ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS 31 DECEMBER 2012

ATLANTIC GRUPA d.d.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts expressed in thousands of HRK)	**Note**	**2012**	**2011**
Revenues	27	85,466	55,054
Other income	5	8,237	34,722
Staff costs	6	(41,767)	(34,316)
Marketing and promotion costs	7	(5,633)	(2,160)
Depreciation and amortisation	12, 13	(1,963)	(1,364)
Other operating costs	8	(31,385)	(25,455)
Other gains – net	9	4,074	12,428
Operating profit		**17,029**	**38,909**
Finance income	10	4,211	8
Finance costs	10	(32,707)	(31,077)
Finance costs – net	10	(28,496)	(31,069)
(Loss) / Profit before tax		**(11,467)**	**7,840**
Income tax (expense) / credit	11	(429)	2,582
(Loss) / Profit for the year		**(11,896)**	**10,422**

The financial statements set out on pages 2 to 40 were approved by the Management Board of the Company in Zagreb on 27 March 2013.

President of the Management Board

Emil Tedeschi

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

ATLANTIC GRUPA d.d.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts expressed in thousands of HRK)	**2012**	**2011**
(Loss) / Profit for the year	**(11,896)**	**10,422**
Other comprehensive income:		
Cash flow hedge	319	(1,226)
Total other comprehensive income / (loss)	**319**	**(1,226)**
Total comprehensive (loss) / income	**(11,577)**	**9,196**

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

ATLANTIC GRUPA d.d.

BALANCE SHEET

AT 31 DECEMBER 2012

(all amounts are expressed in thousands of HRK)	**Note**	**31 December 2012**	**31 December 2011**
ASSETS			
Non-current assets			
Property, plant and equipment	12	9,470	2,896
Intangible assets	13	2,719	2,710
Investments in subsidiaries and joint ventures	14	1,467,562	1,453,934
Deferred tax assets	23	5,095	4,120
Available-for-sale financial assets	16	42	42
Trade and other receivables	17	438	11,240
		1,485,326	1,474,942
Current assets			
Trade and other receivables	17	165,224	183,041
Income tax receivable		1,620	2,401
Cash and cash equivalents	18	1,697	3,798
		168,541	189,240
Total assets		**1,653,867**	**1,664,182**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	19	133,372	133,372
Share premium	19	882,748	882,903
Treasury shares	19	-	(371)
Cash flow hedge reserves	20	(4,408)	(4,727)
Retained earnings		245,986	224,357
Total equity		1,257,698	1,235,534
Non-current liabilities			
Borrowings	22	203,923	230,450
Provisions	24	138	93
Other liabilities	21a	-	36,101
		204,061	266,644
Current liabilities			
Trade and other payables	21	12,720	26,623
Current portion of other liabilities	21a	33,136	-
Borrowings	22	121,814	111,117
Provisions	24	8,180	9,274
Derivative financial instruments	15a	16,258	14,990
		192,108	162,004
Total liabilities		**396,169**	**428,648**
Total equity and liabilities		**1,653,867**	**1,664,182**

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

ATLANTIC GRUPA d.d.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of HRK)	**Share capital (Note 19)**	**Cash flow hedge reserves**	**Retained earnings**	**Total**
At 1 January 2011	1,016,282	(3,501)	214,783	1,227,564
Comprehensive income:				
Net profit for the year	-	-	10,422	10,422
Other comprehensive loss	-	(1,226)	-	(1,226)
Total comprehensive (loss)/income	-	(1,226)	10,422	9,196
Transaction with owners				
Purchase of treasury shares	(2,532)	-	-	(2,532)
Share based payment	2,154	-	(848)	1,306
At 31 December 2011	**1,015,904**	**(4,727)**	**224,357**	**1,235,534**
Comprehensive income:				
Net loss for the year	-	-	(11,896)	(11,896)
Other comprehensive income	-	319	-	319
Total comprehensive income/(loss)	-	319	(11,896)	(11,577)
Transaction with owners				
Purchase of treasury shares	(5,393)	-	-	(5,393)
Share based payment	5,609	-	247	5,856
Effect of merger (Note 14)	-	-	33,278	33,278
At 31 December 2012	**1,016,120**	**(4,408)**	**245,986**	**1,257,698**

ATLANTIC GRUPA d.d.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

(all amounts expressed in thousands of HRK)	**Note**	**2012**	**2011**
Cash flows used in operating activities:			
Cash (used in) / generated from operations	26	(22,060)	264
Income tax paid		(1,724)	(5,128)
Interest paid		(21,819)	(18,866)
		(45,603)	(23,730)
Cash flows (used in) / from investing activities			
Purchases of property, plant and equipment and intangible assets	12, 13	(8,582)	(3,124)
Proceeds from sale of property, plant and equipment		57	98
Proceeds from sale of available-for-sale financial assets	16	-	46,962
Proceeds from disposal of investment in subsidiary	14	3,500	-
Loans granted and deposits placed - net		6,177	(44,678)
Investments in subsidiaries	14	(4,088)	(3,896)
Cash acquired through merger	14	32	-
Dividends received		-	333
Interest received		14	8,991
		(2,890)	4,686
Cash flows from / (used in) financing activities			
Purchase of treasury shares	19	(5,393)	(2,532)
Proceeds from issuance of bonds	22	-	62,221
Redemption of bonds	22	-	(66,082)
Proceeds from borrowings	22	114,184	207,823
Repayment of borrowings	22	(62,399)	(237,159)
		46,392	(35,729)
Net decrease in cash and cash equivalents		**(2,101)**	**(54,773)**
Cash and cash equivalents at beginning of year		3,798	58,571
Cash and cash equivalents at end of year	18	**1,697**	**3,798**

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

NOTE 1 – GENERAL INFORMATION

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

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

The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is disclosed in Note 19.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

The Company has issued these separate financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2012 and for the year then ended in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 27 March 2013. In the consolidated financial statements, subsidiary undertakings (listed in Note 14) and those companies in which the Group indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2012 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

(a) New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that had a material impact on the financial statements of the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Standards, and interpretations issued but not effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements.

- *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. The amendment affects presentation only and therefore is not expected to have an impact on the Company's financial position or performance.

- *Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013).* These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendment is not expected to have an impact on the Company's financial position or performance.

- *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 entities (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It sets out the accounting requirements for the preparation of consolidated financial statements. The Company is currently assessing the impact that IFRS10 will have on financial statements. The Company plans to adopt this new standard on its effective date.

- *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. This standard is not expected to have an impact on the financial statements. The Company plans to adopt this new standard on its effective date.

- *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. The Company is currently assessing the impact of IFRS12 on financial statements. The Company plans to adopt this new standard on its effective date.

- *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. The Company is currently assessing the impact of IAS 27 on financial statements. The Company plans to adopt this new standard on its effective date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *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. It is not expected to have a material impact on financial statements.
- *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. This standard is not expected to have an impact on the financial statements. The Company plans to adopt this new standard on its effective date.
- *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. This amendment is not relevant to the Company's operations.
- *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. The Company is considering the implications of the amendment and the impact on the Company.
- *Amendment to IFRS 1 First time adoption on government loans (effective for annual periods beginning on or after 1 January 2013*). This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. This amendment is not relevant to the Company's operations.
- *Amendment to IFRSs 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013).* These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The Company is considering the implications of the amendments and the impact on the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *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 two primary measurement categories for financial assets: amortised cost and fair value. The basis of 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. The Company does not expect IFRS 9 to have an impact on the financial statements. The Company plans to adopt this new standard on its effective date.

- *Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).* The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Company is currently assessing the impact of the amendments on its financial statements.

- *Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013).* These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to:
    - IFRS 1, 'First time adoption'
    - IAS 1, 'Financial statement presentation'
    - IAS 16, 'Property plant and equipment'
    - IAS 32, 'Financial instruments; Presentation'
    - IAS 34, 'Interim financial reporting'

  The Company is considering the implications of the improvements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.3 Investments in subsidiaries and joint ventures

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

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

2.4 Property, plant and equipment

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

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

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

Motor vehicles	5 years
Investments in third party assets	4 years
Equipment	2 to 10 years

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment (continued)

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

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

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

2.5 Intangible assets

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

2.6 Impairment of non-financial assets

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

2.7 Financial assets

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

(a) Loans and receivables

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

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

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value, except investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, consequently, these are carried at cost.
Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

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

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

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

2.8 Leases

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

2.9 Trade and other receivables

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

2.10 Cash and cash equivalents

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Share capital

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

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

2.12 Borrowings

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

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

2.13 Deferred income tax

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

(c) Long-term employee benefits

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

(d) Share-based compensations

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

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

(e) Short-term employee benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Provisions

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

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

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

2.16 Revenue recognition

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

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

(a) Revenue from services

Revenue from services is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Income from corporate governance services is recognised in the accounting period in which the services are rendered and invoiced.

(b) Interest income

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

(c) Dividend income

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

2.17 Dividend distribution

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

2.18 Value added tax

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Trade payables

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

2.20 Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

2.21 Mergers

The predecessor method of accounting is used to account for the merger of related companies. 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, recognizing the carrying value of net assets merged within equity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Comparatives and restatements

In 2012 the classification of Entertainment costs has changed from 'Marketing and promotion costs' to 'Other operating costs'.

The effect of these changes on comparative figures for 2011 is as follows:

(in thousands of HRK)	2011
Decrease in marketing and promotion costs	(4,337)
Increase in other operating costs	4,337

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

	2012	**2011**
Trade and other receivables	17%	8%
Trade and other payables	13%	33%
Cash and cash equivalents	69%	67%
Borrowings	58%	50%

At 31 December 2012, if the EURO had weakened/strengthened by 0.5% against the HRK (2011: 0.5%), with all other variables held constant, 2012 loss after tax for the reporting period would have been HRK 646 thousand lower/higher (2011 profit: HRK 620 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of EURO denominated trade and other receivables, cash and cash equivalents, trade and other payables and borrowings (Notes 17, 18, 21 and 22).

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(ii) Equity securities risk

The Company is exposed to equity securities fair value and price risk amid investments held by the Company classified on the balance sheet as available for sale. Equity investments classified as available for sale are not listed. To manage its fair value and price risk arising from investments in equity securities, the Company monitors market transactions and performance of investment entities. No reliable external information exists with respect to fair value. Management believes, based on internal information, that the fair value equals or exceeds carrying value. However, due to limited information available, management has not carried out a sensitivity analysis. At 31 December 2012, if the fair value of the available for sale investment would change with all other variables remaining constant, then other comprehensive income and revaluation reserves would also change by the same amount.

(iii) Cash flow and fair value interest rate risk

As the Company does not have significant interest-bearing assets, the Company's income and operating cash flows are not substantially dependent of changes in market interest rates.

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

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

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

At 31 December 2012, if the effective interest rate on borrowings had been 100 basis points higher/lower on an annual level, the loss after tax for the reporting period would have been HRK 181 thousand higher/lower (2011 profit: HRK 233 thousand lower/higher).

(b) Credit risk

The Company's assets, potentially subjecting the Company to concentrations of credit risk, primarily include cash and trade and other receivables. The Company does not have significant concentrations of credit risk, since loans and receivables mainly relate to transactions within the Group. The Company has policies that limit the amount of credit exposure to any financial institution. A detailed analysis and maximum exposure to credit risk is presented in Notes 15b and 17.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Company aims to maintain flexibility in funding by keeping committed credit lines available. Trade and other payables as well as short-term borrowings are due within 12 months after the balance sheet date, while the maturity of long-term borrowings is disclosed in Note 22.

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

Surplus cash held over and above the balance required for working capital management is invested in interest bearing current accounts, time deposits and cash funds, i.e. instruments with appropriate maturities or sufficient liquidity. At the balance sheet date, the Company held cash and cash equivalents in the amount of HRK 1,697 thousand (2011: 3,798 thousand) that are expected to readily generate cash inflows for managing liquidity risk.

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

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Total**
31 December 2012			
Trade and other payables	8,614	-	8,614
Borrowings	139,677	244,599	384,276
Other non-current liabilities	34,053	-	34,053
Derivative financial instruments	16,258	-	16,258

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Total**
31 December 2011			
Trade and other payables	8,125	-	8,125
Borrowings	129,569	280,227	409,796
Other non-current liabilities	1,570	37,671	39,241
Derivative financial instruments	14,990	-	14,990

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

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

The gearing ratios were as follows:

	31 December 2012	**31 December 2011**
	(in thousands of HRK)	
Total borrowings (Note 22)	325,737	341,567
Less: Cash and cash equivalents (Note 18)	(1,697)	(3,798)
Net debt	324,040	337,769
Total equity	1,257,698	1,235,534
Total capital	**1,581,738**	**1,573,303**
Gearing ratio	**20%**	**21%**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

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

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

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

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

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

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

The fair value of derivative financial instruments and of available-for-sale financial instruments is determined based on specific valuation techniques (level 3).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

Investment in subsidiaries and its impairments

The Company performs tests on annual basis to conclude whether there are any indicators that investment in subsidiaries suffers any impairment, in accordance with the accounting policy disclosed in Note 2.3. If any indicator of impairment exists, the Company performs impairment tests. These tests require the use of estimates such as expected growth rate, discount rate etc., that are mainly based on market conditions existing at the time when tests are performed. During 2012 there were no indicators of impairment of investment in subsidiaries, however due to the ongoing liquidation process in one subsidiary the Company has recognized an impairment charge of HRK 919 thousand (Note 14).

NOTE 5 – OTHER INCOME

	2012	2011
	(in thousands of HRK)	
Dividend income – related parties (Note 27)	-	24,622
Dividend income	-	333
Interest income from loans – related parties (Note 27)	5,659	9,027
Interest income from cash with banks and deposit	6	99
Other	2,572	641
	8,237	**34,722**

NOTE 6 – STAFF COSTS

	2012	2011
	(in thousands of HRK)	
Gross salaries /i/	31,562	23,689
Share options granted (Note 19)	6,083	3,818
Public transport	266	220
Other staff costs /ii/	3,856	6,589
	41,767	**34,316**

At 31 December 2012, the number of staff employed by the Company was 81 (2011: 63).

/i/ Pension contributions to mandatory pension funds for the year ended 31 December 2012 amounted to HRK 4,174 thousand (2011: 3,244 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2012	2011
	(in thousands of HRK)	
Sponsorships and donations	5,164	1,376
Advertising and marketing expenses	469	784
	5,633	**2,160**

NOTE 8 – OTHER OPERATING COSTS

	2012	2011
	(in thousands of HRK)	
Rentals	8,617	6,669
Transportation services	4,244	3,819
Entertainment	4,013	4,337
Intellectual services	3,007	1,363
Travel expense and daily allowances	1,950	1,402
Maintenance and security	1,491	1,067
Supervisory Board compensation	1,358	1,464
Telecommunication services	1,255	960
Taxes and contributions irrespective of operating results	736	1,221
Bank charges	601	440
Office supplies	527	400
Insurance premiums	468	280
Services from related parties (Note 27)	569	490
Other	2,549	1,543
	31,385	**25,455**

NOTE 9 – OTHER GAINS – NET

	2012	2011
	(in thousands of HRK)	
Gain on sale of property, plant and equipment	21	37
Gain on sale of available-for-sale financial assets (Note 16)	-	11,962
Gain on disposal of subsidiary (Note 14)	5,501	-
Impairment loss of investment in subsidiary (Note 14)	(919)	-
Fair value (losses) / gains on derivative financial instruments	(485)	536
Foreign exchange losses – net	(44)	(107)
	4,074	**12,428**

NOTE 10 – FINANCE COSTS – NET

	2012	2011
	(in thousands of HRK)	
Finance income:		
Foreign exchange gains from borrowings	4,211	8
	4,211	8
Finance costs:		
Foreign exchange losses from borrowings	(4,457)	(3,335)
Interest expense - banks	(7,454)	(3,901)
Interest expense - related parties (Note 27)	(10,759)	(11,833)
Interest expense - bonds	(8,419)	(8,528)
Interest expense - other	(1,618)	(3,480)
	(32,707)	(31,077)
	(28,496)	**(31,069)**

NOTE 11 – INCOME TAX

	2012	2011
	(in thousands of HRK)	
Current income tax	301	675
Deferred tax (Note 23)	128	(3,257)
	429	**(2,582)**

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

	2012	2011
	(in thousands of HRK)	
(Loss) / Profit before taxation	(11,467)	7,840
Tax at 20%	(2,293)	1,568
Effect of expenses not deductible for tax purposes	5,248	1,836
Effect of income not subject to tax	(2,526)	(5,986)
Tax charge / (credit)	**429**	**(2,582)**
Effective interest rate	(3.74%)	(32.93%)

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

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Leasehold Improvements	Vehicles	Equipment	Assets not yet in use	Total
At 1 January 2011					
Cost	-	138	4,711	-	4,849
Accumulated depreciation	-	(17)	(3,795)	-	(3,812)
Net book amount	**-**	**121**	**916**	**-**	**1,037**
At 31 December 2011					
Opening net book amount	-	121	916	-	1,037
Additions	-	-	-	2,884	2,884
Transfer	2,288	-	596	(2,884)	-
Disposals	-	(62)	-	-	(62)
Depreciation	(95)	(23)	(845)	-	(963)
Closing net book amount	**2,193**	**36**	**667**	**-**	**2,896**
At 31 December 2011					
Cost	2,288	55	5,308	-	7,651
Accumulated depreciation	(95)	(19)	(4,641)	-	(4,755)
Net book amount	**2,193**	**36**	**667**	**-**	**2,896**
At 31 December 2012					
Opening net book amount	2,193	36	667	-	2,896
Additions	-	-	-	7,773	7,773
Transfer	7,355	78	322	(7,755)	-
Disposals	-	(36)	-	-	(36)
Depreciation	(756)	(16)	(391)	-	(1,163)
Closing net book amount	**8,792**	**62**	**598**	**18**	**9,470**
At 31 December 2012					
Cost	9,643	78	5,630	18	15,369
Accumulated depreciation	(851)	(16)	(5,032)	-	(5,899)
Net book amount	**8,792**	**62**	**598**	**18**	**9,470**

NOTE 13 – INTANGIBLE ASSETS

	31 December 2012	31 December 2011
	(in thousands of HRK)	
Opening net book amount	2,710	2,871
Additions	809	240
Amortisation	(800)	(401)
Closing net book amount	2,719	2,710
Cost	4,175	3,366
Accumulated amortisation	(1,456)	(656)
Closing net book amount	**2,719**	**2,710**

NOTE 14 – INVESTMENTS IN SUBSIDIARIES

	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	Holding in %	**Holding in %**	*(in thousands of HRK)*	
Atlantic Trade d.o.o., Zagreb, Croatia /i/	100%	100%	738,544	10,000
Neva d.o.o., Zagreb, Croatia /i/	100%	100%	53,281	781,825
Cedevita d.o.o., Zagreb, Croatia	81%	81%	46,459	46,459
Hopen Investments, BV, Netherlands	100%	100%	91,017	91,017
Montana Plus d.o.o., Zagreb, Croatia	100%	100%	12,000	12,000
Atlantic Italia S.r.l., Italy /ii/	100%	100%	-	919
Fidifarm d.o.o., Zagreb, Croatia /iii/	100%	100%	525,898	81,591
Atlantic Farmacia d.o.o., Zagreb, Croatia /iii/	-	95%	-	10,890
Livia 2 d.o.o., Zagreb, Croatia /iii/	-	100%	-	26,533
Farmacia Specijalizirana prodavaonica d.o.o., Zagreb, Croatia /iv/	-	100%	-	20
Atlantic Trade Eood, Sofia, Bulgaria	100%	100%	363	363
Atlantic Ulaganja d.o.o. /v/	-	100%	-	392,317
			1,467,562	**1,453,934**

/i/ As a part of Group restructuring process, the investment in subsidiary Atlantic Naložbe d.o.o. Ljubljana together with related assets and liabilities have been transferred from subsidiary Neva d.o.o. to Atlantic Trade d.o.o. Consequently, the investment of HRK 728,544 thousand has been transferred from investment in Neva d.o.o. to investment in Atlantic Trade d.o.o.

/ii/ Investment in the subsidiary Atlantic Italia S.r.l. was impaired in the amount of HRK 919 thousand (Note 9) due to the initiation of liquidation proceedings of this subsidiary.

/iii/ In 2012 the Company acquired the non controlling interest of 5% in subsidiary Atlantic Farmacia d.o.o. for HRK 12,811 thousand and subsequently, this subsidiary was merged into Fidifarm d.o.o.. Following this merger, the subsidiary Livia 2 d.o.o. also merged into Fidifarm d.o.o.. Finally, in December 2012 the Company has converted loan receivables and related interest in total amount of HRK 394,073 thousand into investment.

/iv/ In 2012 the Company has sold its investment in subsidiary Farmacia Specijalizirana prodavaonica d.o.o. to Fidifarm d.o.o. for the amount of HRK 5,521 thousand and realized gain on sale in the amount of HRK 5,501 thousand (Note 9).

/v/ In 2012 the subsidiary Atlantic Ulaganja d.o.o. merged into the Company. Through the merger the Company acquired net assets as follows:

(in thousands of HRK)	Net book value
Loans given	409,831
Interest receivables	23,691
Cash and cash equivalents	32
Income tax payable	(2,204)
Trade and other payables	(26)
Borrowings	(5,729)
Investment in subsidiary	(392,317)
Net assets	**33,278**

NOTE 15a – FINANCIAL INSTRUMENTS BY CATEGORY

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

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	Total
31 December 2012			
Financial assets			
Available-for-sale (Note 16)	-	42	**42**
Trade and other receivables (Note 17)	160,495	-	**160,495**
Deposits (Note 17)	438	-	**438**
Cash and cash equivalents (Note 18)	1,697	-	**1,697**
Total	**162,630**	**42**	**162,672**

(in thousands of HRK)	Other financial liabilities	Derivatives used for hedging	Liabilities at fair value through profit or loss	Total
31 December 2012				
Financial liabilities				
Borrowings (Note 22)	325,737	-	-	**325,737**
Other non-current liabilities (Note 21a)	33,136	-	-	**33,136**
Derivative financial instruments	-	5,510	10,748	**16,258**
Trade and other payables (Note 21)	8,614	-	-	**8,614**
Total	**367,487**	**5,510**	**10,748**	**383,745**

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	Total
31 December 2011			
Financial assets			
Available-for-sale (Note 16)	-	42	**42**
Trade and other receivables (Note 17)	191,435	-	**191,435**
Deposits (Note 17)	438	-	**438**
Cash and cash equivalents (Note 18)	3,798	-	**3,798**
Total	**195,671**	**42**	**195,713**

(in thousands of HRK)	Other financial liabilities	Derivatives used for hedging	Liabilities at fair value through profit or loss	Total
31 December 2011				
Financial liabilities				
Borrowings (Note 22)	341,567	-	-	**341,567**
Other non-current liabilities (Note 21a)	36,101	-	-	**36,101**
Derivative financial instruments	-	4,727	10,263	**14,990**
Trade and other payables (Note 21)	8,125	-	-	**8,125**
Total	**385,793**	**4,727**	**10,263**	**400,783**

NOTE 15b – CREDIT QUALITY OF FINANCIAL ASSETS

As at 31 December 2012, financial assets classified in the category trade and other receivables that are not past due amounted to HRK 154,007 thousand (2011: HRK 187,058 thousand). Receivables not past due relate to receivables from related parties in the amount of HRK 137,260 thousand (2011: HRK 163,047 thousand) and the risk of non-collectability is low.

Almost all of the Company's cash and cash equivalents of HRK 1,678 thousand (2011: HRK 3,758 thousand) are held at a banks' group member with an A-1/Negative credit rating by Standard & Poor's and are neither past due nor impaired.

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

	2012	2011
	(in thousands of HRK)	
Trade and other receivables - external		
A-	-	5,760
Counterparties without external credit rating		
Group 1	17,213	18,218
Group 2	-	32
Total unimpaired trade and other receivables	**17,213**	**24,010**

	2012	2011
	(in thousands of HRK)	
Long-term deposit		
Group 2	438	438
	438	**438**

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

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

NOTE 16 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

In 2011 the Company has disposed major part of its investment in an unlisted equity instrument for the amount of HRK 46,962 thousand and realized a gain of HRK 11,962 (Note 9).

NOTE 17 – TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
	(in thousands of HRK)	
Non-current receivables		
Deposits	438	438
Other non-current receivables /iii/	9,595	15,802
Less: Current portion of other non-current receivables	(9,595)	(5,000)
	438	**11,240**
Current receivables		
Trade receivables – related parties (Note 27)	44,211	25,741
Trade receivables	480	38
Short-term loan receivables– related parties (Note 27)	30,464	-
Current portion of other non-current receivables	9,595	5,000
Accrued interest receivable	3	9
Accrued interest receivable – related parties (Note 27)	464	464
Receivables from distribution of profit – related parties (Note 27)	66,122	141,214
Other receivables /ii/	13,885	10,575
	165,224	**183,041**
Total trade and other receivables	**165,662**	**194,281**

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

	2012	2011
	(in thousands of HRK)	
Category: Loans and receivables		
Deposits	438	438
Trade receivables – related parties (Note 27)	44,211	25,741
Trade receivables	480	38
Short-term loan receivables – related parties (Note 27)	30,464	-
Accrued interest receivable	3	9
Accrued interest receivable – related parties (Note 27)	464	464
Receivables from distribution of profit – related parties (Note 27)	66,122	141,214
Other non-current receivables	9,595	15,802
Other receivables – related parties (Note 27)	2,021	-
Other receivables	7,135	8,167
	160,933	**191,873**

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

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

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2012, trade and other receivables past due amounted to HRK 6,488 thousand (2011: HRK 4,377 thousand). All receivables past due relate to receivables from related parties and they were not provided for as collection is not questionable. The ageing analysis of past due but not provided for trade and other receivables by maturity periods is as follows:

	2012	**2011**
	(in thousands of HRK)	
Less than 3 months	2,059	3,177
3 to 6 months	1,088	748
Over 6 months	3,341	452
	6,488	**4,377**

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

	2012	**2011**
	(in thousands of HRK)	
HRK	133,109	176,675
EUR	27,824	15,198
	160,933	**191,873**

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

/ii/ Other receivables mainly relate to prepaid expenses.

/iii/ Other non-current receivables in the amount of HRK 9,595 thousand (2011: HRK 15,802 thousand) relate to receivables from the continuous cession on Badel 1862 d.d.' s trade receivables that will be collected over a 12 month period.

NOTE 18 – CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
	(in thousands of HRK)	
Current account and cash on hand	528	1,271
Foreign currency account	1,169	2,527
	1,697	**3,798**

Cash and cash equivalents are denominated in the following currencies:

	2012	2011
	(in thousands of HRK)	
EUR	1,170	2,536
HRK	527	1,262
	1,697	**3,798**

NOTE 19 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2011	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**
Purchase of treasury shares	(10,541)	-	-	(5,393)	(5,393)
Share based payments	11,014	-	(155)	5,764	5,609
31 December 2012	**3,334,300**	**133,372**	**882,748**	**-**	**1,016,120**

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

NOTE 19 – SHARE CAPITAL (continued)

The ownership structure of the Company is as follows:

	31 December 2012		31 December 2011	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	322,943	9.69	313,084	9.39
EBRD	284,301	8.53	284,301	8.53
DEG	283,209	8.49	283,209	8.49
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of Company	37,481	1.12	41,490	1.25
Other shareholders	539,391	16.18	544,768	16.34
Treasury shares	-	-	473	0.01
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

Share based payments

According to Company's share option programme, shares are granted to Management Board members and to top management.

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). Furthermore, part of the programme is designated for the extraordinary performance on special projects.

Under the programme 6,538 new shares were granted in 2012 (2011: 6,017 shares).

The fair value of equity-settled share based payment transactions amounted to HRK 6,491 thousand (2011: HRK 4,240 thousand). Of that amount, HRK 6,083 thousand (2011: HRK 3,818 thousand) has been reported, together with appropriated tax, as staff costs (Note 6), relating to shares for which vesting conditions were met in 2012 (6,127 shares; 2011: 5,418 shares) and HRK 408 thousand (2011: HRK 422 thousand) was deferred, relating to shares for which vesting conditions will be met in the next two years (411 shares; 2011: 599 shares).

The fair value of the shares granted is determined as of the grant date at the estimated market price of the share of HRK 700 (2011: HRK 500, with the exception of shares granted for special projects, where the market price at the grant date was HRK 800).

Distribution of dividend

In 2012 and 2011 there was no distribution of dividend to the Company's shareholders.

NOTE 20 – CASH FLOW HEDGE RESERVES

Cash flow hedge reserves in the amount of HRK 4,408 thousand (2011: HRK 4,727 thousand) relate to the fair value loss of floating-to-fixed interest rate swap agreement.

NOTE 21 – TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011
	(in thousands of HRK)	
Trade payables	6,721	5,511
Trade payables – related parties (Note 27)	1,121	311
Other payables /i/	4,878	20,801
	12,720	**26,623**

/i/ Other payables are as follows:

	31 December 2012	31 December 2011
	(in thousands of HRK)	
Gross salaries payable	2,752	1,934
Accrued expenses	521	1,953
Advances received – related parties (Note 27)	1,354	16,564
Other	251	350
	4,878	**20,801**

Financial liabilities are denominated in the following currencies:

	2012	2011
	(in thousands of HRK)	
HRK	7,463	5,463
EUR	1,151	2,662
	8,614	**8,125**

NOTE 21a – OTHER LIABILITIES

Other liabilities of HRK 33,136 thousand (2011: HRK 36,101 thousand) relate to liabilities towards closed investment fund - Kapitalni Fond d.d. These liabilities mature in 2013.

NOTE 22 – BORROWINGS

	31 December 2012	31 December 2011
	(in thousands of HRK)	
Long-term borrowings:		
Related parties (Note 27)	90,548	117,681
Bonds /i/	113,375	112,769
Long-term debt	**203,923**	**230,450**
Short-term borrowings:		
Related parties /ii/ (Note 27)	119,156	102,513
Banks	1,297	7,209
Bonds /i/	1,361	1,395
	121,814	**111,117**
Total borrowings	**325,737**	**341,567**

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

/ii/ Short-term borrowings from related parties include current portion of long-term borrowings and three short-term borrowing facilities. These borrowings are not secured.

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

	31 December 2012	31 December 2011
	(in thousands of HRK)	
Up to 3 months	-	6,846
Up to 6 months	121,241	147,647
Fixed interest rate	204,496	187,074
	325,737	**341,567**

The maturity of long-term borrowings is as follows:

	31 December 2012	31 December 2011
	(in thousands of HRK)	
Between 1 and 2 years	30,183	28,992
Between 2 and 5 years	173,740	201,458
	203,923	**230,450**

NOTE 22 – BORROWINGS (continued)

The average effective annual interest rate relating to borrowings from banks and borrowings from related parties at the balance sheet date was 4.05% (2011: 5.40%). The effective annual interest rate relating to bonds at the balance sheet date was 7.25% (2011: 6.99%).

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

	Carrying amounts		Fair value	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Related parties	90,548	117,681	90,548	117,681
Bonds	113,375	112,769	119,669	109,193
	203,923	**230,450**	**210,217**	**226,874**

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

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

	31 December 2012	31 December 2011
	(in thousands of HRK)	
HRK	136,357	171,573
EUR	189,380	169,994
	325,737	**341,567**

NOTE 23 – DEFERRED TAX ASSETS

	31 December 2012	31 December 2011
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	1,102	-
- Deferred tax assets to be recovered within 12 months	3,993	4,120
Deferred tax assets	**5,095**	**4,120**

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

NOTE 23 – DEFERRED TAX ASSETS (continued)

Deferred tax assets

(in thousands of HRK)	**Bonuses**	**Derivative financial instruments**	**Other**	**Total**
At 1 January 2011	854	-	9	863
Tax credited to the income statement (Note 11)	1,853	2,053	214	4,120
Tax charged to the income statement (Note 11)	(854)	-	(9)	(863)
At 31 December 2011	**1,853**	**2,053**	**214**	**4,120**
Tax credited to the income statement (Note 11)	1,634	96	192	1,922
Tax charged to the income statement (Note 11)	(1,853)	-	(197)	(2,050)
Tax charged to other comprehensive income	-	1,103	-	1,103
At 31 December 2012	**1,634**	**3,252**	**209**	**5,095**

NOTE 24 – PROVISIONS

(in thousands of HRK)	**Provisions for jubilee awards and termination benefits**	**Provisions for bonuses**	**Total**
At 31 December 2011	**103**	**9,264**	**9,367**
Analysis of total provisions:			
Non-current	93	-	93
Current	10	9,264	9,274
At 1 January 2012	**103**	**9,264**	**9,367**
Additions	45	8,065	8,110
Used during the year	-	(9,159)	(9,159)
At 31 December 2012	**148**	**8,170**	**8,318**
Analysis of total provisions:			
Non-current	138	-	138
Current	10	8,170	8,180

NOTE 25 – COMMITMENTS

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

	31 December 2012	31 December 2011
	(in thousands of HRK)	
Not later than 1 year	7,427	6,214
Later than 1 year and not later than 5 years	13,730	7,155
Later than 5 years	1,620	-
	22,777	**13,369**

As at 31 December 2012 and 31 December 2011, the Company did not have contracted but not realized capital expenditures.

The Company is co-debtor and guarantor to its subsidiaries and other members of the Group in their long-term and short-term borrowings. Contingent liabilities arising from guarantees given to its subsidiaries and other members of Atlantic Group were not disclosed in the balance sheet as at 31 December 2012 and 2011, since Management believes it is not likely that they will fall into the Company's liabilities.

NOTE 26 – CASH GENERATED FROM OPERATIONS

	Note	2012	2011
Net (loss) / profit		**(11,896)**	**10,422**
Income tax	11	429	(2,582)
Depreciation and amortisation	12,13	1,963	1,364
Gain on sale of property, plant and equipment	9	(21)	(37)
Gain on sale of available-for-sale financial assets	9, 16	-	(11,962)
Gain on disposal of subsidiary	9, 14	(5,501)	-
Impairment charge of investment in subsidiary	9, 14	919	-
Loss / (Gain) from fair value adjustments	9	485	(536)
Unrealised foreign exchange differences – net		161	3,425
(Decrease) / Increase in provisions	24	(1,049)	5,044
Share based payment		5,856	1,306
Interest income	5	(5,665)	(9,126)
Interest expense	10	28,250	27,742
Dividend income	5	-	(24,955)
Other non-cash items		(333)	422
Changes in working capital:			
Increase in trade and other receivables		(21,764)	(18,050)
(Decrease) / Increase in trade and other payables		(13,894)	17,787
Cash generated from operations		**(22,060)**	**264**

NOTE 27 – RELATED PARTY TRANSACTIONS

The Company enters into transactions with the related parties as presented in Note 14, shareholders and other entities owned or controlled by the Company and shareholders.
Related party transactions that relate to balances as at 31 December 2012 and as at 2011 and transactions recognized for years then ended are as follows:

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2012**	**31 December 2011**
RECEIVABLES			
Current receivables			
Short-term loans			
Subsidiaries	17	30,464	-
Interest receivable			
Subsidiaries	17	464	464
Trade receivables			
Subsidiaries	17	44,211	25,741
Receivables from distribution of profit			
Subsidiaries	17	66,122	141,214
Other receivables			
Subsidiaries	17	2,021	-
LIABILITIES			
Trade and other payables			
Subsidiaries		2,340	16,875
Other related parties		135	-
	21	2,475	16,875
Borrowings			
Subsidiaries		89,760	72,546
Shareholders		119,944	147,648
	22	209,704	220,194
REVENUES			
Revenues from corporate services			
Subsidiaries		85,466	55,054
Dividend income			
Subsidiaries	5	-	24,622
Interest income			
Subsidiaries	5	5,659	9,027
EXPENSES			
Other operating costs			
Subsidiaries		29	490
Other related parties		540	-
	8	569	490
Net finance costs			
Subsidiaries		3,141	3,471
Shareholders		7,618	8,362
	10	10,759	11,833
Key management compensation /i/			
Gross salaries and bonuses		9,868	12,885
Share based payment		6,083	3,818

/i/ Key management compensation relates to gross wages and bonuses for 4 employees (2011: 5 employees).