ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2010

Independent auditor's report

To the Shareholders of ATLANTIC GRUPA d.d.

We have audited the accompanying consolidated financial statements of ATLANTIC GRUPA d.d. and its subsidiaries („the Group") which comprise the consolidated balance sheet as of 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 28 March 2011

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

ATLANTIC GRUPA d.d.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts expressed in thousands of HRK)	**Note**	**2010**	**2009**
Revenues	5	2,301,945	2,221,815
Cost of trade goods sold		(1,085,720)	(1,043,938)
Change in inventories of finished goods and work in progress		9,405	15,835
Materials and energy expenses		(303,215)	(288,617)
Staff expenses	6	(325,942)	(322,544)
Marketing and promotion expenses	7	(148,692)	(139,372)
Depreciation, amortisation and impairment	13, 14	(55,061)	(43,188)
Other operating expenses	8	(291,850)	(254,750)
Other gains - net	9	64,115	8,600
Operating profit		**164,985**	**153,841**
Finance costs - net	10	(41,938)	(26,904)
Share in profit of joint venture	19	75	150
Profit before tax		**123,122**	**127,087**
Income tax expense	11	(16,325)	(29,758)
Profit for the year		**106,797**	**97,329**
Attributable to:			
Owners of the parent		94,993	85,053
Non-controlling interest		11,804	12,276
		106,797	97,329
Earnings per share for profit attributable to the owners of the Company during the year (in HRK)	12		
- basic		33.84	34.50
- diluted		33.84	34.50

The consolidated financial statements set out on pages 2 to 62 were approved by the Management Board of Atlantic Grupa d.d. in Zagreb on 28 March 2011.

President of the Management Board

Emil Tedeschi

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts expressed in thousands of HRK)	**2010**	**2009**
Profit for the year	**106,797**	**97,329**
Other comprehensive income:		
Currency translation differences	213	(1,752)
Cash flow hedge	(2,161)	(1,788)
Total other comprehensive income	(1,948)	(3,540)
Total comprehensive income	**104,849**	**93,789**
Attributable to:		
Owners of the parent	93,088	81,653
Non-controlling interest	11,761	12,136
Total comprehensive income	104,849	93,789

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

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2010

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2010**	**31 December 2009**
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,172,877	296,945
Investment property	2.24	1,816	-
Intangible assets	14	1,858,710	449,414
Available-for-sale financial assets	16	36,202	35,041
Interest in joint venture	19	-	179
Trade and other receivables	17	23,736	10,718
Deferred tax assets	25	52,924	7,485
		3,146,265	799,782
Current assets			
Inventories	18	480,408	233,736
Trade and other receivables	17	1,100,134	512,815
Prepaid income tax		17,951	4,128
Deposits	17	5,192	143,129
Derivative financial instrument	15a	7,939	-
Cash and cash equivalents	20	231,978	74,580
		1,843,602	968,388
Non-current assets held for sale	13	111,199	7,154
Total current assets		1,954,801	975,542
TOTAL ASSETS		**5,101,066**	**1,775,324**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	98,800
Share premium	21	883,022	312,784
Treasury shares	21	(112)	(3,180)
Reserves	22	(3,980)	(2,075)
Retained earnings		379,532	318,858
		1,391,834	725,187
Non-controlling interest		63,632	32,620
		1,455,466	757,807
Non-current liabilities			
Borrowings	24	2,006,540	379,240
Deferred tax liabilities	25	53,955	45,989
Other non-current liabilities	24a	38,421	-
Provisions	26	59,745	5,739
		2,158,661	430,968
Current liabilities			
Trade and other payables	23	711,751	446,975
Borrowings	24	697,744	109,112
Derivative financial instruments	15a	35,344	1,846
Current income tax liabilities		16,594	10,626
Provisions	26	25,506	17,990
		1,486,939	586,549
Total liabilities		3,645,600	1,017,517
TOTAL EQUITY AND LIABILITIES		**5,101,066**	**1,775,324**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
At 1 January 2009	**408,200**	**1,325**	**252,251**	**661,776**	**78,537**	**740,313**
Comprehensive income:						
Net profit for the year	-	-	85,053	85,053	12,276	97,329
Other comprehensive income	-	(3,400)	-	(3,400)	(140)	(3,540)
Total comprehensive income	-	(3,400)	85,053	81,653	12,136	93,789
Transaction with owners						
Acquisition of non-controlling interest	-	-	-	-	(47,802)	(47,802)
Purchase of treasury shares	(1,071)	-	-	(1,071)	-	(1,071)
Share based payment (Note 21)	1,275	-	(1,184)	91	-	91
Dividends relating to 2008	-	-	(17,262)	(17,262)	(10,251)	(27,513)
At 31 December 2009	**408,404**	**(2,075)**	**318,858**	**725,187**	**32,620**	**757,807**
Comprehensive income:						
Net profit for the year	-	-	94,993	94,993	11,804	106,797
Other comprehensive income	-	(1,905)	-	(1,905)	(43)	(1,948)
Total comprehensive income	-	(1,905)	94,993	93,088	11,761	104,849
Transaction with owners						
Proceeds from shares issued	605,014	-	-	605,014	-	605,014
Non-controlling interest arising on business combination (Note 28)	-	-	-	-	27,185	27,185
Acquisition of non-controlling interest	-	-	(11,474)	(11,474)	674	(10,800)
Share based payment (Note 21)	2,864	-	(1,870)	994	-	994
Dividends relating to 2009	-	-	(20,975)	(20,975)	(8,608)	(29,583)
At 31 December 2010	**1,016,282**	**(3,980)**	**379,532**	**1,391,834**	**63,632**	**1,455,466**

ATLANTIC GRUPA d.d.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts expressed in thousands of HRK)	**Note**	**2010**	**2009**
Cash flows from operating activities:			
Cash generated from operations	29	101,139	167,677
Interest paid		(27,249)	(27,671)
Income tax paid		(25,999)	(29,922)
		47,891	110,084
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13, 14, 24	(34,830)	(97,695)
Proceeds from sale of property, plant and equipment		10,750	5,301
Acquisition of subsidiary and non-controlling interest net of cash acquired	28	(1,695,637)	-
Advance received for sale of tangible assets	23	-	48,416
Advance for acquisition of subsidiaries and minority interests	17	-	(27,624)
Loans and deposits granted	17	(18,986)	(144,406)
Proceeds from repayment of loans and deposits	17	144,820	3,496
Dividend received		225	164
Interest received		13,025	10,868
		(1,580,633)	(201,480)
Cash flows from /(used) in financing activities			
Proceeds from issuance of ordinary shares	21	605,014	-
Purchase of treasury shares		-	(1,071)
Proceeds from borrowings	24	1,194,054	43,197
Repayments of borrowings	24	(79,345)	(48,830)
Dividends paid to non-controlling interests		(8,608)	(10,251)
Dividends paid to Company shareholders		(20,975)	(17,262)
		1,690,140	(34,217)
Net increase/ (decrease) in cash and cash equivalents		**157,398**	**(125,613)**
Cash and cash equivalents at beginning of year		74,580	200,193
Cash and cash equivalents at end of year	20	**231,978**	**74,580**

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

NOTE 1 – GENERAL INFORMATION

Atlantic Grupa d.d. (the Company) is incorporated in the Republic of Croatia. Atlantic Grupa is the leading European producer of sports food with the Multipower brand, the largest regional producer of vitamin instant drinks and food supplements with Cedevita and Dietpharm brands, a significant manufacturer of personal care products as well as the leading distributor of fast moving consumer goods in South-eastern Europe and leading private pharmacy chain in Croatia under the brand Farmacia. The registered activities of the Company and its subsidiaries (the Group) are production, distribution of consumer goods, imports and exports as well as brokerage and representation. The Group has manufacturing plants in Croatia and Germany with firms and representative offices in 10 countries. It exports its products to more than 30 markets worldwide.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) New and amended standards adopted by the Group

- *IFRS 3 (revised), 'Business combinations'* and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures' are effective prospectively to business combinations for which acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The revised standard was applied to the acquisitions that occurred in 2010. Acquisition related costs of HRK 52,779 thousand have been recognised as expense in the consolidated income statement, which previously would have been included in the consideration for the business combination. See note 28 for further details of the business combination that occurred in 2010.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IAS 27 (revised), 'Consolidated and separate financial statements'* requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and gain or loss is recognised in profit or loss. IAS 27 (revised) had an impact on the current period since the result of the transaction of the acquisition of non-controlling interest has been recognized in equity.

(b) New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect accounting for future transactions and events)

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not adopted them earlier:

- *IFRIC 17, 'Distribution of non-cash assets to owners'* (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- *IFRIC 18, 'Transfers of assets from customers'* (effective for transfer of assets received on or after 1 July 2009). This interpretation clarifies the requirements of IFRS for agreements in which the entity received from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- *IFRIC 9 - Reassessment of embedded derivatives and IAS 39 - Financial instruments: Recognition and measurement* (effective 1 July 2009) requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

- *IFRIC 16 - Hedges of a net investment in a foreign operation* (effective 1 July 2009) states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IAS 38 (amendment) - Intangible assets* (effective 1 January 2010) clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- *IAS 1 (amendment), 'Presentation of financial statements'* provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- *IAS 36 (amendment) – 'Impairment of assets'* (effective 1 January 2010) clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8 – 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- *IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'* (effective from 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

- *IFRS 5 (amendment), 'Non-current assets held-for-sale and discontinued operations'.* The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still applies, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

- *IFRS 9, 'Financial instruments part 1: Classification and measurement'*, issued in November 2009 and effective from 1 January 2013, while earlier adoption is permitted.
- *IAS 24 (revised), 'Related party disclosures'*, issued in November 2009 and effective for periods beginning on or after 1 January 2011.
- *'Classification of rights issues' (amendment to IAS 32),* issued in October 2009 and effective for periods beginning on or after 1 February 2010.
- *IFRIC 19, 'Extinguishing financial liabilities with equity instruments'*
- *'Prepayments of a minimum funding requirement' (amendments to IFRIC 14),* effective for annual periods beginning 1 January 2011.

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 the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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 uses the acquisition method of accounting 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 acquiree's net assets.

Investment in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of consideration transferred, the amount of any 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 is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the statement of comprehensive income (Note 2.6).

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

(b) Mergers

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

(c) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, 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.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(d) Joint ventures

The Group's interest in a jointly controlled entity is accounted for using the equity method of accounting and is initially recognised at cost. Under the equity method, the Group's share of post-acquisition profits or losses are recognised in the income statement, whereas its share of post-acquisition movements in reserves are recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

(e) Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised IAS 27, 'Consolidated and separate financial statements', became effective. The revision to IAS 27 contained consequential amendments to IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence is lost became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

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 Board of Directors.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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
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) in the income statement.

2.6 Intangible assets

(a) Goodwill

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

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not 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 the business combination in which the goodwill arose identified according to operating segment.

(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 amortization. Amortisation is calculated using the straight-line method to allocate the cost of brand over its estimated useful life (15 years).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(d) Computer software

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

(e) Licences

Licences acquired in a business combination are recognised 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.

2.7 Impairment of non-financial assets

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

2.8 Financial assets

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

(a) Loans and receivables

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

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

(b) Available-for-sale financial assets

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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

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

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets 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 available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Interest income and the translation differences are recognised in the income statement, whereas other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Leases

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

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

2.10 Inventories

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

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

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

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

2.11 Trade and loan receivables

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

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 current liabilities on the balance sheet.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

2.14 Borrowings

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

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

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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 possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(c) Long-term employee benefits

The 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.

(d) Share-based compensations

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

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

(e) Short-term employee benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions

Provisions for termination benefits, employee benefits, warranty claims, returns 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 is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, returns, rebates and discounts.

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 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 the pharmacy and specialised shops chain.

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. By the end of 2009, the Group launched a customer loyalty programme, allowing customers to accumulate points when they purchase products. The points can then be redeemed for free products or discount may be achieved 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition (continued)

(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.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by the management.

(d) Interest income

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

2.19 Dividend distribution

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

2.20 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where a provision has been made for impairment of receivables, 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 if their carrying amount is to be recovered principally through a sale transaction rather than continuing use.

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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Derivative financial instruments and hedging activities (continued)

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 15a 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’. 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’.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Comparatives and restatements

During 2010, due to final activities within the reporting process harmonization, the Group has changed the classification of several categories of expenses and income and this resulted in changes in comparative figures for 2009. The most important changes are related to the reclassification of income from sale of marketing material from 'Other revenues' to the decrease of 'Marketing and selling expenses'. Also, the classification of energy sources has changed from ‘Other operating expenses’ to ‘Materials and energy expenses’, while rebates from suppliers are reclassified from ‘Other operating expenses’ to ‘Change in inventories of finished goods and work in progress’. The classification of income from consumption of own goods has changed from ‘Marketing and selling expenses’ to ‘Cost of trade goods sold’.

The effect of these changes on comparative figures for 2009 is as follows:

(in thousands of HRK)	2009
Decrease in other revenues	(3,367)
Decrease in cost of trade goods sold	610
Decrease in change in inventories of finished goods and work in progress	602
Increase in materials and energy expenses	(1,518)
Decrease in marketing and selling expenses	3,252
Decrease in other operating expenses	501

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 equity securities risk), credit risk and liquidity risk. Management closely monitors the risk profile of the Group’s operations, including the establishment of authorisation and accountability levels.

(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. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Movements in exchange rates between the EURO and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow. The table below shows percentages of EURO denominated sales revenue, trade and other payables, trade and other receivables, cash and cash equivalents and borrowings in total consolidated figures.

	2010	**2009**
Sales revenue	30%	28%
Trade and other receivables	26%	40%
Trade and other payables	35%	31%
Cash and cash equivalents	59%	52%
Borrowings	92%	71%

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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.

At 31 December 2010, if the EURO had weakened /strengthened by 0.5% against the HRK (2009: 0.5%), with all other variables held constant, the profit after tax for the reporting period would have been HRK 3,675 thousand higher/lower (2009: HRK 655 thousand), mainly as a result of foreign exchange gains/losses on translation of EURO denominated borrowings, trade payables, cash and cash equivalents and trade receivables.

(ii) Equity securities risk

The Group is exposed to equity securities fair value and price risk amid investments held by the Group classified on the consolidated balance sheet as available for sale. Equity investments classified as available for sale are not listed. To manage its fair value and price risk arising from investments in equity securities, the Group monitors market transactions and performance of investment entities.
No reliable external information exists with respect to fair value. Management believes, based on internal information, that the fair value equals or exceeds carrying value. However, due to limited information available, management has not carried out a sensitivity analysis. At 31 December 2010, if the fair value of the available-for-sale investment would change, with all other variables held constant, other comprehensive income and revaluation reserves would also change by the same amount.

(iii) Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises from long-term borrowings and bonds issued. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable interests rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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 2010, if the effective interest rate on borrowings increased/decreased by 1% on an annual level (2009: 1%), the profit after tax would have been lower/higher by HRK 1,168 thousand (2009: 474 thousand) mainly as a result of increased/decreased interest expense.

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group's assets, potentially subjecting the Group to concentrations of credit risk, primarily include cash, deposits and trade and other receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. The Group's credit risk is low, since receivables are dispersed among a large group of customers. Additionally, the Group's key customers are large retail chains, whereas dependence on these customers is reduced by developing alternative distribution channels. The Group reduces credit risk by implementing strict policies for receivables collection and goods delivery, as well as securing receivables with standard security instruments (bills of exchange and promissory notes). No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. A detailed analysis and maximum exposure to credit risk is shown in Notes 15 and 17.

(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 the balance sheet date, the Group held cash and cash equivalents in the amount of HRK 231,978 thousand (2009: 74,580 thousand) and short-term deposits given in the amount of HRK 5,192 thousand (2009: 143,129 thousand). These are expected to readily generate cash inflows for managing liquidity risk.

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
31 December 2010				
Trade and other payables	657,990	-	-	657,990
Borrowings (excluding finance lease)	837,800	1,694,216	925,777	3,457,793
Finance lease liabilities	14,865	24,128	-	38,993
Other non-current liabilities	-	42,160	-	42,160
Derivative financial instruments	8,898	6,942	19,504	35,344

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
31 December 2009				
Trade and other payables	372,529	-	-	372,529
Borrowings (excluding finance lease)	128,864	351,320	64,363	544,547
Finance lease liabilities	3,067	5,774	-	8,841
Derivative financial instruments	1,846	-	-	1,846

3.2 Capital risk management

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

The gearing ratios were as follows:

	2010	2009
	(in thousands of HRK)	
Total borrowings (Note 24)	2,704,284	488,352
Less: Short-term deposits given and Cash and cash equivalents (Note 17 and 20)	(237,170)	(217,709)
Net debt	2,467,114	270,643
Total equity	1,455,466	757,807
Total capital	**3,922,580**	**1,028,450**
Gearing ratio	**63%**	**26%**

The Group's capital structure and therefore gearing ratio changed in 2010, reflecting thereby: (i) the increase in net debt due to new borrowing facilities raised to finance acquisition of Droga Kolinska and the net debt acquired through the business combinations as well as (ii) higher total equity largely due to capital increase held in 2010.

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.

3.3 Fair value estimation

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- 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 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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

The fair value of derivative financial instruments is based on quoted market prices at the balance sheet date (level 1) while the available-for-sale financial instruments are included in level 3.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

(a) Deferred income tax asset recognition

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

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

Goodwill and licences are tested annually for impairment as stated in Note 2.7.

Goodwill and licences with indefinite lives have been allocated to cash generating units within reporting segments, for impairment testing as follows:

Reporting segment *(in thousands of HRK)*	**Goodwill**	**Licences**
Consumer Health Care	10,333	-
Pharma	193,900	193,737

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by the management covering a six-year period in the Consumer Health Care segment and nine-year period in the Pharma segment. The cash flows beyond the six-year period in the Consumer Health Care segment and nine-year period in the Pharma segment were extrapolated with a terminal growth rate of 2%, whereas the discount rate applied to the cash flow projections is 8.78%. The Growth rate assumption was based on historical data and management's expectations for market development. The Discount rate used is based on the Group's weighted average cost of capital.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

Impairment loss of HRK 5,100 thousand recognised at the balance sheet date (2009: HRK 1,955 thousand) relates to licences that were acquired, but subsequently not used.

Sensitivity analysis of key assumptions used in the impairment testing showed that a terminal growth rate decrease by 100 basis points and weighted average cost of capital increase by 100 basis points would result on average in a 15.9% decrease of the recoverable amount of cash generating units. Despite the decrease, the net recoverable amount of cash generating units would still exceed the carrying value.

(c) Brand valuation

The fair value of acquired brands, relating to legally registered trademarks, was determined by independent valuers based on the income-comparative method. This method combined the use of comparative market transactions of licensing trademarks as well as cash flow projections of hypothetical royalty income based on historical sales information of related products and extrapolated estimated growth rates for subsequent periods.

Key assumptions used for cash flow projections were as follows:

	Fidifarm/ Dietpharm	**Montana**	**Multivita**
Growth rate	10%	5%	18%
Hypothetical royalty rate	4.94%	3.55%	4.94%
Discount rate	11.87%	7.59%	10%

The growth rate assumption is based on past performance and management's expectations for market development. The discount rate used is based on the weighted average cost of capital of entities using the trademarks.

(d) Licences valuation

The fair value of acquired licences, relating to exclusive rights for pharmacy business, was determined by independent valuators based on the income-comparative method. This method estimates net revenues from licences ownership (royalty) based on comparative market transactions of buying and selling of licences on the global market.

Key assumptions used for cash flow projections were as follows:

Growth rate	6.36%
Hypothetical royalty rate	4.80%
Discount rate	8.78%

The growth rate assumption is based on past performance and management's expectations for market development. The discount rate used is based on the weighted average cost of capital calculated as the risk free interest rate increased by the Republic of Croatia's risk premium.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(e) Transfer of control in business combinations

A business combination is accounted for at the acquisition date. This is the date on which the acquirer obtains control of the acquiree. All pertinent facts and circumstances surrounding a business combination should be considered in assessing when the acquirer has obtained control. Control is defined in IAS 27 as the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. The group has applied the principles in IAS 27 and IFRS 3 in determining the date on which control has passed and consequently has consolidated Droga Kolinska from 31 December 2010 based on the facts and circumstances surrounding this acquisition. This determination required significant judgement as it is difficult to weigh the various elements of what contributes to control as the difference between the date the share purchase agreement was signed and 31 December 2010 is approximately one month. In making this judgement, the group has evaluated all pertinent facts and circumstances and evaluated, among other factors, the extent to (and date by) which significant contracts with customers, suppliers, distributers, employees could be changed and the extent to (and the date by) which the group could commence realising synergies without restriction.

If the group consolidated Droga Kolinska as of 30 November 2010, the consolidated group revenues would be HRK 180,123 thousand higher, and net profit would be HRK 9,813 thousand higher.

NOTE 5 – SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable segments – divisions as follows:

- **The Distribution Division** deals with the distribution of consumer goods including products of the Consumer Health Care, Sports and Functional Food and Pharma division.

- **The Consumer Health Care Division** produces instant vitamin drinks, tea, sweets, cosmetics and personal hygiene products.

- **The Sports and Functional Food Division** specialises in the development, production and sale of sports and health food.

- **The Pharma Division** specialises in the development, production and sales of prescription drugs, OTC products and food supplements, through its chain of pharmacy stores.

By the end of 2010, the Group has acquired 100% ownership in Droga Kolinska d.d.. The consolidated balance sheet as at 31 December 2010 includes balance sheet positions of Droga Kolinska.

Starting from 1 January 2011, the operating results of the Droga Kolinska business will be monitored separately, through the fifth reportable segment – **The Droga Kolinska Division**.

Management 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 operating profit or loss as explained in the following table. Group financing (including finance costs and finance income), share of profit of a joint venture and income taxes are managed on a group basis and are not allocated to operating segments.

NOTE 5 – SEGMENT INFORMATION (continued)

Sales between operating segments are carried out at arm's length.

Year ended 31 December 2010 *(in thousands of HRK)*	**Distribution**	**Consumer Health Care**	**Sports and Functional Food**	**Pharma**	**Unallocated /i/**	**Group**
Gross revenues	1,308,296	492,044	558,412	330,832	9,647	2,699,231
Inter-segment revenues /ii/	21,397	352,128	4,024	19,737	-	397,286
Total revenues	**1,286,899**	**139,916**	**554,388**	**311,095**	**9,647**	**2,301,945**
Operating profit before depreciation and amortisation	48,778	108,695	36,832	23,287	2,454	220,046
Depreciation and amortisation	11,329	25,519	6,703	6,410	5,100	55,061
Operating profit	**37,449**	**83,176**	**30,129**	**16,877**	**(2,646)**	**164,985**
Capital expenditure /iii/	6,665	15,327	5,257	7,373	1,709	36,331
Total assets /iv/	**561,173**	**598,000**	**164,158**	**580,608**	**(208,437)**	**1,695,502**

At 31 December 2010, assets of the segment Droga Kolinska amounted to HRK 3,037,730 thousand.

Year ended 31 December 2009 *(in thousands of HRK)*	**Distribution**	**Consumer Health Care**	**Sports and Functional Food**	**Pharma**	**Unallocated /i/**	**Group**
Gross revenues	1,331,304	503,222	494,602	300,196	8,314	2,637,638
Inter-segment revenues /ii/	21,281	379,241	2,519	12,782	-	415,823
Total revenues	**1,310,023**	**123,981**	**492,083**	**287,414**	**8,314**	**2,221,815**
Operating profit before depreciation and amortisation	41,936	105,757	27,788	14,921	6,627	197,029
Depreciation and amortisation	10,729	18,975	6,254	5,275	1,955	43,188
Operating profit	**31,207**	**86,782**	**21,534**	**9,646**	**4,672**	**153,841**
Capital expenditure /iii/	9,151	75,441	7,587	6,901	3,037	102,117
Total assets /iv/	**480,240**	**458,183**	**144,634**	**556,797**	**(155,942)**	**1,483,912**

/i/ Unallocated relates to the Company's gross revenues and corporate overheads that cannot reasonably be allocated to any operating segment.

/ii/ Inter-segment revenues are eliminated on consolidation.

/iii/ Capital expenditure consists of additions of property, plant and equipment (Note 13) and intangible assets (Note 14) excluding the Company's additions and assets from the acquisitions of subsidiaries.

NOTE 5 – SEGMENT INFORMATION (continued)

/iv/ Inter-segment receivables are eliminated on consolidation. Reportable segment assets are reconciled to total consolidated assets as follows:

	2010	**2009**
	(in thousands of HRK)	
Segment assets for reportable segments	4,941,669	1,639,854
Inter-segment receivables	**(208,437)**	**(155,942)**
Unallocated:		
Property, plant and equipment	1,036	1,754
Intangible assets	2,871	1,407
Trade and other receivables	29,692	27,837
Available-for-sale financial assets	36,202	35,041
Interest in joint venture	-	179
Deferred tax assets	52,924	7,485
Short term deposits given	5,192	143,129
Derivative financial instruments	7,939	-
Cash and cash equivalents	231,978	74,580
Total assets per the balance sheet	**5,101,066**	**1,775,324**

The measure of liabilities has not been disclosed for reportable segments as liabilities are provided to the chief operating decision maker on a Group basis only.

Geographical information

The total of non-current assets other than financial instruments, deferred tax assets and provisional goodwill recognized on acquisition of Droga Kolinska d.d. is located as follows:

	2010	**2009**
	(in thousands of HRK)	
Serbia	927,980	36,572
Croatia	772,247	678,394
Slovenia	542,388	540
Other	254,547	30,853
Total geographically allocated non-current assets	**2,497,162**	**746,359**

NOTE 5 – SEGMENT INFORMATION (continued)

	2010 *(in thousands of HRK)*	%	2009 *(in thousands of HRK)*	%
Revenues by markets				
Croatia	1,278,090	55.5	1,341,492	60.4
International markets				
Germany	245,781	10.7	241,433	10.9
European Union (excluding Germany)	303,560	13.2	297,397	13.4
South-eastern Europe (excluding Croatia)	260,634	11.4	244,123	11.0
Other	213,880	9.2	97,370	4.3
Total international markets	1,023,855	44.5	880,323	39.6
Total revenues	**2,301,945**	**100.0**	**2,221,815**	**100.0**

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

Analysis of revenue by category

	2010 *(in thousands of HRK)*	%	2009 *(in thousands of HRK)*	%
Sales by type of products				
Own brands	934,603	40.6	936,385	42.2
Principal brands	904,802	39.3	896,254	40.3
Pharmacy	237,475	10.3	224,745	10.1
Private label	191,761	8.4	142,029	6.4
Total sales by type of products	**2,268,641**	**98.6**	**2,199,413**	**99.0**
Other revenue /v/	33,304	1.4	22,402	1.0
Total revenue	**2,301,945**	**100.0**	**2,221,815**	**100.0**

/v/ Other revenues mainly comprise of interest and rental income.

NOTE 6 – STAFF EXPENSES

	2010	**2009**
	(in thousands of HRK)	
Gross salaries /i/	287,230	286,522
Public transport	6,476	6,716
Termination benefits	5,770	1,877
Share options granted (Note 21)	5,210	1,433
Other staff costs /ii/	21,256	25,996
	325,942	**322,544**

At 31 December 2010, the number of staff employed by the Group was 1,787 (2009: 1,719).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2010 amounted to HRK 35,294 thousand (2009: 34,857 thousand).

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

NOTE 7 – MARKETING AND PROMOTION EXPENSES

	2010	**2009**
	(in thousands of HRK)	
Marketing expenses - external	80,733	82,367
Marketing expenses – related parties (Note 30)	4,386	3,021
Promotion expenses	33,284	30,809
Sponsorships and donations	23,362	16,881
Entertainment	6,927	6,294
	148,692	**139,372**

NOTE 8 – OTHER OPERATING EXPENSES

	2010	2009
	(in thousands of HRK)	
Rentals	47,194	48,273
Transportation expenses	42,779	42,162
Bank charges	38,556	4,502
Maintenance	29,358	28,722
Intellectual services	29,204	10,840
Provision for impairment of inventories (Note 18)	17,590	18,226
Production services	12,674	16,849
Fuel	12,381	10,594
Non-production material	10,174	10,326
Travel expense and daily allowances	8,656	8,617
Telecommunication services	8,558	7,722
Taxes and contributions not related to operating results	6,655	5,161
Non-production services	5,764	4,831
Provision for impairment of trade receivables (Note 17)	3,411	9,381
Brokerage services	-	4,766
Supervisory Board fees	1,565	1,541
Royalties	1,217	800
Collected amounts reversed (Note 17)	(3,848)	(491)
Other – related parties (Note 30)	2,227	2,634
Other	17,735	19,294
	291,850	**254,750**

NOTE 9 – OTHER GAINS – NET

	2010	2009
	(in thousands of HRK)	
Gain on sale of property, plant and equipment	49,647	1,153
Gain on sale of financial assets	-	25
Foreign exchange gains/(losses) – net	9,585	(350)
Other gains – net /i/	4,883	7,772
	64,115	**8,600**

/i/ Other gains – net mostly relate to Excess of fair value of net assets acquired over acquisition cost recognized on acquisition of Kalničke vode Bionatura d.d. (Note 28). In 2009, this amount comprises of gains from the purchase of the minority interest in subsidiary Cedevita d.o.o. (Note 28 (ii)) and to expenses related to the transfer of the Neva production to a new location.

NOTE 10 – FINANCE COSTS – NET

	2010	2009
	(in thousands of HRK)	
Finance income		
Foreign exchange gains from borrowings	(9,661)	(10,285)
	(9,661)	(10,285)
Finance costs		
Foreign exchange loss from borrowings	12,932	9,575
Interest expense on bank borrowings	23,818	13,535
Interest expense on bonds and commercial papers	6,498	6,603
Interest expense on borrowings – related parties (Note 30)	8,351	7,476
	51,599	37,189
	41,938	**26,904**

NOTE 11 – INCOME TAX

	2010	2009
	(in thousands of HRK)	
Current income tax	20,625	29,133
Deferred tax (Note 25)	(4,300)	625
	16,325	**29,758**

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:

	2010	2009
	(in thousands of HRK)	
Profit before taxation	123,122	127,087
Income tax calculated at the domestic tax rate applicable to profits in the respective countries	76,180	28,807
Tax effect of:		
Adjustments in respect of prior years	(2,586)	1,908
Income not subject to tax	(40,293)	(7,036)
Expenses not deductible for tax purposes	3,590	4,926
Utilisation of previously unrecognized tax losses	(21,280)	(1,186)
Effect of utilized tax losses	714	2,339
Tax expense	**16,325**	**29,758**

The weighted average effective tax rate was 13.2% (2009: 23.4%). The decrease in effective tax rate is primarily caused by utilisation of income tax losses of acquired subsidiaries.

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are 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.

	2010	**2009**
Net profit attributable to shareholders *(in thousands of HRK)*	94,993	85,053
Weighted average number of shares	2,807,386	2,465,279
Basic earnings per share *(in HRK)*	33.84	34.50

Diluted earnings per share

Diluted earnings per share are the same as basic earnings per share as there were no convertible potentially dilutive ordinary shares.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets not yet in use	Total
At 31 December 2008					
Cost	26,355	203,518	362,120	52,040	644,033
Accumulated depreciation	-	(122,542)	(279,382)	-	(401,924)
Net book amount	**26,355**	**80,976**	**82,738**	**52,040**	**242,109**
At 1 January 2009					
Opening net book amount	26,355	80,976	82,738	52,040	242,109
Additions	39	1,212	13,921	83,969	99,141
Transfer	-	22,968	109,647	(132,615)	-
Disposals	-	-	(5,085)	(16)	(5,101)
Depreciation	-	(8,106)	(23,512)	-	(31,618)
Transfer to assets held for sale /i/	(976)	(5,721)	(52)	(405)	(7,154)
Foreign exchange differences	(11)	(9)	(409)	(3)	(432)
Closing net book amount	**25,407**	**91,320**	**177,248**	**2,970**	**296,945**
At 31 December 2009					
Cost	25,407	201,956	456,232	2,970	686,565
Accumulated depreciation	-	(110,636)	(278,984)	-	(389,620)
Net book amount	**25,407**	**91,320**	**177,248**	**2,970**	**296,945**
At 1 January 2010					
Opening net book amount	25,407	91,320	177,248	2,970	296,945
Acquisition of subsidiary (Note 28)	87,230	343,618	388,021	68,214	887,083
Additions	-	2,662	24,035	6,080	32,777
Transfer	-	214	7,350	(7,564)	-
Disposals	(15)	-	(2,350)	(15)	(2,380)
Depreciation	-	(9,160)	(32,429)	-	(41,589)
Foreign exchange differences	50	77	(95)	9	41
Closing net book amount	**112,672**	**428,731**	**561,780**	**69,694**	**1,172,877**
At 31 December 2010					
Cost	112,672	727,837	1,517,757	69,694	2,427,960
Accumulated depreciation	-	(299,106)	(955,977)	-	(1,255,083)
Net book amount	**112,672**	**428,731**	**561,780**	**69,694**	**1,172,877**

Property, plant and equipment with a net book value of HRK 496,925 thousand as at 31 December 2010 (2009: HRK 115,484 thousand), have been pledged as collateral for borrowings (Note 24).

Property, plant and equipment include assets leased under finance lease with a net book value of HRK 38,375 thousand (2009: 8,720 thousand).

/i/ During 2009, due to the transfer of production facilities, the Group has initiated sale of property which was completed in January 2010. This sale resulted in a HRK 48,557 thousand gain on sale recognised in the income statement within ‘Other gains/(losses)-net (Note 9).

Non-current assets held for sale in the total amount of HRK 111,199 as at 31 December 2010 relate to the property of Droga Kolinska, the major part of which is situated in Ljubljana.

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	**Goodwill**	**Licences**	**Brand**	**Rights**	**Software**	**Total**
At 31 December 2008						
Cost	209,765	207,607	63,309	40,116	20,058	540,855
Accumulated amortisation	-	-	(8,076)	(34,028)	(15,098)	(57,202)
Net book amount	**209,765**	**207,607**	**55,233**	**6,088**	**4,960**	**483,653**
At 1 January 2009						
Opening net book amount	209,765	207,607	55,233	6,088	4,960	483,653
Foreign exchange differences	-	-	-	(1)	1	-
Additions	-	-	-	-	2,976	2,976
Disposals	(4,133)	(21,468)	-	-	(44)	(25,645)
Amortisation	-	-	(4,224)	(2,793)	(2,598)	(9,615)
Impairment /i/	-	(1,955)	-	-	-	(1,955)
Closing net book amount	**205,632**	**184,184**	**51,009**	**3,294**	**5,295**	**449,414**
At 31 December 2009						
Cost	205,632	184,184	63,309	40,055	22,929	516,109
Accumulated amortisation	-	-	(12,300)	(36,761)	(17,634)	(66,695)
Net book amount	**205,632**	**184,184**	**51,009**	**3,294**	**5,295**	**449,414**
At 1 January 2010						
Opening net book amount	205,632	184,184	51,009	3,294	5,295	449,414
Foreign exchange differences	(4,330)	-	(4,851)	-	18	(9,163)
Acquisition of subsidiary (Note 28)	824,300	14,653	558,484	-	30,993	1,428,430
Additions	-	-	-	-	3,554	3,554
Disposals	-	-	-	-	(53)	(53)
Amortisation	-	-	(3,820)	(1,882)	(2,670)	(8,372)
Impairment /i/	-	(5,100)	-	-	-	(5,100)
Closing net book amount	**1,025,602**	**193,737**	**600,822**	**1,412**	**37,137**	**1,858,710**
At 31 December 2010						
Cost	1,025,602	193,737	847,562	40,055	100,924	2,207,880
Accumulated amortisation	-	-	(246,740)	(38,643)	(63,787)	(349,170)
Net book amount	**1,025,602**	**193,737**	**600,822**	**1,412**	**37,137**	**1,858,710**

The disclosure on goodwill and licences impairment test is given in Note 4 b).

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

Intangible assets with a net book value of HRK 227,963 thousand as at 31 December 2010 (2009: HRK nil) have been pledged as collateral for borrowings (Note 24).

NOTE 15a – FINANCIAL INSTRUMENTS BY CATEGORY

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

(in thousands of HRK)	**Loans and receivables**	**Available-for-sale financial assets**	**Assets at fair value through profit or loss**	**Total**
31 December 2010				
Financial assets				
Available-for-sale	-	36,202	-	**36,202**
Trade and other receivables	1,069,654	-	-	**1,069,654**
Short-term deposits given	5,192	-	-	**5,192**
Derivative financial instruments /i/	-	-	7,939	**7,939**
Cash and cash equivalents	231,978	-	-	**231,978**
Total	**1,306,824**	**36,202**	**7,939**	**1,350,965**

(in thousands of HRK)	**Other financial liabilities**	**Finance leases**	**Derivatives used for hedging**	**Liabilities at fair value through profit or loss**	**Total**
31 December 2010					
Financial liabilities					
Borrowings	2,668,758	-	-	-	**2,668,758**
Finance leases	-	35,526	-	-	**35,526**
Other non-current liabilities	38,421	-	-	-	**38,421**
Derivative financial instruments /ii/	-	-	3,949	31,395	**35,344**
Trade and other payables	657,990	-	-	-	**657,990**
Total	**3,365,169**	**35,526**	**3,949**	**31,395**	**3,436,039**

(in thousands of HRK)	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
31 December 2009			
Financial assets			
Available-for-sale	-	35,041	**35,041**
Trade and other receivables	472,929	-	**472,929**
Short-term deposits given	143,129	-	**143,129**
Cash and cash equivalents	74,580	-	**74,580**
Total	**690,638**	**35,041**	**725,679**

(in thousands of HRK)	**Other financial liabilities**	**Finance leases**	**Derivatives used for hedging**	**Total**
31 December 2009				
Financial liabilities				
Borrowings	480,692	-	-	**480,692**
Finance leases	-	7,660	-	**7,660**
Cash flow hedge	-	-	1,846	**1,846**
Trade and other payables	372,529	-	-	**372,529**
Total	**853,221**	**7,660**	**1,846**	**862,727**

NOTE 15a – FINANCIAL INSTRUMENTS BY CATEGORY (continued)

/i/ The receivables for derivates comprise the fair value of interest-rate risk hedges in the subsidiary Droga Kolinska d.d.

/ii/ Derivative financial instruments classified as held for sale primarily comprise of HRK 29,851 thousand relating to the fair value of interest-rate risk hedges and to HRK 1,544 thousand relating to the fair value of open futures contracts for hedging the foreign-exchange risk.

NOTE 15b – CREDIT QUALITY OF FINANCIAL ASSETS

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

As at 31 December 2010, financial assets classified in category as trade and other receivables that are not past due amounted to HRK 865,628 thousand (2009: HRK 506,596 thousand). These receivables relate to existing customers with no defaults in the past.

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

Credit rating	**2010**	**2009**
	(in thousands of HRK)	
A/Negative/A-a (Standard &Poor's)	86,408	31,015
Prime -2/Negative (Moody's)	81,559	190
A/Stable/A-1(Standard &Poor's)	40,727	37,217
Petty cash and other banks	23,284	6,158
	231,978	**74,580**

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

	2010	**2009**
	(in thousands of HRK)	
Trade receivables		
Counterparties without external credit rating		
Group 1	29,330	11,685
Group 2	359,324	76,921
Group 3	416,467	250,146
Total unimpaired trade receivables	**805,121**	**338,752**

	2010	**2009**
	(in thousands of HRK)	
Other receivables		
A-	2	1,159
Counterparties without external credit rating		
Group 2	39,550	10,357
Total unimpaired other receivables	**39,552**	**11,516**

NOTE 15b – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2010	2009
	(in thousands of HRK)	
Loans and long-term deposits		
Counterparties without external credit rating		
Group 2	13,608	11,836
Group 3	2,155	1,363
	15,763	**13,199**

	2010	2009
	(in thousands of HRK)	
Short-term deposits		
A-	-	142,471
Group 2	5,192	658
	5,192	**143,129**

- Group 1 – new customers/related parties (less than 12 months)
- Group 2 – existing customers/related parties (more than 12 months) with no defaults in the past
- Group 3 – existing customers/related parties (more than 12 months) with some defaults in the past. All defaults were fully recovered.

None of the financial assets that are fully performing has been renegotiated in the last year.

NOTE 16 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2010, the Group has an investment in equity instruments. The main part of these investments in the amount of HRK 35,041 thousand relate to an unlisted equity instrument (31 December 2009: HRK 35,041 thousand) in a company with a BBB/stable/A-2 credit rating by Standard & Poor's. These investments are carried at cost since fair value cannot be reliably measured. During 2010 and 2009, there were no disposals nor impairment provisions on available-for-sale financial assets.

NOTE 17 – TRADE AND OTHER RECEIVABLES

	2010	2009
	(in thousands of HRK)	
Non-current receivables		
Loans and deposits /i/	11,412	10,718
Other non-current receivables /iv/	12,324	-
	23,736	10,718
Current receivables		
Trade receivables /ii/	1,014,339	448,214
Short-term loans and current portion of long-term loans and deposits /i/	4,351	2,481
Current portion of other non-current receivables /iv/	9,480	-
Other receivables /iii/	71,964	62,120
	1,100,134	512,815
Short-term deposits /v/	5,192	143,129
	1,129,062	**666,662**

	2010	2009
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	15,763	13,199
Trade receivables	1,014,339	448,214
Other receivables	39,552	11,516
Short-term deposits	5,192	143,129
	1,074,846	**616,058**

/i/ Receivables for granted loans and deposits are as follows:

	2010	2009
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	1,227	1,193
Loans	11,366	10,643
Current portion	(1,181)	(1,118)
	11,412	10,718
Current receivables		
Loans	3,170	1,363
Current portion of non-current receivables	1,181	1,118
	4,351	2,481
	15,763	**13,199**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

/ii/ Trade receivables are as follows:

	2010	2009
	(in thousands of HRK)	
Gross trade receivables	1,145,838	468,675
Trade receivables – related parties (Note 30)	19,083	18,389
Provision for trade receivables	(150,582)	(38,850)
	1,014,339	**448,214**

/iii/ Other receivables are as follows:

	2010	2009
	(in thousands of HRK)	
Receivables from government institutions	29,934	19,414
Outstanding advances /vi/	14,054	28,359
Factoring	7,156	2,550
Prepaid expenses	6,967	2,831
Interest receivable	25	1,166
Other	13,828	7,800
	71,964	**62,120**

/iv/ Other non-current receivables mostly relate to receivables from continuous cession on Badel 1862 d.d.’ s trade receivables in the amount of HRK 20,756 thousand. Receivables will be collected during the 26 month period.

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

/vi/ Out of total outstanding advances, HRK 7,457 thousand (2009: HRK 27,624 thousand) relate to the advance for acquisition of subsidiaries paid in 2009.

As of 31 December 2010, trade receivables in the amount of HRK 150,582 thousand (2009: HRK 38,850 thousand) were impaired and provided for. The individually impaired receivables relate to customers that are in unexpected by difficult economic situations. The ageing of these receivables is as follows:

	2010	2009
	(in thousands of HRK)	
Up to 3 months	1,694	1,759
3 to 6 months	1,122	463
Over 6 months	147,766	36,628
	150,582	**38,850**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

As of 31 December 2010, trade receivables in the amount of HRK 209,218 thousand (2009: 109,462 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2010	2009
	(in thousands of HRK)	
Up to 3 months	170,805	80,757
3 to 6 months	20,163	19,921
Over 6 months	18,250	8,784
	209,218	**109,462**

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

	2010	2009
	(in thousands of HRK)	
EUR	283,077	249,557
HRK	358,401	290,957
RSD	325,735	62,939
Other	107,633	12,605
	1,074,846	**616,058**

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

	2010	2009
	(in thousands of HRK)	
As at 1 January	38,850	32,246
Acquisition of subsidiary	116,318	-
Provision for receivables impairment (Note 8)	3,411	9,381
Collected amounts reversed (Note 8)	(1,303)	(491)
Receivables written off	(4,070)	(2,374)
Unused amount reversed (Note 8)	(2,545)	-
Exchange differences	(79)	88
As at 31 December	**150,582**	**38,850**

The other classes within trade and other receivables do not contain impaired assets.

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

The Group does not hold any collateral as security other than bills of exchange and promissory notes.

The Group has pledged a part of its trade receivables in order to fulfil collateral requirements of one borrowing facility (Note 24). Trade receivables pledged at 31 December 2010 were HRK 115,679 thousand (2009: nil).

NOTE 18 – INVENTORIES

	2010	2009
	(in thousands of HRK)	
Raw materials and supplies	164,301	53,267
Work in progress	6,042	3,074
Finished goods	141,769	41,815
Trade goods	168,296	135,580
	480,408	**233,736**

As of 31 December 2010, inventories of HRK 17,590 thousand (2009: HRK 18,226 thousand) were impaired and fully provided for, due to the adjustment to net realisable value.

NOTE 19 – INTEREST IN JOINT VENTURE

In 2010, the Group sold its 50% interest in Atlantic Media d.o.o. for HRK 25 thousand. The net asset value of the interest in joint venture at the date of sale was HRK 25 thousand and consequently, no profit nor loss on sale arose.

NOTE 20 – CASH AND CASH EQUIVALENTS

	2010	2009
	(in thousands of HRK)	
Current account and cash on hand	22,068	18,103
Foreign currency account	87,533	31,145
Deposits up to one month /i/	122,377	25,332
	231,978	**74,580**

/i/ Accrued interest up to the balance sheet date is recorded within other income (Note 5).

Cash and cash equivalents are denominated in the following currencies:

	2010	2009
	(in thousands of HRK)	
EUR	137,051	38,721
HRK	37,592	31,352
RSD	41,820	1,786
Other	15,515	2,721
	231,978	**74,580**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2009	2,464,714	98,800	313,854	(4,454)	408,200
Purchase of treasury shares	(2,309)	-	-	(1,071)	(1,071)
Share based payments /ii/	3,203	-	(1,070)	2,345	1,275
31 December 2009	**2,465,608**	**98,800**	**312,784**	**(3,180)**	**408,404**
Ordinary shares issue/i/	864,305	34,572	570,442	-	605,014
Share based payments /ii/	4,233	-	(204)	3,068	2,864
31 December 2010	**3,334,146**	**133,372**	**883,022**	**(112)**	**1,016,282**

/i/ With an aim to raise funds to finance the acquisition of Droga Kolinska d.d., Slovenia. In July, Management Board adopted, the decision on capital increase through the public offering of 864,305 newly issued ordinary shares (each with a nominal value of HRK 40.00). This resulted in an increase of the subscribed share capital of the Company from HRK 98,799,800.00, by HRK 34,572,200.00 to HRK 133,372,000.00. Newly issued shares were issued at HRK 700.00 per share and therefore proceeds collected amounted to HRK 605 million.

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

The ownership structure of the Company is as follows:

	31 December 2010		31 December 2009	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,298,390	52.57
Raiffeisen Obligatory pension fund	288,466	8.65	218,781	8.86
EBRD	284,301	8.53	-	-
DEG	283,209	8.49	176,461	7.14
Lada Tedeschi	193,156	5.79	191,013	7.73
Management of Company	52,017	1.56	47,619	1.93
Free float	559,178	16.78	533,344	21.59
Treasury shares	154	0.00	4,387	0.18
Total	**3,334,300**	**100.00**	**2,469,995**	**100.00**

NOTE 21 – SHARE CAPITAL (continued)

/ii/ Share based payments

During 2010 the Company has modified its share option programme under which shares are granted to Management Board members and to top management.

As defined in the original programme, one part of the share grant is subject to the Group achieving its operating profit target growth and subject to individual performance achievements. The other part is conditional on the employee completing two or more years of service (the vesting period). Starting from the beginning of 2010, part of the programme is designated for the extraordinary performance on the special projects.

The modification resulted in full vesting of the shares granted before 2010, which had the following expiry dates and exercise prices:

Expiry date	Exercise price in HRK per share	31 December 2009
2010	zero	2,830
2011	zero	2,830
2012	zero	641
2013	zero	296
		6,597

Under the modified programme, which demands the Management Board's approval at the beginning of each calendar year, 4,470 new shares have been granted in 2010.

The fair value of the equity-settled share based payment transactions amounted to HRK 5,434 thousand. Of that amount, HRK 5,210 thousand has been reported, together with appropriated tax, as staff expenses (Note 6), relating to shares for which vesting conditions were met in 2010 (5,115 shares) and HRK 224 thousand was deferred, relating to shares for which vesting conditions will be met in 2011 and 2012 (325 shares).

The fair value of the shares granted is determined as of the grant date at the market price of the share of HRK 690, with exceptions of shares granted for special projects, where the market price at the grant date was HRK 800.

Of 4,233 shares exercised in 2010, 2,983 shares were exercised under the original programme and an additional 1,250 shares were exercised as a consequence of the modified programme.

Distribution of profit

According to the decision of the Company's General Assembly in June 2010 (in June 2009), distribution of dividend in the amount of HRK 8.50 per share, or HRK 20,975 thousand in total was approved (2009: HRK 7.00 per share and HRK 17,262 thousand in total).

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves**	**Translation reserves**	**Cash flow hedge reserve**	**Total**
At 1 January 2009	**5,428**	**(4,103)**	**-**	**1,325**
Foreign exchange differences	-	(1,612)	-	(1,612)
Cash flow hedge	-	-	(1,788)	(1,788)
At 31 December 2009	**5,428**	**(5,715)**	**(1,788)**	**(2,075)**
Foreign exchange differences	-	256	-	256
Cash flow hedge	-	-	(2,161)	(2,161)
At 31 December 2010	**5,428**	**(5,459)**	**(3,949)**	**(3,980)**

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

NOTE 23 – TRADE AND OTHER PAYABLES

	2010	**2009**
	(in thousands of HRK)	
Trade payables	594,311	345,587
Trade payables – related parties (Note 30)	445	673
Other payables	116,995	100,715
	711,751	**446,975**

Other payables recorded as at 31 December are as follows:

	2010	**2009**
	(in thousands of HRK)	
Gross salaries payable	44,944	20,073
Liabilities to state institutions	5,199	5,957
Liabilities for acquisition of subsidiary	-	4,869
Accrued expenses	31,793	14,656
Vacation accrual	14,369	3,723
Severance payable	3,618	-
Deferred income	1,394	-
Dividend payable (Note 30)	406	9
Liabilities for advances received for sale of tangible assets	-	48,416
Other	15,272	3,012
	116,995	**100,715**

NOTE 23 – TRADE AND OTHER PAYABLES (continued)

Financial liabilities are denominated in the following currencies:

	2010	2009
	(in thousands of HRK)	
EUR	198,217	114,403
HRK	268,281	234,508
RSD	118,379	17,840
Other	73,113	5,778
	657,990	**372,529**

NOTE 24 – BORROWINGS

	2010	2009
	(in thousands of HRK)	
Long-term borrowings:		
Banks /i/	1,624,124	113,915
Related parties /ii/ (Note 30)	359,804	145,580
Bonds /iii/	-	114,578
Finance lease	22,612	5,167
Long-term debt	**2,006,540**	**379,240**
Short-term borrowings:		
Banks /i/	567,958	105,433
Related parties (Note 30)	2,076	853
Bonds /iii/	114,796	333
Finance lease	12,914	2,493
	697,744	**109,112**
	2,704,284	**488,352**

/i/ In 2010, the Group raised borrowing facilities to finance the acquisition of Droga Kolinska in total amount of EUR 130.6 million. The Facilities are repayable until 2017, with first instalments becoming due in May 2011. EUR 130.6 million, an amount of EUR 5.0 million was agreed as a revolving facility and was not used at the balance sheet date.

Borrowings in total of HRK 1,046,501 thousand were acquired through the acquisition of Droga Kolinska (Note 28). Out of this amount, HRK 403,966 thousand matures in 2011.

/ii/ In 2010, the Group was granted a EUR 30 million borrowing facility with bullet repayment in 2018 for the purpose of financing the acquisition of Droga Kolinska.

The repayment schedule for the EUR 20 million borrowing facility granted in November 2008 was changed in 2010 in such a way that the loan is repayable in 10 equal semi-annual instalments until 2016, with the first instalment becoming due in May 2012.

/iii/ Bonds of 115,000 in the nominal amount of HRK 115,000 thousand with a nominal value of HRK 1 per bond mature in December 2011.

NOTE 24 – BORROWINGS (continued)

Borrowings from banks and financial institutions are secured by the pledge over property, plant and equipment (Note 13), intangible assets (Note 14) and trade receivables (Note 17). Furthermore, issued bonds and part of borrowings from banks and financial institutions are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators such as total debt cover, senior debt cover, interest cover, cash flow cover, maximum capital expenditure and equity ratio. At the balance sheet date all covenant clauses were met.

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:

	2010	2009
	(in thousands of HRK)	
Fixed interest rate	223,729	216,156
Up to 3 months	2,083,208	125,756
3 to 6 months	389,017	146,440
1-5 years	8,330	-
	2,704,284	**488,352**

The maturity of long-term borrowings is as follows:

	2010	2009
	(in thousands of HRK)	
Between 1 and 2 years	361,023	175,014
Between 2 and 5 years	872,892	143,381
Over 5 years	772,625	60,845
	2,006,540	**379,240**

The average effective annual interest rate related to borrowings from banks and financial institutions at the balance sheet date was 7.77% (2009: 5.76%). The effective annual interest rate related to bonds at the balance sheet date was 5.74% (2009: 5.74%).

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

	Carrying amounts		Fair value	
	2010	2009	2010	2009
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Banks and financial institution	1,983,928	259,495	1,976,021	252,965
Bonds	-	114,578	-	109,250
Finance lease	22,612	5,167	22,613	5,167
	2,006,540	**379,240**	**1,998,634**	**367,382**

The fair values of borrowings from banks and a financial institution are based on cash flows discounted using a rate of 7.77% (2009: 5.76%).

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

NOTE 24 – BORROWINGS (continued)

Gross finance lease liabilities – minimum lease payments:

	2010	2009
	(in thousands of HRK)	
No later than 1 year	14,865	3,067
Later than 1 year and no later than 5 years	24,128	5,774
	38,993	8,841
Future finance charges on finance leases	(3,467)	(1,181)
Present value of finance lease liabilities	**35,526**	**7,660**

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

	2010	2009
	(in thousands of HRK)	
HRK	204,202	141,488
EUR	2,485,616	345,583
RSD	7,759	-
USD	5,695	-
CHF	1,012	1,281
	2,704,284	**488,352**

NOTE 24a – OTHER NON-CURRENT LIABILITIES

Out of total non-current liabilities as at 31 December 2010,HRK 38,101 thousand relates to liabilities towards closed investment fund - Kapitalni Fond d.d. The nominal value of liability in the amount of HRK 37,767 increased by HRK 334 thousand of interest accrued. These liabilities mature in 2013.

NOTE 25 – DEFERRED TAX

	2010	2009
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	37,198	1,738
- Deferred tax assets to be recovered within 12 months	15,726	5,747
	52,924	7,485
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(53,110)	(45,241)
- Deferred tax liabilities to be recovered within 12 months	(845)	(748)
	(53,955)	(45,989)
Deferred tax liabilities - net	**(1,031)**	**(38,504)**

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

The Group did not recognise deferred income tax assets of HRK 78,979 thousand (2009: HRK 1,841 thousand) in respect of losses that arose in its subsidiaries that can be carried forward against future taxable income. Deferred tax assets have not been recognised in respect of these losses as it is not certain that future taxable profit will be available for utilisation of the temporary differences. Losses amounting to HRK 467,270 thousand (2009: HRK 9,205 thousand) expire over next nine years.

Deferred tax assets

(in thousands of HRK)	Tax losses	Provisions	Other	Total
At 1 January 2009	3,573	5,340	380	9,293
Tax credited to the income statement (Note 11)	1,798	3,806	219	5,823
Tax charged to the income statement (Note 11)	(3,581)	(3,998)	(19)	(7,598)
Other movements	-	-	35	35
Exchange differences	(53)	(1)	(14)	(68)
At 31 December 2009	**1,737**	**5,147**	**601**	**7,485**
Tax credited to the income statement (Note 11)	2,879	4,690	210	7,779
Tax charged to the income statement (Note 11)	(713)	(4,354)	(30)	(5,097)
Acquisition of subsidiary	16,204	3,360	20,265	39,829
Other movements	-	16	2,922	2,938
Exchange differences	67	(64)	(13)	(10)
At 31 December 2010	**20,174**	**8,795**	**23,955**	**52,924**

NOTE 25 – DEFERRED TAX (continued)

Deferred tax liability

(in thousands of HRK)	Fair value gains	Fair value uplifts of assets acquired in business combinations	Other	Total
At 1 January 2009	63	51,328	-	51,391
Tax credited to the income statement (Note 11)	(13)	(1,137)	-	(1,150)
Other movements	41	(4,294)	-	(4,253)
Exchange differences	1	-	-	1
At 31 December 2009	**92**	**45,897**	**-**	**45,989**
Tax credited to the income statement (Note 11)	-	(1,670)	-	(1,670)
Tax charged to the income statement (Note 11)	52	-	-	52
Acquisition of subsidiary	-	2,931	7,237	10,168
Other movements	(41)	(55)	-	(96)
Exchange differences	-	(488)	-	(488)
At 31 December 2010	**103**	**46,615**	**7,237**	**53,955**

NOTE 26 – PROVISIONS

(in thousands of HRK)	Employees benefits	Legal proceedings	Warranties	Other provisions	Total
At 31 December 2009	17,218	2,349	1,593	2,569	23,729
Analysis of total provisions:					
Non-current	4,510	1,061	-	168	5,739
Current	12,708	1,288	1,593	2,401	17,990
At 1 January 2010	**17,218**	**2,349**	**1,593**	**2,569**	**23,729**
Acquisition of subsidiary	33,566	29,966	-	4,135	67,667
Additions	12,319	256	2,164	605	15,344
Used during year	(13,678)	(1,690)	(1,588)	(2,207)	(19,163)
Reversed during year	(2,056)	(160)	-	(144)	(2,360)
Exchange differences	5	-	24	5	34
At 31 December 2010	**47,374**	**30,721**	**2,193**	**4,963**	**85,251**
Analysis of total provisions:					
Non-current	30,120	29,444	-	181	59,745
Current	17,254	1,277	2,193	4,782	25,506

NOTE 26 – PROVISIONS (continued)

Legal proceedings

In the ordinary course of business, the Group is defendant and plaintiff in a pending legal proceedings. In Managements opinion, the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2010.

Employee benefits

This provision comprises estimated long-term employee benefits relating to termination benefits and jubilee awards, as defined by the collective bargaining agreement and bonuses to employees. The non-current portion of the provision relates to estimated acquired rights to termination benefits and jubilee awards that will be paid after 31 December 2011. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 447 thousand that will be paid out within the following year from the balance sheet date.

Other provisions

Other provisions mainly relate to provisions for severance payments for employees due to restructuring.

NOTE 27 – COMMITMENTS

Capital expenditure contracted for at 31 December 2010 but not yet incurred amounted to HRK 14,484 thousand for property, plant and equipment (2009: HRK 102 thousand). There was no capital expenditure contracted for at 31 December 2010 but not yet incurred relating to intangible assets (2009: HRK 1,742 thousand).

The Group leases various outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between three and ten years and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various property, plant and equipment under cancellable operating lease agreements. The Group is required to give three to six months notice for the termination of these agreements.

The lease expenditure charged to the income statement during the year is disclosed in Note 8.

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

	2010	**2009**
	(in thousands of HRK)	
Not later than 1 year	35,943	26,286
Later than 1 year and not later than 5 years	75,648	54,798
Over 5 years	10,842	15,359
	122,433	**96,443**

NOTE 28 – BUSINESS COMBINATIONS

(i) Acquisitions in 2010

In January 2010, the Group acquired 100% interest and obtained control over the subsidiary ZU Ljekarne Marjam, Split, Croatia. Additionally, in March 2010, the Group acquired 100% interest in subsidiary Alpha Medical 2, Zagreb, Croatia. Both of subsidiaries are Health institutions and included in the Pharma segment. The total purchase consideration for these subsidiaries of HRK 15,687 thousand was paid in cash in 2009.

Details of the value of assets and liabilities acquired are as follows:

(in thousands of HRK)	Carrying value	Fair value of identifiable assets acquired and liabilities assumed
Cash and cash equivalents	219	219
Property, plant and equipment (Note 13)	855	855
Licences (Note 14)	-	14,653
Software (Note 14)	49	49
Inventories	744	744
Trade and other receivables	2,130	2,130
Trade and other payables	(2,963)	(2,963)
Deferred tax liability	-	(2,931)
Net assets	**1,034**	**12,756**
Purchase consideration paid in cash in 2009:		15,687
Net assets acquired		(12,756)
Goodwill (Note 14)		2,931

In February 2010, the Group acquired 5% interest in the subsidiary Atlantic Farmacia d.o.o. and increased its share in Atlantic Farmacia d.o.o. from 90% to 95%. The difference between the acquisition cost and the net book value of the acquired non-controlling interest in the amount of HRK 11,474 thousand was recognised directly in equity.

NOTE 28 – BUSINESS COMBINATIONS (continued)

At the end of September 2010, Atlantic Grupa d.d. signed a contract with Badel 1862 to take over ownership in Kalničke vode Bio Natura for the total amount of HRK 82 million (enterprise value) less the amount of the acquiree's net debt as of 31 August 2010. The process of control takeover was completed during October. The excess of fair value of net assets acquired over acquisition cost of HRK 4,090 thousand was recognised directly in the income statement within Other (gains)/losses. In December 2010, Kalničke vode Bio Natura d.d. were merged into Cedevita d.o.o. and as a result of merger, non-controlling interest of HRK 6,117 thousand arose, based on the proportionate share of the acquiree's net assets.

Details of the value of assets and liabilities acquired are as follows:

(in thousands of HRK)	Carrying value	Fair value of identifiable assets acquired and liabilities assumed
Property, plant and equipment (Note 13)	181,007	78,487
Software (Note 14)	1,804	1,804
Goodwill	6,092	-
Deferred tax assets	-	12,900
Inventories	6,174	3,520
Trade and other receivables	6,136	6,136
Trade and other payables	(30,522)	(31,812)
Provisions	(99)	(99)
Deferred tax liabilities	(2,168)	-
Borrowings	(38,740)	(38,740)
Net assets	**129,684**	**32,196**
Non-controlling interest		6,117
Acquired share		26,079
Purchase consideration		21,989
- settled in cash		4,978
- settled through takeover of liabilities		17,011

NOTE 28 – BUSINESS COMBINATIONS (continued)

At the end of November 2010, the Group finalized the takeover of Droga Kolinska d.d. for the amount of EUR 243.1 million. As a result of this transaction, the provisional goodwill of HRK 536,241 thousand has been determined as the difference between the cost of acquisition and the carrying value of net assets acquired. The process of control takeover was completed by the end of 2010 and thereof balance sheet positions of Droga Kolinska are included in the consolidated balance sheet as at 31 December 2010.

Droga Kolinska is a food and beverages producer with a wide portfolio of leading brand names across the region – with Serbia and Slovenia as the largest markets - as well as presence on the Russian market. Droga Kolinska's business model comprises seven production categories: Coffee, Savoury Spreads, Confectionary, Savoury Snacks, Carbonated Soft Drinks, Functional Water and Baby Food.

Atlantic Grupa has identified synergy potentials both on sales and operating costs levels with expected realization in the medium-term. Joining distribution operations and merging product assortments will create a platform for a better market positioning of both Droga Kolinska and Atlantic Grupa's brands region-wise as well as on the Russian market. Thereby, more pronounced potential emerges on the Croatian and BiH markets by raising the distribution reach of Droga Kolinska products and on the Serbian and Slovenian markets by using Droga Kolinska's position to strengthen the market presence of Atlantic Grupa's portfolio. In the cost area, synergy potentials emerge from joining distribution networks of both companies and eliminating overlapping areas, merging and optimising logistics processes and distribution centres, consolidating production capacities, achieving economies of scale in the procurement process as well as combining marketing investments and media buying.

Details of the carrying value of assets and liabilities acquired are as follows:

(in thousands of HRK)	Carrying value
Property, plant and equipment (Note 13)	807,741
Goodwill (Note 14)	285,128
Brands (Note 14)	558,484
Software (Note 14)	29,140
Investment property	1,816
Trade and other receivables	629,211
Deferred tax assets	26,929
Inventories	213,164
Assets held for sale	111,199
Income tax receivable	2,729
Cash and cash equivalents	117,024
Borrowings	(1,046,501)
Deferred tax liabilities	(7,237)
Other non-current liabilities	(318)
Trade and other payables	(357,078)
Provisions	(67,568)
Derivative financial instruments	(23,383)
Income tax payable	(251)
Non-controlling interest	(21,068)
Net assets	**1,259,161**
Purchase consideration, settled in cash	1,795,402
Provisional goodwill (Note 14)	**536,241**

NOTE 28 – BUSINESS COMBINATIONS (continued)

Provisional goodwill is subject to final evaluation which will be completed in 2011.

Analysis of cash flows incurred on the Droga Kolinska acquisition in 2010:

(in thousands of HRK)

Transaction cost of the acquisition (included in cash flows from operating activities)	(52,040)
Purchase consideration, net of cash acquired with subsidiary (included in cash flows from investing activities)	(1,678,378)
Net cash flow on acquisition	**(1,730,418)**

The businesses acquired in 2010 contributed to the consolidated result for the year ended December 2010 with revenue of HRK 28,264 thousand and net loss of HRK 4,523 thousand. Had all companies been acquired as at 1 January 2010, the consolidated revenue for the year ended 31 December 2010 would have been HRK 2,314,839 thousand higher, while profit before taxation would have been HRK 69,753 thousand higher than currently reported.

(ii) Acquisitions in 2009

In January 2009, Group acquired an additional 30% in subsidiary Cedevita d.o.o. for HRK 13,460 thousand. Net book value of minority interest at purchase date was HRK 23,316 thousand. The difference between acquisition cost and net book value of acquired minority interest of HRK 9,856 thousand is recognised in the income statement within Other (gains)/losses – net.

On 1 September 2009, the Group acquired the entire minority interest in 5 pharmacies out of Health Institution Coner. These pharmacies were subsequently merged into Health Institution Farmacia. In exchange for minority interest, the Group has conceded its share in Health Institution Coner to previous minority co-owners. Upon separation of 5 pharmacies, licences for two pharmacies that in the previous period functioned under Pharma Division remained within Health Institution Coner.

Disposal of Health Institutions Coner has resulted in the decrease of assets, liabilities and minority interest as follows:

	(in thousands of HRK)
Property, plant and equipment	(953)
Goodwill (Note 14)	(4,133)
Licences (Note 14)	(21,468)
Software (Note 14)	(44)
Inventories	(2,495)
Trade and other receivables	(29,783)
Trade and other payables	29,131
Borrowings	924
Income tax liability	72
Deferred tax liability (Note 25)	4,294
Minority interest	24,486

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2010	2009
Net profit		**106,797**	**97,329**
Income tax	11	16,325	29,758
Depreciation, amortisation and impairment	13,14	55,061	43,188
Gain on purchase from minority interests		-	(9,856)
Gain on sale of property, plant and equipment	9	(49,647)	(1,153)
Excess of fair value of net assets acquired over acquisition cost	9, 28	(4,090)	-
Share of the joint venture's profit	19	-	(150)
Provision for current assets		21,001	29,912
Foreign exchange differences – net		5,681	(1,953)
Decrease in provision for risks and charges -net	26	(6,145)	(2,236)
Share based payment	21	994	91
Interest income		(13,050)	(11,739)
Interest expense	10	38,667	27,614
Other non-cash items		879	2,135
Changes in working capital:			
Increase in inventories		(46,834)	(21,839)
Decrease / (Increase) in current receivables		1,813	(32,561)
(Decrease) / Increase in current payables		(26,313)	19,137
Cash generated from operations		**101,139**	**167,677**

NOTE 30 – RELATED PARTY TRANSACTIONS

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

Related party transactions that relate to balances in the Balance Sheet as at 31 December 2010 and at 31 December 2009 and transactions stated in the Income statement for years then ended, are as follows:

(all amounts expressed in thousands of HRK)	**Note**	**2010**	**2009**
RECEIVABLES			
Current receivables			
Other entities	17	19,083	18,389
LIABILITIES			
Borrowings			
Shareholders	24	361,880	146,433
Trade payables			
Shareholders	23	9	9
Other entities		842	673
		851	682
REVENUES			
Sales revenues			
Other entities		91,177	84,418
Other revenues			
Other entities		194	169
EXPENSES			
Marketing and promotion expenses	7		
Other entities		4,386	3,021
Other operating expenses	8		
Other entities		2,227	2,634
Finance cost - net	10		
Shareholder		8,351	7,476
Key management compensation			
Gross salaries and bonuses /i/		13,174	17,078
Share based payment	6	5,210	1,433

/i/ Key management compensations relate to gross wages and bonuses for 8 employees (2009: 8 employees).

NOTE 31 – 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:

	2010	**2009**
Cedevita d.o.o., Croatia	81%	81%
- Multivita d.o.o., Serbia	100%	100%
Neva d.o.o., Croatia	100%	100%
- Atlantic Naložbe d.o.o., Slovenia (founded in 2010, Note 28)	100%	-
- Droga Kolinska d.d.,Slovenia (acquired in 2010, Note 28)	100%	-
- Grand Prom a.d., Serbia	100%	-
- Unikomerc d.o.o., Serbia	100%	-
- Bonito a.d., Serbia	100%	-
- Kofikom Produkt d.o.o., Bosnia and Herzegovina	100%	-
- DK Trade d.o.o., Bosnia and Herzegovina	100%	-
- Kofikom d.o.o., Bosnia and Herzegovina	100%	-
- Droga Kolinska d.o.o.e.l., Macedonia	100%	-
- Slovin Jugokokta d.o.o.e.l., Macedonia	100%	-
- DK Mont d.o.o., Montenegro	100%	-
- Grand Kafa d.o.o., Serbia	100%	-
- Palanački kiseljak a.d., Serbia	79%	-
- Tobess d.o.o., Serbia	100%	-
- Soko Nada Štark a.d., Serbia	94%	-
- Soko Štark maloprodaja d.o.o., Serbia	100%	-
- Droga d.o.o., Bosnia and Herzegovina	100%	-
- DK Faktor d.o.o., Bosnia and Herzegovina	96%	-
- Argeta d.o.o., Bosnia and Herzegovina	100%	-
- Droga d.o.o.e.l., Macedonia	100%	-
- o.o.o. Droga Kolinska, Russia	100%	-
- Droga Livsmedel AB, Sweden	100%	-
Atlantic Trade d.o.o., Croatia	100%	100%
- Atlantic BG d.o.o., Serbia	100%	100%
- Atlantic Brands d.o.o., Serbia (founded in 2010, Note 28)	100%	-
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., Macedonia	75%	75%
- Lasago d.o.o., Croatia	100%	-
- Bionatura bidon vode d.o.o., Croatia	100%	-
Atlantic Trade Sofia e.o.o.d., Bulgaria (founded in 2010, Note 28)	100%	-

NOTE 31 – SUBSIDIARIES (continued)

	2010	2009
Atlantic Farmacia d.o.o., Croatia	95%	90%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- ZU Ljekarna Farmacia, Bosnia and Herzegovina	100%	100%
- ZU Ljekarne Bamapharm, Croatia	75%	75%
- ZU Ljekarne Baričević II, Croatia	-	100%
- Farmacia Plus d.o.o., Croatia	100%	100%
Farmacia Specijalizirana Prodavaonica d.o.o., Croatia	100%	100%
ZU Ljekarne Marijam, Croatia (acquired in 2010, Note 28)	100%	-
Alpha Medical 2,d.o.o., Croatia (acquired in 2010, Note 28)	100%	-
Montana d.o.o., Croatia	100%	100%
Atlantic s.r.l., Italy	100%	100%
Hopen Investments, BV, Netherlands	100%	100%
- Atlantic Multipower GmbH & CO OHG, Germany	100%	100%
- Atlantic Multipower UK Ltd, Great Britain	65%	65%
- Sport Direct Ltd, Great Britain	100%	100%
- Atlantic Multipower Srl, Italy	100%	100%
- Atlantic Multipower Iberica, Spain (founded in 2010)	100%	-
- AKTIVKOST Handelsgesellschaft mbH, Germany	100%	100%
- Atlantic Management GmbH, Germany	100%	100%
Fidifarm d.o.o., Croatia	100%	100%
- Atlantic Pharmacentar d.o.o., Croatia	100%	100%

NOTE 32 – POST BALANCE SHEET EVENTS

Droga Kolinska and its subsidiaries refinanced its loan portfolio at the beginning of 2011. All existing loans with exception of the long term loan signed with EBRD were refinanced by raising a new long-term syndicated facility totalling EUR 136.8 million (principal refinanced was EUR 128.6 million, while the remainder was used for working capital) . The maturity of the facility is in 2016. Besides the term loan, this facility also has a EUR 20 million revolving facility. In addition to the above mentioned refinancing, the Droga Kolinska Group has made early repayment of one loan facility in January amounting EUR 1.1 million.

In January 2011, the Group closed the public offer to acquire a non-controlling stake in the subsidiaries Palanački Kiseljak a.d., Serbia and Soko Nada Štark a.d., Serbia. The offer resulted in the acquisition of an additional 14% stake in the subsidiary Palanački Kiseljak a.d. Serbia for the amount of HRK 2,568 thousand, thereby increasing the share in the company to 93% from 79%.