES** is a consequence of the decrease in sales of the Multivita brand and baby food under the Bebi brand, which was partly compensated for by the increase in sales of functional waters under the Donat Mg brand and savoury spreads under the Argeta brand.

- **OTHER MARKETS** record a decrease in sales due to the drop in sales in the sports and functional food segment as a consequence of disinvesting this segment. The decrease was partly compensated by the increase in sales of savoury spreads under the Argeta brand in most Other markets. If the sales of brands from the Strategic Business Unit Sports and Functional Food are excluded, Other markets would record a decrease in sales of 4.2%.

SALES PROFILE BY PRODUCT CATEGORY

In 2019, **OWN BRANDS** recorded sales of HRK 3,481.9 million which represents a mild decrease in sales primarily as a consequence of disinvesting the Sports and Functional Food segment. If we exclude sales of brands from the Sports and Functional Food segment, own brands would record a 1.9% sales growth. The greatest contribution to the growth was made by: (i) Argeta in the savoury spreads segment, (ii) Cockta, Cedevita and Donat in the beverages segment, (iii) Barcaffe and Grand Kafa in the coffee segment, and (iv) Smoki in the snacks segment.

With sales of HRK 1,496.3 million, **PRINCIPAL BRANDS** recorded a significant increase in sales of 11.6%. The growth is mainly based on the increase in sales of principals Ferrero, Rauch, Hipp, Asahi and Unilever and new principals including Mars in Croatia, Red Bull in Serbia and Hipp, Ficosota and Beiersdorf in Macedonia.

A significant 9.8% growth was recorded by the pharmacy chain **FARMACIA** with sales of HRK 453.5 million due to the increase in sales of the existing and new Farmacia locations. In 2019, five new retail locations were opened and now Farmacia consists of 90 pharmacies and specialised stores.

Profitability dynamics in 2019

PROFITABILITY DYNAMICS IN 2019

(in HRK millions)	2019	2019 BEZ MSFI 16	2018	2019 BEZ MSFI 16/2018
Sales	**5,431.7**	5,431.7	5,255.5	3.4%
EBITDA*	**778.7**	688.5	545.9	26.1%
Normalised EBITDA*	**721.8**	631.6	565.6	11.7%
EBIT *	**500.4**	494.0	366.8	34.7%
Normalised EBIT*	**443.5**	437.1	386.5	13.1%
Neto dobit *	**390.4**	394.2	244.2	61.4%
Normalised Net profit*	**333.5**	337.3	261.7	28.9%
Profitability margins				
EBITDA margin*	**14.3%**	12.7%	10.4%	+229BP
Normalised EBITDA margin*	**13.3%**	11.6%	10.8%	+87BP
EBIT margin*	**9.2%**	9.1%	7.0%	+212BP
Normalised EBIT margin*	**8.2%**	8.0%	7.4%	+69BP
Net profit margin*	**7.2%**	7.3%	4.6%	+261BP
Normalised Net profit margin*	**6.1%**	6.2%	5.0%	+123BP

* Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see the attached document „Definition and reconciliation of Alternative Performance Measures".

EBITDA in 2019 amounts to HRK 778.7 million, or HRK 688.5 million without the effect of the new standard – IFRS 16 Leases, which is a 26.1% growth compared to the previous year. EBITDA without the effect of the new standard – IFRS 16 Leases and normalised for one-off items amounts to HRK 631.6 million, which is a comparable 11.7% growth. The biggest impact on the increase in normalised EBITDA was made by the disinvestment of the non-profitable segment Sports and Functional Food and the increase in sales in most business units, despite the increase in cost of services and staff costs. Normalised net profit increased 28.9% as a result of lower interest expense, following the continuous deleveraging of the company.

The condensed consolidated financial statements are prepared on the basis of the same accounting policies, presentations and calculation methods as used in the preparation of the Atlantic Grupa's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standard IFRS 16 – Leases effective as of 1 January 2019. The Group applied the simplified transition approach and did not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases are measured on transition as if the new rules had always been applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

ATLANTIC GRUPA

OPERATING EXPENSES STRUCTURE

(in HRK millions)	2019	2019 without MSFI 16	% of sales	2018	% of sales	2019 without IFRS 16/2018
Cost of goods sold	**1,600.6**	1,600.6	**29.5%**	1,505.8	28.7%	6.3%
Change in inventory	**-18.2**	-18.2	**(0.3%)**	13.2	0.3%	n/a
Production materials	**1,421.0**	1,421.0	**26.2%**	1,392.4	26.5%	2.1%
Energy	**62.5**	62.5	**1.2%**	58.3	1.1%	7.3%
Services	**330.4**	420.7	**6.1%**	412.5	7.8%	2.0%
Staff costs	**880.5**	880.5	**16.2%**	843.0	16.0%	4.5%
Marketing and selling expenses	**321.5**	321.5	**5.9%**	338.3	6.4%	(5.0%)
Other operating expenses	**197.9**	197.9	**3.6%**	208.2	4.0%	(5.0%)
Other (gains)/losses, net	**-68.4**	-68.4	**(1.3%)**	13.1	0.2%	(621.6%)
Depreciation, amortisation and impairment	**278.3**	194.5	**5.1%**	179.1	3.4%	8.6%
Total operating expenses *	**5,006.0**	**5,012.4**	**92.2%**	**4,963.9**	**94.5%**	**0.8%**

* Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see the attached document „Definition and reconciliation of Alternative Performance Measures".

The increase in **cost of goods sold** of 6.3% is a consequence of higher sales of principal brands.

The mild decrease in costs of **production materials** together with the change in the value of inventories due to disinvesting non-core business units (Neva and the Strategic Business Unit Sports and Functional Food) and lower average prices of production materials, primarily coffee and sugar.

Energy costs grow due to larger production of own brands and higher energy prices.

Costs of **services** without IFRS 16 are higher, primarily due to higher costs of transport and logistics services, as a consequence of higher sales and higher licence costs following higher investments in IT systems and digital technologies.

Staff costs increased due to a larger number of employees as a result of higher scope of operations by taking over new principals, the increase in legally prescribed minimum wages in Serbia and more variable payments following the increase in sales. In 2019, Atlantic Grupa had on average 5,557 employees, 45 employees more than in the previous year.

Marketing expenses are lower primarily due to disinvesting of non-core business units (Neva and the Strategic Business Unit Sports and Functional Food) despite higher investments in marketing in the beverages, coffee and savoury spreads segments.

Other operating expenses decreased mainly due to lower impairment of trade receivables and inventories.

Other (gains)/losses – net: mainly relate to the previously described one-off items (HRK 56.9 million of profit from disinvestment in 2019 and HRK 19.7 million of loss in 2018).

OPERATING RESULT OF STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(HRK million)	2019	2019 without IFRS 16	2018	2019 without IFRS 16/2018
SBU Coffee	**266.6**	264.5	258.9	2.2%
SBU Beverages	**177.5**	175.3	166.8	5.1%
SBU Savoury Spreads	**144.6**	143.5	132.5	8.3%
SBU (Sweet and Salted) Snacks	**125.6**	123.7	132.8	(6.9%)
SBU Pharma and Personal Care	**58.2**	40.1	44.4	(9.7%)
SDU Croatia	**64.2**	39.8	37.8	5.4%
SDU Serbia	**40.2**	23.2	32.4	(28.2%)
DU Slovenia	**60.9**	53.6	52.1	2.8%
Global Distribution Network Management	**13.8**	13.7	17.8	(23.5%)
Other segments*	**(172.9)**	(188.9)	(329.7)	42.7%
Group EBITDA**	**778.7**	**688.5**	**545.9**	**26.1%**

The comparative period has been adjusted to the reporting for 2019

* Other segments include SBU Sports and functional food, DU Austria, DU Macedonia and business activities not allocated to business and distribution units (headquarters and support functions in Serbia, Slovenia, Bosnia and Herzegovina and Macedonia) which are excluded from the reportable operating segments.
** Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see the attached document „Definition and reconciliation of Alternative Performance Measures".

STRATEGIC BUSINESS UNITS: The Strategic Business Unit Coffee recorded better profitability as a result of better gross profit margin following higher sales and lower prices of raw coffee, despite higher investments in marketing activities and higher staff costs. The Strategic Business Unit Beverages realises an increase in profit based on higher sales and a more favourable gross profit margin. The Strategic Business Unit Savoury Spreads recorded a significant profitability growth due to the increase in revenue and a more favourable gross margin, despite higher marketing expenses and staff costs. The Strategic Business Unit Snacks recorded a decrease in profitability following lower sales. The Strategic Business Unit Pharma and Personal Care records a decrease in profitability following the disinvestment of Neva and lower sales of Multivita, despite higher profitability of the pharmacy chain Farmacia and Dietpharm.

STRATEGIC DISTRIBUTION UNITS AND DISTRIBUTION UNITS: The SDU Croatia and SDU Slovenia record a profitability growth following higher sales, despite the increase in staff costs. The decrease in profitability of the SDU Serbia is a result of higher costs of transport and higher staff costs (increased legally prescribed minimum wage and new employees as a result of the distribution portfolio extension). Global Distribution Account Management records a decrease in profitability following lower sales and profitability of baby food under the Bebi brand in the Russian market.

OTHER SEGMENTS: Other segments record a significant decrease in the negative impact on the group EBITDA due to the described one-off items resulting from the disinvestment (2019: profit of HRK 56.9 million and 2018: loss of HRK 19.7 million) and due to the Sports and Functional Food segment that in 2019 recorded negative EBITDA of HRK 8.2 million compared to last-year's negative HRK 60.3 million. The DU Macedonia recorded higher profitability due to higher sales and a more favourable gross profit margin, while the DU Austria recorded higher profitability due to higher sales and cost optimisation.

Financial indicators in 2019

FINANCIAL INDICATORS

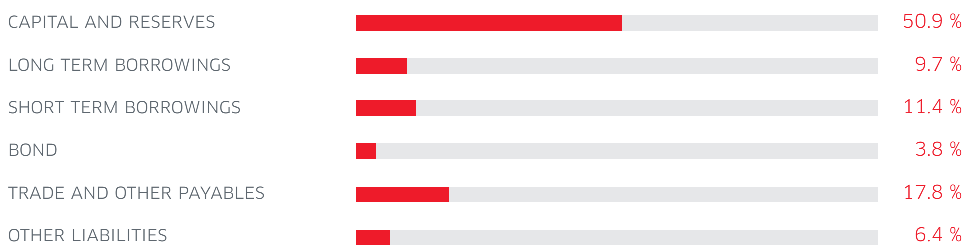
(in HRK millions)	12/31/2019	31.12.2019 w/o IFRS 16	12/31/2018
Net debt*	**922.7**	547.1	862.9
Total assets	**5,247.3**	4,886.0	4,935.3
Total Equity	**2,669.8**	2,684.1	2,398.4
Current ratio*	**1.3**	1.4	1.4
Gearing ratio*	**25.7%**	16.9%	26.5%
Net debt/EBITDA*	**1.3**	0.9	1.5
Interest coverage ratio*	**20.5**	25.2	9.9
Capital expenditure*	**225.2**	225.2	140.6
Cash flow from operating activities	**586.4**	506.4	462.1

* Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see the attached document „Definition and reconciliation of Alternative Performance Measures"

Among key determinants of the Atlantic Grupa's financial position in 2019, the following should be pointed out:

- The gearing ratio decreased by as much as 953 basis points due to the decrease in net debt of HRK 316 million compared to the end of 2018.
- The debt measured as the net debt to normalised EBITDA ratio dropped from 1.5 at the end of 2018 to 0.9 at the end of 2019.
- At the same time, the coverage of interest expense by normalised EBITDA in the comparative period increased from 9.9 times in 2018 to 25.2 times.
- The increase in cash flow from operating activities of HRK 44.3 million to HRK 506.4 million reflects the stability of the Group's business.

THE ATLANTIC GRUPA'S EQUITY AND LIABILITIES STRUCTURE AS AT 31 DECEMBER 2019 (INCLUDING IFRS 16 LEASES)



OVERVIEW OF KEY ITEMS IN THE CONSOLIDATED CASH FLOW STATEMENT

The increase in cash flow from operating activities in 2019 compared to the same period of the previous year is the result of improved profitability and lower finance costs.

Capital expenditure in 2019 primarily relates to investments in the production equipment of business units for the purpose of increasing the efficiency of production processes, in the development of new products and the development of IT infrastructure, business systems and applications.

Among significant investments, we should mention:

SBU SNACKS: investment in the Smoki packaging line and investment in the Bananica production line;

SBU COFFEE: investment in production equipment for the purpose of improving production efficiency (stone mills, replacement of roasting machines, lines for instant coffee) and espresso machines;

SBU BEVERAGES: investment in the production equipment for the purpose of improving efficiency (repair of Rogaška bottle blowing machines) and investment in the new line for HoReCa packaging of Cedevita (increasing capacities);

SBU SAVOURY SPREADS: reconstruction of the pâté line in Izola and new format parts in Hadžići aimed at increasing capacities;

SDU CROATIA: investment in the new logistics and distribution centre;

IT: investment in infrastructure, digital technologies and implementation of business applications and the replacement of equipment.

Management's view on macroeconomic expectations

The beginning of 2020 marks the occurrence of a novel virus (COVID 19) which spread to Europe in the first trimester, and at the beginning of March to the countries in the region.

COVID 19 represents a threat to the whole world's economy for which there are estimates that the entire service sector, tourist and logistic distributive sector could be most affected and for the longest period of time, but the scenario of a global recession is almost certain, it is not known how long it will last, and therefore, what the consequences will be and how much time will be needed for economic recovery.

It's unquestionable that the aforementioned represents not only an aggravating circumstance for business operations, but beforehand threat to people's health in our wider surroundings.

In that context it is important to note that Atlantic Grupa is taking all available measures for the prevention of infection, with continual care for the viability of our business and wider economic activities for a longer term.

On the day of authorization of this report, Atlantic Grupa's business operations are conducted for the most part without disturbances, in other words we don't have concrete, materially significant negative effects on business, and in the part where they do exist, they are counterbalanced by the current positive effects of the sales results of specific segments such as Farmacia, Savoury Spreads, Coffee as well as the portfolio of Baby Food, Personal Care products and Food overall, both from our production portfolio as well as the portfolio of our principals. Because of the spread of COVID 19 in the surroundings, Atlantic Grupa has set up a multidisciplinary Crisis Unit which regularly monitors announcements and directives of all competent institutions and accordingly implements preventive measures. In order for us to contribute to the decrease of the spread of COVID 19 and ensure unaffected functioning, a number of concrete measures have been taken whose most important details are noted in the Chapter Business environment risk.

Because of the above, in 2020 the Management will focus on following the development of the newly emerged crisis to the maximum, as well as on the fast and effective preparation and reaction to possible scenarios, in order to reduce the possible negative effects both on people's health as well as on the business functioning of Atlantic Grupa.

Further to the aforementioned, and in the realm of these specific surroundings, and of course in case of stabilization, the focus will continue to be on: (i) strengthening the position of prominent regional brands, (ii) internationalization of certain brands, primarily Argeta and Donat Mg, (iii) development of distribution business by strengthening existing principals and the acquisition of new ones and (iv) further divestment of non-core business operations that do not have a significant growth potential.

Being that the newly emerged situation up to the moment of the issuance of this report hasn't in its entirety had negative effects on the business operations of Atlantic Grupa, and that in this situation it's impossible to predict the further development of the situation and its consequences, we are announcing the expectations for the year 2020 as they had been announced before the start of the crisis.

In 2020, we expect payments related to capital expenditure in the amount of approximately HRK 280 million.

(in HRK millions)	2020 guidance	2019**	2020/2019
Sales ***	**5,500**	5,432	1.3%
EBITDA *	**730**	722	1.1%
EBIT *	**455**	444	2.6%

* Certain financial measures are not defined by International Financial Reporting Standards (IFRSs). For more details on the Alternative Performance Measures (APM) used, see the attached document „Definition and reconciliation of Alternative Performance Measures".

** Normalized.

*** Sales in 2019 include HRK 172.9 million related to disinvested and discontinued parts of operations, whereby the expected organic growth is 4.6%

Definition and reconciliation of **Alternative Performance Measures (APM)**

The Annual report, half – year report, quarterly report and other communication to investors contain certain financial performance measures, which are not defined by International financial reporting standards (IFRS). We believe these measures, along with comparable IFRS measurements, are useful to investors because they provide a basis for measuring our operating and financial performance. The main APMs used by Atlantic Grupa are defined and/or reconciled with our IFRS measures in this document.

NORMALIZED SALES GROWTH

Normalized sales growth refers to the increase in sales for the period after removing the impact of acquisitions and divestitures, change of scope of activity and other major items affecting comparability of operating results. We believe this measure provides valuable additional information on the sales performance and provide comparability of operating result.

(in HRK million)	2019	2018	2019/ 2018
Sales	**5,431.7**	5,255.5	3.4%
Sales of divested business - SBU SFF	**27.8**	112.0	(75.1%)
Absence of distribution of Neva assortment	**0.0**	15.0	(100.0%)
Normalized sales	**5,403.9**	5,128.5	5.4%

IFRS 16

The consolidated financial statements are prepared on the basis of the same accounting policies, presentations and calculation methods as used in the preparation of the Atlantic Grupa's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standard IFRS 16 – Leases effective as of 1 January 2019. The Group applied the simplified transition approach and did not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases are measured on transition as if the new rules had always been applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

In order to ensure comparability of the financial data, data for 2019 is presented in two ways; data including application of IFRS 16 and data excluding application of IFRS 16, where applicable. When comparing data to 2018 data, data for 2019 excluding the impact of IFRS 16 should be considered.

EBITDA AND NORMALIZED EBITDA, EBITDA MARGIN AND NORMALIZED EBITDA MARGIN

EBITDA (Earnings before interest, tax, depreciation and amortization) equals to operating profit in the financial statements (see Note 2 - Summary of significant accounting policies in the attached audited Consolidated Financial statements) increased for depreciation, amortisation and impairment (see Note 13,14,15 in the attached audited Consolidated Financial statements).

The Group also presents Normalized EBITDA which is being calculated as EBITDA excluding the impact of adjusting items. Adjusting items represent gain/loss on sale of subsidiaries (see Note 28 Business combination and divestment of subsidiaries in the attached audited Consolidated Financial statements). The Group's Management Board reviews adjusted EBITDA to evaluate business performance of the Group and to allocate resources accordingly. Additionally, Group's management believes that normalized EBITDA provides information that enables investors to better compare Group's performance across periods.

The Group also presents EBITDA margin and Normalized EBITDA margin, which are defined as EBITDA/Normalized EBITDA as percentage of sales.

(in HRK millions)	2019	2019 W/O IFRS 16	2018	2019 W/O IFRS 16/2018
Operating profit	**500.4**	494.0	366.8	34.7%
Depreciation, amortisation and impairment	**278.3**	194.5	179.1	8.6%
EBITDA	**778.7**	688.5	545.9	26.1%
Gain on sales of factories in SFF	**24.8**	24.8	-	
Gain on sales of Dietpharm, Multivita and Bionatura Bidon Vode	**32.1**	32.1	-	
Loss on sales of Neva and provision for legal claims	**-**	**-**	(19.7)	
Normalized EBITDA	**721.8**	631.6	565.6	11.7%
Sales	**5,431.7**	5,431.7	5,255.5	
EBITDA margin	**14.3%**	12.7%	10.4%	
Normalized EBITDA margin	**13.3%**	11.6%	10.8%	

EBIT AND NORMALIZED EBIT

EBIT (Earnings before interest and tax) equals to operating profit in the financial statements (see Note 2 - Summary of significant accounting policies in the attached Consolidated Financial statements).
The Group also presents Normalized EBIT which is being calculated as EBIT excluding the impact of adjusting items.
Additionally, the Group also presents EBIT margin and Normalized EBIT margin, which are defined as EBIT/Normalized EBIT as percentage of sales.

(in HRK millions)	2019	2019 w/o IFRS 16	2018	2019 w/o IFRS 16/2018
Operating profit	**500.4**	494.0	366.8	34.7%
EBIT	**500.4**	494.0	366.8	34.7%
Gain on sales of factories in SFFaktivna prehrana	**24.8**	24.8	-	
Gain on sales of Dietpharm, Multivita and Bionatura Bidon Vode	**32.1**	32.1	-	
Loss on sales of Neva and provision for legal claims	-	-	(19.7)	
Normalized EBIT	**443.5**	437.1	386.5	13.1%
Sales	**5,431.7**	5,431.7	5,255.5	
EBIT margin	**9.2%**	9.1%	7.0%	
Normalized EBIT margin	**8.2%**	8.0%	7.4%	

NET PROFIT AND NORMALIZED NET PROFIT

Net profit is a subtotal which is reported in the attached audited Consolidated Financial statements.
The Group also presents Normalized Net profit which is being calculated as Net profit excluding the impact of adjusting items.
Additionally, the Group also presents Net profit margin and Normalized Net profit margin, which are defined as Net profit/Normalized Net profit as percentage of sales.

(in HRK millions)	2019	2019 BEZ MSFI 16	2018	2019 BEZ MSFI 16/2018
Net profit	**390.4**	394.2	244.2	61.4%
Gain on sales of factories in SFF	**24.8**	24.8	-	
Gain on sales of Dietpharm, Multivita and Bionatura Bidon Vode	**32.1**	32.1	-	
Loss on sales of Neva and provision for legal claims	-	-	(17.5)	
Normalized Net profit	**333.5**	337.3	261.7	28.9%
Sales	**5,431.7**	5,431.7	5,255.5	
Net profit margin	**7.2%**	7.3%	4.6%	
Normalized Net profit margin	**6.1%**	6.2%	5.0%	

TOTAL OPERATING EXPENSES

Total operating expenses is subtotal of following items which are reported in the Consolidated Income statement in the attached audited Consolidated Financial statements: cost of trade goods sold, change in inventories of finished goods and work in progress, material and energy costs, staff costs, marketing and promotion expenses, other operating costs, other gain/losses-net and depreciation, amortization and impairment.

CAPITAL EXPENDITURE (CAPEX)

Capital expenditure includes payments made to acquire property, plant and equipment and intangible assets, as reported in the Consolidated Cash flow statement in the attached audited Consolidated Financial statements. The Group uses capital expenditure as APM to ensure that the cash spending is in line with overall strategy of the Group.

NET DEBT AND NET DEBT TO EBITDA

Net debt is used by management to evaluate the Group's financial capacity. Net debt is defined as sum of current and non current borrowings, current and non current lease liabilities and derivative financial instruments decreased for cash and cash equivalents which are reported in the Consolidated Balance sheet in the attached audited Consolidated Financial statements, as shown below:

(in HRK millions)	31 Dec 2019	31 Dec 2019 w/o IFRS 16	31 Dec 2018
Non current borrowings	**412.6**	412.6	805.9
Non current lease liabilities	**295.5**	0.0	0.0
Current borrowings	**517.3**	517.3	472.4
Current lease liabilities	**80.0**	0.0	0.0
Derivative financial instruments, net	**1.8**	1.8	(1.7)
Cash and cash equivalents	**(384.5)**	(384.5)	(413.7)
Net debt	**922.7**	547.1	862.9
Normalized EBITDA	**721.8**	631.6	565.6
Net debt/Normalized EBITDA	**1.3**	0.9	1.5

The Group also uses a ratio net debt to normalized EBITDA, which is net debt divided by Normalized EBITDA, to access its level of net debt in comparison to underlying earnings generated by the Group. This measurement reflects Group's ability to service and repay borrowings.

CURRENT RATIO

The current ratio compares all Group's current assets to its current liabilities which are reported in the Consolidated Balance sheet in the attached audited Consolidated Financial statements. The current ratio is a liquidity ratio that measures a Group's ability to cover its short-term debt with its current assets.

(in HRK million)	2019	2019 w/o IFRS 16	2018
Current assets	**2,170.5**	2,170.5	2,175.4
Current liabilities	**1,648.4**	1,568.4	1,509.2
Current ratio	**1.3**	**1.4**	**1.4**

GEARING RATIO

Gearing ratio compares net debt to total equity increased for net debt. Gearing is a measurement of the Group's financial leverage that demonstrates the degree to which a firm's operations are funded by equity capital versus debt financing.

(in HRK million)	2019	2019 w/o IFRS 16	2018
Net debt	**922.7**	547.1	862.9
Total equity	**2,669.8**	2,684.1	2,398.4
Gearing ratio	**25.7%**	**16.9%**	**26.5%**

INTEREST COVERAGE RATIO

The interest coverage ratio is calculated by dividing Group's Normalized EBITDA by total interest expense (see Note 10 - Finance cost-net in the attached audited Consolidated Financial statements) as shown below. Interest coverage ratio is used to determine how easily the Group can pay interest on its outstanding debt.

(in HRK million)	2019	2019 w/o IFRS 16	2018
Normalized EBITDA	**721.8**	631.6	565.6
Total interest expense	**35.2**	25.0	57.2
Adjusted interest coverage ratio	**20.5**	**25.2**	**9.9**

ATLANTIC GRUPA

MARKET CAPITALIZATION

Market capitalization is the aggregate market value of the Group. It is computed based on the last market price in reporting period and the total number of outstanding shares as show below.

(in HRK million)	2019	2019 w/o IFRS 16	2018
Last price in reporting period (in HRK)	**1,300**	1,300	1,160
Number of shares	**3,334.300**	3,334.300	3,334.300
Market capitalization (in HRK millions)	**4,334.6**	**4,334.6**	**3,867.8**

ENTERPRISE VALUE (EV)

Enterprise value (EV) is a measure of Group's total value, used as a more comprehensive alternative to market capitalization. EV is the sum of market capitalization, net debt and non-controlling interest, as shown below.

(in HRK million)	2019	2019 w/o IFRS 16	2018
Market capitalization	**4,334.6**	4,334.6	3,867.8
Net debt	**922.7**	547.1	862.9
Non controlling interest	**5.4**	5.4	3.9
Enterprise value (EV)	**5,262.7**	4,887.1	4,734.6

ADJUSTED EARNINGS PER SHARE (EPS)

Earnings per share is calculated by dividing the net profit attributable to owners of the parent by weighted average number of shares as defined in the Note 12 Earnings per share in the attached audited Consolidated Financial statements. EPS reflects the underlying earnings from trading operations for each share. Adjusted EPS takes into calculation adjusted net profit attributable to owners of the parent which equals to net profit attributable to equity holders excluding the impact of adjusting items as shown below.

	2019	2019 w/o IFRS 16	2018
Profit for the year attributable to owners of the parent	**388.9**	392.7	244.0
Gain on sales of factories in SFF	**24.8**	24.8	-
Gain on sales of Dietpharm, Multivita and Bionatura Bidon Vode	**32.1**	32.1	-
Loss on sales of Neva and provision for legal claims	**-**	**-**	(17.5)
Adjusted profit for the year attributable to owners of the parent	**332.0**	335.8	261.5
Weighted average number of shares	**3,331.481**	3,331.481	3,333.167
Adjusted EPS	**99.6**	100.8	78.4

Risks
of Atlantic Grupa

BUSINESS ENVIRONMENT RISK

Business environment risk includes political, macroeconomic and social risks with a direct impact on business activities in all markets in which the company operates, while the company cannot individually influence any of them. Political risk relates to all the risks associated with a potential political instability of an individual state. Taking into consideration the current internal and external political affairs, Croatia functions as a stable parliamentary democracy that successfully entered the European Union on 1 July 2013.

In conclusion, it should be pointed out that the Atlantic Grupa's Pan-European strategy is reflected in the combination of recognisable European brands in the segment of savoury spreads with the brand Argeta, and in the segment of beverages with the brand Donat Mg and regional brands in the segment of coffee with leading brands Barcaffé and Grand Kafa, in the segment of beverages with leading brands Cedevita and Cockta, in the segment of snacks with leading brands Najlepše Želje, Bananica, Štark and Smoki and, finally, in the segment pharma and personal care with the leading pharmacy chain Farmacia.

As previously stated, political and general social risk is inherent to all components of a society and therefore cannot be individually influenced by any single company. However, Atlantic Grupa, as the company that operates in several different countries, significantly reduces these risks through their diversification.

Business transactions of any company are influenced by macroeconomic risks, but the extent of their impact depends primarily on the level of cyclicity of the industry in which a company operates. Despite its relatively diversified business model, Atlantic Grupa operates in a stable non-cyclical food industry. Considering that the revenues of Atlantic Grupa's production and distribution portfolio are influenced by macroeconomic variables like personal consumption, unemployment rate, the level of disposable personal income and trends in retail trade, the company continuously monitors the aforementioned macroeconomic factors. Accordingly, the declining unemployment rates in the EU lead to higher employee costs, and Atlantic Grupa is making additional investments in employer branding.
After the end of the business year, an additional risk of COVID-19's impact on business has appeared. At the date of approval of this report, the functioning of Atlantic Grupa is continuing as usual, that is, we do not have concrete, materially significant negative effects on business operations. Due to the spread of COVID-19 in the surroundings, Atlantic Grupa has developed a Crisis Unit which regularly follows notices and directions from all official institutions and implements preventive measures accordingly. In order to decrease the spread of COVID-19 and ensure normal functioning, the following measures have been taken:

- Employee education related to the symptoms and prevention of COVID-19 and we have ensured adequate preventive hygiene;
- Strengthening security and public health protocols;
- The ban of all business travel and postponement of all bigger meetings, teambuilding sessions, conferences and trainings;
- Directions to employees on holding meetings via video calls and cancelled meetings with external partners;
- Enabling work from home for employees whose positions allow it;
- Harmonization of IT Systems and support for the new working conditions (home office);
- Notice to suppliers to introduce enhanced hygiene measures;
- Increase of the production materials and finished goods inventory, and we are in continual communication with suppliers so the purchase of raw materials continues without interruptions;
- Ensuring additional liquidity;
- Identification of critical business processes and identification of measures for their sustainability.

INDUSTRY AND COMPETITION RISKS

CONSUMER GOODS INDUSTRY AND RETAIL (PHARMACIES)

When considering the development of the consumer goods industry, it is the market liberalisation and globalisation which opened the gates to global producers and retail chains, which in the end resulted in a stronger market competition, more diverse product offer, increase of product quality, establishment of global manufacturing standards and opening of new distribution channels. In such conditions, all producers can compete only through continuous investment in research and development of new production lines, technological development, marketing in order to improve the brand recognition, and human resources.

Macroeconomic conditions, GDP fluctuation dynamics, in particular personal consumption as a component of the GDP, fluctuation of the disposable personal income and the development of the living standard of consumers largely dictate the trends in the consumption goods industry. In addition to that, the development of the consumer goods industry is also largely influenced by the ability of companies to constantly adapt to consumer needs and market trends, which in turn requires investments in research and development, marketing and technology.

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

Certain segments of the consumer goods industry, particularly the segment of food products, are influenced by the factors which companies cannot control, like volatile prices of commodities (coffee, sugar, cacao, etc.) on global markets, weather conditions or the tourist season efficacy. Considering that within the company raw coffee is the most significant individual commodity by value, special attention is given to planning procurement of raw coffee, following trends in global markets, stock level management and risk management concerning price changes of raw coffee as well as the impact of currency movements in global markets. Atlantic Grupa manages the risk of price volatility of raw coffee in the global commodity markets by using available hedging instruments. Certain segments of this industry are of seasonal character, which makes quality management of working capital an extremely important component of ensuring regular business operations of companies. Additionally, a relatively low level of cyclicity of the consumer goods industry makes it attractive to a large number of companies, which in turn results in a larger number of competitors in the market. Furthermore, since there is no significant market leader in some categories, there is a risk of new competitors entering the market.

Atlantic Grupa operates in the consumer goods industry segment that includes food products with added value and, accordingly, it uses activities like investing in research and development, investing in technology and closely monitoring market trends and consumer preferences to maintain high market shares in the listed segment. The portfolio of Atlantic Grupa includes a wide range of brands with leading market positions in the region in the segments of coffee, savoury spreads, snacks and beverages. Considering that some of the listed segments are exposed to strong competitive pressures by local and multinational companies, Atlantic Grupa in 2019 continued to actively manage its own brands.

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

COMPETITION RISK

With Croatia's accession to the EU and the harmonisation of legislation with the acquis communautaire, new standards and norms were established and, at the same time, final obstacles to free competition removed. On one hand, local companies are becoming increasingly exposed to international competition and, on the other hand, are experiencing the opening of new business opportunities in foreign markets. Many companies, including Atlantic Grupa as the leader in this trend, have in recent years focused their efforts on business expansion in regional markets of South-East Europe that are generally characterised by the increasing demand for consumer goods and, at the same time, the increasing recognisability of domestic brands.

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

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

BUSINESS RISK

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

IMPACT OF INDIVIDUAL PRODUCTS AND BUSINESS PARTNERS ON BUSINESS PERFORMANCE

In previous years Atlantic Grupa has given significant attention to the diversification and expansion of its production as well as distribution portfolio with the strategic objective of reducing its dependence on the sales of any individual product and thus also the volatility in the realisation of sales results, particularly during the changes of macroeconomic cycles.

Considering the listed diversification in its production and distribution portfolios, changes in the business environment relating to either a specific production segment or a specific partner will not jeopardise the overall business operations of Atlantic Grupa.

PRODUCT DEPENDENCE

Resulting from the significant expansion and diversification of the production and distribution portfolio in previous years, today Atlantic Grupa's regular business operations do not depend significantly on any individual product. At the same time, the most prominent product category is the segment of coffee, followed by segments of beverages, savoury spreads, and snacks.

During the past years, Atlantic Grupa combined acquisition activities, innovative approach to new product development and conclusion of new distribution agreements in the diversification of both the production and distribution portfolio. In the last 15 years Atlantic Grupa participated in about 50 acquisitions, which have resulted in a significant reduction of the company's dependence on any one product, market or business partner.

BUSINESS PARTNERSHIP DEPENDENCE

In previous years Atlantic Grupa developed strong partnerships with both domestic and international producers of brands within the distribution portfolio of Atlantic Grupa. Although a loss of exclusive distribution rights to a particular product would have an impact on the business performance of Strategic Distribution Units, the risk of that has been greatly reduced in recent years due to the significant expansion of the distribution portfolio.

Atlantic Grupa is continually monitoring developments in the brand market with the purpose of concluding new business partnerships. The continuous expansion of the distribution portfolio enables the company to quickly adjust to new conditions in the case of termination of cooperation with any of its present partners.

Close business cooperation with leading domestic retail chains is at the very nature of distribution activities. Atlantic Grupa has developed good business cooperation with a majority of regional retail chains, which in turn are the company's major buyers, and our dependence on any individual buyer is at an appropriate level. In the case of termination of partnership, or bankruptcy of one of the more important buyers, the impact on business results of Strategic Distribution Units could be significant. However, with the continuous monitoring of the buyers' risk level and payment process and the resulting limitation of exposure to risky buyers, the company aims to reduce the risk to its own operations in the case of termination of partnership or bankruptcy of one of its major buyers. Moreover, Atlantic Grupa strives to reduce the dependence of distribution on one distribution channel by developing the "alternative distribution channels" like the HoReCa segment (catering), outlets for sales of technical goods and the pharmacy channel.

FINANCIAL RISKS

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

Abbreviations

BC	Basketball Club
CIS	Commonwealth of Independent States (ex-Soviet Union countries)
CO2	Carbon dioxide
DEG	German Investment and Development Corporation
DPS	Dividend per share
EBIT	Earnings before interest and taxes
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
EMS	Environmental Management System
EPS	Earnings per share
ERP	Enterprise Resource Planning
ESOP	Employee stock ownership plan
EV	Enterprise value
FSSC	Food Safety System Certification
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GMO	Genetically Modified Organism
GMP	Good Manufacturing Practices
GRI	Global Reporting Initiative
HACCP	Hazard Analysis and Critical Control Point
HANFA	Croatian Financial Services Supervisory Agency
HoReCa	Hotel Restaurant Caffe
HZZO	Croatian Health Insurance Fund
IFS	International Food Standard
IT	Information Technology
LDC	Logistic distribution centre
M&A	Mergers and Acquisitions
OECD	Organization for Economic Cooperation and Development
OTG	On the Go
PAH	Polycyclic Aromatic Hydrocarbons
PET	Polyethylene Terephthalate
PPS	Price per share
R&D	Research and Development
RPA	Robotic process automation
R-PET	Recycled Polyethylene Terephthalate
USA	United States of America
SBU	Strategic Business Unit
SDU	Strategic Distribution Unit
SFF	Sports and Functional Food
UAE	United Arab Emirates
UN	United Nations
ZSE	Zagreb Stock Exchange

Auditor's Report
and Consolidated Financial Statements

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ATLANTIC GRUPA PLC.
31 DECEMBER 2019

Responsibility for the annual financial statements

In accordance with provisions of Law on Capital Market, Zoran Stanković, Group Vice President for Finance, Procurement and Investment 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 consolidated financial statements for 2019 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 and its subsidiaries (together – "the Group").

Report of the Company's Management board for the period from 1 January to 31 December 2019 contains the true presentation of development, results and position of the Group, with description of significant risks and uncertainties which the Group is exposed.

In Zagreb, 23 March 2020

Zoran Stanković
Group Vice President for Finance, Procurement and Investment

Tatjana Ilinčić
Director of Corporate Reporting and Consolidation

Responsibility for the consolidated financial statements

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

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

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

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

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

The accompanying consolidated financial statements were approved for issuance by the Management Board on 23 March 2020.

Emil Tedeschi
President and Chief Executive Officer

Srećko Nakić
Group Vice President for Distribution

Zoran Stanković
Group Vice President for Finance, Procurement and Investment

Lada Tedeschi Fiorio
Group Vice President for Corporate Strategy and Growth

Neven Vranković
Group Vice President for Corporate Activities

Enzo Smrekar
Group Vice President for Savoury spreads, Donat Mg and International Expansion

Building a better working world

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Independent auditor's report

To the Shareholders of Atlantic Grupa d.d.

Report on the audit of the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements (further- consolidated financial statements) of Atlantic Grupa d.d. (the Company) and its subsidiaries (together- the Group), which comprise the consolidated balance sheet as at 31 December 2019, consolidated income statement and the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU (IFRS as adopted by EU).

Basis for opinion

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

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

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

Key audit matters

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

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

Key audit matter	How we addressed key audit matter
Assessment of impairment of goodwill and intangible assets with indefinite useful lives *See Note 2.7 Impairment of non-financial assets and Note 4.b Impairment of goodwill and intangible assets with indefinite useful lives* The Group has goodwill and other intangible assets with indefinite useful lives (Brands & Licenses) with carrying amounts totalling HRK 1,487,187 thousand as at 31 December 2019. The carrying amount of the goodwill and indefinite life intangible assets represents 28% of total consolidated assets and the assessment of the "fair value" and "value in use" of the Group's cash generating units ("CGU") represents significant area of management's judgement regarding the future results of the business and the discount rates applied to future cash flow forecasts. The Group annually assesses the accounting estimate of indefinite useful life. It involves significant management's judgments about the strength of the brand and future cash flows generated from brands and licenses affected. Due to the range of judgements and assumptions used in the models and impairment assessments, as well as the significant carrying amount of the goodwill and intangible assets, this is an area considered to be a key audit matter.	Audit procedures included understanding of the assets impairment process and walk through of controls implemented within. We performed specific inquiry to the management and examined the methodology used by the management to assess the carrying value of respective goodwill, and intangible assets and their useful life, to determine their compliance with IFRS as adopted by EU and consistency of application. We evaluated the Group's future cash flow forecasts and the process by which they were prepared. We compared the budget inputs in the model to the approved budgets and forecast inputs in the model to management plans. We compared the current year (2019) actual results with the figures included in the prior year (2018) forecast to evaluate assumptions used. We also evaluated management's key assumptions for long-term growth rate by comparing it to historical growth results. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis and tested the appropriateness of discount rates and royalty rates used in the calculation with the assistance of the specialists. We also assessed the completeness of the impairment charges. We reviewed reports related to market share of the individual brands. We also assessed adequacy of the disclosures in the consolidated financial statements and if these are in line with the requirements of IFRS as adopted by EU.

Other information included in the Group's Annual Report for year 2019

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

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

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

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

1. the information given in the enclosed Management report for the 2019 financial year are consistent, in all material respects, with the enclosed consolidated financial statements;

2.the enclosed Management report for 2019 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Group's 2019 annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's annual report for the year 2019 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed consolidated financial statements;

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

Responsibilities of management and Audit Committee for the consolidated financial statements

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

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

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

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

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

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

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

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Mjerodavan sud: Trgovački sud u Zagrebu; Temeljni kapital: 20.000,00 kuna, uplaćen u cijelosti;
Članovi Uprave: Berislav Horvat, Zvonimir Madunić
Applicable court: Commercial court in Zagreb; Registered share capital is 20.000,00 HRK, fully paid;
Members of the Board: Berislav Horvat, Zvonimir Madunić

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

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

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

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

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

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

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

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

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 auditors of the Company on 29 June 2017. Our appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 27 June 2019, representing a total period of uninterrupted engagement appointment of 3 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 18 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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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 its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the consolidated financial statements.

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

Berislav Horvat
President of Management Board and certified auditor
Ernst & Young d.o.o.
Radnička cesta 50,
Zagreb, Croatia
23 March 2020

A member firm of Ernst & Young Global Limited
Mjerodavan sud: Trgovački sud u Zagrebu; Temeljni kapital: 20.000,00 kuna, uplaćen u cijelosti;
Članovi Uprave: Berislav Horvat, Zvonimir Madunić
Applicable court: Commercial court in Zagreb; Registered share capital is 20.000,00 HRK, fully paid;
Members of the Board: Berislav Horvat, Zvonimir Madunić

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts expressed in thousands of HRK)	Note	2019	2018
Revenues	5	5,506,404	5,330,624
Cost of trade goods sold		(1,600,586)	(1,505,820)
Change in inventories of finished goods and work in progress		18,235	(13,195)
Material and energy costs		(1,483,503)	(1,450,652)
Staff costs	6	(880,472)	(842,955)
Marketing and promotion costs	7	(321,462)	(338,293)
Depreciation, amortisation and impairment	2.24, 13 13a, 14, 15	(278,306)	(179,113)
Other operating costs	8	(528,288)	(620,714)
Other gains/(losses) - net	9	68,411	(13,115)
Operating profit		**500,433**	**366,767**
Finance income	10	5,930	12,028
Finance costs	10	(42,956)	(62,237)
Finance costs - net	10	(37,026)	(50,209)
Profit before tax		**463,407**	**316,558**
Income tax expense	11	(73,040)	(72,340)
Net profit for the year		**390,367**	**244,218**
Attributable to:			
Owners of the parent		388,880	243,970
Non-controlling interests		1,487	248
		390,367	244,218
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		116.73	73.19
- diluted		116.73	73.19

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

(all amounts expressed in thousands of HRK)	Note	2019	2018
Net profit for the year		**390,367**	**244,218**
Other comprehensive (loss)/income:			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains from defined benefit plan, net of tax		(2,385)	97
		(2,385)	**97**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences, net of tax	22	8,675	(33,081)
Cash flow hedges, net of tax	22	(2,965)	2,422
		5,710	**(30,659)**
Other comprehensive gain/(loss) for the year, net of tax		**3,325**	**(30,562)**
Total comprehensive income for the year		**393,692**	**213,656**
Attributable to:			
Owners of the parent		392,198	213,450
Non-controlling interests		1,494	206
Total comprehensive income for the year		393,692	213,656

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2019

(all amounts expressed in thousands of HRK)	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	13	971,915	966,860
Right-of-use assets	13a	372,247	-
Investment property		312	1,152
Intangible assets	15	1,658,675	1,706,820
Deferred tax assets	25	31,796	31,943
Financial assets through other comprehensive invome	17	1,025	1,027
Trade and other receivables	18	40,813	52,168
		3,076,783	2,759,970
Current assets			
Inventories	19	501,287	493,910
Trade and other receivables	18	1,269,915	1,247,478
Prepaid income tax		9,175	13,052
Derivative financial instruments	16	-	1,689
Cash and cash equivalents	20	384,526	413,663
		2,164,903	2,169,792
Non-current assets held for sale	14	5,583	5,583
Total current assets		2,170,486	2,175,375
TOTAL ASSETS		**5,247,269**	**4,935,345**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	881,323	881,275
Treasury shares	21	(5,884)	(92)
Reserves	22	(73,064)	(81,628)
Retained earnings		1,728,691	1,461,644
		2,664,438	2,394,571
Non-controlling interests		5,363	3,869
Total equity		2,669,801	2,398,440
Non-current liabilities			
Borrowings	24	412,550	805,882
Lease liabilities	13a	295,526	-
Deferred tax liabilities	25	153,228	160,437
Other non-current liabilities		2,204	2,656
Provisions	26	65,515	58,761
		929,023	1,027,736
Current liabilities			
Trade and other payables	23	933,191	926,188
Borrowings	24	517,337	472,386
Lease liabilities	13a	80,032	-
Derivative financial instruments	16	1,778	-
Current income tax liabilities		7,261	10,174
Provisions	26	108,846	100,421
		1,648,445	1,509,169
Total liabilities		2,577,468	2,536,905
TOTAL EQUITY AND LIABILITIES		**5,247,269**	**4,935,345**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital, Premium and Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2018	1,012,947	(52,428)	1,285,668	2,246,187	3,663	2,249,850
Comprehensive income:						
Net profit for the year	-	-	243,970	243,970	248	244,218
Other comprehensive (loss)/income	-	(30,617)	97	(30,520)	(42)	(30,562)
Total comprehensive income	-	(30,617)	244,067	213,450	206	213,656
Transaction with owners:						
Share based payment (Note 21)	3,772	-	-	3,772	-	3,772
Purchase of treasury shares (Note 21)	(2,164)	-	-	(2,164)	-	(2,164)
Transfer	-	1,417	(1,417)	-	-	-
Dividends relating to 2017 (Note 21)	-	-	(66,674)	(66,674)	-	(66,674)
Balance at 31 December 2018	**1,014,555**	**(81,628)**	**1,461,644**	**2,394,571**	**3,869**	**2,398,440**
Balance at 1 January	1,014,555	(81,628)	1,461,644	2,394,571	3,869	2,398,440
Effect of adoption of IFRS 16	-	-	(9,988)	(9,988)	-	(9,988)
Adjusted balances at 1 January 2019	**1,014,555**	**(81,628)**	**1,451,656**	**2,384,583**	**3,869**	**2,388,452**
Comprehensive income:						
Net profit for the year	-	-	388,880	388,880	1,487	390,367
Other comprehensive (loss)/income	-	5,703	(2,385)	3,318	7	3,325
Total comprehensive income	-	5,703	386,495	392,198	1,494	393,692
Transaction with owners:						
Share based payment (Note 21)	7,680	-	-	7,680	-	7,680
Purchase of treasury shares (Note 21)	(13,424)	-	-	(13,424)	-	(13,424)
Transfer	-	2,861	(2,861)	-	-	-
Dividends relating to 2018 (Note 21)	-	-	(106,599)	(106,599)	-	(106,599)
Balance at 31 December 2019	**1,008,811**	**(73,064)**	**1,728,691**	**2,664,438**	**5,363**	**2,669,801**

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

(all amounts expressed in thousands of HRK)	Note	2019	2018
Cash flows from operating activities:			
Cash generated from operations	29	697,531	633,824
Interest paid		(33,445)	(61,860)
Income tax paid		(77,705)	(109,858)
		586,381	462,106
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13,14,15	(225,248)	(140,626)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		3,518	1,512
Acquisition of subsidiary and proceeds from sale of subsidiary – net of cash disposed	28	149,830	59,511
Loans granted and deposits placed	18	(2,790)	(43,154)
Repayments of loan and deposits granted	18	6,637	34,614
Interest received		1,028	1,604
		(67,025)	(86,539)
Cash flows used in financing activities			
Purchase of treasury shares	21	(13,424)	(2,164)
Proceeds from borrowings, net of fees paid	24	273,362	80,064
Repayments of borrowings	24	(623,251)	(466,298)
Principal elements of lease payments	13a	(79,992)	-
Dividends paid to Company shareholders	21	(106,599)	(66,674)
		(549,904)	(455,072)
Net decrease in cash and cash equivalents		**(30,548)**	**(79,505)**
Exchange gains/ (losses) on cash and cash equivalents		1,411	(3,911)
Cash and cash equivalents at beginning of year		413,663	497,079
Cash and cash equivalents at end of year	20	**384,526**	**413,663**

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

NOTE 1 – GENERAL INFORMATION

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Changes in accounting policies and disclosures

The Group applied IFRS 16 for the first time in 2019. The nature and effects of the changes as a result of adoption of new accounting standard are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Standards and interpretations effective in the current period

- ***IFRS 16, "Leases"*** *(issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)* Replaced 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 for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor').

The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged from accounting 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 recognised 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 are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees are 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 generally recognises the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessors 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.

The Group has adopted standard from 1 January 2019 by applying the simplified transition approach and has not restated comparative amounts for the 2018, as permitted under specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.9.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.0%.

Right-of-use assets for property leases are measured on transition as if the new rules had always been applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying single discount rate to a portfolio of leases with reasonably similar characteristics
- Accounting for operating leases with a remaining lease term of less than 12 months and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., printing and photocopying machines) that are considered of low value.

ATLANTIC GRUPA d.d.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Standards and interpretations effective in the current period (continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	(in thousands of HRK)
Right-of-use assets	401,257
Lease liabilities	(411,245)
Net impact on equity	9,988

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases because of the adoption of IFRS 16.

Measurement of lease liabilities:

	(in thousands of HRK)
Operating lease commitments disclosed as at 31 December 2018	362,278
Discounted using the incremental borrowing rate at the date of initial application	324,571
(Less): short-term leases not recognized as a liability	(3,554)
Add: adjustment as a result of a different treatment of extension and termination options	90,228
Lease liability recognized as at 1 January 2019	**411,245**
Of which are:	
Current lease liabilities	73,172
Non-current lease liabilities	338,073

- ***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. These amendments have no impact on the financial statements of the Group.

- ***Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures***

The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These amendments do not have any impact on the financial statements of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Standards and interpretations effective in the current period (continued)

- ***IFRIC 23 Uncertainty over Income Tax Treatments***

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examinations by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The adoption did not have material impact on the financial statements of the Group.

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

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The adoption did not have material impact on the financial statements of the Group.

- ***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. These amendments have no impact on the financial statements of the Group.

○ *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. These amendments have no impact on the financial statements of the Group.

○ *IAS 12 Income Taxes* - clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized. 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. These amendments have no impact on the financial statements of the Group.

○ *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. These amendments have no impact on the financial statements of the Group.

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

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

- ***IFRS 17 Insurance Contracts*** effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU and is not applicable to the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

- ***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 standard has not been yet endorsed by the EU and the Management anticipates that the adoption will have no material impact on the financial statements of the Group.

- ***Conceptual Framework in IFRS standards – revised*** issued on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- ***IFRS 3: Business Combinations (Amendments) -*** amendments in Definition of a Business aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU and the Management anticipates that the adoption will have no material impact on the financial statements of the Group.

- ***IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)*** effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of 'material' and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of 'material' is consistent across all IFRS Standards. Management anticipates that the adoption will have no material impact on the financial statements of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments), effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the balance sheet and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management anticipates that the adoption will have no material impact on the financial statements of the Group.

- ***Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)*** effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. Management anticipates that the adoption will have no material impact on the financial statements of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

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

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

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

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

(b) Transactions with non-controlling interests

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

(c) Disposal of subsidiary

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

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

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

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

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

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

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

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

(b) Distribution rights

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

(c) Brands

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

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

(d) Computer software

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

(e) Licences

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

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

2.8 Financial assets

The Group classifies its financial assets in the following categories: 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 re-evalues this designation at each reporting date.

(a) Financial assets at amortised costs

The Group 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.

(c) Financial assets at fair value through OCI

The Group 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

(c) Financial assets at fair value through OCI (continued)

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 Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

The 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 Group 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 Group applies a simplified approach in calculating ECLs. Therefore, the Group 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)

2.9 Leases

As explained in Note 2.1 above, the Group has changed its accounting policy for leases where the Company is the lessee. The new policy is described below.

(i) The Group's leasing activities and accounting policy

The Group leases various offices, equipment and vehicles. Rental contracts are typically made for fixed periods of 12 months to 5 years but may have extension options as described in (iii) below.
Contracts may contain both lease and non-lease components. The Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.
Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. In that sense, incremental borrowing rate of 3%, representing unsecured risk of Group's bond was used for leases whose maturity is above 5 years, and incremental borrowing rate of 2%, representing the secured risk of Group's bank loans was used for leases with maturity of 5 years and less.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles, all leases of low-value assets and software licences are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Leases (continued)

(ii) Variable lease payments

The Group may be exposed to variable payment terms linked to an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. The Group's lease contracts capitalized in accordance with IFRS 16 as at 31 December 2019 do not contain variable payment terms.

(iii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations.

Until 31 December 2018. leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases.
Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.10 Inventories

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

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

Trade goods are carried at selling price less applicable taxes and margins. Where necessary, a provision is made for damaged and expired inventories.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest (EIR) method, less the allowance for expected credit losses (ECLs), as described in Note 2.8.

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred tax

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

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

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

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

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Long-term employee benefits

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

(d) Share-based compensation

Management and employees of the Group are entitled through ESOP program to receive 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 Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

(e) Short-term employee benefits

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

2.17 Provisions

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

Under IFRS 15 the Group recognise revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the Group expect to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

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

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

(a) Sales of products and trade goods – wholesale

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

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

(b) Sales of goods - retail

The Group operates a pharmacy and specialised stores.

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

(c) Sales of services

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

(d) Interest income

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

(e) 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 lessee and presented in income statement within 'other income'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Dividend distribution

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

2.20 Value added tax

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

2.21 Non-current assets held for sale

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

2.22 Derivative financial instruments and hedging activities

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

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

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

The fair value of cash flow hedge derivatives is disclosed in Note 16 and changes in cash flow hedge reserves are disclosed in Note 22.

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Trade payables

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

2.24 Investment property

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Investment property is derecognized when it either has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Transfers are made to or from investment property only when there is a change in use. The carrying amount approximates fair value. Investment property is held for long term rental yields and is not occupied by the Group. Depreciation expense related to investment property in 2018 was HRK 42 thousand.

2.25 Operating profit

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

2.26 Comparatives

In order to ensure comparability, operating results of segments for the year ended 31 December 2018 have been restated according reporting logic applied in 2019.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO, Serbian dinar (RSD), Russian ruble (RUB) and to a lesser extent the US dollar (USD). The appreciation of the Serbian dinar against EURO in 2019 resulted in HRK 2,340 thousand foreign currency gains from financing activities (2018: positive impact of HRK 742 thousand) while the appreciation of Russian ruble in 2019 did not have an impact on Group's financial activities results.

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

31 December 2019 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	306,638	345,255	3,146	19,214
Cash and cash equivalents	103,028	48,815	3,148	1,345
Trade and other payables	(336,968)	(171,963)	(21,687)	(8,067)
Borrowings	(562,900)	-	(1,559)	-
Lease liabilities	(65,561)	(61,622)	-	-
Net balance sheet exposure	**(555,763)**	**160,485**	**(16,952)**	**12,492**

31 December 2018 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	344,056	345,324	4,248	46,360
Cash and cash equivalents	189,561	32,640	33	2,551
Trade and other payables	(353,757)	(143,554)	(33,622)	(6,255)
Borrowings	(904,692)	-	(8,640)	-
Net balance sheet exposure	**(724,832)**	**234,410**	**(37,981)**	**42,656**

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

In the event of a rise of 1% in the EUR against HRK and RSD, assuming all other variables remain constant, the profit after tax for the year would have been HRK 641 thousand lower (2018: HRK 3,542 thousand lower), and other comprehensive income would be HRK 11,386 thousand higher (2018: HRK 11,636 thousand higher), due to the translation differences arising on consolidation of subsidiaries whose functional currency is EUR.

In the event of a rise of 1% in the RSD against HRK, assuming all other variables remain constant, the profit after tax for the year would have been HRK 195 thousand lower (2018: HRK 64 thousand lower) and other comprehensive income would be HRK 10,022 thousand higher (2018: HRK 9,127 thousand higher), assuming no change in other variables.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Equity securities risk

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

No reliable external information exists with respect to fair value. Management believes, based on internal information, that the fair value equals or exceeds carrying value. However, due to limited information available, management has not carried out a sensitivity analysis. At 31 December 2019, if the fair value of the financial assets through OCI would change, with all other variables held constant, other comprehensive income and revaluation reserves would also change by the same amount.

(iii) Cash flow and fair value interest rate risk

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

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

The Group analyses its interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. As at 31 December 2019, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2018: 100 basis points), the profit after tax would have been lower/higher by HRK 5,935 thousand (2018: HRK 8,993 thousand lower/higher), mainly as a result of increased/decreased interest expense.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

(c) Liquidity risk

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

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

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

At 31 December 2019, the Group held cash and cash equivalents in the amount of HRK 384,526 thousand (2018: HRK 413,663 thousand) and short-term deposits in the amount of HRK 30 thousand (2018: HRK 136 thousand). These are expected to readily generate cash inflows for managing liquidity risk.

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2019				
Trade and other payables	912,099	-	-	912,099
Borrowings (excluding finance lease)	531,790	423,808	-	955,598
Lease liabilities	92,316	211,518	126,432	430,266

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Total
31 December 2018			
Trade and other payables	878,521	-	878,521
Borrowings (excluding finance lease)	492,712	832,932	1,325,644

3.2 Changes in liabilities arising from financial activities

(in thousands of HRK)	Borrowings Current	Borrowings Non-Current	Leases Current	Leases Non-Current	Total
31 December 2018	**472,386**	**805,882**	**-**	**-**	**1,278,268**
Initial adoption of IFRS 16	-	-	73,172	338,073	411,245
1 January 2019	**472,386**	**805,882**	**73,172**	**338,073**	**1,689,513**
Cash flow	(342,508)	(7,381)	(79,992)	-	(429,881)
Acquisitions (leases)	-	-	-	46,449	46,449
Prepaid fee amortized	1,565	128	-	-	1,693
Current portion	390,192	(390,192)	87,935	(87,935)	-
FX movement	1,373	839	204	995	3,411
Other	(5,671)	3,274	(1,287)	(2,056)	(5,740)
31 December 2019	**517,337**	**412,550**	**80,032**	**295,526**	**1,305,445**

Line 'Other' includes the effect of unwinding discount related to provisions and the effect from disposal of subsidiaries. The Group classifies interest paid as cash flows from operating activities.

3.3 Capital risk management

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

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

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NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Capital risk management (continued)

The gearing ratios were as follows:

	2019	2018
	(in thousands of HRK)	
Total borrowings (Note 24)	929,887	1,278,268
Lease liabilities (Note 13a)	375,558	-
Derivative financial instruments (Note 16)	1,778	(1,689)
Less: Cash and cash equivalents (Note 20)	(384,526)	(413,663)
Net debt	922,697	862,916
Total equity	2,669,801	2,398,440
Total capital and net debt	**3,592,498**	**3,261,356**
Gearing ratio	**26%**	**26%**

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Comparing to previous year, without the IFRS 16 impact, gearing ratio would amount to 17%, reflecting the decrease in total borrowings.

3.4 Fair value estimation

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

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value estimation (continued)

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

(a) Expected useful lives of brands

Expected useful lives of brands is considered to be indefinite unless there are circumstances that would indicate they should be limited to a certain period. The Group considers such indicators at each reporting period.

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

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

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

(i) Licences

Operating segment *(in thousands of HRK)*	**31 Dcember 2019**	**31 December 2018**
SBU Pharma and Personal Care	171,059	162,159
	171,059	**162,159**

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

(ii) Brands

Operating segment *(in thousands of HRK)*	**31 December 2019**	**31 December 2018**
SBU Beverages	46,553	46,397
SBU Coffee	101,286	100,946
SBU Snacks	138,390	137,582
SBU Savoury Spreads	239,101	238,297
Baby food	8,487	28,105
	533,817	**551,327**

(iii) Goodwill

Operating segment *(in thousands of HRK)*	**31 December 2019**	**31 December 2018**
SBU Beverages	82,097	88,795
SBU Coffee	63,180	62,647
SBU Snacks	218,087	215,760
SBU Savoury Spreads	125,010	124,598
SBU Pharma and Personal Care	168,183	196,155
Baby food	-	6,193
SDU Croatia	42,210	35,508
SDU Serbia	51,320	50,895
SDU Slovenia	26,257	26,039
DU Macedonia	5,967	5,918
	782,311	**812,508**

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

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

Operating segment	**After-tax discount rate 2019**	**After-tax discount rate 2018**
SBU Beverages	6.7%	7.2%
SBU Coffee	7.3%	7.6%
SBU Snacks	7.8%	8.3%
SBU Savoury Spreads	6.9%	7.3%
SBU Pharma and Personal Care	6.5%	6.2%
Baby food	7.0%	7.0%
SDU Croatia	4.3%	6.8%
SDU Serbia	5.7%	8.0%
SDU Slovenia	4.3%	5.3%
DU Macedonia	6.0%	8.7%

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

The Growth rate assumptions were based on historical data and management's expectations for market development. Terminal growth rate is 2.0% for all Operating segments and individual asset impairment tests and it is based on management's expectations for market development (2018: 2.0%). Compared to 2018, after-tax discount rates in 2019 are mostly lower across segments, based on changed market conditions – combination of lower risk-free rates based on reduced sovereign yields across markets and pre-tax cost of debt based on reduced interest rates on loans to non-financial corporations.

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

	2019	2018
Barcaffe	5.0%	5.0%
Najlepše želje	6.0%	6.0%
Bananica	5.0%	5.0%
Smoki	7.0%	7.0%
Argeta	8.0%	8.0%
Donat	8.0%	8.0%
Cockta	5.0%	5.0%
Bebi	3.0%	3.0%
Bakina tajna	3.0%	3.0%
Licences	4.5%	4.5%

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 25,892 thousand was recognised (2018: HRK 26,373 thousand) in respect of impairment of intangible assets with indefinite useful lives.

The sensitivity analysis of key assumptions used in the impairment testing showed that a discount rate increase by 100 basis points would result on average in a 19.1% decrease of the recoverable amount of cash generating units (2018: 16.7%). Despite the decrease, the net recoverable amount of cash generating units would still exceed the carrying value.

(c) Deferred tax asset recognition

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

NOTE 5 – SEGMENT INFORMATION

The business model of the Group is organized through six strategic business units. Since 1st January 2019 business unit Gourmet is merged with strategic business unit Savoury spreads. The distribution business is organized to cover five largest markets – Croatia, Serbia, Slovenia, Macedonia and Austria and additionally, the Department of Global Distribution Account Management was established, covering the markets dominantly managed by distribution partners.

SBU – Strategic distribution unit
SDU – Strategic distribution unit
DU – Distribution unit

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

Since DU Macedonia, DU Austria and SBU Sports and Functional Food do not meet quantitative thresholds, required by IFRS 8 for reportable segments, they are reported within "Other segments". SBU Sports and Functional Food was entirely divested in April 2019. The "Other segments" category comprises also of non-allocable business activities (headquarters and support functions in Serbia, Slovenia, Bosnia and Herzegovina and Macedonia) which are excluded from the reportable operating segments.

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

Sales of individual business units represent in market sales made to third parties (either directly through business units or through distribution units). Distribution units' sales includes sales of own products also reported as business units' sales. This double counting of own product sales is eliminated in the "Reconciliation" line.

NOTE 5 – SEGMENT INFORMATION (continued)

Sales revenues *(in thousands of HRK)*	**2019**	**2018**
SBU Coffee	1,135,957	1,123,570
SBU Beverages	747,809	711,051
SBU Savoury Spreads	726,619	674,660
SBU Snacks	674,624	687,613
SBU Pharma and Personal Care	654,980	647,963
SDU Croatia	1,368,619	1,265,298
SDU Serbia	1,263,857	1,253,436
SDU Slovenia	941,613	907,930
Global Distribution Account Management	378,478	370,598
Other segments	401,699	413,557
Reconciliation	(2,862,523)	(2,800,170)
Total	**5,431,732**	**5,255,506**

Operating results	**For the year ended 31 December 2019**		
(in thousands of HRK)	**Operating profit before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating profit**
SBU Coffee	266,597	32,531	234,066
SBU Beverages	177,489	40,488	137,001
SBU Savoury Spreads	144,642	17,226	127,416
SBU Snacks	125,566	17,421	108,145
SBU Pharma and Personal Care	58,194	26,740	31,454
SDU Croatia	64,173	35,641	28,532
SDU Slovenia	60,931	8,287	52,644
SDU Serbia	40,193	19,106	21,087
Global Distribution Account Management	13,825	524	13,301
Other segments	(172,871)	80,342	(253,213)
Total	**778,739**	**278,306**	**500,433**

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NOTE 5 – SEGMENT INFORMATION (continued)

Operating results	**For the year ended 31 December 2018**		
(in thousands of HRK)	**Operating profit before Depreciation, Amortisation and Impairment**	**Depreciation, Amortisation and Impairment**	**Operating profit**
SBU Coffee	258,865	29,257	229,608
SBU Beverages	166,841	30,856	135,985
SBU Savoury Spreads	132,516	14,640	117,876
SBU Snacks	132,831	14,249	118,582
SBU Pharma and Personal Care	44,361	11,342	33,019
SDU Croatia	37,787	12,063	25,724
SDU Slovenia	52,122	3,882	48,240
SDU Serbia	32,387	1,769	30,618
Global Distribution Account Management	17,848	380	17,468
Other segments	(329,678)	60,675	(390,353)
Total	**545,880**	**179,113**	**366,767**

Geographical information

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

	2019	**2018**
	(in thousands of HRK)	
Serbia	1,010,984	936,111
Croatia	922,560	690,507
Slovenia	914,399	900,968
Other	155,206	147,246
Total geographically allocated non-current assets	**3,003,149**	**2,674,832**

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2019 (in thousands of HRK)	2019 %	2018 (in thousands of HRK)	2018 %
Croatia	1,885,169	34.7	1,735,738	33.0
Serbia	1,291,292	23.8	1,275,388	24.3
Slovenia	943,140	17.4	908,740	17.3
Bosnia and Herzegovina	430,294	7.9	421,675	8.0
Other regional markets*	419,341	7.7	351,873	6.7
Key European markets**	220,530	4.1	275,196	5.2
Russia and CIS countries	156,468	2.9	178,307	3.4
Other markets	85,498	1.5	108,589	2.1
Total sales by markets	**5,431,732**	**100.0**	**5,255,506**	**100.0**

*Other regional markets: Macedonia, Montenegro, Kosovo
**Key European markets: Germany, Switzerland, Austria, Sweden

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

Analysis of revenue by category	2019 (in thousands of HRK)	2019 %	2018 (in thousands of HRK)	2018 %
Sales by type of products				
Own brands	3,481,911	63.2	3,502,180	65.7
Principal brands	1,496,308	27.2	1,340,213	25.1
Pharmacy	453,513	8.2	413,113	7.8
Total sales by type of products	**5,431,732**	**98.6**	**5,255,506**	**98.6**
Other income /i/	74,672	1.4	75,118	1.4
Total revenues	**5,506,404**	**100.0**	**5,330,624**	**100.0**

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

NOTE 6 – STAFF COSTS

	2019	2018
	(in thousands of HRK)	
Gross salaries /i/	740,778	710,559
Public transport	18,624	17,354
Termination benefits	4,449	8,030
Christmas and Easter bonuses and holiday allowances	45,274	38,585
Other staff costs /ii/	71,347	68,427
	880,472	**842,955**

In 2019, the average number of employees was 5,557 (2018: 5,512).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2019 amounted to HRK 134,062 thousand (2018: HRK 128,651 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2019	2018
	(in thousands of HRK)	
Marketing and promotion costs - external	279,230	289,235
Marketing and promotion costs - related parties (Note 30)	4,258	4,271
Sponsorships and donations - external	37,974	44,787
	321,462	**338,293**

NOTE 8 – OTHER OPERATING COSTS

	2019	2018
	(in thousands of HRK)	
Transportation costs	146,556	140,776
Maintenance	108,995	112,430
Non-production material	29,362	27,729
Rentals (Note 13a and 27)	26,812	112,201
Taxes and contributions not related to operating results	25,715	22,012
Provision for impairment of inventories (Note 19)	25,095	21,736
Entertainment	23,012	25,368
Fuel	19,621	19,211
Intellectual services	18,256	19,714
Non-production services	16,537	15,751
Travel expense and daily allowances	15,348	17,970
Telecommunication services	10,967	12,782
Bank charges	8,433	8,305
Production services	6,919	8,657
Provision for impairment of trade receivables (Note 18)	5,382	9,875
Provision for impairment of other receivables (Note 18)	2,475	10,416
Supervisory Board fees	1,174	1,222
Collection of previously impaired receivables (Note 18)	(2,911)	(3,724)
Other – related parties (Note 30)	2,225	2,157
Other	38,315	36,126
	528,288	**620,714**

NOTE 9 – OTHER GAINS/(LOSSES) – NET

	2019	2018
	(in thousands of HRK)	
Gain/(loss) on sale of subsidiary – net of transaction expenses	56,946	(19,563)
Fair value gains on financial assets	5,703	13,233
Foreign exchange gains/(losses) – net	3,555	(4,704)
Gain on sale of property, plant and equipment	612	291
Other gains/(losses) – net	1,595	(2,372)
	68,411	**(13,115)**

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NOTE 10 – FINANCE COSTS – NET

	2019	2018
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	5,930	12,028
	5,930	12,028
Finance costs		
Interest expense on bank borrowings	(15,245)	(31,498)
Interest expense on lease liabilities	(10,201)	-
Interest expense on bonds	(6,386)	(6,386)
Interest expense on provisions for employee benefits	(682)	(993)
Interest expense on borrowings – related parties (Note 30)	-	(7,219)
Other interest expense /i/	(2,704)	(11,064)
Total interest expense	(35,218)	(57,160)
Foreign exchange loss on borrowings	(7,738)	(5,077)
	(42,956)	(62,237)
Finance costs - net	**(37,026)**	**(50,209)**

/i/ Other interest expenses relate to interests arising from unwinding of discount and default interests.

NOTE 11 – INCOME TAX

	2019	2018
	(in thousands of HRK)	
Current income tax	79,415	78,927
Deferred tax (Note 25)	(6,375)	(6,587)
	73,040	**72,340**

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

	2019	2018
	(in thousands of HRK)	
Profit before taxation	**463,407**	**316,558**
Income tax calculated at Croatian statutory income tax rate of 18%	83,413	56,980
Tax effects of:		
Lower income tax rates overseas	(27,140)	(20,482)
Income not subject to tax	(19,556)	(14,998)
Expenses not deductible for tax purposes	28,465	33,092
Effect of utilized tax incentives	(8,701)	(13,031)
Utilisation of previously unrecognized tax losses	(11,481)	(84)
Tax losses for which no deferred tax assets were recognised	28,565	30,863
Effect of utilized tax losses	(525)	-
Tax expense	**73,040**	**72,340**

The effective tax rate was 15.8% (2018: 22.9%). The decrease compared to the previous year primarily arises from a different level of tax loss utilization.

Two companies within the Group are currently subject to an audit by the Tax Authority relating to corporate income tax compliance for the year 2018 and corporate income tax and value added tax compliance for the year 2017. The said tax audits are in progress and management believes that the possibility of any outflow is remote.

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

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

	2019	2018
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	388,880	243,970
Weighted average number of ordinary shares in issue	3,331,481	3,333,167
Basic earnings per share *(in HRK)*	116.73	73.19

Diluted earnings per share

Diluted earnings per share are the same as basic earnings per share since there were no diluted potential ordinary shares.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets not yet in use	Total
At 31 December 2017					
Cost	102,743	949,638	1,739,704	75,074	2,867,159
Accumulated depreciation	-	(530,528)	(1,336,765)	-	(1,867,293)
Net book amount	**102,743**	**419,110**	**402,939**	**75,074**	**999,866**
At 1 January 2018					
Opening net book amount	102,743	419,110	402,939	75,074	999,866
Additions	-	-	-	121,382	121,382
Transfer	-	16,869	80,781	(97,650)	-
Disposals	-	-	(2,014)	-	(2,014)
Depreciation	-	(21,933)	(94,945)	-	(116,878)
Impairment charge	-	(5,008)	(448)	-	(5,456)
Divestment of subsidiary	(5,066)	(14,278)	(1,808)	-	(21,152)
Foreign exchange differences	(1,213)	(4,060)	(3,423)	(192)	(8,888)
Closing net book amount	**96,464**	**390,700**	**381,082**	**98,614**	**966,860**
At 31 December 2018					
Cost	96,464	936,444	1,714,996	98,614	2,846,518
Accumulated depreciation	-	(545,744)	(1,333,914)	-	(1,879,658)
Net book amount	**96,464**	**390,700**	**381,082**	**98,614**	**966,860**
At 1 January 2019					
Opening net book amount	96,464	390,700	381,082	98,614	966,860
Additions	-	-	-	160,478	160,478
Transfer	-	24,909	105,832	(130,741)	-
Transferred from investment property	-	963	-	-	963
Disposals	(1,124)	(98)	(1,684)	-	(2,906)
Depreciation	-	(23,174)	(96,641)	-	(119,815)
Impairment charge	-	(4,917)	(4,232)	(7,475)	(16,624)
Divestment of subsidiary	(4,490)	(9,439)	(7,053)	(24)	(21,006)
Foreign exchange differences	306	1,639	1,731	289	3,965
Closing net book amount	**91,156**	**380,583**	**379,035**	**121,141**	**971,915**
At 31 December 2019					
Cost	91,156	951,594	1,720,444	121,141	2,884,335
Accumulated depreciation	-	(571,011)	(1,341,409)	-	(1,912,420)
Net book amount	**91,156**	**380,583**	**379,035**	**121,141**	**971,915**

Property, plant and equipment with a net book value of HRK 192,831 thousand as at 31 December 2019 (2018: HRK 202,833 thousand), have been pledged as collateral for borrowings (Note 24).

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NOTE 13a – LEASES

This note provides information for leases where the Group is lessee.

(i) Amounts recognized in the balance sheet

(in thousands of HRK)	31 December 2019	1 January 2019
Right-of-use assets		
Buildings	275,871	304,126
Vehicles	94,894	95,545
Other	1,482	1,586
	372,247	401,257
Lease liabilities		
Current	80,032	73,172
Non-current	295,526	338,073
	375,558	411,245

Additions to the right-of-use assets during the 2019 financial year were HRK 46,449 thousand.

(ii) Amounts recognized in the income statement

(in thousands of HRK)	2019	2018
Depreciation charge of right-of-use assets		
Buildings	44,963	-
Vehicles	38,062	-
Other	787	-
	83,812	-
Interest expense (included in finance cost)	10,201	-
Expense related to short-term leases, leases of software licences and low value assets (included in other operating expenses)	26,812	-

The total cash outflow for leases in 2019 was HRK 79,992 thousand.

NOTE 14 – NON-CURRENT ASSETS HELD FOR SALE

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Opening net book amount	5,583	6,336
Disposals	-	(741)
Foreign exchange differences	-	(12)
Closing net book amount	**5,583**	**5,583**

NOTE 15 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brands	Rights	Software	Total
At 31 December 2017						
Cost	847,084	210,739	806,247	16,631	164,074	2,044,775
Accumulated amortisation and impairment	(12,332)	(48,580)	(102,638)	(11,833)	(119,176)	(294,559)
Net book amount	**834,752**	**162,159**	**703,609**	**4,798**	**44,898**	**1,750,216**
At 1 January 2018						
Opening net book amount	834,752	162,159	703,609	4,798	44,898	1,750,216
Foreign exchange differences	(6,975)	-	(8,449)	(63)	(98)	(15,585)
Additions	-	-	127	-	29,202	29,329
Divestment of subsidiary	-	-	-	-	(16)	(16)
Disposals	-	-	-	-	(387)	(387)
Amortisation	-	-	(12,813)	(3,119)	(14,432)	(30,364)
Impairment charge	(15,269)	-	(11,104)	-	-	(26,373)
Closing net book amount	**812,508**	**162,159**	**671,370**	**1,616**	**59,167**	**1,706,820**
At 31 December 2018						
Cost	840,109	210,739	776,712	16,418	179,181	2,023,159
Accumulated amortisation and impairment	(27,601)	(48,580)	(105,342)	(14,802)	(120,014)	(316,339)
Net book amount	**812,508**	**162,159**	**671,370**	**1,616**	**59,167**	**1,706,820**
At 1 January 2019						
Opening net book amount	812,508	162,159	671,370	1,616	59,167	1,706,820
Foreign exchange differences	4,609	-	3,046	3	73	7,731
Additions	-	8,900	1,077	132	28,444	38,553
Acquisition of subsidiary	6,406	-	-	-	-	6,406
Divestment of subsidiary	(34,997)	-	(6,474)	-	(1,309)	(42,780)
Amortisation	-	-	(12,859)	(803)	(17,821)	(31,483)
Impairment charge	(6,215)	-	(19,677)	-	(680)	(26,572)
Closing net book amount	**782,311**	**171,059**	**636,483**	**948**	**67,874**	**1,658,675**
At 31 December 2019						
Cost	816,127	219,639	759,260	16,606	203,932	2,015,564
Accumulated amortisation and impairment	(33,816)	(48,580)	(122,777)	(15,658)	(136,058)	(356,889)
Net book amount	**782,311**	**171,059**	**636,483**	**948**	**67,874**	**1,658,675**

The disclosure on goodwill and intangible assets with indefinite useful lives impairment test and the basis for impairment charge are provided in Note 4 b).
Intangible assets with a net book value of HRK 581,470 thousand as at 31 December 2019 (2018: HRK 593,988 thousand) have been pledged as collateral for borrowings (Note 24).

NOTE 16 – FINANCIAL INSTRUMENTS BY CATEGORY

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

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Financial assets at amortised cost		
Trade receivables	1,096,703	1,076,925
Loans and deposits given	44,433	59,795
Other financial assets at amortized cost	66,399	75,992
Cash and cash equivalents	384,526	413,663
	1,592,061	1,626,375
Financial assets at fair value through OCI		
Financial assets at fair value through OCI	1,025	1,027
Derivatives used for hedging		
Derivative financial instruments	-	1,689
Total financial assets	**1,593,086**	**1,629,091**
Total current	1,551,248	1,575,896
Total non-current	41,838	53,195
Financial liabilities at amortised cost		
Borrowings	929,887	1,278,268
Trade and other payables	911,721	878,143
	1,841,608	2,156,411
Derivatives used for hedging		
Derivative financial instruments	1,778	-
Lease liabilities	375,558	-
Financial liabilities at fair value through profit or loss		
Contingent consideration	2,554	2,955
Total financial liabilities	**2,221,498**	**2,159,366**
Total current	1,511,246	1,350,907
Total non-current	710,252	808,459

NOTE 17 – FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME (OCI)

Investments in financial assets through OCI relate to unlisted equity instruments and are carried at cost since they do not have a quoted market price and fair value cannot be reliably measured.
During 2019 and 2018, there were no impairment provisions on financial assets through OCI.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	33,912	44,874
Other non-current receivables	6,901	7,294
	40,813	52,168
Current receivables		
Trade receivables /ii/	1,096,703	1,076,925
Loans receivable and deposits /i/	10,521	14,921
Other receivables /iii/	162,691	155,632
	1,269,915	1,247,478
	1,310,728	**1,299,646**

	31 December 2019	31 December 2018
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	44,433	59,795
Trade receivables	1,096,703	1,076,925
Other receivables	66,399	75,992
	1,207,535	**1,212,712**

/i/ Loans receivable and deposits are as follows:

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Non-current receivables		
Deposits	1,664	1,586
Loans	32,298	47,435
Current portion	(50)	(4,147)
	33,912	44,874
Current receivables		
Loans – related parties (Note 30)	1,633	1,598
Loans	8,808	9,040
Deposits	30	136
Current portion of non-current receivables	50	4,147
	10,521	14,921
	44,433	**59,795**

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

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NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ Trade receivables are as follows:

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Gross trade receivables	1,088,398	1,091,944
Trade receivables – related parties (Note 30)	81,088	81,435
Provision for trade receivables	(72,783)	(96,454)
	1,096,703	**1,076,925**

/iii/ Other receivables are as follows:

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Receivables from government institutions	25,773	29,841
Outstanding advances	10,556	8,912
Prepaid expenses and accrued income	66,864	48,181
Interest receivable	393	228
Interest receivable – related parties (Note 30)	134	-
Receivables from the sale of subsidiaries	43,738	58,837
Other	15,233	9,633
	162,691	**155,632**

Due to uncertainty in collection, other receivables of HRK 2,475 thousand were impaired (2018: HRK 10,416 thousand), (Note 8).

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

As of 31 December 2019, trade receivables in the amount of HRK 72,783 thousand (2018: HRK 96,454 thousand) were provided for. The individually impaired receivables relate to customers that are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Up to 3 months	690	1,067
3 to 6 months	93	4,170
Over 6 months	72,000	91,217
	72,783	**96,454**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2019, trade receivables in the amount of HRK 145,999 thousand (2018: HRK 142,951 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Up to 3 months	101,513	106,752
3 to 6 months	24,800	19,787
Over 6 months	19,686	16,412
	145,999	**142,951**

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

	31 December 2019	31 December 2018
	(in thousands of HRK)	
EUR	306,638	344,056
HRK	432,300	398,835
RSD	345,255	345,324
Other	123,342	124,497
	1,207,535	**1,212,712**

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

	2019	2018
	(in thousands of HRK)	
As at 1 January	96,454	104,552
Provision for receivables impairment (Note 8)	5,382	9,875
Collected amounts reversed (Note 8)	(2,911)	(3,724)
Receivables written off	(20,848)	(4,760)
Divestment of subsidiary	(5,656)	(8,154)
Exchange differences	362	(1,335)
As at 31 December	**72,783**	**96,454**

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

NOTE 19 – INVENTORIES

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Raw materials and supplies	87,740	98,285
Work in progress	13,354	14,360
Finished goods	163,487	156,633
Trade goods	236,706	224,632
	501,287	**493,910**

As of 31 December 2019, inventories of HRK 25,095 thousand (2018: HRK 21,736 thousand) were impaired due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Current account and cash on hand	205,647	143,284
Foreign currency account	178,879	270,306
Deposits up to three months /i/	-	73
	384,526	**413,663**

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

Cash and cash equivalents are denominated in the following currencies:

	31 December 2019	31 December 2018
	(in thousands of HRK)	
EUR	103,028	189,561
HRK	205,633	143,652
RSD	48,815	32,640
Other	27,050	47,810
	384,526	**413,663**

NOTE 21 – SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of shares	Share capital	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2018	**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**
Purchase of treasury shares	(11,441)	-	-	(13,424)	(13,424)
Share based payments	6,525	-	48	7,632	7,680
31 December 2019	**3,329,290**	**133,372**	**881,323**	**(5,884)**	**1,008,811**

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. Mr. Tedeschi is the ultimate controlling party of the Group.

The ownership structure of the Company is as follows:

	31 December 2019		31 December 2018	
	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	246,926	7.41	231,178	6.93
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	30,211	0.90	22,656	0.68
Other shareholders	575,503	17.26	603,722	18.11
Treasury shares	5,010	0.15	94	0.00
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

Dividend distribution

According to the decision of the Company's General Assembly from 27 June 2019, the distribution of dividend in the amount of HRK 32.00 per share, or HRK 106,599 thousand in total was approved. Dividend was paid in July 2019.

In 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.

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

Share based payments

According to the Company's ESOP program, employees can opt to receive bonus in Company's shares and this right is granted to the Management as well as to other employees (equity- settled transactions).

One part of share options is conditional on the relevant employee's completing two or three years of service (vesting period) and the other part is available without restrictions.

The fair value of the shares granted in 2019 is determined as of the grant date, at the estimated market price of share of HRK 1,170.67 (2018: HRK 1,130.00).

In 2019, Management and employees have received 6,199 shares related to non-conditional shares granted in 2019 and 326 shares related to shares granted in 2017.
In 2018, Management and employees 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.

NOTE 22 – RESERVES

(in thousands of HRK)	Reserves /i/	Translation reserves /ii/	Cash flow hedge reserve /ii/	Total
At 1 January 2018	**15,908**	**(63,886)**	**(4,450)**	**(52,428)**
Foreign exchange differences	-	(33,039)	-	(33,039)
Transfer from retained earnings	1,417	-	-	1,417
Cash flow hedge	-	-	2,422	2,422
At 31 December 2018	**17,325**	**(96,925)**	**(2,028)**	**(81,628)**
Foreign exchange differences	-	8,668	-	8,668
Transfer from retained earnings	2,861	-	-	2,861
Cash flow hedge	-	-	(2,965)	(2,965)
At 31 December 2019	**20,186**	**(88,257)**	**(4,993)**	**(73,064)**

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

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

Components of Other comprehensive income:

	2019	2018
	(in thousands of HRK)	
Cash flow hedges:		
Currency forward contracts		
Reclassification during the year to profit or loss	(948)	4,316
Net gain/(loss) during the year (except not-yet matured contracts)	343	(2,444)
Net gain/(loss) during the year of not-yet matured contracts	(2,360)	550
	(2,965)	**2,422**

NOTE 23 – TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Trade payables	667,242	630,665
Trade payables – related parties (Note 30)	2,054	1,833
Other payables	263,895	293,690
	933,191	**926,188**

Other payables recorded as at 31 December are as follows:

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Gross salaries payable	40,375	48,951
Liabilities to state institutions	(22,761)	(4,853)
Accrued expenses	134,487	140,300
Vacation accrual	20,259	19,905
Contractual obligation	55,045	63,705
Termination benefits payable	3,478	3,569
Deferred income	343	2,164
Dividend payable	107	264
Other	32,562	19,685
	263,895	**293,690**

Financial liabilities i.e. trade and other payables excluding gross salaries payable, termination benefits payable and liabilities to state institutions are denominated in the following currencies:

	31 December 2019	31 December 2018
	(in thousands of HRK)	
EUR	336,968	353,757
HRK	348,062	324,228
RSD	171,963	143,554
Other	55,106	56,982
	912,099	**878,521**

NOTE 24 – BORROWINGS

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /i/	212,567	606,036
Bonds /ii/	199,983	199,846
	412,550	**805,882**
Short-term borrowings:		
Financial institutions /i/	517,213	472,262
Bonds /ii/	124	124
	517,337	**472,386**
	929,887	**1,278,268**

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

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

In November 2018, the Group signed amendment agreements with the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) where Group defined more favorable financial terms to the total outstanding credit package.

As at 31 December 2019, EUR 18.00 million of the committed line was unused (31 December 2018: EUR 30.00 million).

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

Borrowings from financial institutions are secured by pledges over property, plant and equipment (Note 13), intangible assets (Note 15) and shares of Atlantic Trade d.o.o. Zagreb and its subsidiaries: Atlantic Droga Kolinska d.o.o., Atlantic Grand d.o.o. Serbia and Atlantic Štark d.o.o.. Total net assets value of Atlantic Trade d.o.o. sub-consolidation as at 31 December 2019 was HRK 2,881,102 thousand (2018: HRK 2,747,366 thousand). Furthermore, issued bonds and part of borrowings from financial institutions are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators such as total net debt cover, interest cover, cash flow cover and maximum capital expenditures. At the balance sheet date, all covenant clauses were met.

NOTE 24 – BORROWINGS (continued)

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

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Fixed interest rate	200,107	237,035
Up to 3 months	429,550	535,308
3 to 6 months	300,230	505,925
	929,887	**1,278,268**

The maturity of long-term borrowings is as follows:

	31 December 2019	31 December 2018
	(in thousands of HRK)	
Between 1 and 2 years	411,918	336,133
Between 2 and 5 years	632	469,749
	412,550	**805,882**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 1.22% (2018: 1.63%). The effective annual interest rate related to bonds at the balance sheet date was 3.19% (2018: 3.19%).

The carrying amounts and fair value of long-term borrowings as at 31 December 2019 were as follows:

	Carrying amounts	Fair value
	(in thousands of HRK)	
Long-term borrowings		
Financial institutions	212,567	212,567
Bonds	199,983	201,160
	412,550	**413,727**

The fair values of borrowings from banks and financial institutions were based on cash flows discounted using a rate of 1.22% (2018: 1.63%).

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

	31 December 2019	31 December 2018
	(in thousands of HRK)	
HRK	365,428	364,936
EUR	562,900	904,692
USD	1,559	8,640
	929,887	**1,278,268**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 25 – DEFERRED TAX

Deferred tax assets are recognized for tax loss carry forwards and tax credits to the extent that realization of the related tax benefit through future taxable profits of the related Group entities is probable. The Group did not recognize deferred tax assets of HRK 18,997 thousand (2018: HRK 39,798 thousand) in respect of losses that arose in the Company and its three subsidiaries that can be carried forward against future taxable income. Deferred tax assets have not been recognized in respect of these losses as it is not probable that future taxable profit will be available for utilization of the temporary differences. Losses amounting to HRK 96,203 thousand (2018: HRK 83,923 thousand) expire over the next five years, while the losses in the amount of HRK 7,648 thousand (2018: HRK 78,162 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	Tax losses	Provisions	Other	Total
At 1 January 2018	**2,393**	**11,537**	**18,235**	**32,165**
(Charged)/credited to the income statement (Note 11)	986	1,063	1,819	3,868
(Charged)/credited to other comprehensive income	-	(6)	(321)	(327)
Divestment of subsidiary	-	(358)	100	(258)
Other changes	-	-	(2,671)	(2,671)
Exchange differences	(602)	(75)	(157)	(834)
At 31 December 2018	**2,777**	**12,161**	**17,005**	**31,943**
(Charged)/credited to the income statement (Note 11)	111	1,571	(2,742)	(1,060)
(Charged)/credited to other comprehensive income	-	53	450	503
Divestment of subsidiary	-	(444)	-	(444)
Exchange differences	792	23	39	854
At 31 December 2019	**3,680**	**13,364**	**14,752**	**31,796**

Deferred tax liabilities

(in thousands of HRK)	Fair value uplifts of assets acquired in business combinations	Other	Total
At 1 January 2018	**161,620**	**1,032**	**162,652**
Charged/(credited) to the income statement (Note 11)	(2,662)	(57)	(2,719)
Charged/(credited) to other comprehensive income	-	247	247
Other changes	-	(903)	(903)
Exchange differences	1,420	(260)	1,160
At 31 December 2018	**160,378**	**59**	**160,437**
Charged/(credited) to the income statement (Note 11)	(7,435)	-	(7,435)
Charged/(credited) to other comprehensive income	-	(248)	(248)
Exchange differences	285	189	474
At 31 December 2019	**153,228**	**-**	**153,228**

NOTE 26 – PROVISIONS

(in thousands of HRK)	Employee benefits	Legal proceedings	Other provisions	Total
At 31 December 2018	82,180	61,077	15,925	159,182
Analysis of total provisions:				
Non-current	38,834	14,067	5,860	58,761
Current	43,346	47,010	10,065	100,421
At 1 January 2019	**82,180**	**61,077**	**15,925**	**159,182**
Additions	53,966	761	6,150	60,877
Used during year	(39,271)	(3,832)	-	(43,103)
Divestment of subsidiary	(1,371)	-	(1,875)	(3,246)
Unused amounts reversed	(4,015)	(21)	(305)	(4,341)
Interest expense	1,178	-	1,640	2,818
Exchange differences	1,372	492	310	2,174
At 31 December 2019	**94,039**	**58,477**	**21,845**	**174,361**
Analysis of total provisions:				
Non-current	52,832	11,341	1,342	65,515
Current	41,207	47,136	20,503	108,846

Legal proceedings

The Group has recognized 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. In 2019 the Company provided additional amount of HRK 689 thousand related to default interests. The same will not become due until the appeal to the High Administrative Court which has been filed by Neva d.o.o. is decided upon.

In addition to the above, in the ordinary course of business, the Group is defendant and plaintiff in pending legal proceedings. In Management's opinion, the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2019.

Employee benefits

This provision comprises estimated long-term employee benefits relating to one-off retirement benefits and jubilee awards, as defined by the collective bargaining agreement and bonuses to employees. The non-current portion of the provision relates to estimated acquired rights to termination benefits and jubilee awards that will be paid after 31 December 2020. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 2,646 thousand that will be paid out within the following year from the balance sheet date.

Other provisions

Other provisions mainly relate to estimated legal obligation from the supply agreement.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2019 but not yet incurred amounted to HRK 67,364 thousand (2018: HRK 25,958 thousand) for property, plant and equipment and HRK 1,445 thousand for intangible assets (2018: HRK 195 thousand). There are no contracted obligations for product purchase as per Supply agreement at 31 December 2019 (2018: HRK 41,441 thousand).

The Group leases various outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between three and ten years and the majority of lease agreements are renewable at the end of the lease period at market rate. The Group also leases various property, plant and equipment under cancellable operating lease agreements. The Group is required to give three to six months' notice for the termination of these agreements.

From 1 January 2019, the Group has recognized right-of-use assets for these leases, except for short-term and low-value leases, see Note 13a and Note 2.9 for further information.

As at 31 December 2018 commitments for minimum lease payments in relation to non-cancellable operating leases are as follows:

	31 December 2018
	(in thousands of HRK)
Not later than 1 year	60,568
Later than 1 year and not later than 5 years	185,606
Over 5 years	116,104
	362,278

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES

/i/ During 2019 Atlantic Grupa has continued its corporate strategy of divesting the non-core business operations. As at 1 April 2019, Atlantic Grupa and the German company Genuport, a long-time partner in the distribution of sports and functional food, concluded an agreement on sales of the Sports and Functional Food business unit, which includes brands *Multipower*, *Champ* and *Multaben* within which the sports and functional food's production plants had already been previously divested to the Belgian company Aminolabs.

Atlantic Grupa and PharmaS Group signed an agreement in early October 2019 to sell company Fidifarm d.o.o., owner of Croatia's leading food supplements brand – *Dietpharm*. PharmaS has also acquired *Multivita*, a regional food supplement brand, whose product *Multivita Vitamin C* is the leading effervescent vitamin C on the Russian market. Transaction was closed on 31 December 2019.

As at 31 December 2019, Atlantic Grupa has sold distribution of water bidons, which is the core activity of the company Bionatura Bidon Vode d.o.o., while maintaining the business connected with the brand *Kala*.

The Group realized a gain from the sale of subsidiaries in the amount of HRK 32,070 thousand.

Cash received and receivables from sale of subsidiaries: *(in thousands of HRK)*	
Cash	103,031
Receivables	17,000
Total sales consideration	**120,031**
Carrying value of net asset disposed	(83,757)
Transaction expenses	(4,204)
Gain from sale of subsidiaries	**32,070**

Carrying value of net asset disposed *(in thousands of HRK)*	
Property, plant and equipment	21,006
Right-of-use assets	3,319
Intangible assets	42,780
Deferred tax assets	444
Inventories	26,857
Trade and other receivables	30,864
Cash and cash equivalents	8,432
Provisions	(3,246)
Lease liabilities	(3,343)
Current income tax liabilities	(638)
Trade and other payables	(42,718)
	83,757

Cash flow from sale of subsidiaries (in thousands of HRK)	
Cash received	103,031
Cash in subsidiaries sold	(8,432)
Proceeds from sale of subsidiaries - net	**94,599**

Disposed subsidiaries contributed HRK 140 million of revenues and HRK 14 million of loss to the Group in 2019.

ATLANTIC GRUPA d.d.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES (continued)

During 2019, the Group also collected HRK 55,972 thousand from the sale of the production plants in 2017 and realized additional gain in the amount of HRK 24,778 thousand.
Also, amount of HRK 1,460 thousand was collected from the sale of Neva in 2018 and additional gain of HRK 98 thousand was realized.

/ii/ As at 31 December, Atlantic Grupa entered into a strategic partnership with the network of *Vivas* cafés, which counts almost 300 coffee shops and bars. In this way, Atlantic Grupa significantly strengthened the espresso coffee segment. The partnership with *Vivas* cafés is a part of a well-defined strategy aimed at developing coffee business in Atlantic Grupa, taking a leading position in the Croatian coffee market and realising expansion in the growing out of home segment. Atlantic Grupa acquired 98.85% share in company Vivascaffe Professional d.o.o. Non-controlling interest in the acquired company is recognized at fair value. Because of this transaction, the provisional goodwill of HRK 6,406 thousand has been recognized as the difference between the cost of acquisition and the carrying value of net assets acquired. Provisional goodwill is subject to final purchase price allocation which will be completed within the 12 months period from the acquisition date.

Cash paid and liability for acquisition of subsidiary: *(in thousands of HRK)*	
Cash paid	2,206
Liability for acquisition of subsidiary	4,200
Total purchase consideration	**6,406**
Carrying value of net assets acquired	-
Provisional goodwill	**6,406**

Carrying value of net asset acquired *(in thousands of HRK)*	
Cash and cash equivalents	5
Current income tax liabilities	(5)
	-

Cash flow from acquisition of subsidiary (in thousands of HRK)	
Cash paid	2,206
Cash in subsidiary acquired	(5)
Payments for acquisition of subsidiary - net	**2,201**

NOTE 28 – BUSINESS COMBINATIONS AND DIVESTMENT OF SUBSIDIARIES (continued)

/iii/ In 2018 Atlantic Grupa sold its share in company Neva d.o.o. to the company Magdis d.o.o. and its share in company Atlantic Brands GmbH, Frankfurt to the company Genuport Trade GmbH. Both transactions were realised at the end of September 2018. The payoff of part of the sales price were realised till the end of 2018, while the rest was collected during 2019 and in the beginning of 2020. In addition to these transactions, the Group has recognised a provision for legal dispute connected to Neva d.o.o. and realized net loss from sale of subsidiaries in the amount of HRK 21,210 thousand.

Cash received and receivables from sale of subsidiaries *(in thousands of HRK)*	
Cash	34,059
Receivables	27,411
Total sales consideration	**61,470**
Current value of net asset disposed	(43,068)
Transaction expenses	(1,083)
Provision for legal dispute	(38,529)
Loss from sale of subsidiaries	**(21,210)**

Carrying value of net asset disposed as at 30 September 2018 *(in thousands of HRK)*	
Property, plant and equipment	21,152
Intangible assets	16
Deferred tax assets	258
Prepaid income tax	787
Inventories	17,644
Trade and other receivables	19,829
Cash and cash equivalents	3,997
Provisions	(1,277)
Trade and other payables	(19,338)
	43,068

Cash flow from sale of subsidiaries *(in thousands of HRK)*	
Cash received	34,059
Cash in subsidiaries sold	(3,997)
Proceeds from sale of subsidiaries - net	**30,062**

Disposed subsidiaries contributed HRK 97,421 thousand of revenues and HRK 3,619 thousand of loss to the Group in period from 1 January to 30 September 2018.

During 2018, the Group collected HRK 29,449 thousand of receivables from the sale of the subsidiaries in 2017 and realized additional profit from the sale in the amount of HRK 1,647 thousand.

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2019	2018
Net profit for the year		**390,367**	**244,218**
Income tax	11	73,040	72,340
Depreciation, amortisation and impairment	13, 13a, 14, 15, 2.24	278,306	179,113
Gain on sale of property, plant and equipment	9	(612)	(291)
(Gain)/Loss on sale of subsidiary - net of transaction expenses	9	(56,946)	19,563
Provision for current assets		32,952	42,027
Foreign exchange differences - net		1,808	132
Increase in provision for risks and charges	26	15,415	20,625
Fair value gains on financial assets	9	(5,703)	(13,233)
Share based payment	21	7,680	3,772
Interest income		(1,028)	(1,729)
Interest expense	10	35,218	57,160
Other non-cash items - net		(954)	(41)
Changes in working capital:			
(Increase)/Decrease in inventories		(59,329)	13,988
(Increase)/Decrease in current receivables		(80,856)	61,695
Increase/(Decrease) in current payables		68,173	(65,515)
Cash generated from operations		**697,531**	**633,824**

NOTE 30 – RELATED PARTY TRANSACTIONS

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

Related party transactions that relate to balances as at 31 December 2019 and as at 31 December 2018 and transactions recognized for the years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2019	2018
RECEIVABLES			
Current receivables			
Other entities	18	82,855	83,033
LIABILITIES			
Trade and other payables			
Other entities	23	2,054	1,833
REVENUES			
Sales revenues			
Other entities		510,621	496,026
Other revenues			
Other entities		3,043	1,310
EXPENSES			
Marketing and promotion costs	7		
Other entities		4,258	4,271
Other operating costs	8		
Other entities		2,225	2,157
Finance cost - net	10		
Shareholders		-	7,219

Management board compensation

In 2019 members of the Management Board received total gross amount of HRK 11,841 thousand relating to salaries, bonuses and Supervisory board compensation in respect of operating companies (2018: HRK 11,943 thousand).

NOTE 31 – AUDITORS' FEES

Statutory audit services fees to the auditor of the Group's financial statements, Ernst & Young d.o.o. amounted to HRK 2,354 thousand (2018: HRK 2,447 thousand), while fees related to other services amounted to HRK 68 thousand (2018: 63 thousand). Other services relate to subscription to EY online learning portal, related party reports and agreed upon procedures in relation to financial covenants calculation.

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NOTE 32 – SUBSIDIARIES

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

	2019	2018
Atlantic Cedevita d.o.o., Croatia	100%	100%
Atlantic Trade d.o.o., Croatia	100%	100%
- Atlantic Droga Kolinska d.o.o., Slovenia	100%	100%
- Atlantic Štark d.o.o., Serbia	100%	100%
- Atlantic Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- o.o.o. Atlantic Brands, Russia	100%	100%
- Atlantic Grand d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Atlantic Grand d.o.o., Bosnia and Herzegovina	100%	100%
- Atlantic Grand d.o.o.e.l., Macedonia	100%	100%
- Atlantic Brands d.o.o., Serbia	100%	100%
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., Macedonia	75%	75%
- Bionatura bidon vode d.o.o., Croatia (disposed in 2019)	-	100%
- Vivascaffe Proffesional d.o.o., Croatia (acquired in 2019)	99%	-
Fidifarm d.o.o., Croatia (disposed in 2019)	-	100%
Farmacia Holding d.o.o., Croatia (founded in 2019)	100%	-
- Atlantic Pharmacentar d.o.o., Croatia	100%	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	100%
Montana Plus d.o.o., Croatia	100%	100%
Atlantic Point d.o.o., Croatia	100%	100%
Hopen Investments, BV, Netherlands	100%	100%
- Tripoint GmbH, Germany (disposed in 2019)	-	100%
- Atlantic Management GmbH, Germany	100%	100%
Atlantic Multipower UK Ltd, Great Britain (liquidation in proceedings)	100%	100%
Atlantic Multipower Srl, Italy (liquidation in proceedings)	100%	100%
Atlantic Multipower Iberica, Spain (liquidated in 2019)	-	100%
Atlantic Brands GmbH, Austria	100%	100%

The Management Board of Atlantic Grupa d.d. (hereinafter: Atlantic Grupa or the Company), pursuant to the provisions of Articles 250a, 250b, 300a and 300b of the Companies Act and Articles 462 and 463 of the Capital Market Act, at its session held on 23 March 2020, rendered the following

DECISION

I The Annual Report of Atlantic Grupa d.d. is hereby determined, as stated in the text of the “ANNUAL REPORT 2019” enclosed with this Decision.

II The audited non-consolidated and consolidated annual financial statements for 2019 are hereby determined, which consist of the following: statement of financial position (balance sheet), income statement, statement of other comprehensive income, cash flow statement, statement of changes in equity and notes to the financial statements, as stated in the text that forms an integral part of the Report referred to in item I of this Decision.

III It is hereby determined that the auditor, Ernst & Young d.o.o. from Zagreb, Radnička cesta 50, produced the Auditor’s Report for 2019, as stated in the text that forms an integral part of the Report referred to in item I of this Decision.

IV The Management Board’s Report on the Status of the Company / Management Report for the period from 1 January 2019 to 31 December 2019 is hereby determined, as stated in the text that forms an integral part of the Report referred to in item I of this Decision.

V Pursuant to Article 463 of the Capital Market Act, the Company’s Management Board adopted the decision to publish the reports referred to in items I, II and III of this Decision, indicating that the Supervisory Board has yet to decide on them, i.e. they have not yet been approved by the competent body of the issuer Atlantic Grupa d.d.

V Pursuant to Article 300b of the Companies Act:

1. The reports referred to in items II and IV of this Decision shall be submitted to the Supervisory Board for examination together with a proposal that the Supervisory Board approves those Reports at its session scheduled according to the published calendar of events (5 May 2020);

2. The Auditor’s Report referred to in item III of this Decision shall be submitted to the Supervisory Board, so that the Supervisory Board could take its position at the session scheduled according to the published calendar of events (5 May 2020);

3. After the Supervisory Board adopts the decisions referred to in items 1 and 2, the Company’s Management Board shall, concurrently, at the session of the Supervisory Board scheduled according to the published calendar of events (5 May 2020), submit to the

Supervisory Board the Proposal of decision on the distribution of profits, so that the Supervisory Board could take its position;

4. The decision of the Company’s Supervisory Board on approval of annual reports, as well as the consequently adopted proposal of the Management Board and Supervisory Board on the distribution of profits, shall be published in accordance with Article 463 paragraph 4 of the Capital Market Act.

Atlantic Grupa d.d.

Emil Tedeschi, President of the Management Board

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The number of shares and their nominal value: 3.334.300 shares, each in the nominal amount of HRK 40.00. Share capital: 133,372,000.00 HRK, paid in full.
Management Board: Emil Tedeschi, Neven Vranković, Zoran Stanković, Lada Tedeschi Fiorio, Srećko Nakić, Enzo Smrekar; President of the Supervisory Board: Zdenko Adrović.

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