ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS 31 DECEMBER 2010

This version of the accompanying documents 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.

Independent auditor's report

To the Shareholders of ATLANTIC GRUPA d.d.

We have audited the accompanying separate financial statements of ATLANTIC GRUPA d.d., (the „Company") which comprise the balance sheet as of 31 December 2010 and the income statement, statements of comprehensive income, statement of changes in equity and cash flow statement 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 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 separate financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts expressed in thousands of HRK)	**Note**	**2010**	**2009**
Revenues	5	251,805	84,728
Staff expenses	6	(29,300)	(22,707)
Marketing and promotion expenses	7	(3,259)	(2,800)
Depreciation and amortisation	12, 13	(862)	(429)
Other operating expenses	8	(20,757)	(19,373)
Other gains / (losses) – net	9	15,876	(246)
Operating profit		**213,503**	**39,173**
Finance costs – net	10	(21,365)	(16,320)
Profit before tax		**192,138**	**22,853**
Income tax expense	11	(4,111)	(1,861)
Profit for the year		**188,027**	**20,992**

The financial statements set out on pages 2 to 41 were approved by the Management Board of the Company in Zagreb on 28 March 2011.

President of the Management Board

Emil Tedeschi

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

ATLANTIC GRUPA d.d.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts expressed in thousands of HRK)	**2010**	**2009**
Profit for the year	**188,027**	**20,992**
Other comprehensive income:		
Cash flow hedge	(1,959)	(1,542)
Total other comprehensive income	**(1,959)**	**(1,542)**
Total comprehensive income	**186,068**	**19,450**

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

ATLANTIC GRUPA d.d.

BALANCE SHEET

AT 31 DECEMBER 2010

(all amounts are expressed in thousands of HRK)	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,037	1,754
Intangible assets	13	2,871	1,407
Investments in subsidiaries and joint ventures	14	1,050,776	231,137
Available-for-sale financial assets	16	35,041	35,041
Trade and other receivables	17	320,930	308,577
Deferred tax assets	23	863	976
		1,411,518	578,892
Current assets			
Trade and other receivables	17	179,374	65,605
Income tax receivable		-	712
Deposits at banks	17	-	142,471
Cash and cash equivalents	18	58,571	111
		237,945	208,899
Total assets		**1,649,463**	**787,791**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	19	133,372	98,800
Share premium	19	883,022	312,784
Treasury shares	19	(112)	(3,180)
Cash flow hedge reserves	20	(3,501)	(1,542)
Retained earnings		214,783	49,601
		1,227,564	456,463
Non-current liabilities			
Borrowings	22	148,787	280,084
Provisions	24	49	15
Other non-current liabilities	21a	38,101	-
		186,937	280,099
Current liabilities			
Trade and other payables	21	8,837	8,366
Borrowings	22	216,298	37,141
Provisions	24	4,274	4,180
Derivative financial instruments		3,501	1,542
Income tax liabilities		2,052	-
		234,962	51,229
Total liabilities		**421,899**	**331,328**
Total equity and liabilities		**1,649,463**	**787,791**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of HRK)	Note	Share capital	Cash flow hedge reserves	Retained earnings	Total
At 1 January 2009	19	408,200	-	47,055	455,255
Comprehensive income:					
Net profit for the year		-	-	20,992	20,992
Other comprehensive income	20	-	(1,542)	-	(1,542)
Total comprehensive income		-	(1,542)	20,992	19,450
Transaction with owners					
Purchase of treasury shares		(1,071)	-	-	(1,071)
Dividends relating to 2008	19	-	-	(17,262)	(17,262)
Share based payment	19	1,275	-	(1,184)	91
At 31 December 2009	**19**	**408,404**	**(1,542)**	**49,601**	**456,463**
Comprehensive income:					
Net profit for the year		-	-	188,027	188,027
Other comprehensive income		-	(1,959)	-	(1,959)
Total comprehensive income		-	(1,959)	188,027	186,068
Transaction with owners					
Proceeds from shares issued	19	605,014	-	-	605,014
Dividends relating to 2009	19	-	-	(20,975)	(20,975)
Share based payment	19	2,864	-	(1,870)	994
At 31 December 2010	**19**	**1,016,282**	**(3,501)**	**214,783**	**1,227,564**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts expressed in thousands of HRK)	Note	2010	2009
Cash flows used in operating activities:			
Cash generated from operations	26	4,696	2,914
Income tax paid		(1,234)	(5,782)
Interest paid		(25,323)	(15,952)
Net cash generated from operating activities		(21,861)	(18,820)
Cash flows used in investing activities			
Purchase of tangible and intangible assets	12, 13	(1,710)	(3,038)
Proceeds from sale of tangible assets		143	171
Loans granted and deposits placed		118,406	(151,430)
Proceeds from repayment of loans		700	24,979
Investments in subsidiaries	14	(777,514)	(100)
Advance for acquisition of subsidiaries and minority interests	17 /ii/	-	(23,136)
Dividends received		225	12,164
Interest received		33,064	30,759
		(626,686)	(109,631)
Cash flows from / (used in) financing activities			
Proceeds from issuance of ordinary shares	19	605,014	-
Purchase of treasury shares	19	-	(1,071)
Proceeds from borrowings	22	146,164	22,124
Repayment of borrowings	22	(23,196)	(13,317)
Dividends paid		(20,975)	(17,262)
		707,007	(9,526)
Net increase / (decrease) in cash and cash equivalents		**58,460**	**(137,977)**
Cash and cash equivalents at beginning of year		111	138,088
Cash and cash equivalents at end of year	18	**58,571**	**111**

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

NOTE 1 – GENERAL INFORMATION

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

The Company 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 19.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

The Company has issued these separate financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2010 and for the year then ended in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 28 March 2011. In the consolidated financial statements, subsidiary undertakings (listed in Note 14) and those companies in which the Group indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2010 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

(a) New and amended standards adopted by the Company

- *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.

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.

(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 Company (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 Company's accounting periods beginning on or after 1 January 2010 or later periods, but the Company 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.

- *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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *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 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.3 Investments in subsidiaries and joint ventures

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

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

2.4 Property, plant and equipment

Motor vehicles, equipment and assets under construction are included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, if required. Historical cost includes expenditure directly attributable to the acquisition of items.

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

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

Motor vehicles	5 years
Equipment	2 to 10 years

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment (continued)

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

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

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

2.5 Intangible assets

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

2.6 Impairment of non-financial assets

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

2.7 Financial assets

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(b) Available-for-sale financial assets

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

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

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Interest income and the translation differences are recognised in the income statement, whereas other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

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

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from other comprehensive income to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of receivables is described in Note 2.9.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Leases

The Company leases certain property, vehicles and equipment. Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.9 Trade and other receivables

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

2.10 Cash and cash equivalents

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

2.11 Share capital

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Borrowings

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

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

2.13 Deferred income tax

The current income tax charge is calculated on the basis of the tax law enacted at the balance sheet date in Croatia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

2.14 Employee benefits

(a) Pension obligations and post-employment benefits

The Company makes payments to mandatory pension funds on behalf of its employees in the ordinary course of business through salary deductions, as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company has no other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-employment benefits.

(b) Termination benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Employee benefits (continued)

(c) Long-term employee benefits

The Company recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability includes assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged immediately or credited to income statement when they arise.

(d) Share-based compensations

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

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

(e) Short-term employee benefits

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

2.15 Provisions

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Revenue recognition

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

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

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

(b) Interest income

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

(c) Dividend income

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

2.17 Dividend distribution

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

2.18 Value added tax

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

2.19 Trade payables

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Derivative financial instruments and hedging activities

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

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

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

The fair value of cash flow hedge derivatives is disclosed in Note 15a and changes in cash flow hedge reserves are disclosed in Note 20.

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

	2010	**2009**
Trade and other receivables	-	30%
Trade and other payables	15%	5%
Cash and cash equivalents	70%	22%
Borrowings	46%	59%

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, profit after tax for the reporting period would have been HRK 580 thousand higher/lower (2009: HRK 244 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade and other receivables, cash and borrowings (Notes 17 and 22).

(ii) Equity securities risk

The Company is exposed to equity securities fair value and price risk amid investments held by the Company classified on the 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 Company 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 remaining constant, then other comprehensive income and revaluation reserves would also change by the same amount.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Cash flow and fair value interest rate risk

As the Company has significant interest-bearing assets, the Company's income and operating cash flows are substantially dependent of changes in market interest rates.

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

The Company analyses its interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift.

The Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Company raised long-term borrowings at floating rates and swapped them into fixed rates that are lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the 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.

At 31 December 2010, if the effective interest rate on borrowings had been 1% higher/lower on an annual level, the profit after tax for the reporting period would have been HRK 166 thousand lower/higher. Taking into consideration that all borrowings at floating rates were swapped to fixed at 31 December 2009, change in the effective interest rate would have no impact on 2009 results.

(b) Credit risk

The Company's assets, potentially subjecting the Company to concentrations of credit risk, primarily include cash and trade and other receivables, which mainly relate to loans granted to subsidiaries. The Company does not have significant concentrations of credit risk, since loans were granted mainly within the Group. The Company has policies that limit the amount of credit exposure to any financial institution. A detailed analysis and maximum exposure to credit risk is presented in Notes 15b 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 Company aims to maintain flexibility in funding by keeping committed credit lines available. Trade and other payables as well as short-term borrowings are due within 12 months after the balance sheet date, while the maturity of long-term borrowings is disclosed in Note 22.

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

Surplus cash held over and above the balance required for working capital management is invested in interest bearing current accounts, time deposits and cash funds, i.e. instruments with appropriate maturities or sufficient liquidity. At the balance sheet date, the Company held cash and cash equivalents in the amount of HRK 58,571 thousand (2009: 111 thousand) that are expected to readily generate cash inflows for managing liquidity risk.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2010				
Trade and other payables	4,676	-	-	4,676
Borrowings	234,627	144,402	30,660	409,689
Other non-current liabilities	-	41,740	-	41,740
Derivative financial instruments	3,501	-	-	3,501

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2009				
Trade and other payables	6,609	-	-	6,609
Borrowings	51,512	260,648	51,783	363,943
Derivative financial instruments	1,542	-	-	1,542

3.2 Capital risk management

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

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

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

The gearing ratios were as follows:

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Total borrowings (Note 22)	365,085	317,225
Less: Deposits at bank and Cash and cash equivalents (Notes 17 and 18)	(58,571)	(142,582)
Net debt	306,514	174,643
Total equity	1,227,564	456,463
Total capital	**1,534,078**	**631,106**
Gearing ratio	**20%**	**28%**

The decrease in the gearing ratio during 2010 resulted from the capital increase by issuance of ordinary shares.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

Effective 1 January 2009, the Company 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.

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

Investment in subsidiaries and its impairments

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

NOTE 5 – REVENUES

	2010	2009
	(in thousands of HRK)	
Service revenues:		
Income from corporate services – related parties (Note 27)	42,335	42,363
Other revenues:		
Dividend income – related parties (Note 27)	176,625	15,164
Interest income from loans – related parties (Note 27)	23,774	18,889
Interest income from cash with banks and deposit	9,021	8,283
Other	50	29
	251,805	**84,728**

The Company's operations are performed through one segment.

NOTE 6 – STAFF EXPENSES

	2010	2009
	(in thousands of HRK)	
Gross salaries /i/	21,224	16,307
Share options granted (Note 19)	5,210	1,433
Public transport	202	127
Other staff costs /ii/	2,664	4,840
	29,300	**22,707**

At 31 December 2010, the number of staff employed by the Company was 56 (2009: 37).

/i/ Pension contributions to mandatory pension funds for the year ended 31 December 2010 amounted to HRK 2,952 thousand (2009: 1,992 thousand).

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

NOTE 7 – MARKETING AND PROMOTION EXPENSES

	2010	2009
	(in thousands of HRK)	
Entertainment	1,566	1,475
Sponsorships and donations	1,511	982
Advertising and marketing expenses	182	343
	3,259	**2,800**

NOTE 8 – OTHER OPERATING EXPENSES

	2010	2009
	(in thousands of HRK)	
Transportation services	5,568	4,160
Rentals	5,278	5,391
Intellectual services	2,233	2,889
Supervisory Board compensation	1,565	1,541
Maintenance and security	869	861
Taxes and contributions irrespective of operating results	936	834
Travel expense and daily allowances	868	647
Insurance premiums	276	252
Telecommunication services	877	668
Bank charges	277	270
Office supplies	371	403
Services from related parties (Note 27)	432	477
Other	1,207	980
	20,757	**19,373**

NOTE 9 – OTHER GAINS/(LOSSES)– NET

	2010	2009
	(in thousands of HRK)	
Gain on sale of property, plant and equipment	42	94
Foreign exchange gains / (losses) – net	15,834	(340)
	15,876	**(246)**

NOTE 10 – FINANCE COSTS – NET

	2010	2009
	(in thousands of HRK)	
Finance income:		
Foreign exchange gains from borrowings	4,218	527
	4,218	527
Finance costs:		
Foreign exchange loss from borrowings	(6,347)	(82)
Interest expense on bank borrowings	(4,428)	(3,371)
Interest expense on loans from related parties (Note 27)	(7,918)	(6,791)
Interest expense on bonds	(6,498)	(6,603)
Other interest expense	(392)	-
	(25,583)	(16,847)
	(21,365)	**(16,320)**

NOTE 11 – INCOME TAX

	2010	2009
	(in thousands of HRK)	
Current income tax	3,998	1,615
Deferred tax (Note 23)	113	246
	4,111	**1,861**

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

	2010	2009
	(in thousands of HRK)	
Profit before taxation	192,138	22,853
Tax at 20%	38,428	4,571
Effect of expenses not deductible for tax purposes	2,268	1,518
Effect of income not subject to tax	(36,585)	(4,228)
Current income tax	**4,111**	**1,861**
Effective interest rate	2.14%	8.14%

To date, the Tax Authority did not perform a tax audit of the Company's income tax return. In accordance with local regulations, the Tax Authority may at any time inspect the Company's books and records within 3 years following the end of the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Vehicles	Equipment	Assets not yet in use	Total
At 1 January 2009				
Cost	336	3,046	-	3,382
Accumulated depreciation	(246)	(2,655)	-	(2,901)
Net book amount	**90**	**391**	**-**	**481**
At 31 December 2009				
Opening net book amount	90	391	-	481
Additions	-	-	1,720	1,720
Transfer	82	335	(417)	-
Disposals	(77)	-	-	(77)
Depreciation	(22)	(348)	-	(370)
Closing net book amount	**73**	**378**	**1,303**	**1,754**
At 31 December 2009				
Cost	82	3,381	1,303	4,766
Accumulated depreciation	(9)	(3,003)	-	(3,012)
Net book amount	**73**	**378**	**1,303**	**1,754**
At 31 December 2010				
Opening net book amount	73	378	1,303	1,754
Additions	-	-	200	200
Transfer	173	1,330	(1,503)	-
Disposals	(101)	-	-	(101)
Depreciation	(24)	(792)	-	(816)
Closing net book amount	**121**	**916**	**-**	**1,037**
At 31 December 2010				
Cost	138	4,711	-	4,849
Accumulated depreciation	(17)	(3,795)	-	(3,812)
Net book amount	**121**	**916**	**-**	**1,037**

NOTE 13 – INTANGIBLE ASSETS

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Opening net book amount	1,407	148
Additions	1,510	1,318
Amortisation	(46)	(59)
Closing net book amount	2,871	1,407
Cost	3,126	1,616
Accumulated amortisation	(255)	(209)
Closing net book amount	**2,871**	**1,407**

NOTE 14 – INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES

	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	Holding in %	Holding in %	*(in thousands of HRK)*	
Cedevita d.o.o., Zagreb, Croatia /i/	81%	81%	46,459	24,470
Neva d.o.o., Zagreb, Croatia /ii/	100%	100%	781,825	10,900
Atlantic Trade d.o.o., Zagreb, Croatia	100%	100%	10,000	10,000
Atlantic Italia S.r.l., Italy	100%	100%	919	919
Hopen Investments, BV, Netherlands	100%	100%	91,017	91,017
Montana Plus d.o.o., Zagreb, Croatia	100%	100%	12,000	12,000
Atlantic Farmacia d.o.o., Zagreb, Croatia /iii/	95%	90%	10,895	95
Fidifarm d.o.o., Zagreb, Croatia	100%	100%	81,591	81,591
Farmacia Specijalizirana prodavaonica d.o.o., Zagreb, Croatia	100%	100%	20	20
ZU Marjam, Split, Croatia /iv/	100%	100%	4,057	-
Alpha Medical 2, Zagreb, Croatia /v/	100%	100%	11,630	-
Atlantic Trade Eood, Sofia, Bulgaria /vi/	100%	100%	363	-
Atlantic Media d.o.o. /vii/	-	50%	-	25
Atlantic Grupa Ulaganja d.o.o. /ii/	-	100%	-	100
			1,050,776	**231,137**

/i/ In September 2010, the Company acquired Kalničke vode Bio Natura d.d. which merged with Cedevita d.o.o. in December 2010

/ii/ In December 2010, Atlantic Grupa Ulaganja d.o.o. merged with Neva d.o.o. Prior to the merger, the Company increased its investment in Atlantic Grupa Ulaganja d.o.o. through a cash contribution of HRK 770,825 thousand.

/iii/ In February 2010 the Company acquired 5% interest in the subsidiary Atlantic Farmacia d.o.o.

/iv/ In January 2010 the Company acquired 100% interest in the subsidiary ZU Ljekarne Marjam, Split.

/v/ In March 2010 the Company acquired 100% interest in the subsidiary Alpha Medical 2, Zagreb.

/vi/ In 2010, the Company founded the subsidiary Atlantic Trade Eood, Sofia. The subsidiary had no operating activities during 2010.

/vii/ The interest in Atlantic Media d.o.o. was sold during 2010 for HRK 25 thousand.

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**	**Total**
31 December 2010			
Financial assets			
Available-for-sale (Note 16)	-	35,041	**35,041**
Trade and other receivables (Note 17)	491,451	-	**491,451**
Deposits (Note 17)	860	-	**860**
Cash and cash equivalents (Note 18)	58,571	-	**58,571**
Total	**550,882**	**35,041**	**585,923**

(in thousands of HRK)	**Other financial liabilities**	**Derivatives used for hedging**	**Total**
31 December 2010			
Financial liabilities			
Borrowings (Note 22)	365,085	-	**365,085**
Other non-current liabilities	38,101	-	**38,101**
Cash flow hedge	-	3,501	**3,501**
Trade and other payables (Note 21)	4,676	-	**4,676**
Total	**407,862**	**3,501**	**411,363**

(in thousands of HRK)	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
31 December 2009			
Financial assets			
Available-for-sale (Note 16)	-	35,041	**35,041**
Trade and other receivables (Note 17)	348,191	-	**348,191**
Deposits (Note 17)	143,352	-	**143,352**
Cash and cash equivalents (Note 18)	111	-	**111**
Total	**491,654**	**35,041**	**526,695**

(in thousands of HRK)	**Other financial liabilities**	**Derivatives used for hedging**	**Total**
31 December 2009			
Financial liabilities			
Borrowings (Note 22)	317,225	-	**317,225**
Cash flow hedge	-	1,542	**1,542**
Trade and other payables (Note 21)	6,609	-	**6,609**
Total	**323,834**	**1,542**	**325,376**

NOTE 15b – CREDIT QUALITY OF FINANCIAL ASSETS

As at 31 December 2010, financial assets classified in the category trade and other receivables that are not past due amounted to HRK 476,061 thousand (2009: HRK 330,372 thousand). Receivables not past due relate to receivables from related parties in the amount of HRK 455,225 thousand (2009: HRK 329,187 thousand) and the risk of non-collectibility is low.

The short-term deposit and almost all of the Company's cash and cash equivalents of HRK 58,515 thousand (2009: HRK 142,528 thousand) are held at a banks' group member with an A/A-1 credit rating by Standard & Poor's and are neither past due nor impaired.

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 and other receivables - external		
A-	2	1,159
Counterparties without external credit rating		
Group 1	20,756	-
Group 2	78	26
Total unimpaired trade and other receivables	**20,836**	**1,185**

	2010	**2009**
	(in thousands of HRK)	
Long-term deposit		
Group 2	860	881
Short-term deposit		
A-	-	142,471
	860	**143,352**

Group 1 – new customers (less than 6 months)
Group 2 – existing customers (more than 6 months) with no defaults in the past
Group 3 – existing customers (more than 6 months) with some defaults in the past; all defaults were fully recovered.

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

NOTE 16 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2010, the Company has an investment in an unlisted equity instrument totalling HRK 35,041 thousand (31 December 2009: HRK 35,041 thousand) in a company with a BBB/stable/A-2 credit rating by Standard & Poor's. This investment is carried at cost since its fair value cannot be reliably measured. During 2010 and 2009, there were no disposal, nor impairment provisions in respect of available-for-sale financial assets.

NOTE 17 – TRADE AND OTHER RECEIVABLES

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Non-current receivables		
Loan receivables – related parties (Note 27)	308,941	307,841
Deposits	860	881
Other non-current receivables /iii/	20,756	-
Less: Current portion of long-term loans – related parties	(9,627)	(145)
	320,930	**308,577**
Current receivables		
Trade receivables – related parties (Note 27)	6,882	4,291
Trade receivables	3	4
Short-term loan receivables– related parties (Note 27)	17,985	125
Current portion of long-term loans – related parties	147	145
Current portion of other non-current receivables	9,480	-
Accrued interest receivable	2	1,159
Accrued interest receivable – related parties (Note 27)	15,590	19,745
Receivables for distribution of profit – related parties (Note 27)	121,214	15,000
Other receivables /ii/	8,071	25,136
	179,374	**65,605**
Short-term deposits at banks	-	142,471
Total trade and other receivables	**500,304**	**516,653**

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

	2010	2009
	(in thousands of HRK)	
Category: Loans and receivables		
Non-current loan receivables – related parties (Note 27)	308,941	307,841
Deposits	860	143,352
Trade receivables – related parties (Note 27)	6,882	4,291
Trade receivables	3	4
Short-term loan receivables – related parties (Note 27)	17,985	125
Accrued interest receivable	2	1,159
Accrued interest receivable – related parties (Note 27)	15,590	19,745
Receivables for distribution of profit – related parties (Note 27)	121,214	15,000
Other non-current receivables	20,756	-
Other receivables	78	26
	492,311	**491,543**

All non-current receivables fall due within 5 years after the balance sheet date.

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

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2010, trade and other receivables past due amounted to HRK 15,390 thousand (2009: HRK 17,819 thousand). All receivables past due relate to receivables from related parties and they were not provided for as collection is not questionable. The ageing analysis of past due but not provided for trade and other receivables by maturity periods is as follows:

	2010	2009
	(in thousands of HRK)	
Less than 3 months	6,052	5,671
3 to 6 months	4,672	5,684
Over 6 months	4,666	6,464
	15,390	**17,819**

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

	2010	2009
	(in thousands of HRK)	
HRK	490,529	343,513
EUR	1,782	148,030
	492,311	**491,543**

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

/ii/ Other receivables comprise of HRK 7,457 thousand in advance for acquisition of business (2009: 23,136 thousand for purchase from minority interest) and of HRK 235 thousand relating to deferred share based payment expenses (2009: 1,193 thousand).

/iii/ Other non-current receivables in the amount of HRK 20,756 thousand relate to receivables from the continuous cession on Badel 1862 d.d.' s trade receivables that will be collected over a 26 month period.

NOTE 18 – CASH AND CASH EQUIVALENTS

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Current account and cash on hand	2,054	87
Foreign currency account	-	24
Deposits with maturity up to one month /i/	56,517	-
	58,571	**111**

/i/ Accrued interest up to the balance sheet date is recorded within other revenues (Note 5). Rating analysis is given in Note 15b.

Cash and cash equivalents are denominated in the following currencies:

	2010	2009
	(in thousands of HRK)	
EUR	41,019	24
HRK	17,552	87
	58,571	**111**

NOTE 19 – 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	3,203	-	(1,070)	2,345	1,275
31 December 2009	**2,465,608**	**98,800**	**312,784**	**(3,180)**	**408,404**
Ordinary share issue/i/	864,305	34,572	570,442	-	605,014
Share based payments	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, if declared.

NOTE 19 – SHARE CAPITAL (continued)

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**

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 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, new 4,470 shares have been granted in 2010.

The fair value of 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 the shares granted for special projects, where the market price at the grant date was HRK 800.

Of the 4,233 shares exercised in 2010, 2,983 shares were exercised under the original programme and 1,250 shares were exercised under the modified programme.

NOTE 19 – SHARE CAPITAL (continued)

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 20 – CASH FLOW HEDGE RESERVES

Cash flow hedge reserves in the amount of HRK 3,501 thousand (2009: HRK 1,542 thousand) relate to the fair value loss of floating-to-fixed interest rate swap agreements that the Company has entered into in 2009.

NOTE 21 – TRADE AND OTHER PAYABLES

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Trade payables	3,327	5,257
Trade payables – related parties (Note 27)	259	201
Other payables /i/	5,251	2,908
	8,837	**8,366**

/i/ Other payables are as follows:

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Gross salaries payable	3,820	1,326
VAT payable	341	431
Accrued expenses	677	895
Other	413	256
	5,251	**2,908**

Financial liabilities are denominated in the following currencies:

	2010	2009
	(in thousands of HRK)	
HRK	3,975	6,255
EUR	701	314
GBP	-	40
	4,676	**6,609**

NOTE 21a – OTHER NON-CURRENT LIABILITIES

Other non-current liabilities of HRK 38,101 thousand relate to liabilities towards closed investment fund - Kapitalni Fond d.d. in the amount of HRK 37,767 increased by HRK 334 thousand of interest accrued. These liabilities mature in 2013.

NOTE 22 – BORROWINGS

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Long-term borrowings:		
Banks	6,713	19,926
Related parties /i/ (Note 27)	142,074	145,580
Bonds /ii/	-	114,578
Long-term debt	**148,787**	**280,084**
Short-term borrowings:		
Banks /iii/	47,087	13,284
Related parties /i/ (Note 27)	54,415	23,524
Bonds /ii/	114,796	333
	216,298	**37,141**
Total borrowings	**365,085**	**317,225**

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

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

/iii/ Short-term bank borrowings include current portion of long-term borrowings and three short-term borrowing facilities used for working capital financing.

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

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Up to 3 months	53,494	33,210
Up to 6 months	141,820	146,441
Fixed interest rate	169,771	137,574
	365,085	**317,225**

The maturity of long-term borrowings is as follows:

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Between 1 and 2 years	35,049	152,126
Between 2 and 5 years	85,005	79,434
Over 5 years	28,733	48,524
	148,787	**280,084**

NOTE 22 – BORROWINGS (continued)

The average effective annual interest rate relating to borrowings from banks and borrowings from related parties at the balance sheet date was 5.43% (2009: 5.22%). The effective annual interest rate relating 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	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Banks	6,713	19,926	6,713	19,926
Related parties	142,074	145,580	142,074	145,580
Bonds	-	114,578	-	109,250
	148,787	**280,084**	**148,787**	**274,756**

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

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

	31 December 2010	31 December 2009
	(in thousands of HRK)	
HRK	197,954	130,231
EUR	167,131	186,994
	365,085	**317,225**

NOTE 23 – DEFERRED TAX ASSETS

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	10	3
- Deferred tax assets to be recovered within 12 months	853	973
Deferred tax assets	**863**	**976**

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

NOTE 23 – DEFERRED TAX ASSETS (continued)

Deferred tax assets

(in thousands of HRK)	Bonuses	Accrued vacation days	Other	Total
At 1 January 2009	**1,103**	**36**	**83**	**1,222**
Tax credited to the income statement (Note 11)	835	48	-	883
Tax charged to the income statement (Note 11)	(1,103)	-	(26)	(1,129)
At 31 December 2009	**835**	**84**	**57**	**976**
Tax credited to the income statement (Note 11)	854	-	6	860
Tax charged to the income statement (Note 11)	(835)	(84)	(54)	(973)
At 31 December 2010	**854**	**-**	**9**	**863**

NOTE 24 – PROVISIONS

(in thousands of HRK)	Provisions for jubilee awards and termination benefits	Provisions for bonuses	Total
At 31 December 2009	19	4,176	4,195
Analysis of total provisions:			
Non-current	15	-	15
Current	4	4,176	4,180
At 1 January 2010	**19**	**4,176**	**4,195**
Additions	33	4,271	4,304
Used during year	-	(4,176)	(4,176)
At 31 December 2010	**52**	**4,271**	**4,323**
Analysis of total provisions:			
Non-current	49	-	49
Current	3	4,271	4,274

NOTE 25 – COMMITMENTS

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

	31 December 2010	31 December 2009
	(in thousands of HRK)	
Not later than 1 year	3,229	3,506
Later than 1 year and not later than 5 years	9,495	713
	12,724	**4,219**

As at 31 December 2010, the Company did not have contracted but not realized capital expenditures. Capital expenditure contracted for at 31 December 2009 but not yet incurred amounted to HRK 1,742 thousand.

The Company is co-debtor and guarantor to its subsidiaries and other members of the Group in their long-term and short-term borrowings. Contingent liabilities arising from guarantees given to its subsidiaries and other members of the Group were not disclosed in the balance sheet as at 31 December 2010 and 2009, since Management believes it is not likely that they will fall into the Company's liabilities.

NOTE 26 – CASH GENERATED FROM OPERATIONS

	Note	2010	2009
Net profit		**188,027**	**20,992**
Income tax	11	4,111	1,861
Depreciation and amortisation	12,13	862	429
Gain on sale of property, plant and equipment	9	(42)	(94)
Unrealised foreign exchange differences – net		1,672	(127)
Increase / (decrease) in provisions	24	128	(1,338)
Share based payment	19	994	91
Interest income	5	(32,795)	(27,172)
Interest expense	10	19,236	16,765
Dividend income	5	(176,625)	(15,164)
Other non-cash items		(97)	40
Changes in working capital:			
(Increase) / decrease in trade and other receivables		(1,187)	3,166
Increase in trade and other payables		412	3,465
Cash generated from operations		**4,696**	**2,914**

NOTE 27 – RELATED PARTY TRANSACTIONS

The Company enters into transactions with the related parties as presented in Note 14, shareholders and other entities owned or controlled by the Company and shareholders.
Related party transactions, which relate to the year-end balances in the Balance Sheet as at 31 December 2010 and 2009 and transactions stated in the Income statement for the years then ended are as follows:

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2010**	**31 December 2009**
RECEIVABLES			
Non-current receivables			
Loans given			
Subsidiaries		308,941	307,240
Other related parties		-	601
	17	308,941	307,841
Current receivables			
Short-term loans			
Subsidiaries	17	17,985	125
Interest receivable			
Subsidiaries	17	15,590	19,745
Trade receivables			
Subsidiaries	17	6,882	4,291
Receivables from distribution of profit			
Subsidiaries	17	121,214	15,000
LIABILITIES			
Trade and other payables			
Subsidiaries	21	259	201
Borrowings			
Subsidiaries		54,976	22,663
Shareholders		141,513	146,441
	22	196,489	169,104
REVENUES			
Revenues from corporate services			
Subsidiaries	5	42,335	42,363
Dividend income			
Subsidiaries	5	176,400	15,000
Joint venture		225	164
		176,625	15,164
Interest income			
Subsidiaries	5	23,774	18,889
EXPENSES			
Other operating expenses			
Subsidiaries	8	432	477
Net finance costs			
Subsidiaries		2,811	470
Shareholders		5,107	6,321
	10	7,918	6,791
Key management compensation /i/			
Gross salaries and bonuses		6,992	10,947
Share based payment		5,210	1,433

/i/ Key management compensations relate to gross wages and bonuses for 4 employees (2009: 5 employees).