# Financial results in the first nine months of 2012

Zagreb – October 30th, 2012

## Sales and profitability growth in the first nine months of 2012

- **Sales at HRK 3,631.7 million**
  + 5.3% compared to the same period of the previous year
- **Earnings before interest, taxes, depreciation and amortisation (EBITDA) at HRK 446.0 million**
  + 10.9% compared to the same period of the previous year
- **Earnings before interest and taxes (EBIT) at HRK 332.6 million**
  + 18.7% compared to the same period of the previous year
- **Net profit after minorities at HRK 71.2 million**
  + 9.6% compared to the same period of the previous year

## Chairman's comment

Commenting on the financial results and key business developments in the first nine months of 2012, Emil Tedeschi, CEO of Atlantic Grupa, pointed out:

"Efforts made by employees and the strategic thinking of the management resulted in an increase of Atlantic Grupa's sales in the first nine months of 2012, while the focus on integration and synergies within the system resulted in the improved Group's profitability. We are especially pleased by the fact that such results have been achieved in a particularly challenging macroeconomic situation in the region and beyond.

In the period ahead, we will continue to be focused on the organic growth, cost optimisation and operational risk management in order to achieve the set business goals."

## Financial highlights of the first nine months of 2012

| **Key figures** | **9M12** | 9M11 | 9M12/9M11 |
|---|---|---|---|
| **Sales** (in HRK millions) | **3,631.7** | 3,450.2 | 5.3% |
| **Revenues** (in HRK millions) | **3,672.4** | 3,474.6 | 5.7% |
| **EBITDA margin** | **12.3%** | 11.7% | +63 bp |
| **Net income after minorities** (in HRK millions) | **71.2** | 64.9 | 9.6% |
| **Gearing ratio*** | **62.2%** | 62.3% | -5 bp |

* Net debt/(Total equity+Net debt), Gearing ratio of 62.3% at the end of 2011

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Zagreb, Miramarska 23, Croatia, tel: +385 (1) 24 13 900, fax: +385 (1) 24 13 901, www.atlanticgrupa.com.
The company is registered with the Commercial Court in Zagreb, registration number: 080245039, OIB (personal identification number): 71149912416.
Account number: 2484008-1101427897 Raiffeisenbank Austria d.d., Zagreb, Petrinjska 59; The authorized share capital: 133.372.000,00 kuna, paid in cash completely.
The number of shares and their nominal value: 3.334.300 shares, each in the nominal amount of 40,00kn.
The Management Board: Emil Tedeschi, M. Veber, N. Vranković, Z. Stanković; The President of Supervisory Board: Z. Adrović.

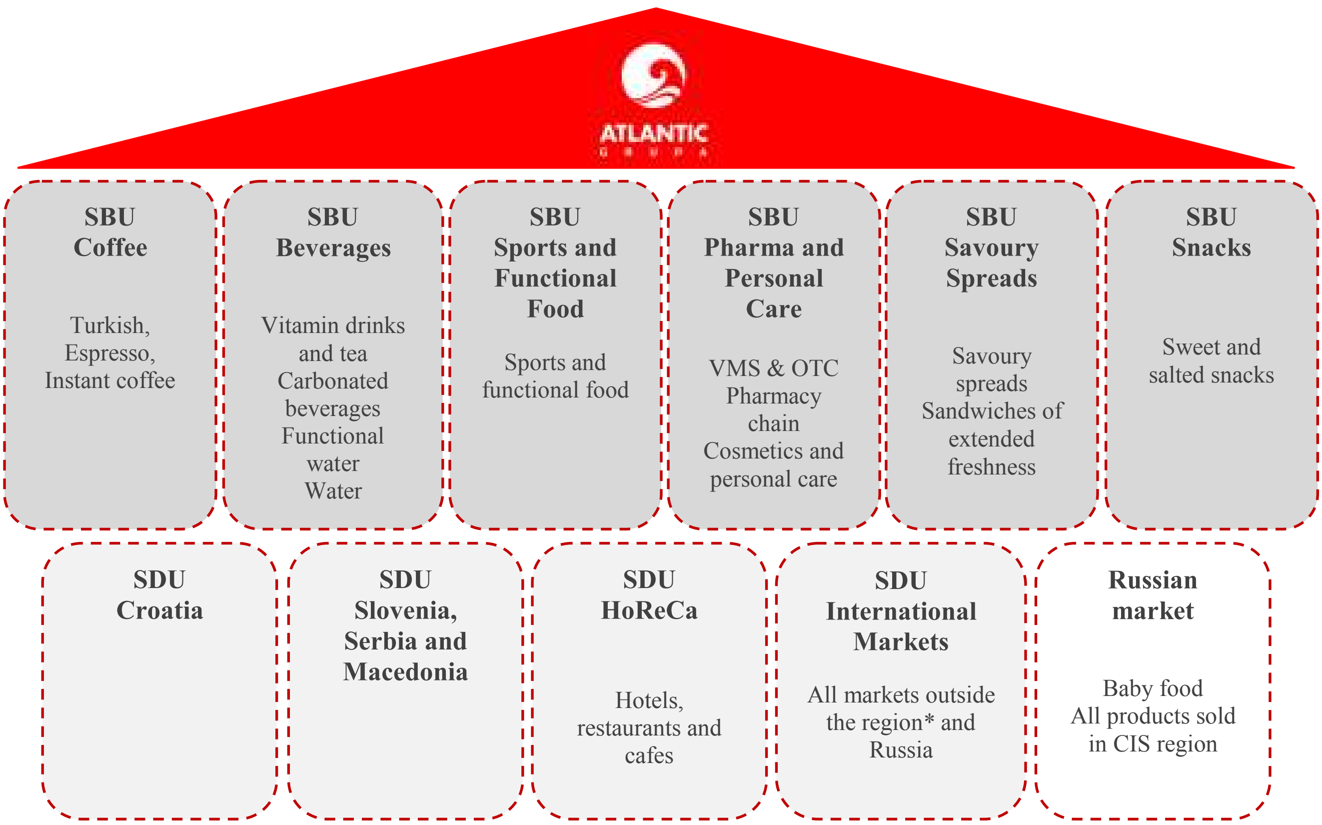
## KEY DEVELOPMENTS in the first nine months of 2012

### 1. New organisational structure and Management Board of Atlantic Grupa

As of 1 January 2012, Atlantic Grupa introduced a new organisational structure aimed at more efficient management of business segments and distribution markets. The new business organisation includes:

1. Six Strategic Business Units (SBU) – Coffee, Snacks, Savoury Spreads, Beverages, Pharma and Personal Care, and Sports and Functional Food,
2. Four Strategic Distribution Units (SDU) – Croatia; Slovenia, Serbia and Macedonia; HoReCa; International Markets and
3. Russian market.

The main feature of such organizational structure is connecting operations in special business areas related to specific product type and special sales areas that cover all key markets as well as all strategic sales channels.




* The region includes Croatia, Slovenia, Bosnia and Herzegovina, Serbia, Montenegro and Macedonia

In addition to Strategic Business Units and Strategic Distribution Units, Operational Business also includes the Central procurement function, Central marketing function and Corporative quality management function, in order to use all synergies within the system and secure efficient coordination of procurement, marketing and quality assurance, as well as to establish unified standards on the Group level. In order to achieve as efficient management as possible, the Strategic Management Council has been established, as a multifunctional body in charge of key strategic and operational corporate issues.

In relation with the new business organisation and establishment of the Strategic Management Council, as of the beginning of 2012, the new Management Board of Atlantic Grupa d.d. was reduced to four members:


## 2. Second integration phase of Droga Kolinska and Atlantic Grupa

The second integration phase, focused on consolidation of production plants and information technology, initiated in the second half of 2011, was successfully continued in the first nine months of 2012.

During the first quarter, the production of Multipower beverages was transferred from the contractor to own production plant in Rogaška Slatina. Also, further feasibility studies for the transfer of other production from outsourced producers to own production plants are being prepared.

In the first quarter, two major projects in the segment of consolidating IT solutions by markets were completed in the segment of integration of business IT solutions. In Slovenia, all companies are integrated in a single infrastructure and the same business solution – SAP. In Macedonia, all companies are integrated in a single infrastructure and the same business solution – MIS. Additionally, for the purpose of central warehouse in Šimanovci, Serbia, automated warehouse management system has been implemented. The same system is used in warehouses in Zagreb and Split, and in this way warehouse operations in Croatia and Serbia have been standardized and unified. Further integration of business IT solutions in the region is in progress, as well as redefining the existing IT contracts related to telecom services, licences and outsourced IT support.

## 3. Introduction of new own and principals' products

In line with the Atlantic Grupa's focus on organic business growth through innovation in production categories, active brand management, strengthening of regional character of distribution operations and further development of individual distribution channels such as the HoReCa segment, during the first nine months of the year, new products were launched in regional markets, existing products were introduced to new markets, and the distribution portfolio was further extended.

Strategic Business Unit Beverages launched two new products in the carbonated soft drinks segment, Cockta Rossa, which started to be distributed in the markets of Croatia, Slovenia, Serbia and Macedonia, and Cockta Easy lemon, which replaced former brand Cockta light. In the "on-the-go" beverages segment, Cedevita Go! has been launched on the market of Ireland under the name Twist2GO!, while Cedevita GO! with grapefruit flavour has been launched on all regional markets. In the water segment, natural spring water Kala has been launched, and sparkling natural mineral water Kalnička, which replaced former brands in the water segment, Unique and Kapljica. Cockta Rossa, Cockta Easy, Kala and Kalnička have been launched on the retail and HoReCa markets, thereby additionally strengthening the Atlantic Grupa's portfolio in the HoReCa segment.

Strategic Business Unit Coffee extended its product range of brands Grand kafa and Barcaffe. Grand kafa Antistress has thus been launched on the Serbian market in the instant coffee segment; Barcaffe Selection has been launched in the Slovenian market in the Turkish coffee segment, as well as Barcaffe CocoFreeze and Barcaffe Cappuccino Choco Orange in the instant coffee segment.

Strategic Business Unit Snacks launched on the markets of Serbia and Bosnia and Herzegovina three new flavours of wafers and Čoko Smoki raspberry. Smoki King Size has been launched on all regional markets, while chocolate Najlepše želje with nougat cream flavour has been launched on the markets of Serbia, Bosnia and Herzegovina and Macedonia. Strategic Business Unit Snacks also initiated a more active launching of products from own portfolio to the Croatian market, so the distribution of Prima salted sticks, Soko Štark biscuits, No problem dragée, Čoko Smoki Naranča and Smoki King Size began.

Strategic Business Unit Savoury Spreads additionally extended its portfolio of savoury spreads by launching Argeta Delight on the markets of Croatia, Bosnia and Herzegovina, Slovenia and Serbia and Argeta Posna on the markets of Serbia, Bosnia and Herzegovina and Macedonia. In addition, the distribution of Argeta Snack commenced in the Croatian and Slovenian markets, whereby Argeta entered the "snacks on-the-go" segment. As of the end of July, the distribution of Montana sandwiches on the Petrol gas stations in the Slovenian market began.

Strategic Business Unit Pharma and Personal Care strengthened its Rosal portfolio with three new products, Rosal Lip Balm Aloe Vera, Rosal Lip Balm Magic Glow and Rosal Lip Balm Oriental Beauty which are distributed in Croatia and Bosnia and Herzegovina, while Dietpharm launched two new products, Nutrival Triaktiv and Magnezij 375 effervescent tablets. Atlantic Pharmacentar signed new agreements on exclusive distribution with company Delmerion for the distribution of the Apivita brand, with company Mediacom on the distribution of the Slimmies brand and with companies Terralab and Nila Media.

Strategic Distribution Unit Croatia extended its product range by adding new products from the Soko Štark portfolio and by signing a new agreement on the exclusive distribution with Sofidel, the second largest producer of paper hygienic products in Europe with the most prominent brand Regina.

At the beginning of August, the Strategic Distribution Unit Slovenia, Serbia, Macedonia signed exclusive distribution rights for the herbal liqueur "Gorki list" in the Serbian market and thereby extended the Atlantic Grupa's distribution portfolio by another principal.

## SALES DYNAMICS in the first nine months of 2012

### Sales profile by Strategic Business Units and Strategic Distribution Units

| Sales revenues | 9M12 | 9M11 | 9M12/9M11 |
|---|---|---|---|
| (in HRK thousands) | | | |
| SBU Beverages | 526,807 | 518,658 | 1.6% |
| SBU Coffee | 774,217 | 707,874 | 9.4% |
| SBU (Sweet and Salted) Snacks | 414,910 | 395,610 | 4.9% |
| SBU Savoury Spreads | 356,535 | 321,892 | 10.8% |
| SBU Sports and Functional Food | 535,590 | 498,773 | 7.4% |
| SBU Pharma and Personal Care | 354,969 | 323,177 | 9.8% |
| SDU Croatia | 662,003 | 663,308 | (0.2%) |
| SDU Slovenia, Serbia, Macedonia | 1,352,576 | 1,303,377 | 3.8% |
| Other segments* | 275,335 | 247,592 | 11.2% |
| Reconciliation** | (1,621,274) | (1,530,082) | n/a |
| Sales | 3,631,668 | 3,450,179 | 5.3% |

In the first nine months of 2012, **Atlantic Grupa's sales amounted to HRK 3,631.7 million**, which is a 5.3% growth compared to the first nine months of 2011, when the sales amounted to HRK 3,450.2 million. All Strategic Business Units recorded growth in sales, headed by the Strategic Business Unit Savoury Spreads with double-digit sales growth rate, as well as Strategic Business Units Pharma and Personal Care, Coffee and Sports and Functional Food with high single-digit sales growth rate.

* Other segments include SDU HoReCa, Russian market and non-allocable business activities (headquarters and support functions in Serbia, Slovenia and Macedonia) which are excluded from the reportable operating segments. For the time being, SDU International Markets will not be separated, but its sales and profitability will be presented within SBU to which they relate. For the time being, the Russian market will include only the baby food product range sales under the Bebi brand.
** Line item "Reconciliation" relates to the sale of own brands which is included in the appropriate SBU and in SDUs through which the products were distributed.

Considering the third quarter separately, Atlantic Grupa recorded sales of HRK 1,289.1 million, which is by 2.9% higher compared to sales in the third quarter of 2011, when they amounted to HRK 1,253.1 million.

Following the new organisational structure effective from the beginning of 2012, Atlantic Grupa records sales by business segments in a way that sales of individual Strategic Business Units represent the total sales to third parties in the markets (either directly from a Strategic Business Unit, or through a Strategic Distribution Unit), while sales of Strategic Distribution Units include both sales of external principals' products and sales of own products. This double representation of sales of own products is eliminated in the line item "Reconciliation".

- **Strategic Business Unit Beverages** in the first nine months of 2012 records a growth in sales of 1.6% compared to the first nine months of 2011. The most significant contribution to the growth was made by the carbonated soft drinks segment with the Cockta brand and by the functional waters segment with the Donat Mg brand. Analysing by markets, the double-digit sales growth in the Russian market should be pointed out, achieved by the growth in sales of the Donat Mg brand.

- **Strategic Business Unit Coffee**, with sales of HRK 774.2 million, recorded a 9.4% better result compared to the same period of 2011. The growth was achieved in all coffee categories – Turkish, espresso and instant coffee. Analysing by markets, the markets of Croatia, Slovenia, Macedonia and Bosnia and Herzegovina record double-digit sales growth rates, while the market of Serbia records a mid single-digit sales growth rate.

- **Strategic Business Unit Snacks** grew by 4.9% on an annual level, achieving sales of HRK 414.9 million. The greatest contribution to the growth was made by biscuits and flips categories, while the categories of bars and salted sticks also recorded growth. Analysing by markets, the growth was recorded in all regional markets, with the most prominent growth in the Serbian market and more than a double growth in the Croatian market as a result of the extension of the snacks product range distribution in this year.

- **Strategic Business Unit Savoury Spreads** records a 10.8% growth in sales in the first nine months of 2012 compared to the first nine months of 2011. The growth was achieved in the categories of meat savoury spreads, fish savoury spreads and in the category of sandwiches of prolonged freshness. Analysing by countries, double-digit growth rates were achieved in the markets of Serbia, Slovenia, Montenegro and Kosovo, and outside the region, in the markets of Switzerland, Sweden, Russia, Italy and United Kingdom. The markets of Croatia, Macedonia and Austria had mid to high single-digit growth rates. In the Austrian market, Argeta continues an extremely positive development dynamics with a market share of 26%, which indicates that Argeta is increasingly well received in Austria and gains an increasing number of loyal consumers.

- **Strategic Business Unit Sports and Functional Food** records a 7.4% sales growth in the first nine months of 2012 on an annual level. Double-digit growth in the sales of the Multipower brand was recorded by the markets of the United Kingdom, Russia and Spain, while in the Italian market, Multipower achieved results at the level of the first nine months of 2011. The German market records a mild growth in sales impacted by the growth in sales of products from the private labels segment.

- **Strategic Business Unit Pharma and Personal Care** with sales of HRK 355.0 million achieved a growth of 9.8% compared to the same period of the previous year. The factors that contributed most to the growth are as follows: (i) a double-digit growth in sales of the pharmacy chain Farmacia, caused by the organic growth as well as the merger of 5 pharmacies acquired in May 2011 and (ii) significant growth rates of Multivita as a result of extending the product range distributed in the Russian market and solving problems that existed in 2011 in the operation of the local distributor.

- **Strategic Distribution Unit Croatia** in the first nine months of 2012 recorded a mild decline in sales of 0.2% compared to the first nine months of 2011. This result is a consequence of a drop in the principals' brands segment, primarily caused by the termination of a portion of Karolina product range distribution. The drop in the principals' brands segment was mitigated by the growth in the own brands segment, of which the most significant are as follows: (i) the Barcaffe brand, which is strongly taking position in the Croatian market, (ii) the Argeta brand and (iii) the Smoki brand from the Snacks product range.

- **Strategic Distribution Unit Slovenia, Serbia, Macedonia** records a 3.8% growth compared to the same period of the previous year, which resulted in sales of HRK 1,352.6 million. The greatest contribution to the result achieved was made by the segments of coffee, savoury spreads, beverages and snacks. The Slovenian market records growth in sales of: (i) the coffee segment in all categories (Turkish coffee, espresso, instant) with the Barcaffe brand, (ii) the beverages segment, in the functional waters category with the Donat Mg brand, (iii) the savoury spreads segment with the Argeta brand and (iv) the snacks segment in the flips category with the Smoki brand. Sales in the Serbian market grew mainly due to: (i) the coffee segment with brands Grand kafa and Bonito in the Turkish coffee category and Grand kafa brand in the instant coffee category, (ii) the beverages segment in VID (vitamin instant drink) and on-the-go categories with brands Cedevita and Cedevita GO! and in the functional waters category with the Donat Mg brand, (iii) the savoury spreads segment with the Argeta brand and (iv) the pharma and personal care segment with brands Dietpharm and Multivita. The Macedonian market recorded growth in sales on an annual level impacted by the growth in sales of: (i) the coffee segment in the Turkish coffee category with Grand kafa, Minas and C kava brands, (ii) the savoury spreads segment with the Argeta brand and (iii) the snacks segment.

- **Other segments** in the first nine months of 2012 record an increase in sales of 11.2% compared to the same period of the previous year. Other segments include the Russian market, Strategic Distribution Unit HoReCa and business activities that are not allocated to the above mentioned Business and Distribution Units (headquarters and support functions in Serbia, Slovenia and Macedonia) and are excluded from the reported operating segments. The Russian market is growing due to a double-digit growth rate of the baby food brand Bebi, while the Strategic Distribution Unit HoReCa records a growth in sales in the period under consideration due to the growth in the distribution of the product range of coffee and beverages.

### Sales profile by markets

| (in HRK millions) | 9M12 | % of sales | 9M11 | % of sales | 9M12/9M11 |
|---|---|---|---|---|---|
| **Croatia** | **996.6** | 27.4% | 1,000.6 | 29.0% | (0.4%) |
| **Serbia** | **864.7** | 23.8% | 840.2 | 24.4% | 2.9% |
| **Slovenia** | **448.6** | 12.4% | 415.1 | 12.0% | 8.1% |
| **Bosnia and Herzegovina** | **294.4** | 8.1% | 284.4 | 8.2% | 3.5% |
| **Other regional markets*** | **230.6** | 6.3% | 210.9 | 6.1% | 9.3% |
| **Western Europe**** | **304.2** | 8.4% | 292.6 | 8.5% | 4.0% |
| **Russia and EE** | **166.1** | 4.6% | 122.1 | 3.5% | 36.1% |
| **Other markets** | **326.5** | 9.0% | 284.4 | 8.3% | 14.8% |
| **Total sales** | **3,631.7** | 100.0% | 3,450.2 | 100.0% | 5.3% |

*Other regional markets: Macedonia, Montenegro, Kosovo
**Western Europe: Germany, United Kingdom, Italy

- In the first nine months of 2012, **the Croatian Market** had 0.4% lower sales in the amount of HRK 996.6 million. The decline in sales in the Croatian market was a result of lower sales of principals' brands as a consequence of the termination of the distribution of Tvornica Duhana Rovinj product portfolio and a portion of products from Karolina product range. The decline in sales of principals' brands was mitigated by the growth in other principals, such as Rauch and Ferrero. Also, the result was impacted by the adverse macroeconomic situation in the Croatian market with: (i) a 2.2% drop in GDP in the second quarter on an annual level, (ii) continued negative trends in the labour market (increase in the number of registered unemployed persons in the period from January to September of 3.0% with a decrease in the number of registered employed persons of 1.0% and registered active population of 0.3% on an annual level) and (iii) a decrease in real net salaries in the first seven months of 1.4% on an annual level. All this negatively impacts the consumer purchasing power and personal consumption, but also the sentiment, which is obvious from the consumer confidence index drop (-45.1 in September compared to -21.8 in January this year). Despite such unstimulating situation in the Croatian market, own brands record growth, which is the most prominent in: (i) the coffee segment with the Barcaffe brand, (ii) the savoury spreads segment with the Argeta brand and (iii) the snacks segment with the Smoki brand. The pharmacy chain Farmacia also records growth with a 12.0% increase compared to the same period of the previous year. The Croatian market remains the largest sales market of Atlantic Grupa with 27.4% share in the Atlantic Grupa's total sales.

- **The Serbian market**, with sales of HRK 864.7 million in the first nine months of 2012, is the second largest sales market of Atlantic Grupa. Compared to the first nine months of 2011, the Serbian market recorded a 2.9% growth in sales, achieved in the segments of coffee, beverages, savoury spreads and snacks. In the local currency, the growth in sales was 12.4%. The sales growth was achieved in the situation of: (i) a 0.8% drop in GDP in the second quarter on an annual level, (ii) negative trends in the labour market (increase in the registered number of the unemployed in the first seven months of 0.8% on an annual level with a decrease in the number of the employed of 1.4%) and (iii) a decline in retail sales in the first eight months of 3.5% on an annual level.

- **The Slovenian market**, with sales of HRK 448.6 million, is the third largest sales market of Atlantic Grupa, with a 12.4% share in Atlantic Grupa's total sales. In the first nine months of 2012, the sales growth of 8.1% was achieved compared to the same period of the previous year, mainly in the segments of coffee, beverages, savoury spreads and snacks. Macroeconomic indicators in the Slovenian market are not promising, as indicated by: (i) a 3.2% decrease in GDP in the second quarter on an annual level, (ii) an increase in the registered number of the unemployed of 1.1% on an annual level in the first eight months of 2012 and (iii) a decrease in the consumer purchasing power (in the first eight months net salaries grew by 0.8% on an annual level, while in the same period consumer prices grew by 2.5%).

- **The market of Bosnia and Herzegovina** in the first nine months of 2012 recorded growth in sales of 3.5%. This result is significant taking into account: (i) an extremely unfavourable situation in the labour market (in the first seven months of 2012, the average registered unemployment rate was 44.0% with an increase in the average registered number of the unemployed in the same period of 2.4% on an annual level) and (ii) a decrease in the consumer purchasing power (in the first eight months of 2012, the average monthly net salary was by 1.4% higher on an annual level, but in the same period consumer prices grew by 2.0% on an annual level). The growth in the market of Bosnia and Herzegovina was achieved in the segments of coffee, beverages and snacks.

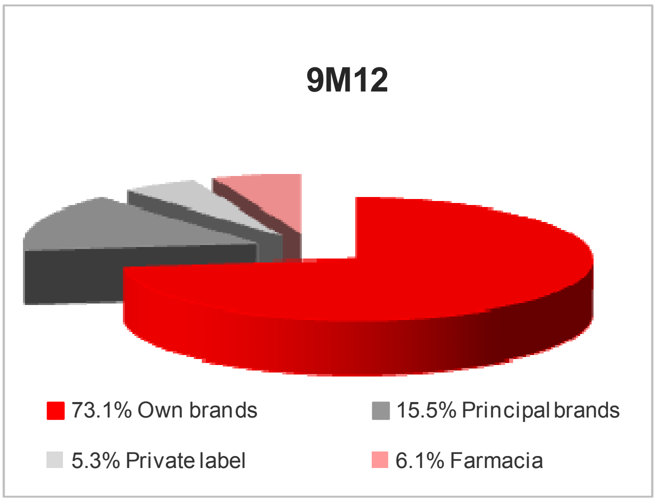
- **Other markets in the region** (Macedonia, Montenegro, Kosovo) recorded sales of HRK 230.6 million in the first nine months of 2012, which is a 9.3% growth compared to the first nine months of 2011. The growth in these markets was achieved in certain categories of coffee, savoury spreads and snacks segments.

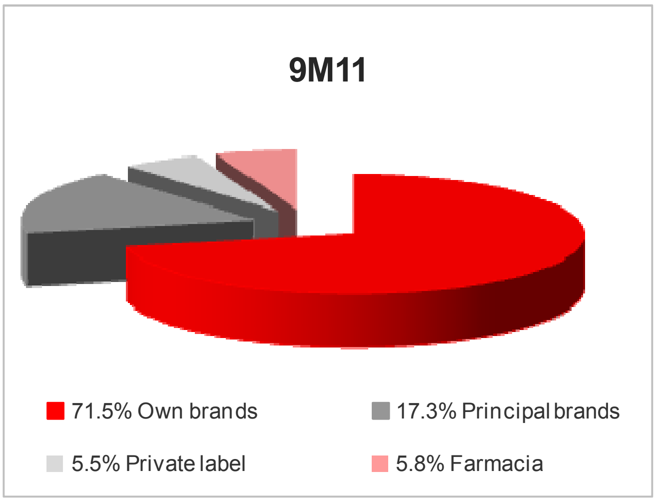
- **Western European markets** (Germany, Italy, the United Kingdom) in the first nine months of 2012 recorded sales of HRK 304.2 million, which is a 4.0% growth compared to the first nine months of 2011 when sales amounted to HRK 292.6 million. **The German market**, as the most significant Western European market of Atlantic Grupa, recorded growth in sales of 1.7% on an annual level in the period under consideration. The growth was impacted by higher sales of private labels within the sports and functional food segment which offset the negative impact on sales by this segment due to: (i) the delisting from the leading German fitness centre chain which introduced similar products under own brand and (ii) the bankruptcy of the significant retail chain Schlecker. The German market remains economically the most stable Western European market of Atlantic Grupa with positive macroeconomic indicators in 2012. **The market of the United Kingdom**, with a 14.8% sales growth on an annual level, led the Western European markets in the first nine months of 2012. The double-digit growth of the Multipower brand from the sports and functional food segment was achieved in a situation of: (i) a 0.4% drop in GDP in the second quarter of 2012 on the quarterly level, (ii) negative indicators in the labour market (the average unemployment rate in the period from January to August 2012 was 8.1% while in the same period of the previous year it was 7.8%) and (iii) a higher growth in consumer prices in the first eight months of 2012 on an annual level than in weekly wages in the same period, which reduces the consumer purchasing power. In the period under consideration, **the Italian market** recorded a growth in sales of 4.6% on an annual level due to: (i) the growth in sales of the functional waters category with the Donat Mg brand, (ii) the growth in the savoury spreads segment with the Argeta brand and (iii) the growth in sales of private labels in the pharma and personal care segment. The challenging economic situation must also be taken into account, with: (i) a drop in GDP in the second quarter of 2.6% on an annual level, (ii) a significant unemployment increase (in August, the number of unemployed persons was by 30.4% higher on an annual level) and (iii) a higher growth in consumer prices than in gross wages, which decreases the purchasing power of the population (gross wages in the second quarter of 2012 grew by 0.8% on an annual level, while the average growth in consumer prices in the same period was 3.6%).

- In the first nine months of 2012, **the markets of Russia and Eastern Europe**, with sales of HRK 166.1 million, recorded a 36.1% growth compared to the first nine months of 2011. The double-digit growth in sales was recorded in: (i) the functional waters category with the Donat Mg brand, (ii) the savoury spreads segment with the Argeta brand, (iii) the baby food category with the Bebi brand and (iv) the sports and functional food segment with the Multipower brand. Also, the double-digit sales growth was achieved by Multivita products due to the product range extension and solving problems in the operation of the local distributor that occurred during 2011. By the result achieved, the markets of Russia and Eastern Europe increased their share in the Atlantic Grupa’s total sales to 4.6% compared to 3.5% in the same period of the previous year.

- **Other markets**, with sales of HRK 326.5 million, make 9.0% of the Atlantic Grupa’s total sales in the first nine months of 2012. This result is by 14.8% higher compared to the first nine months of 2011, when it was HRK 284.4 million. The growth was achieved in: (i) the coffee segment with growth in the Grand kafa brand in the Turkish coffee category, (ii) the beverages segment in the carbonated soft drinks category with Cockta and Jupi brands, as well as in the VID and on-the-go categories with brands Cedevita and Cedevita GO!, (iii) the savoury spreads segment with the Argeta brand, (iv) the snacks segment in categories of chocolate, biscuits, wafers and bars and (v) in the pharma and personal care and sports and functional food segments with growth in the product range of private labels.

## Sales profile




- **Own brands** in the first nine months of 2012 recorded sales of HRK 2,653.1 million, which is by 7.6% higher result compared to the first nine months of 2011 when they amounted to HRK 2,466.4 million. The share of own brands in the Atlantic Grupa's total sales in the period under consideration increased to 73.1% from 71.5% in the same period of the previous year. The continued increase in sales of own brands is a result of activities aimed at a more efficient management of the existing products and launching new products from the Atlantic Grupa's current product range. The growth in own brands was most significant in the following segments: (i) coffee with Grand kafa and Barcaffe brands, (ii) beverages with Cockta and Donat Mg brands, (iii) savoury spreads with the Argeta brand and (iv) snacks with Štark, Bananica, Smoki and Prima brands.

- **Principal brands** in the first nine months of 2012 recorded sales of HRK 561.5 million. The result is by 5.8% lower compared to the same period of 2011 as a result of the termination of distributing a portion of the Karolina product range and the termination of the Tvornica Duhana Rovinj product portfolio distribution. The negative impact of the termination of a portion of the product range distribution was mitigated by the increase in sales of other principals, mainly Ferrero and Rauch. The share of principal brands in the period under consideration was 15.5% of the Atlantic Grupa's total sales.

- **Private labels**, with sales of HRK 194.0 million in the first nine months of 2012, record a 2.8% growth compared to the same period of 2011 when they amounted to HRK 188.7 million. The growth in private labels primarily relates to the product range of the Strategic Business Unit Sports and Functional Food. The share of private labels in the first nine months of 2012 makes 5.3% of the Atlantic Grupa's total sales.

- In the first nine months of 2012, the pharmacy chain **Farmacia** continues with double-digit sales growth rate on an annual level of 12.0%. The share of the pharmacy chain Farmacia in the Atlantic Grupa's total sales continues to grow, so in the relevant period it was 6.1% while in the first nine months of 2011 it was 5.8%. The growth in the pharmacy chain was achieved at the organic level, as well as through the merger of 5 pharmacies acquired in May 2011. As at 30 September 2012, the pharmacy chain Farmacia consisted of 45 pharmacies and 11 specialised stores.

## PROFITABILITY DYNAMICS in the first nine months of 2012

### Atlantic Grupa's profitability

| (in HRK millions) | 9M12 | 9M11 (Restated)* | 9M12/9M11 |
|---|---|---|---|
| **Sales** | **3,631.7** | 3,450.2 | 5.3% |
| **EBITDA** | **446.0** | 402.0 | 10.9% |
| **Normalized EBITDA** | **447.6** | 394.0 | 13.6% |
| **EBIT** | **332.6** | 280.2 | 18.7% |
| **Normalized EBIT** | **334.2** | 272.2 | 22.8% |
| **Net profit/loss** | **82.8** | 72.1 | 14.9% |
| **Normalized Net profit/loss** | **84.5** | 64.1 | 31.9% |
| ***Profitability margins*** | | | |
| **EBITDA margin** | **12.3%** | 11.7% | +63 bp |
| **Normalized EBITDA margin** | **12.3%** | 11.4% | +91 bp |
| **EBIT margin** | **9.2%** | 8.1% | +104 bp |
| **Normalized EBIT margin** | **9.2%** | 7.9% | +131 bp |
| **Net profit margin** | **2.3%** | 2.1% | +19 bp |
| **Normalized Net profit margin** | **2.3%** | 1.9% | +47 bp |

In the first nine months of 2012, Atlantic Grupa achieved a double-digit growth in profitability on the EBITDA (earnings before interest, taxes, depreciation and amortisation) and EBIT (earnings before interest and taxes) levels compared to the first nine months of 2011. This profitability growth was influenced by a higher growth in sales than in expenses as a result of: (i) a more efficient management of the existing products, (ii) launching new products, (iii) implementation of cost management through the CORE cost reduction programme and (iv) optimisation of business processes at the central level and lower levels, introduced in order to improve the operative efficiency. An additional impact on the profitability growth was made by: (i) synergy impacts that were not fully realised in the first nine months of 2011, (ii) the fact that the first half of 2011 was burdened by numerous integration activities and negotiations with key customers and (iii) a change in the sales mix with a larger share of own brands sales.

One-off items that have been excluded in the normalisation process include the following:

- ❖ In the first nine months of 2011, transaction costs of HRK 4.0 million were incurred related to the acquisition of Droga Kolinska in 2010 and HRK 12.0 million of one-off profit was made from the sale of the 13-percent share in company RTL Hrvatska
- ❖ In the first nine months of 2012, additional transaction costs of HRK 1.7 million were incurred related to the acquisition of Droga Kolinska in 2010.

* In December 2011, the Group finalised the allocation of the amount paid for the acquired assets of Droga Kolinska. For this purpose, Atlantic Grupa hired an independent valuator and conclusions resulting from this process, among others, were that the useful lives of all brands of Droga Kolinska are indefinite and that, accordingly, they will not be depreciated but instead will be annually tested for impairment. The effect of the reduced depreciation charge in 2011 was distributed over the entire 2011 in order to obtain amounts comparable to results in 2012.

In the first nine months of 2012, **normalised EBITDA was HRK 447.6 million** which is by 13.6% higher than the normalised EBITDA level in the first nine months of 2011. The normalised EBITDA margin in the period under consideration is by 91 basis points higher on an annual level and amounts to 12.3%. The growth in the normalised EBITDA and normalised EBITDA margin was influenced, among other things, by: (i) sales growth due to a more efficient management of the existing products and launching new products, (ii) a decrease in staff costs and other operating expenses as a result of the CORE programme implementation, and (iii) growth in other revenues due to collection and expected collection of damages incurred in previous periods.

**Normalised EBIT of HRK 334.2 million** is by 22.8% higher compared to the normalised EBIT in the first nine months of the previous year and the EBIT margin in the period under consideration increased by 131 basis points to 9.2%. The profitability growth on the normalised EBIT level, in addition to the factors mentioned in the previous point, was also influenced by lower depreciation and amortisation resulting from an efficient management of the existing resources and accordingly lower need for new investments.

**Normalised net profit of HRK 84.5 million** in the first nine months of 2012 is by 31.9% higher compared to the same period of 2011. The growth in the normalised net profit was influenced by the items stated in the previous two points, while the restricting factor is net foreign exchange losses in the amount of HRK 49.1 million, primarily as a result of a significant change in the exchange rate between Serbian dinar and euro (RSD/EUR).

**Summary analysis of the third quarter of 2012**

- In the third quarter of 2012, normalised EBITDA of HRK 163.4 million was recorded, which is by 0.7% lower compared to the third quarter of 2011, when normalised EBITDA amounted to HRK 164.5 million. In the third quarter of 2012, the normalised EBITDA margin was 12.7% compared to 13.1% in the same period of the previous year.
- Normalised EBIT with HRK 124.6 million recorded a mild growth of 0.9% in the period under consideration, while the normalised EBIT margin was 9.7%.
- In the third quarter of 2012, the normalised net profit of HRK 68.7 million was recorded, which is a 140.6% growth compared to the third quarter of 2011. The normalised net profit margin was 5.3%, which is a growth of 305 basis points compared to the same period of 2011.

## FINANCIAL INDICATORS in the first nine months of 2012

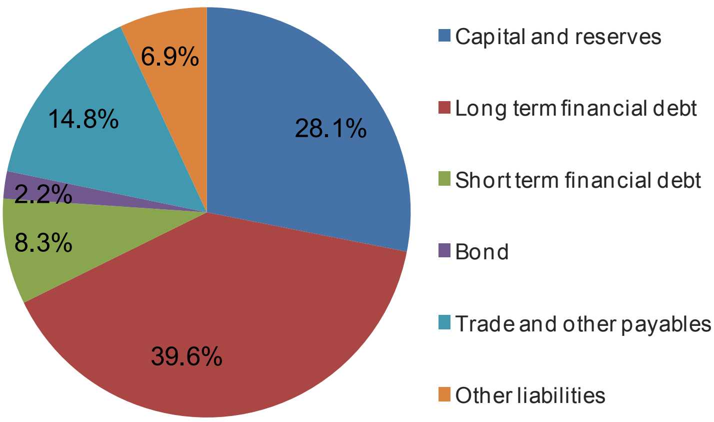
| (in HRK millions) | 9M12 | 2011 |
|---|---|---|
| **Net debt** | **2,396.4** | 2,494.0 |
| **Total assets** | **5,184.6** | 5,355.2 |
| **Equity** | **1,456.2** | 1,512.3 |
| **Current ratio** | **1.76** | 1.84 |
| **Gearing ratio** | **62.2%** | 62.3% |
| **Net debt/EBITDA*** | **4.2** | 4.8 |
| | **9M12** | 9M11 |
| **Interest coverage ratio**** | **2.6** | 2.4 |
| **Capex** | **56.3** | 71.7 |
| **Cash flow from operating activities** | **180.8** | 158.5 |

* Normalized, 12M trailing EBITDA for 9M12; **Normalized

Among key determinants of the Atlantic Grupa's financial position in the first nine months of 2012, the following should be pointed out:

❖ Net debt of HRK 2,396.4 million was reduced by almost HRK 100 million and reflects the financial debt of HRK 2,600.6 million, net derivative liabilities of HRK 70.1 million and the amount of cash and cash equivalents and short-term deposits in the total amount of HRK 274.4 million. Consequently, the debt indicators are as follows: (i) ratio of net debt and capital increased by net debt of 62.2%, (ii) ratio of net debt and EBITDA of 4.2 and (iii) 2.6 times coverage of interest expense by normalised EBITDA.

❖ The Atlantic Grupa's equity and liabilities structure as at 30 September 2012 is as follows:




❖ The most significant item of equity and liabilities are non-current financial liabilities without the bond which represent 39.6% of the total equity and liabilities.

❖ The second most significant item is capital and reserves with a share of 28.1 percent

❖ Non-current and current financial liabilities with the bond make 50.2% of the Atlantic Grupa's total equity and liabilities.

❖ As a consequence of the debt amount incurred primarily through the acquisition of Droga Kolinska, at the beginning of 2011, Atlantic Grupa prescribed the policy of active financial debt management, requiring the company to have fixed interest rates ranging from 50% to 100% on its financial liabilities at any time during the following year. Accordingly, a substantial portion of non-current financial liabilities was fixed by interest rate swaps already during the first quarter of 2011.

- The company's capital expenditure in the first half of 2012 amounts to HRK 56.3 million, with the most significant investments related to the following: (i) the construction of the Cockta bottling plant in Apatovac, (ii) SAP licences for Slovenia, (iii) investments related to transferring the production of Multipower beverages to Rogaška Slatina, (iv) investment in the wafers packaging machine in Soko Štark, (v) equipping the bottling plant of Palanački Kiseljak and (vi) purchase of equipment for the production of coffee.

## OUTLOOK for 2012

### Management's view on macroeconomic expectations

The third quarter did not bring significant changes in the Croatian economy, so Atlantic Grupa's management continue to hold their expectations of the drop in the Croatian economy in 2012. The increase in the VAT rate, higher prices of utility services (gas, electricity, water), continued unfavourable trends in the labour market and stagnation of real net salaries offer no hope of the recovery of personal consumption and retail sale in the remainder of the year. A sign of improvement is the recent review by the rating agency Fitch on the change in the prospects for Croatian economy from negative to stable, but also the consensus regarding the fiscal and monetary policies, which offers certain stability and removes uncertainties related to directions of the mentioned policies.

Deleveraging remains one of the main characteristics of the region and the European Union and a different direction until the end of the year is not expected. The situation in the countries in the region will depend on success of local authorities in solving structural problems, as well as specific problems of individual countries such as vulnerability of the banking sector in Slovenia, condition of the state budget in Serbia and political consensus in Bosnia and Herzegovina. Significant changes of the situation in regional markets are not expected in the remainder of 2012, taking into account also their dependence on the situation in the eurozone, which is their important trade partner and source of funding.

It is realistic to expect that the German market in the remainder of the year will continue to be economically the most stable Atlantic Grupa's market outside the region, but this market also shows some signs of a slowdown. The major threat for the Italian market continues to arise from the political uncertainty (technocratic government) and vulnerability of public finances. In the eurozone itself, propositions for a different solution to the debt crises arise, but it is likely that until the end of the year, the current attitude on a stricter fiscal discipline of member states and austerity measures will not change. An additional burden for the situation in the eurozone is the debt crises on the outskirts of the eurozone, as well as uncertainties regarding developments in Spain and Italy. Taking all this into account, Atlantic Grupa's management continue to hold their opinion that at the entire eurozone level, 2012 might bring a drop in economic activities mainly due to endeavours for a stricter fiscal discipline of the member states, which can have a negative impact on the government spending and labour market in the short term.

**Atlantic Grupa's strategic management guidance for 2012**

Considering grim macroeconomic environment in 2012, the management expects that business growth can only be achieved by sticking to strategic management guidance that includes the following:

- Further delivery of planned synergy potentials both on sales and costs side following finalisation of the first integration phase of Atlantic Grupa and Droga Kolinska;
- Focus on execution of the second integration phase (consolidation of production facilities, information technology consolidation, real estate portfolio management) as the basis for further improvement of operating efficiency;
- Further focus on organic growth through innovations in product categories and active brand management (new flavours, modernized packaging, product line extensions), strengthening the regional character of distribution business and further development of certain distribution channels as HoReCa segment;
- Meeting financial commitments on regularly basis coupled with active debt and financial cost management;
- Cost management through the CORE program and optimisation of operating processes on both centralised and lower levels, aiming to improve operating efficiency;
- Prudent liquidity management;
- Continuous analysis of global commodity markets with particular focus on coffee, sugar, cocoa and milk powder as well as more active application of hedging instruments;
- More focused development of risk management on all levels in the company.

Taken all into account, the management currently retains guidance communicated in February with publication of FY11 Financial figures:

| (in HRK millions) | 2012 Guidance (excluding one-offs) | 2011 Normalized | 2012/2011 |
|---|---|---|---|
| **Sales** | **4,964** | 4,728 | 5.0% |
| **EBITDA** | **550** | 517 | 6.3% |
| **EBIT** | **385** | 351 | 9.5% |
| **Interest expense** | **223** | 222 | |

**ATLANTIC GRUPA d.d.**

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012 (UNAUDITED)

**ATLANTIC GRUPA d.d.**

# INTERIM CONSOLIDATED INCOME STATEMENT

| in thousands of HRK, unaudited | Jan - Sep 2012 | Jan - Sep 2011 (Restated) | Index | Jul - Sep 2012 | Jul - Sep 2011 (Restated) | Index |
|---|---|---|---|---|---|---|
| **Turnover** | **3,672,404** | **3,474,598** | **105.7** | **1,296,488** | **1,265,140** | **102.5** |
| Sales revenues | 3,631,668 | 3,450,179 | 105.3 | 1,289,147 | 1,253,052 | 102.9 |
| Other revenues | 40,736 | 24,419 | 166.8 | 7,341 | 12,088 | 60.7 |
| **Operating expenses** | **3,226,450** | **3,072,624** | **105.0** | **1,133,371** | **1,089,741** | **104.0** |
| Cost of merchandise sold | 803,814 | 836,671 | 96.1 | 311,180 | 332,652 | 93.5 |
| Change in inventories | (32,663) | (20,382) | 160.3 | 2,155 | 12,947 | 16.6 |
| Production material and energy | 1,392,764 | 1,190,113 | 117.0 | 472,372 | 412,048 | 114.6 |
| Services | 232,602 | 226,261 | 102.8 | 86,461 | 77,769 | 111.2 |
| Staff costs | 471,281 | 479,848 | 98.2 | 150,474 | 159,706 | 94.2 |
| Marketing and selling expenses | 234,988 | 235,708 | 99.7 | 76,431 | 67,043 | 114.0 |
| Other operating expenses | 133,185 | 143,943 | 92.5 | 41,487 | 49,066 | 84.6 |
| Other gains - net | (9,521) | (19,538) | 48.7 | (7,189) | (21,490) | 33.5 |
| **EBITDA** | **445,954** | **401,974** | **110.9** | **163,117** | **175,399** | **93.0** |
| Depreciation | 101,192 | 105,035 | 96.3 | 34,804 | 35,111 | 99.1 |
| Amortization | 12,197 | 16,723 | 72.9 | 3,998 | 5,859 | 68.2 |
| **EBIT** | **332,565** | **280,216** | **118.7** | **124,315** | **134,429** | **92.5** |
| Financial expenses - net | (222,717) | (179,330) | 124.2 | (45,893) | (74,093) | 61.9 |
| **EBT** | **109,848** | **100,886** | **108.9** | **78,422** | **60,336** | **130.0** |
| Income tax | 27,023 | 28,815 | 93.8 | 10,011 | 20,869 | 48.0 |
| **Profit for the period** | **82,825** | **72,071** | **114.9** | **68,411** | **39,467** | **173.3** |
| Attributable to: | | | | | | |
| Non-controlling interest | 11,647 | 7,148 | 162.9 | 3,880 | 2,626 | 147.8 |
| Owners of the parent | 71,178 | 64,923 | 109.6 | 64,531 | 36,841 | 175.2 |
| Earnings per share for profit attributable to the owners of the Company | | | | | | |
| - basic | 21.35 | 19.47 | | 19.36 | 11.05 | |
| - diluted | 21.35 | 19.47 | | 19.36 | 11.05 | |

**ATLANTIC GRUPA d.d.**

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| in thousands of HRK, unaudited | Jan - Sep 2012 | Jan - Sep 2011 (Restated) | Index | Jul - Sep 2012 | Jul - Sep 2011 (Restated) | Index |
|---|---|---|---|---|---|---|
| **Profit for the period** | **82,825** | **72,071** | **114.9** | **68,411** | **39,467** | **173.3** |
| Cash flow hedge | (12,760) | (47,621) | 26.8 | (8,983) | (36,913) | 24.3 |
| Currency translation differences | (109,559) | 75,139 | n/a | (7,451) | 41,325 | n/a |
| **Total comprehensive income** | **(39,494)** | **99,589** | **n/a** | **51,977** | **43,879** | **118.5** |
| Attributable to: | | | | | | |
| Non-controlling interest | 3,505 | 9,424 | 37.2 | (186) | 3,615 | n/a |
| Equity holders of the Company | (42,999) | 90,165 | n/a | 52,163 | 40,264 | 129.6 |
| Total comprehensive income | (39,494) | 99,589 | n/a | 51,977 | 43,879 | 118.5 |

**ATLANTIC GRUPA d.d.**

# INTERIM CONSOLIDATED BALANCE SHEET

| in thousands of HRK, unaudited | 30 September 2012 | 31 December 2011 |
|---|---|---|
| Property, plant and equipment | 1,095,972 | 1,189,502 |
| Investment property | 1,698 | 1,934 |
| Intangible assets | 1,852,559 | 1,956,194 |
| Available-for-sale financial assets | 1,275 | 1,358 |
| Derivative financial instruments | - | 8,617 |
| Trade and other receivables | 15,030 | 21,514 |
| Deferred tax assets | 46,264 | 56,412 |
| **Non-current assets** | 3,012,798 | 3,235,531 |
| Inventories | 640,291 | 533,680 |
| Trade and other receivables | 1,089,086 | 1,119,851 |
| Non-current assets held for sale | 141,545 | 139,127 |
| Prepaid income tax | 26,482 | 24,877 |
| Deposits given | 412 | 36,334 |
| Derivative financial instruments | - | 18,249 |
| Cash and cash equivalents | 273,954 | 247,596 |
| **Current assets** | 2,171,770 | 2,119,714 |
| **Total assets** | 5,184,568 | 5,355,245 |
| **Capital and reserves attributable to owners of the Company** | 1,391,980 | 1,444,404 |
| **Non-controlling interest** | 64,209 | 67,920 |
| Borrowings | 2,167,260 | 2,346,725 |
| Deferred tax liabilities | 181,889 | 193,064 |
| Derivative financial instruments | 58,330 | 62,393 |
| Other non-current liabilities | 36,319 | 36,357 |
| Provisions | 52,145 | 54,540 |
| **Non-current liabilities** | 2,495,943 | 2,693,079 |
| Trade and other payables | 768,407 | 719,606 |
| Borrowings | 433,372 | 375,035 |
| Current income tax liabilities | 12,609 | 12,553 |
| Derivative financial instruments | 11,784 | 20,673 |
| Provisions | 6,264 | 21,975 |
| **Current liabilities** | 1,232,436 | 1,149,842 |
| **Total liabilities** | 3,728,379 | 3,842,921 |
| **Total equity and liabilities** | 5,184,568 | 5,355,245 |

**ATLANTIC GRUPA d.d.**

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of Company | | | | | |
|---|---|---|---|---|---|---|
| *in thousands of HRK, unaudited* | Share capital | Reserves | Retained earnings | Total | Non-controlling interest | Total |
| **At 1 January 2011** | **1,016,282** | **(3,190)** | **379,532** | **1,392,624** | **63,632** | **1,456,256** |
| **Comprehensive income:** | | | | | | |
| Net profit for the period | - | - | 64,923 | 64,923 | 7,148 | 72,071 |
| Cash flow hedge | - | (47,621) | - | (47,621) | - | (47,621) |
| Other comprehensive income | - | 72,863 | - | 72,863 | 2,276 | 75,139 |
| Total comprehensive income | - | 25,242 | 64,923 | 90,165 | 9,424 | 99,589 |
| **Transactions with owners:** | | | | | | |
| Acquisition of non-controlling interest | - | - | (2,614) | (2,614) | (26) | (2,640) |
| Purchase of treasury shares | (2,532) | - | - | (2,532) | - | (2,532) |
| Share based payment | (119) | - | - | (119) | - | (119) |
| Dividends relating to 2010 | - | - | - | - | (1,049) | (1,049) |
| **At 30 September 2011** | **1,013,631** | **22,052** | **441,841** | **1,477,524** | **71,981** | **1,549,505** |
| **At 1 January 2012** | **1,015,904** | **3,203** | **425,297** | **1,444,404** | **67,920** | **1,512,324** |
| **Comprehensive income:** | | | | | | |
| Net profit for the period | - | - | 71,178 | 71,178 | 11,647 | 82,825 |
| Cash flow hedge | - | (12,760) | - | (12,760) | - | (12,760) |
| Other comprehensive income | - | (101,417) | - | (101,417) | (8,142) | (109,559) |
| Total comprehensive income | - | (114,177) | 71,178 | (42,999) | 3,505 | (39,494) |
| **Transactions with owners:** | | | | | | |
| Acquisition of non-controlling interest | - | - | (9,981) | (9,981) | (6,337) | (16,318) |
| Purchase of treasury shares | (5,319) | - | - | (5,319) | - | (5,319) |
| Share based payment | 5,404 | - | 471 | 5,875 | - | 5,875 |
| Transfer | - | 281 | (281) | - | - | - |
| Dividends relating to 2011 | - | - | - | - | (879) | (879) |
| **At 30 September 2012** | **1,015,989** | **(110,693)** | **486,684** | **1,391,980** | **64,209** | **1,456,189** |

**ATLANTIC GRUPA d.d.**

# INTERIM CONSOLIDATED CASH FLOW STATEMENT

| in thousands of HRK, unaudited | Jan - Sep 2012 | Jan - Sep 2011 (Restated) |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Net profit** | **82,825** | **72,071** |
| Income tax | 27,023 | 28,815 |
| Depreciation and amortization | 113,389 | 121,758 |
| Gain on disposal of property, plant and equipment | (3,021) | (11,674) |
| Value adjustment of current assets | 24,357 | 29,566 |
| Interest income | (7,663) | (6,167) |
| Interest expense | 173,588 | 163,620 |
| Other non-cash changes | 15,341 | 38,298 |
| | | |
| **Changes in working capital:** | | |
| Increase in inventories | (124,614) | (107,461) |
| Decrease in current receivables | 26,083 | 91 |
| Increase/(decrease) in current payables | 42,058 | (7,404) |
| Decrease in provisions for risks and charges | (18,107) | (9,927) |
| Interest paid | (139,334) | (125,222) |
| Income tax paid | (31,171) | (27,861) |
| **Net cash flow from operating activities** | **180,754** | **158,503** |
| | | |
| **Cash flow from investing activities** | | |
| Purchase of tangible and intangible assets | (56,341) | (71,668) |
| Proceeds from sale of property, plant and equipment | 6,929 | 12,478 |
| Acquisition of subsidiary | - | (5,808) |
| Acquisition of available-for-sale financial assets | (15,000) | - |
| Proceeds from sale of assets available for sale | 15,035 | 46,962 |
| Loans and deposits given - net | 40,913 | (2,882) |
| Interest received | 7,663 | 6,167 |
| **Net cash flow used in investing activities** | **(801)** | **(14,751)** |
| | | |
| **Cash flow from financing activities** | | |
| Purchase of treasury shares | (5,319) | (2,532) |
| (Repayment of) / proceeds from borrowings - net | (131,079) | (39,208) |
| Proceeds from bonds issued | - | 62,221 |
| Dividend paid to non-controlling interests | (879) | (1,049) |
| Acquisition of non-controlling interest | (16,318) | (2,640) |
| **Net cash flow (used in) / from financing activities** | **(153,595)** | **16,792** |
| | | |
| **Net increase in cash and cash equivalents** | **26,358** | **160,544** |
| Cash and cash equivalents at beginning of period | 247,596 | 231,978 |
| Cash and cash equivalents at end of period | 273,954 | 392,522 |

## NOTE 1 – GENERAL INFORMATION

Atlantic Grupa d.d. (the Company) is incorporated in the Republic of Croatia. The principal activities of the Company and its subsidiaries (the Group) are described in Note 3.

The interim condensed consolidated financial statements of the Group for the nine months ended 30 September 2012 were approved by the Management Board of the Company in Zagreb on 29 October 2012.

The interim condensed consolidated financial statements have not been audited.

## NOTE 2 – BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 2.1. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group for the nine months ended 30 September 2012 have been prepared in accordance with IAS 34 – Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of 31 December 2011.

### 2.2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

### 2.3. COMPARATIVES AND RESTATEMENTS

In December 2011 the Group has finished the allocation of the purchase price paid for Droga Kolinska's assets acquired. For that purpose, Atlantic Grupa engaged the independent appraiser and conclusions emerging form the process, among others were that the useful life for all of Droga Kolinska's brands is indefinite and consequently, these will not be amortized but tested annually for impairment. The effect of lower amortization in 2011 was therefore spread over the whole 2011 in order to obtain comparative figures to 2012 results. For the same reason, the impact of different depreciation due to change in fair value and useful lives of property, plant and equipment was spread over the whole 2011.The effects of changes in comparative figures for 2011 are as follows:

| *(in thousands of HRK)* | Jan - Sept 2011 |
|---|---|
| Decrease in depreciation | (1,588) |
| Decrease in amortization | (30,038) |

## NOTE 3 – SEGMENT INFORMATION

In January 2012, the Group adopted a new organization and replaced the earlier divisional structure with a model where business has been organized through six strategic business units and three strategic distribution units, which have been joined by a separate market unit, Russia. The newly formed Strategic Management Council is responsible for strategic and operational issues.

For more efficient management of individual strategic business and strategic distribution units, the new organization unites similar business activities, or products, shared markets, or channels, together. Specifically, from now on, Atlantic Grupa's business has been organized in six strategic business units (SBU) and three strategic distribution units (SDU):

- SBU Beverages,
- SBU Coffee,
- SBU (Sweet and Salted) Snacks,
- SBU Savoury Spreads,
- SBU Sports and Functional Food,
- SBU Pharma and Personal Care
- SDU Croatia,
- SDU Slovenia, Serbia, Macedonia,
- SDU HoReCa,

and the Russian market.

Due to the fact that SDU HoReCa and MU Russia do not meet quantitative thresholds required by IFRS 8 for reportable segments, they are reported within Other segments. The Other segments category comprises also of non-allocable business activities (headquarters and support functions in Serbia, Slovenia and Macedonia) which are excluded from the reportable operating segments.

Strategic Management Council monitors the operating results of its business unites separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Group financing and income taxes are managed on Group basis and are not allocated to operating segments.

Sales of individual SBUs represent in market sales made to third parties (either directly through SBUs or through SDUs). SDU sales includes sales of own products also reported as SBU sales. This double counting of own product sales is eliminated in the "Reconciliation" line. For the purpose of segmental profit calculation, sales between operating segments are carried out at arm's length.

## NOTE 3 – SEGMENT INFORMATION (continued)

| **Sales revenues**<br>*(in thousands of HRK)* | **Jan - Sep 2012** | **Jan - Sep 2011** |
|---|---|---|
| SBU Beverages | 526,807 | 518,658 |
| SBU Coffee | 774,217 | 707,874 |
| SBU (Sweet and Salted) Snacks | 414,910 | 395,610 |
| SBU Savoury Spreads | 356,535 | 321,892 |
| SBU Sports and Functional Food | 535,590 | 498,773 |
| SBU Pharma and Personal Care | 354,969 | 323,177 |
| SDU Croatia | 662,003 | 663,308 |
| SDU Slovenia, Serbia, Macedonia | 1,352,576 | 1,303,377 |
| Other segments | 275,335 | 247,592 |
| Reconciliation | (1,621,274) | (1,530,082) |
| **Total** | **3,631,668** | **3,450,179** |

## NOTE 4 – EARNINGS PER SHARE

### Basic earnings per share

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

| | **2012** | **2011 (Restated)** |
|---|---|---|
| Net profit attributable to equity holders (in thousands of HRK) | 71,178 | 64,923 |
| Weighted average number of shares | 3,333,993 | 3,333,910 |
| Basic earnings per share (in HRK) | 21.35 | 19.47 |

### Diluted earnings per share

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

## NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

During the nine months period ended 30 September 2012, Group invested HRK 56,341 thousand in purchase of property, plant and equipment (2011: HRK 71,668 thousand).

## NOTE 6 - INVENTORIES

During the nine months period ended 30 September 2012, the Group wrote down HRK 18,004 thousand of inventories due to damage and short expiry dates (2011: HRK 13,728 thousand). The amount is recognised in the income statement within Other operating expenses.

## NOTE 7 – RELATED PARTY TRANSACTIONS

The Group enters into transactions with the following related parties: shareholders and other entities controlled or owned by shareholder. Related party transactions that relate to balance sheet as at 30 September 2012 and 31 December 2011 and transactions recognised in the Income statement for nine months period ended 30 September are as follows:

| *(all amounts expressed in thousands of HRK)* | **30 September 2012** | **31 December 2011** |
|---|---|---|
| **RECEIVABLES** | | |
| **Current receivables** | | |
| Other entities | 109,512 | 93,528 |
| **LIABILITIES** | | |
| **Borrowings** | | |
| Shareholders | 416,642 | 427,959 |
| **Trade payables** | | |
| Shareholders | 22 | 22 |
| Other entities | 892 | 2,003 |

| **REVENUES** | **Jan – Sep 2012** | **Jan – Sep 2011** |
|---|---|---|
| **Sales revenues** | | |
| Other entities | 336,355 | 290,114 |
| **Other revenues** | | |
| Other entities | 450 | 1,102 |
| **EXPENSES** | | |
| **Marketing and promotion expenses** | | |
| Other entities | 10,940 | 5,268 |
| **Finance cost - net** | | |
| Shareholders | 30,523 | 33,515 |

## NOTE 8 – ACQUISITION OF NON-CONTROLLING INTEREST

During the nine months period ended 30 September 2012 the Group acquired non-controlling interest in subsidiaries ZU Ljekarne Bamapharm and Atlantic Farmacia d.o.o. and became the sole owner of these subsidiaries.

Furthermore, in October 2012 the Group became the sole owner of Soko Nada Štark a.d., Belgrade, upon transferring the remaining 5.86% share in the share capital and of this subsidiary from minority shareholders to the majority shareholder Grand Kafa d.o.o., Belgrade. For the transfer of the minority shares in the share capital of Soko Nada Štark a.d., Belgrade the minority shareholders were paid a fair severance in the total amount of EUR 2.3 million.

Difference between consideration paid and the carrying value net book value of acquired non-controlling interest is recognised directly in equity.

Atlantic Grupa d.d.
Miramarska 23
Zagreb

Register number: 1671910

Zagreb, 30 October 2012

Pursuant to the article 407. to 410. of the Capital market Law (Official Gazette 88/08, 146/08 and 74/09) the President of the Management board of Atlantic Grupa d.d., Miramarska 23, Zagreb provide

# MANAGEMENT BOARD'S STATEMENT OF LIABILITY

The consolidated and separate financial statements of Atlantic Grupa d.d. have been prepared pursuant to the International Financial Reporting Standards (IFRS) and Croatian Accounting Law.

The consolidated financial statements for the nine month period ended 30 September 2012 present complete and fair view of assets and liabilities, profit and loss, financial position and operations of the Group.
The management report for the nine month period ended 30 September 2012 presents true and fair presentation of development and results of the Group's operations with description of significant risks and uncertainties for the Group.

**President of the Management Board**

**Emil Tedeschi**

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