ATLANTIC GRUPA d.d.

AUDITOR’S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

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 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated 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 about 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 at 31 December 2011, 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, 30 March 2012

Our report has been prepared in Croatian and in English languages. In all matters of interpretation of information, views or opinions, the Croatian language version of our report takes precedence over the English language version.

ATLANTIC GRUPA d.d.

CONSOLIDATED INCOME STATEMENT

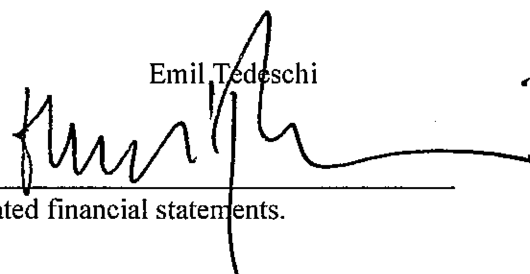
FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	2011	2010
Revenues	5	4,774,385	2,301,945
Cost of trade goods sold		(1,187,673)	(1,085,720)
Change in inventories of finished goods and work in progress		5,772	9,405
Material and energy costs		(1,641,174)	(303,215)
Staff costs	6	(635,047)	(325,942)
Marketing and promotion costs	7	(313,218)	(148,692)
Depreciation, amortisation and impairment	13, 14, 2.24	(165,827)	(55,061)
Other operating costs	8	(521,433)	(291,850)
Other gains - net	9	19,058	64,115
Operating profit		**334,843**	**164,985**
Finance income	10	24,447	9,661
Finance costs	10	(280,453)	(51,599)
Finance costs - net	10	(256,006)	(41,938)
Share in profit of joint venture		-	75
Profit before tax		**78,837**	**123,122**
Income tax expense	11	(23,945)	(16,325)
Profit for the year		**54,892**	**106,797**
Attributable to:			
Owners of the parent		46,601	94,993
Non-controlling interests		8,291	11,804
		54,892	106,797
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		13.98	33.84
- diluted		13.98	33.84

The consolidated financial statements set out on pages 2 to 66 were approved by the Management Board of Atlantic Grupa d.d. in Zagreb on 29 March 2012.

President of the Management Board

Emil Tedeschi



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

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	**Note**	**2011**	**2010 (Restated)**
Profit for the year		**54,892**	**106,797**
Other comprehensive income:			
Currency translation differences		47,667	213
Cash flow hedges	22	(44,202)	(1,371)
Other comprehensive income for the year, net of tax		3,465	(1,158)
Total comprehensive income		**58,357**	**105,639**
Attributable to:			
Owners of the parent		52,994	93,878
Non-controlling interests		5,363	11,761
Total comprehensive income for the year		58,357	105,639

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

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	31 December 2011	31 December 2010 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,189,502	1,235,866
Investment property	2.24	1,934	2,481
Intangible assets	14	1,956,194	1,929,631
Deferred income tax assets	25	56,412	53,714
Available-for-sale financial assets	17	1,358	36,379
Derivative financial instruments	15	8,617	-
Trade and other receivables	18	21,514	23,736
		3,235,531	3,281,807
Current assets			
Inventories	19	533,680	503,013
Trade and other receivables	18	1,119,851	1,100,134
Prepaid income tax		24,877	17,951
Deposits	18	36,334	5,192
Derivative financial instruments	15	18,249	7,939
Cash and cash equivalents	20	247,596	231,978
		1,980,587	1,866,207
Non-current assets held for sale	13	139,127	111,310
Total current assets		2,119,714	1,977,517
TOTAL ASSETS		**5,355,245**	**5,259,324**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	882,903	883,022
Treasury shares	21	(371)	(112)
Reserves	22	3,203	(3,190)
Retained earnings		425,297	379,532
		1,444,404	1,392,624
Non-controlling interests		67,920	63,632
Total equity		1,512,324	1,456,256
Non-current liabilities			
Borrowings	24	2,346,725	2,007,781
Deferred income tax liabilities	25	193,064	189,872
Derivative financial instruments	15	62,393	26,446
Other non-current liabilities	24a	36,357	38,421
Provisions	26	54,540	60,138
		2,693,079	2,322,658
Current liabilities			
Trade and other payables	23	719,606	731,668
Borrowings	24	375,035	697,744
Derivative financial instruments	15	20,673	8,898
Current income tax liabilities		12,553	16,594
Provisions	26	21,975	25,506
		1,149,842	1,480,410
Total liabilities		3,842,921	3,803,068
TOTAL EQUITY AND LIABILITIES		**5,355,245**	**5,259,324**

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

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2010	**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	-	(1,115)	-	(1,115)	(43)	(1,158)
Total comprehensive income	-	(1,115)	94,993	93,878	11,761	105,639
Transaction with owners						
Proceeds from shares issued (Note 21 /i/	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)
Balance at 31 December 2010	**1,016,282**	**(3,190)**	**379,532**	**1,392,624**	**63,632**	**1,456,256**
Comprehensive income:						
Net profit for the year	-	-	46,601	46,601	8,291	54,892
Other comprehensive income	-	6,393	-	6,393	(2,928)	3,465
Total comprehensive income	-	6,393	46,601	52,994	5,363	58,357
Transaction with owners						
Acquisition of non-controlling interest	-	-	-	-	(26)	(26)
Share based payment (Note 21)	2,154	-	(836)	1,318	-	1,318
Purchase of treasury shares	(2,532)	-	-	(2,532)	-	(2,532)
Dividends relating to 2010	-	-	-	-	(1,049)	(1,049)
Balance at 31 December 2011	**1,015,904**	**3,203**	**425,297**	**1,444,404**	**67,920**	**1,512,324**

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	**Note**	**2011**	**2010**
Cash flows from operating activities:			
Cash generated from operations	29	382,167	102,497
Interest paid		(188,372)	(27,249)
Income tax paid		(34,529)	(25,999)
		159,266	49,249
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13, 14, 24	(96,525)	(34,830)
Proceeds from sale of property, plant and equipment		13,591	10,750
Proceeds from sale of available-for-sale financial assets	17	46,962	-
Acquisition of subsidiary net of cash acquired	28	(5,807)	(1,683,137)
Loans and deposits granted	18	(57,845)	(18,986)
Repayments of loan and deposits granted	18	32,350	144,820
Dividend received		-	225
Interest received		11,350	13,025
		(55,924)	(1,568,133)
Cash flows (used) / from financing activities			
Proceeds from issuance of ordinary shares	21 /i/	-	605,014
Purchase of treasury shares		(2,532)	-
Proceeds from borrowings	24	1,121,484	1,194,054
Repayments of borrowings	24	(1,204,941)	(79,345)
Proceeds from issuance of bonds	24	62,221	-
Redemption of bonds	24	(66,082)	-
Acquisition of non-controlling interests		(26)	(12,500)
Dividends paid to non-controlling interests		(1,049)	(8,608)
Dividends paid to Company's shareholders	21 /iii/	-	(20,975)
		(90,925)	1,677,640
Net increase in cash and cash equivalents		**12,417**	**158,756**
Exchange gains/(losses) on cash and cash equivalents		3,201	(1,358)
Cash and cash equivalents at beginning of year		231,978	74,580
Cash and cash equivalents at end of year	20	**247,596**	**231,978**

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 one of the largest regional food industries with the well known brands such as Argeta, Barcaffe, Cedevita, Grand Kafa, Najlepše želje, Smoki, etc. It is the leading European producer of sports food with the well-known Multipower brand, the largest regional producer of food supplements with Dietpharm brand, a prominent producer of personal care products as well as the leading distributor of consumer goods in South-Eastern Europe. The distribution portfolio of Atlantic Grupa includes global premium brands of distinguished producers such as Wrigley, Ferrero, Hipp, Johnson & Johnson and others. Atlantic Grupa is the owner of the leading private chain of pharmacies under the brand Farmacia. The Group has manufacturing plants in Croatia, Slovenia, Serbia, Bosnia and Herzegovina, Macedonia and Germany with firms and representative offices in 11 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.

Following the completion of purchase price allocation related to acquisition of Droga Kolinska, balance sheet as at 31 December 2010 have been restated. Since the restatement had no impact on balance sheet as at 1 January 2010, additional balance sheet and related notes as of the beginning of the earliest comparative period were not presented.

(a) New and amended standards adopted by the Group

- *Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010).* The amendment allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The adoption of the amendment did not have any impact on the financial position and performance of the Group, as the Group does not have such instruments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 July 2010).* The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The adoption of the interpretation did not have any impact on the financial statements as the Group does not negotiate such terms with its creditors.

- *Amendment to IFRS 1 First time adoption – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for financial years beginning on or after 1 July 2010).* The amendment clarifies that first time adopters do not need to provide comparative disclosures as introduced by the IFRS 7 amendment issued in March 2009. The adoption of the amendment did not affect the financial statements of the Group.

- *Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011).* Amendments simplify definition of a related party and modify certain related-party disclosure requirements for government-related entities. The implementation of these amendments did not have any impact on the financial position and performance of the Group and the related parties' disclosures.

- *Amendment to IFRIC 14 The Limit On A Defined Benefit Assets, Minimum Funding Requirements And Their Interaction (effective for financial years beginning on or after 1 January 2011).* Removes unintended consequences arising from the treatment of pre-payments where there is a minimum funding requirement. Results in pre-payments of contributions in certain circumstances being recognised as an asset rather than an expense. The Group is not subject of minimum funding requirements; therefore the amendment of the interpretation did not have any effect on the financial position and performance of the Group.

- *Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).* These improvements consist of a mixture of substantive changes and clarifications in following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

(b) New and amended standards, and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

The following standards and amendments to existing standards have been published but not effective and not early adopted. The Group plans to adopt the applicable standards / amendments on their effective date, and they will not have a significant impact on the Group's financial statements.

- *Amendments to IFRS 7 Financial Instruments: Disclosures on Derecognition (effective for annual periods beginning on or after 1 July 2011).* This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

- *Amendments to IFRS 1 First Time Adoption: Fixed Dates and Hyperinflation (effective for annual periods beginning on or after 1 July 2011).* These amendments include two changes to *IFRS 1 First-time adoption of IFRS*. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

- *IAS 12 Income Taxes – Deferred Taxes (effective for annual periods beginning on or after 1 January 2012). IAS 12 Income taxes*, currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in *IAS 40 Investment property*. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, *SIC 21 Income taxes - recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendment to IAS 1 Financial Statement Presentation Regarding Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012).* The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- *Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013).* The amendment eliminates the corridor approach and calculate finance costs on a net funding basis.

- *IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015).* IFRS 9 is the first standard issued as part of a wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013).* The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements.

- *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013).* IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- *IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013).* IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- *IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).* IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013).* IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- *IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013).* IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

- *IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013).* The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realised in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met.

- *Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).* The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

- *Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).* The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

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

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.

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

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

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

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.

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

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within other gains/(losses)- net in the 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 for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are recognised immediately as an expense and not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Distribution rights

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

(c) Brands

Brands acquired in a business combination are carried at initially determined fair value (recognised at acquisition date) less accumulated amortization. Amortisation is calculated using the straight-line method to allocate the cost of brands over their estimated useful life (15 years).
Brands with indefinite useful lives are not amortised, but are tested annually for impairment at the cash generating unit level.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(d) Computer software

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 (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, brands, licences 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 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 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'.
If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently 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.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax

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

Deferred income tax is recognised, using liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred 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 and long term employee benefits, restructuring costs, warranty claims, and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

When there 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 and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of up to 90 days, which is consistent with the market practice.

(b) Sales of goods - retail

The Group operates a pharmacy and specialised 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, loans granted 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 15 and changes in cash flow hedge reserves are disclosed in Note 22.

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

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

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

2.23 Trade payables

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

2.24 Investment property

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Investment property is derecognized when it either has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Transfers are made to or from investment property only when there is a change in use. The carrying amount approximates fair value. Investment property is held for long term rental yields and is not occupied by the Group. Depreciation expense related to investment property amounted HRK 61 thousand in 2011 (2010: nil).

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.

	2011	**2010**
Sales revenue	36%	30%
Trade and other receivables	32%	26%
Trade and other payables	37%	32%
Cash and cash equivalents	41%	59%
Borrowings	92%	92%

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 2011, if the EURO had weakened /strengthened by 0.5% against the HRK (2010: 0.5%), with all other variables held constant, the profit after tax for the reporting period would have been HRK 3,682 thousand higher/lower (2010: HRK 3,675 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 2011, 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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(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 although no borrowings are carried at fair value.

The Group analyses its interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. As at 31 December 2011, if the effective interest rate on borrowings increased/decreased by 1% on an annual level (2010: 1%), the profit after tax would have been lower/higher by HRK 11,697 thousand (2010: 1,168 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, 16 and 18.

(c) Liquidity risk

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

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

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

At the balance sheet date, the Group held cash and cash equivalents in the amount of HRK 247,596 thousand (2010: 231,978 thousand) and short-term deposits in the amount of HRK 36,334 thousand (2010: 5,192 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 2011				
Trade and other payables	667,128	-	-	667,128
Borrowings (excluding finance lease)	499,591	2,309,318	655,328	3,464,237
Finance lease liabilities	15,270	15,039	-	30,309
Other non-current liabilities	1,570	37,671	-	39,241
Derivative financial instruments	20,673	62,393	-	83,066

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2010				
Trade and other payables	677,637	-	-	677,637
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

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:

	2011	2010 (restated)
	(in thousands of HRK)	
Total borrowings (Note 24)	2,721,760	2,705,525
Less: Short-term deposits given and Cash and cash equivalents (Note 18 and 20)	(283,930)	(237,170)
Net debt	2,437,830	2,468,355
Total equity	1,512,324	1,456,256
Total capital	**3,950,154**	**3,924,611**
Gearing ratio	**62%**	**63%**

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, that 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 intangible assets with indefinite useful lives are tested annually for impairment as stated in Note 2.7.

Goodwill and intangible assets 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**	**Brands**
Consumer Health Care	13,061	-	-
Pharma	202,765	195,096	-
Droga Kolinska	568,164	-	781,583
Distribution	127,937	-	-

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, seven-year period in the Pharma segment and eight-year period in the Droga Kolinska and Distribution segments to which goodwill from Droga Kolinska's acquisition has been allocated.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

The cash flows beyond the six-year period in the Consumer Health Care segment and seven-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 % in the Pharma business and 10.15% in the Consumer Health Care segment. The cash flows beyond the eight-year period in the Droga Kolinska and Distribution segments were extrapolated with a terminal growth rate of 1%, whereas the discount rate applied to the cash flow projections is 11.18%. The Growth rate assumptions were based on historical data and management's expectations for market development.

Impairment loss of HRK 8,141 thousand recognised at the balance sheet date (2010: HRK 5,100 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 14.3% 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 of Fidifarm/ Dietpharm, Montana and Multivita, 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:

	Growth rate	Hypothetical royalty rates	Discount rate
Fidifarn/ Dietpharm	10.00%	4.94%	11.87%
Montana	5.00%	3.55%	7.59%
Multivita	18.00%	4.94%	10.00%

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.

The fair value of acquired brands relating to legally registered trademarks of Droga Kolinska was determined by independent valuers based on the Income approach, Relief-from-Royalty method. In using this method, arms'-length royalty or licence agreements are analyzed. The licensing transactions selected should reflect similar risk and characteristics that make them comparable to the subject asset. Finally estimated royalty rates were adjusted for brand's specifics including market position, geographic presence, future growth potential and additionally tested for reasonableness by applying licensee/licensor profit split method. The net revenue expected to be generated by the intangible assets during their expected remaining life are then multiplied by estimated royalty rates.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(c) Brand valuation (continued)

This valuation relied on the following assumptions:

	Estimated royalty rates	Discount rate
Barcaffe	4.00%	9.50%
Grand Kafa	4.00%	11.60%
Najlepše želje	8.00%	11.70%
Bananica	5.00%	11.50%
Smoki	8.00%	11.50%
Argeta	8.00%	11.50%
Donat	8.00%	10.30%
Cockta	5.00%	10.90%
Bebi	3.00%	11.40%

(d) Licences valuation

The fair value of acquired licences, relating to exclusive rights for the 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.

(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 in 2010 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 five 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, Droga Kolinska 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.

- **The Droga Kolinska Division** specialises in food and beverages production with a wide portfolio of leading brand names across the region.

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.

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

NOTE 5 – SEGMENT INFORMATION (continued)

Year ended 31 December 2011 *(in thousands of HRK)*	**Distribution**	**Consumer Health Care**	**Sports and Functional Food**	**Pharma**	**Droga Kolinska**	**Unallocated /i/**	**Group**
Gross revenues	2,784,594	458,099	654,224	373,558	2,276,696	744	6,547,915
Inter-segment revenues /ii/	24,532	337,961	4,340	27,015	1,379,682	-	1,773,530
Total revenues	**2,760,062**	**120,138**	**649,884**	**346,543**	**897,014**	**744**	**4,774,385**
Operating profit before depreciation and amortisation	93,993	86,893	20,116	22,986	270,659	6,023	500,670
Depreciation and amortisation	13,722	30,333	5,748	6,990	100,893	8,141	165,827
Operating profit	**80,271**	**56,560**	**14,368**	**15,996**	**169,766**	**(2,118)**	**334,843**
Capital expenditure /iii/	16,947	24,991	7,740	2,898	54,631	3,123	110,330
Total assets /iv/	**973,849**	**566,217**	**196,322**	**620,003**	**3,421,431**	**(826,130)**	**4,951,692**

Year ended 31 December 2010 *(in thousands of HRK)*	**Distribution**	**Consumer Health Care**	**Sports and Functional Food**	**Pharma**	**Droga Kolinska**	**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**	**3,195,021**	**(208,437)**	**4,890,523**

/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 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:

	2011	2010
	(in thousands of HRK)	
Segment assets for reportable segments	5,777,822	5,098,960
Inter-segment receivables	**(826,130)**	**(208,437)**
Unallocated:		
Property, plant and equipment	2,896	1,036
Intangible assets	2,710	2,871
Trade and other receivables	26,863	29,692
Available-for-sale financial assets	1,358	36,379
Prepaid income tax	2,518	-
Deferred tax assets	56,412	53,714
Short term deposits given	36,334	5,192
Derivative financial instruments	26,866	7,939
Cash and cash equivalents	247,596	231,978
Total assets per the balance sheet	**5,355,245**	**5,259,324**

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 income tax assets, derivative financial instruments and trade and other receivables is located as follows:

	2011	2010
	(in thousands of HRK)	
Serbia	1,204,354	1,098,422
Slovenia	941,833	1,046,892
Croatia	759,216	777,618
Other	242,235	245,046
Total geographically allocated non-current assets	**3,147,638**	**3,167,978**

NOTE 5 – SEGMENT INFORMATION (continued)

	2011 (in thousands of HRK)	%	2010 (in thousands of HRK)	%
Revenues by markets				
Croatia	1,341,159	28.1	1,278,090	55.5
International markets				
Germany	272,107	5.7	245,781	10.7
European Union (excluding Germany)	939,942	19.7	303,560	13.2
South-eastern Europe (excluding Croatia)	1,874,134	39.3	260,634	11.4
Other	347,043	7.2	213,880	9.2
Total international markets	3,433,226	71.9	1,023,855	44.5
Total revenues	**4,774,385**	**100.0**	**2,301,945**	**100.0**

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

Analysis of revenue by category

	2011 (in thousands of HRK)	%	2010 (in thousands of HRK)	%
Sales by type of products				
Own brands	3,383,336	70.9	934,603	40.6
Principal brands	817,112	17.1	904,802	39.3
Pharmacy	274,558	5.7	237,475	10.3
Private label	252,760	5.3	191,761	8.4
Total sales by type of products	**4,727,766**	**99.0**	**2,268,641**	**98.6**
Other revenue /v/	46,619	1.0	33,304	1.4
Total revenue	**4,774,385**	**100.0**	**2,301,945**	**100.0**

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

NOTE 6 – STAFF COSTS

	2011	2010
	(in thousands of HRK)	
Gross salaries /i/	568,985	287,230
Public transport	14,262	6,476
Termination benefits	8,147	5,770
Share options granted (Note 21)	3,818	5,210
Other staff costs /ii/	39,835	21,256
	635,047	**325,942**

At 31 December 2011, the number of staff employed by the Group was 4,198 (2010: 1,787).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2011 amounted to HRK 54,927 thousand (2010: 35,294 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2011	2010
	(in thousands of HRK)	
Marketing costs - external	198,401	80,733
Marketing costs – related parties (Note 30)	15,969	4,386
Promotion costs	49,240	33,284
Sponsorships and donations	37,212	23,362
Entertainment	12,396	6,927
	313,218	**148,692**

NOTE 8 – OTHER OPERATING COSTS

	2011	2010
	(in thousands of HRK)	
Transportation costs	94,436	42,779
Maintenance	94,413	29,358
Rentals	74,178	47,194
Non-production material	31,559	10,174
Provision for impairment of inventories (Note 19)	29,105	17,590
Intellectual services	28,503	29,204
Provision for impairment of trade receivables (Note 18)	22,236	3,411
Fuel	21,814	12,381
Taxes and contributions not related to operating results	20,736	6,655
Bank charges	19,129	38,556
Travel expense and daily allowances	15,875	8,656
Telecommunication services	14,336	8,558
Non-production services	14,249	5,764
Production services	5,261	12,674
Supervisory Board fees	1,464	1,565
Royalties	1,220	1,217
Reverse of provision for receivables impairment (Note 18)	(9,499)	(3,848)
Other – related parties (Note 30)	59	2,227
Other	42,359	17,735
	521,433	**291,850**

NOTE 9 – OTHER GAINS – NET

	2011	2010
	(in thousands of HRK)	
(Loss) / Gain on sale of property, plant and equipment	(63)	49,647
Gain on sale of available-for-sale financial assets	11,962	-
Fair value gains on financial assets	8,709	-
Foreign exchange (losses) / gains – net	(2,505)	9,585
Other gains – net	955	4,883
	19,058	**64,115**

NOTE 10 – FINANCE COSTS – NET

	2011	2010
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	(24,114)	(9,661)
Other finance income	(333)	-
	(24,447)	(9,661)
Finance costs		
Foreign exchange loss on borrowings	59,286	12,932
Interest expense on bank borrowings	172,240	23,818
Interest expense on bonds and commercial papers	8,528	6,498
Interest expense on borrowings – related parties (Note 30)	40,399	8,351
	280,453	51,599
Finance costs - net	**256,006**	**41,938**

NOTE 11 – INCOME TAX

	2011	2010
	(in thousands of HRK)	
Current income tax	23,565	20,625
Deferred tax (Note 25)	380	(4,300)
	23,945	**16,325**

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:

	2011	2010
	(in thousands of HRK)	
Profit before taxation	78,837	123,122
Income tax calculated at domestic tax rates applicable to profits in the respective countries	41,786	76,180
Tax effects of: Adjustments in respect of prior years	(4,393)	(2,586)
Income not subject to tax	(20,074)	(40,293)
Expenses not deductible for tax purposes	9,626	3,590
Utilisation of previously unrecognized tax losses	(6,902)	(21,280)
Effect of utilized tax losses	3,902	714
Tax expense	**23,945**	**16,325**

The weighted average effective tax rate was 30.4% (2010: 13.2%). The increase in effective tax rate is primarily caused by increase in expenses not deductible for tax purposes and lower utilisation of income tax losses due to uncertainty of ability to generate future taxable income.

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.

	2011	2010
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	46,601	94,993
Weighted average number of ordinary shares in issue	3,333,889	2,807,386
Basic earnings per share *(in HRK)*	13.98	33.84

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 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)	70,428	357,507	456,435	65,702	950,072
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	**95,870**	**442,620**	**630,194**	**67,182**	**1,235,866**
At 31 December 2010					
Cost	95,870	741,726	1,586,171	67,182	2,490,949
Accumulated depreciation	-	(299,106)	(955,977)	-	(1,255,083)
Net book amount	**95,870**	**442,620**	**630,194**	**67,182**	**1,235,866**
At 1 January 2011					
Opening net book amount	95,870	442,620	630,194	67,182	1,235,866
Acquisition of subsidiary (Note 28)	532	5,756	1,414	-	7,702
Additions	781	5,067	26,209	74,236	106,293
Transfer	369	32,167	75,602	(108,138)	-
Disposals	-	(962)	(9,469)	-	(10,431)
Depreciation	-	(19,978)	(116,385)	-	(136,363)
Transfer to assets held for sale	(3,203)	(28,231)	(3,088)	-	(34,522)
Foreign exchange differences	1,611	7,668	11,032	646	20,957
Closing net book amount	**95,960**	**444,107**	**615,509**	**33,926**	**1,189,502**
At 31 December 2011					
Cost	95,960	565,595	945,038	33,926	1,640,519
Accumulated depreciation	-	(121,488)	(329,529)	-	(451,017)
Net book amount	**95,960**	**444,107**	**615,509**	**33,926**	**1,189,502**

Property, plant and equipment with a net book value of HRK 460,410 thousand as at 31 December 2011 (2010: HRK 496,925 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 38,588 thousand (2010: 38,375 thousand).

Non-current assets held for sale in the total amount of HRK 139,127 as at 31 December 2011 (2010: HRK 111,310 thousand) mainly relate to the property of Droga Kolinska, the major part of which is situated in Ljubljana. Sales transaction is expected to be finalized in 2012.

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brand	Rights	Software	Total
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	(1,709)	-	(4,851)	-	18	(6,542)
Acquisition of subsidiary (Note 28)	683,019	14,653	764,749	-	34,309	1,496,730
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	**886,942**	**193,737**	**807,087**	**1,412**	**40,453**	**1,929,631**
At 31 December 2010						
Cost	886,942	193,737	822,210	40,055	104,239	2,047,183
Accumulated amortisation	-	-	(15,123)	(38,643)	(63,786)	(117,552)
Net book amount	**886,942**	**193,737**	**807,087**	**1,412**	**40,453**	**1,929,631**
At 1 January 2011						
Opening net book amount	886,942	193,737	807,087	1,412	40,453	1,929,631
Foreign exchange differences	16,121	-	17,167	-	548	33,836
Acquisition of subsidiary (Note 28)	8,864	9,500	-	-	103	18,467
Additions	-	-	-	-	4,037	4,037
Disposals	-	-	-	-	(374)	(374)
Amortisation	-	-	(4,359)	(1,412)	(15,491)	(21,262)
Impairment /i/	-	(8,141)	-	-	-	(8,141)
Closing net book amount	**911,927**	**195,096**	**819,895**	**-**	**29,276**	**1,956,194**
At 31 December 2011						
Cost	911,927	195,096	839,377	5,646	108,436	2,060,482
Accumulated amortisation	-	-	(19,482)	(5,646)	(79,160)	(104,288)
Net book amount	**911,927**	**195,096**	**819,895**	**-**	**29,276**	**1,956,194**

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 445,021 thousand as at 31 December 2011 (2010: HRK 439,452) have been pledged as collateral for borrowings (Note 24).

NOTE 15 – 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 2011				
Financial assets				
Available-for-sale	-	1,358	-	**1,358**
Trade and other receivables	1,084,925	-	-	**1,084,925**
Short-term deposits given	36,334	-	-	**36,334**
Derivative financial instruments /i/	-	-	26,866	**26,866**
Cash and cash equivalents	247,596	-	-	**247,596**
Total	**1,368,855**	**1,358**	**26,866**	**1,397,079**

(in thousands of HRK)	Other financial liabilities	Finance leases	Derivatives used for hedging	Liabilities at fair value through profit or loss	Total
31 December 2011					
Financial liabilities					
Borrowings	2,694,054	-	-	-	**2,694,054**
Finance leases	-	27,706	-	-	**27,706**
Other non-current liabilities	36,357	-	-	-	**36,357**
Derivative financial instruments /ii/	-	-	49,164	33,902	**83,066**
Trade and other payables	667,128	-	-	-	**667,128**
Total	**3,397,539**	**27,706**	**49,164**	**33,902**	**3,508,311**

(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	-	36,379	-	**36,379**
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**	**36,379**	**7,939**	**1,351,142**

(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	2,669,999	-	-	-	**2,669,999**
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	677,637	-	-	-	**677,637**
Total	**3,386,057**	**35,526**	**3,949**	**31,395**	**3,456,927**

NOTE 15 – 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. in the amount of HRK 18,045 thousand (2010: HRK 7,939 thousand) and the fair value of open futures contracts for hedging the foreign-exchange risk in the amount of HRK 8,821 thousand (2010: nil).

/ii/ Derivative financial instruments classified as held for trading as at 31 December 2011 relate to the fair value of interest-risk hedges. As at 31 December 2010 derivative financial instruments classified as held for trading comprise of HRK 29,851 thousand relating to the fair value of interest-rate risk hedges and HRK 1,544 thousand relating to the fair value of open futures contracts for hedging the foreign-exchange risk.

NOTE 16 – 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 2011, financial assets classified in category as trade and other receivables that are not past due amounted to HRK 961,208 thousand (2010: HRK 865,628 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	**2011**	**2010**
	(in thousands of HRK)	
A-1/Negative (Standard &Poor's)	222,838	127,135
Non-Prime /Negative (Moody's)	5,692	81,559
Petty cash and other banks	19,066	23,284
	247,596	**231,978**

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:

	2011	**2010**
	(in thousands of HRK)	
Trade receivables		
Counterparties without external credit rating		
Group 1	32,510	29,330
Group 2	512,543	359,324
Group 3	321,612	416,467
Total unimpaired trade receivables	**866,665**	**805,121**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2011	2010
	(in thousands of HRK)	
Other receivables		
A-	9	2
Counterparties without external credit rating		
Group 2	42,304	39,550
Total unimpaired other receivables	**42,313**	**39,552**

	2011	2010
	(in thousands of HRK)	
Loans and long-term deposits		
Counterparties without external credit rating		
Group 2	12,476	13,608
Group 3	3,420	2,155
	15,896	**15,763**

	2011	2010
	(in thousands of HRK)	
Short-term deposits		
A-1/Negative	36,334	-
Group 2	-	5,192
	36,334	**5,192**

- 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 17 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

Investments in available-for-sale financial assets relate to unlisted equity instruments and are carried at cost since fair value cannot be reliably measured.
In 2011 the Group has disposed of a major part of its investment for the amount of HRK 46,962 thousand and realized a HRK 11,962 thousand gain from sale.
During 2011 and 2010, there were no impairment provisions on available-for-sale financial assets.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2011	2010
	(in thousands of HRK)	
Non-current receivables		
Loans and deposits /i/	10,436	11,412
Other non-current receivables /iv/	11,078	12,324
	21,514	23,736
Current receivables		
Trade receivables /ii/	1,026,716	1,014,339
Short-term loans and current portion of long-term loans and deposits /i/	5,460	4,351
Current portion of other non-current receivables /iv/	5,000	9,480
Other receivables /iii/	82,675	71,964
	1,119,851	1,100,134
Short-term deposits /v/	36,334	5,192
	1,177,699	**1,129,062**

	2011	2010
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	15,896	15,763
Trade receivables	1,026,716	1,014,339
Other receivables	42,313	39,552
Short-term deposits	36,334	5,192
	1,121,259	**1,074,846**

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

	2011	2010
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	1,022	1,227
Loans	10,711	11,366
Current portion	(1,297)	(1,181)
	10,436	11,412
Current receivables		
Loans – related parties (Note 30)	3,420	-
Loans	743	3,170
Current portion of non-current receivables	1,297	1,181
	5,460	4,351
	15,896	**15,763**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

/ii/ Trade receivables are as follows:

	2011	2010
	(in thousands of HRK)	
Gross trade receivables	1,092,941	1,145,838
Trade receivables – related parties (Note 30)	89,931	19,083
Provision for trade receivables	(156,156)	(150,582)
	1,026,716	**1,014,339**

/iii/ Other receivables are as follows:

	2011	2010
	(in thousands of HRK)	
Receivables from government institutions	40,773	29,934
Outstanding advances	4,114	14,054
Factoring	5,724	7,156
Prepaid expenses	5,590	6,967
Interest receivable	79	25
Other receivables – related parties (Note 30)	177	-
Other	26,218	13,828
	82,675	**71,964**

/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 15,802 thousand (2010: HRK 20,756 thousand). Receivables will be collected over a 26 month period.

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

As of 31 December 2011, trade receivables in the amount of HRK 156,156 thousand (2010: HRK 150,582 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:

	2011	2010
	(in thousands of HRK)	
Up to 3 months	1,008	1,694
3 to 6 months	2,206	1,122
Over 6 months	152,942	147,766
	156,156	**150,582**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As of 31 December 2011, trade receivables in the amount of HRK 160,051 thousand (2010: 209,218 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2011	2010
	(in thousands of HRK)	
Up to 3 months	126,404	170,805
3 to 6 months	24,407	20,163
Over 6 months	9,240	18,250
	160,051	**209,218**

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

	2011	2010
	(in thousands of HRK)	
EUR	354,892	283,077
HRK	347,817	358,401
RSD	361,785	325,735
Other	56,765	107,633
	1,121,259	**1,074,846**

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

	2011	2010
	(in thousands of HRK)	
As at 1 January	150,582	38,850
Acquisition of subsidiary	-	116,318
Provision for receivables impairment (Note 8)	22,236	3,411
Collected amounts reversed (Note 8)	(9,499)	(1,303)
Receivables written off	(8,108)	(4,070)
Unused amount reversed (Note 8)	-	(2,545)
Exchange differences	945	(79)
As at 31 December	**156,156**	**150,582**

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 2011 were HRK 114,427 thousand (2010: HRK 115,679 thousand).

NOTE 19 – INVENTORIES

	2011	2010
	(in thousands of HRK)	
Raw materials and supplies	183,110	164,301
Work in progress	12,022	6,042
Finished goods	170,305	164,374
Trade goods	168,243	168,296
	533,680	**503,013**

As of 31 December 2011, inventories of HRK 29,105 thousand (2010: HRK 17,590 thousand) were impaired and fully provided for, due to the adjustment to net realisable value.

NOTE 20 – CASH AND CASH EQUIVALENTS

	2011	2010
	(in thousands of HRK)	
Current account and cash on hand	26,898	22,068
Foreign currency account	60,172	87,533
Deposits up to one month /i/	160,526	122,377
	247,596	**231,978**

/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:

	2011	2010
	(in thousands of HRK)	
EUR	100,731	137,051
HRK	27,493	37,592
RSD	99,323	41,820
Other	20,049	15,515
	247,596	**231,978**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2010	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**
Purchase of treasury shares	(3,220)	-	-	(2,532)	(2,532)
Share based payments	2,901	-	(119)	2,273	2,154
31 December 2011	**3,333,827**	**133,372**	**882,903**	**(371)**	**1,015,904**

/i/ With an aim to raise funds to finance the acquisition of Droga Kolinska d.d., Slovenia in July 2010, the Management Board adopted the decision to increase capital 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 2011		31 December 2010	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	313,084	9.39	288,466	8.65
EBRD	284,301	8.53	284,301	8.53
DEG	283,209	8.49	283,209	8.49
Lada Tedeschi	193,156	5.79	193,156	5.79
Management of the Company	41,490	1.25	52,017	1.56
Free float	544,768	16.34	559,178	16.78
Treasury shares	473	0.01	154	0.00
Total	**3,334,300**	**100.00**	**3,334,300**	**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 special projects.

Under the modified programme 6,017 new shares have been granted in 2011 (2010: 4,470 shares).

The fair value of equity-settled share based payment transactions amounted to HRK 4,240 thousand (2010: HRK 5,434 thousand). Of that amount, HRK 3,818 thousand (2010: HRK 5,210 thousand) has been reported, together with appropriated tax, as staff costs (Note 6), relating to shares for which vesting conditions were met in 2011 (5,418 shares; 2010: 5,115 shares) and HRK 422 thousand (2010: HRK 224 thousand) was deferred, relating to shares for which vesting conditions will be met in next two years (599 shares; 2010: 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 500 (2010: HRK 690, with exceptions of the shares granted for special projects, where the market price at the grant date was HRK 800).

/iii/ Distribution of profit

According to the decision of the Company's General Assembly in June 2011, profit of the Company realized in 2010 has been retained for further investments in the Company’s key project development. In 2010 distribution of dividend in the amount of HRK 8.50 per share, or HRK 20,975 thousand in total was approved.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves**	**Translation reserves**	**Cash flow hedge reserve**	**Total**
At 1 January 2010	5,428	(5,715)	(1,788)	(2,075)
Foreign exchange differences	-	256	-	256
Cash flow hedge	-	-	(1,371)	(1,371)
At 31 December 2010	**5,428**	**(5,459)**	**(3,159)**	**(3,190)**
Foreign exchange differences	-	50,595	-	50,595
Cash flow hedge	-	-	(44,202)	(44,202)
At 31 December 2011	**5,428**	**45,136**	**(47,361)**	**3,203**

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

	2011	**2010**
	(in thousands of HRK)	
Trade payables	574,722	594,311
Trade payables – related parties (Note 30)	2,003	445
Other payables	142,881	136,912
	719,606	**731,668**

Other payables recorded as at 31 December are as follows:

	2011	**2010**
	(in thousands of HRK)	
Gross salaries payable	40,258	44,944
Liabilities to state institutions	11,787	5,199
Accrued expenses	43,230	31,400
Vacation accrual	14,063	14,369
Severance payable	431	3,618
Deferred income	1,587	1,394
Dividend payable (Note 30)	22	406
Liabilities from share purchase agreement	20,709	20,309
Other	10,794	15,273
	142,881	**136,912**

NOTE 23 – TRADE AND OTHER PAYABLES (continued)

Financial liabilities are denominated in the following currencies:

	2011	2010
	(in thousands of HRK)	
EUR	249,046	218,257
HRK	264,156	267,888
RSD	105,656	118,379
Other	48,270	73,113
	667,128	**677,637**

NOTE 24 – BORROWINGS

	2011	2010
	(in thousands of HRK)	
Long-term borrowings:		
Banks /i/	1,830,596	1,625,365
Related parties /ii/ (Note 30)	389,134	359,804
Bonds /iii/	112,769	-
Finance lease	14,226	22,612
Long-term debt	**2,346,725**	**2,007,781**
Short-term borrowings:		
Banks /i/	321,335	567,958
Related parties (Note 30)	38,825	2,076
Bonds /iii/	1,395	114,796
Finance lease	13,480	12,914
	375,035	**697,744**
	2,721,760	**2,705,525**

/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. Out of 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.

Droga Kolinska and its subsidiaries refinanced its loan portfolio at the beginning of 2011. All existing loans with the exception of the long term loan signed with EBRD were refinanced by raising a new long-term syndicated facility totalling EUR 136.8 million. The maturity of the facility is in 2016. Besides the term loan, this facility also has a EUR 20 million revolving facility which was not used at the balance sheet date.

/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.

NOTE 24 – BORROWINGS (continued)

/iii/ In September 2011 Atlantic Grupa issued Bonds in amount of HRK 115 million at the price of 99.375% with a coupon of 6.75% per annum and final redemption on 20 September 2016. The purpose of these Bonds is to refinance bonds issued in December 2006 which matured on 6 December 2011.

Borrowings from banks and financial institutions are secured by pledges over property, plant and equipment (Note 13), intangible assets (Note 14) and trade receivables (Note 18). 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:

	2011	2010
	(in thousands of HRK)	
Fixed interest rate	212,249	223,729
Up to 3 months	1,161,849	2,084,449
3 to 6 months	1,345,252	389,017
1-5 years	2,410	8,330
	2,721,760	**2,705,525**

The maturity of long-term borrowings is as follows:

	2011	2010
	(in thousands of HRK)	
Between 1 and 2 years	246,075	362,264
Between 2 and 5 years	1,610,809	872,892
Over 5 years	489,841	772,625
	2,346,725	**2,007,781**

The average effective annual interest rate related to borrowings from banks and financial institutions at the balance sheet date was 6.55% (2010: 7.77%). The effective annual interest rate related to bonds at the balance sheet date was 6.99% (2010: 5.74%).

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

	Carrying amounts		Fair value	
	2011	2010	2011	2010
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Banks and financial institutions	2,219,730	1,985,169	2,215,431	1,976,021
Bonds	112,769	-	109,193	-
Finance lease	14,226	22,612	14,226	22,612
	2,346,725	**2,007,781**	**2,338,850**	**1,998,633**

NOTE 24 – BORROWINGS (continued)

The fair values of borrowings from banks and financial institutions are based on cash flows discounted using a rate of 6.55% (2010: 7.77%).

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

Gross finance lease liabilities – minimum lease payments:

	2011	2010
	(in thousands of HRK)	
No later than 1 year	15,270	14,865
Later than 1 year and no later than 5 years	15,039	24,128
	30,309	38,993
Future finance charges on finance leases	(2,603)	(3,467)
Present value of finance lease liabilities	**27,706**	**35,526**

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

	2011	2010
	(in thousands of HRK)	
HRK	219,056	204,202
EUR	2,498,577	2,486,857
RSD	-	7,759
USD	3,938	5,695
CHF	189	1,012
	2,721,760	**2,705,525**

NOTE 24a – OTHER NON-CURRENT LIABILITIES

Out of total other non-current liabilities as at 31 December 2011, HRK 36,101 thousand (2010: HRK 38,101 thousand) relates to liabilities towards closed investment fund - Kapitalni Fond d.d. which mature in 2013.

NOTE 25 – DEFERRED INCOME TAX

	2011	2010
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	46,962	37,988
- Deferred tax assets to be recovered within 12 months	9,450	15,726
	56,412	53,714
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(192,256)	(189,027)
- Deferred tax liabilities to be recovered within 12 months	(808)	(845)
	(193,064)	(189,872)
Deferred tax liabilities - net	**(136,652)**	**(136,158)**

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 86,877 thousand (2010: HRK 63,697 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 401,485 thousand (2010: HRK 390,862 thousand) expire over the next eight years, while the losses in the amount of HRK 73,048 thousand do not expire.

Deferred tax assets

(in thousands of HRK)	Tax losses	Provisions	Other	Total
At 1 January 2010	1,737	5,147	601	7,485
(Charged)/Credited to the income statement (Note 11)	2,166	336	180	2,682
(Charged)/Credited to other comprehensive income	-	-	790	790
Acquisition of subsidiary (Note 28)	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**	**24,745**	**53,714**
(Charged)/credited to the income statement (Note 11)	(8,791)	(2,887)	9,512	(2,166)
Charged/(credited) to other comprehensive income	-	-	4,172	4,172
Other movements	160	(17)	(312)	(169)
Exchange differences	134	72	655	861
At 31 December 2011	**11,677**	**5,963**	**38,772**	**56,412**

NOTE 25 – DEFERRED INCOME TAX (continued)

Deferred tax liabilities

(in thousands of HRK)	**Fair value gains**	**Fair value uplifts of assets acquired in business combinations**	**Other**	**Total**
At 1 January 2010	92	45,897	-	45,989
Charged/ (Credited) to the income statement (Note 11)	52	(1,670)	-	(1,618)
Acquisition of subsidiary (Note 28)	-	138,848	7,237	146,085
Other movements	(41)	(55)	-	(96)
Exchange differences	-	(488)	-	(488)
At 31 December 2010	**103**	**182,532**	**7,237**	**189,872**
Charged/ (Credited) to the income statement (Note 11)	(39)	(2,256)	509	(1,786)
Acquisition of subsidiary (Note 28)	-	1,900	-	1,900
Other movements	-	79	-	79
Exchange differences	2	2,811	186	2,999
At 31 December 2011	**66**	**185,066**	**7,932**	**193,064**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employees benefits**	**Legal proceedings**	**Warranties**	**Other provisions**	**Total**
At 31 December 2010	47,374	31,486	2,193	4,591	85,644
Analysis of total provisions:					
Non-current	30,120	29,837	-	181	60,138
Current	17,254	1,649	2,193	4,410	25,506
At 1 January 2011	**47,374**	**31,486**	**2,193**	**4,591**	**85,644**
Additions	24,340	854	2,416	1,882	29,492
Used during year	(13,537)	(751)	(2,208)	(2,592)	(19,088)
Reversed during year	(14,843)	(5,005)	-	(1,911)	(21,759)
Exchange differences	897	1,212	46	71	2,226
At 31 December 2011	**44,231**	**27,796**	**2,447**	**2,041**	**76,515**
Analysis of total provisions:					
Non-current	26,099	26,718	-	1,723	54,540
Current	18,132	1,078	2,447	318	21,975

NOTE 26 – PROVISIONS (continued)

Legal proceedings

In the ordinary course of business, the Group is defendant and plaintiff in 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 2011.

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 2012. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 1,103 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

There was no capital expenditure contracted for at 31 December 2011 but not yet incurred relating to property, plant and equipment and intangible assets. Capital expenditure related to property, plant and equipment that was contracted for at 31 December 2010 but not yet incurred amounted to HRK 14,484 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:

	2011	**2010**
	(in thousands of HRK)	
Not later than 1 year	37,582	35,943
Later than 1 year and not later than 5 years	87,261	75,648
Over 5 years	8,309	10,842
	133,152	**122,433**

NOTE 28 – BUSINESS COMBINATIONS

(i) Acquisitions in 2011

In May 2011, the Group acquired 100% interest and obtained control over the subsidiary ZU Ljekarne Dvoržak 2, Zagreb, Croatia. Additionally, in February 2011 the Group acquired a pharmacy which operates within ZU Ljekarne Farmacia, Zagreb.

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)	7,702	7,702
Licences (Note 14)	-	9,500
Software (Note 14)	103	103
Trade and other payables	(3,478)	(3,478)
Borrowings	(3,121)	(3,127)
Deferred tax liability (Note 25)	-	(1,900)
Total identifiable net assets	**1,206**	**8,800**
Purchase consideration paid in cash in 2009		11,857
Purchase consideration paid in cash in 2011		5,807
Fair value of identifiable net assets acquired		(8,800)
Goodwill (Note 14)		8,864

The businesses acquired in 2011 contributed to the consolidated result for the year ended 31 December 2011 with revenue of HRK 18,830 thousand and net loss of HRK 76 thousand. Had the businesses been consolidated from 1 January 2011, the consolidated revenue for the year ended 31 December 2011 would have been HRK 9,194 thousand higher, while profit before taxation would not change significantly than currently reported.

NOTE 28 – BUSINESS COMBINATIONS (continued)

(ii) 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 (Note 25)	-	(2,931)
Total identifiable net assets	**1,034**	**12,756**
Purchase consideration paid in cash in 2009		15,687
Fair value of identifiable 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 - net. In December 2010, Kalničke vode Bio Natura d.d. was 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	75,866
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	8,757
Trade and other payables	(30,522)	(31,812)
Provisions	(99)	(99)
Deferred tax liabilities	(2,168)	-
Borrowings	(38,740)	(38,740)
Total identifiable net assets	**129,684**	**32,196**
Non-controlling interest		6,117
Fair value of identifiable net assets acquired		26,079
Purchase consideration		21,989
- settled in cash in 2010		4,978
- settled through takeover of liabilities		17,011
Excess of fair value of net assets acquired over consideration transferred		4,090

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. According to the Share Purchase Agreement, an additional amount of EUR 2,750 thousand will be paid during 2012, upon the realization of the Ljubljana property sale.

Details of the net assets acquired and goodwill are as follows:

	(in thousands of HRK)
Purchase consideration:	
- paid in cash	1,795,402
- purchase price extension due to SPA clause	20,309
Net assets acquired (see below)	(1,135,623)
Goodwill (restated) (Note 14)	**680,088**

Goodwill in amount of HRK 680,088 thousand relates to synergy effects that are expected to be realised by integrating the companies into existing segment operations and is tested for impairment as part of the regular annual impairment testing.

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

(in thousands of HRK)	Carrying value	Fair value recognised on acquisition
Property, plant and equipment (Note 13)	807,741	873,351
Goodwill	285,128	-
Brands (Note 14)	558,484	764,749
Software (Note 14)	29,140	32,456
Investment property	1,816	2,481
Available-for-sale financial assets	1,159	1,336
Trade and other receivables	628,052	628,052
Deferred tax assets	26,929	26,929
Inventories	213,164	235,769
Assets held for sale	111,199	111,310
Income tax receivable	2,729	2,729
Cash and cash equivalents	117,024	117,024
Borrowings	(1,046,501)	(1,047,742)
Deferred tax liabilities (Note 25)	(7,237)	(143,154)
Other non-current liabilities	(318)	(318)
Trade and other payables	(357,078)	(357,079)
Provisions	(67,568)	(67,568)
Derivative financial instruments	(23,383)	(23,383)
Income tax payable	(251)	(251)
Non-controlling interest	(21,068)	(21,068)
Net assets	**1,259,161**	**1,135,623**

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)**

NOTE 28 – BUSINESS COMBINATIONS (continued)

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 acquirees been consolidated from 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.

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2011	2010
Net profit		**54,892**	**106,797**
Income tax	11	23,945	16,325
Depreciation, amortisation and impairment	13,14, 2.24	165,827	55,061
Loss / (gain) on sale of property, plant and equipment	9	63	(49,647)
Gain on sale of available-for-sale financial assets	9	(11,962)	-
Excess of fair value of net assets acquired over acquisition cost	9, 28	-	(4,090)
Provision for current assets		51,341	21,001
Foreign exchange differences – net		43,148	7,039
Decrease in provision for risks and charges -net	26	(9,129)	(6,145)
Fair value adjustments of financial assets		(8,708)	-
Share based payment	21	1,318	994
Interest income		(11,350)	(13,050)
Interest expense	10	221,167	38,667
Other non-cash items		(5,758)	879
Changes in working capital:			
Increase in inventories		(59,771)	(46,834)
(Increase) / Decrease in current receivables		(57,316)	1,813
Decrease in current payables		(15,540)	(26,313)
Cash generated from operations		**382,167**	**102,497**

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 2011 and at 31 December 2010 and transactions recognised in the Income statement for years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2011	2010
RECEIVABLES			
Current receivables			
Other entities	18	93,528	19,083
LIABILITIES			
Borrowings			
Shareholders	24	427,959	361,880
Trade payables			
Shareholders	23	22	9
Other entities		2,003	842
		2,025	851
REVENUES			
Sales revenues			
Other entities		388,914	91,177
Other revenues			
Other entities		93	194
EXPENSES			
Marketing and promotion expenses	7		
Other entities		15,969	4,386
Other operating expenses	8		
Other entities		59	2,227
Finance cost - net	10		
Shareholder		40,399	8,351
Key management compensation			
Gross salaries and bonuses /i/		18,620	13,174
Share based payment	6	3,818	5,210

/i/ Key management compensations relate to gross wages and bonuses for 9 employees (2010: 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:

	2011	2010
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)	100%	100%
- Droga Kolinska d.d.,Slovenia (acquired in 2010, Note 28)	100%	100%
- Grand Kafa d.o.o., Serbia	100%	100%
- Palanački kiseljak a.d., Serbia	93%	79%
- Tobess d.o.o., Serbia	100%	100%
- Soko Nada Štark a.d., Serbia	94%	94%
- Soko Štark maloprodaja d.o.o., Serbia (i)	-	100%
- Droga d.o.o., Bosnia and Herzegovina	100%	100%
- DK Faktor d.o.o., Bosnia and Herzegovina (i)	-	96%
- Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- Droga d.o.o.e.l., Macedonia (bankruptcy proceedings)	100%	100%
- o.o.o. Droga Kolinska, Russia	100%	100%
Atlantic Trade d.o.o., Croatia	100%	100%
- Grand Prom d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Kofikom Produkt d.o.o., Bosnia and Herzegovina	100%	100%
- DK Trade d.o.o., Bosnia and Herzegovina	100%	100%
- Kofikom d.o.o., Bosnia and Herzegovina	100%	100%
- Droga Kolinska d.o.o.e.l., Macedonia	100%	100%
- Slovin Jugokokta d.o.o.e.l., Macedonia	100%	100%
- DK Mont d.o.o., Montenegro	100%	100%
- Atlantic BG d.o.o., Serbia (merged to Grand Prom)	-	100%
- Atlantic Brands d.o.o., Serbia	100%	100%
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., Macedonia	75%	75%
- Lasago d.o.o., Croatia (bankruptcy proceedings)	100%	100%
- Bionatura bidon vode d.o.o., Croatia	100%	100%
Atlantic Trade Sofia e.o.o.d., Bulgaria	100%	100%
Atlantic Ulaganja d.o.o., Croatia (founded in 2011)	100%	-

NOTE 31 – SUBSIDIARIES (continued)

	2011	2010
Atlantic Farmacia d.o.o., Croatia	95%	95%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- ZU Ljekarna Farmacia, Bosnia and Herzegovina	100%	100%
- ZU Ljekarne Bamapharm, Croatia	75%	75%
- Farmacia Plus d.o.o., Croatia	100%	100%
Farmacia Specijalizirana Prodavaonica d.o.o., Croatia	100%	100%
ZU Ljekarne Dvoržak 2. Croatia (acquired in 2011, Note 28)	100%	-
ZU Ljekarne Marijam, Croatia (acquired in 2010, Note 28)	100%	100%
Alpha Medical 2,d.o.o., Croatia (acquired in 2010, Note 28)	100%	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%	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%

(i) Subsidiaries merged to their parent subsidiary in 2011.

NOTE 32 – AUDITORS' FEES

PricewaterhouseCoopers d.o.o., the auditor of the Group's financial statements has rendered services in the amount of HRK 4,372 thousand (2010: HRK 2,234 thousand). These services relate to the audits and reviews of the financial statements and to audit of financial covenants calculation.