ATLANTIC
GRUPA

Annual report
2013

CONTENTS

SUMMARY OF KEY FINANCIAL INDICATORS

(in HRK million)	2013	2012*	2013/2012
Revenues	5,092.2	4,984.8	2.2%
Sales	5,051.3	4,930.4	2.5%
EBITDA	590.8	558.6	5.8%
EBITDA margin	11.7%	11.3%	+37 bp
EBIT	424.6	399.2	6.4%
EBIT margin	8.4%	8.1%	+31 bp
Net profit	199.0	112.5	76.9%
Net profit margin	3.9%	2.3%	+166 bp
Net debt	2,059.3	2,353.1	(12.5%)
Net debt/EBITDA	3.5	4.2	n/a
Cash flow from operating activities	420.2	296.0	42.0%
Capital expenditures	100.0	78.8	26.9%
Market capitalization as at 31.12.	2,394.0	1,787.2	34.0%
EV	4,504.7	4,187.5	7.6%
EPS (in HRK)	58.5	30.5	91.9%
PPS as at 31.12. (in HRK)	718.0	536.0	34.0%
DPS (in HRK)	9.0	-	n/a

* Normalized

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD TO SHAREHOLDERS

The conditions in which we operate were considerably aggravated in the last several years, primarily by the long-standing crisis and the consequences it leaves in both business and social environment, especially in the region of South-Eastern Europe where Atlantic Grupa realises the majority of its revenues. However, owing to successful implementation of the strategy, in 2013 Atlantic Grupa continued with the organic sales growth and profitability improvement. We are particularly pleased that our business model has proven stable in a difficult economic environment, as confirmed by reported results and launching of new investments. Despite the challenges we managed to be continuously successful in generating growth in an environment of general decline or stagnation, which also includes the region, while by the results and growth achieved in the CIS markets and key European markets we confirm the company's orientation towards internationalisation as our strategic focus. Thus, in addition to constantly working on building and developing quality working conditions and distinguishable corporate culture, we have placed added focus on strengthening our management team and developing capacities. At the same time, the company is continually dedicated to risk management, liquidity maintenance and debt management.

Our expectations are as realistic and responsible as they are ambitious. As the company whose shares have been quoted on the official market of the Zagreb Stock Exchange for 25 consecutive quarters, we realise the results we announce, on the basis of which the capital market as well as our shareholders consider us to be a transparent, responsible and perspective company. However, our vision goes beyond the parameters which can only be measured by financial instruments. Owing to the clear vision of development we have grown from a local distributor with six employees in 1991 into one of the leading business systems in South-Eastern Europe with over 4,200 employees and companies in 11 countries.

A significant internationalisation of the company's business operations was initiated in 2013, in which the main levers are our brands with the highest potential for growth and expansion in international markets – Argeta, Donat Mg, Multipower, Bebi and Cedevita GO! In addition to the strong support of own capacities in the regional distribution system and cooperation with renowned distribution partners in the European markets of both West and East Europe, smooth implementation of this strategic direction is also enabled by exceptional quality of the allocation of production capacities. The clear and prudent development strategy enables us to invest in further growth, as confirmed by new investments of which the latest involves a factory for the production of energy bars from the sports and functional food product range in Croatia. In parallel with investments in own brands, one of the strategic goals is further expansion and strengthening of the distribution operation, which was at the end of 2013 significantly enhanced by the agreement on the distribution of one of the leading global FMCG producers - Unilever - in the markets of Croatia and Slovenia.

And last, but definitely not least, we persist in the social responsibility we feel and implement in all the markets where we operate, always trying to give back to the community a part of the profits from our operations. Responsibility towards the environment and long-term sustainability of our business model commits us to consider environmental implications of the industry. Transparent operations and communication provide our shareholders with an undiminished value, while keeping our employees focused on continuous efforts to always, alone and together, be better.

Emil Tedeschi,
President of the Management Board of Atlantic Grupa

CORPORATE PROFILE OF ATLANTIC GRUPA

ABOUT THE COMPANY

Atlantic Grupa is a Croatian multinational company whose business operations include the production, development, sales and distribution of consumer goods with simultaneous market presence in over 30 countries around the world. Atlantic Grupa is one of the leading food companies in the region*, whose product portfolio includes coffee, sports food, soft drinks, sweet and salted snacks, savoury spreads and baby food. Additionally, Atlantic Grupa has a wide portfolio of personal care products; it is the owner of the leading Croatian producer of vitamins, minerals, supplements and OTC medicines and the owner of one of the leading private pharmacy chains united under the name Farmacia. Atlantic Grupa has a strong regional distribution network through which, in addition to its own range of well-known brands, it also distributes a range of products from external partners. Moreover, Atlantic Grupa's products have significant market presence in Russia, Commonwealth of Independent States (CIS) and Europe, and with its sports food assortment Atlantic Grupa is one of the leading European producers in this segment.

The company's headquarters is in Zagreb, while production facilities are located in Croatia, Germany, Slovenia, Bosnia & Herzegovina, Serbia and Macedonia. Atlantic Grupa has companies and representative offices in 11 countries, while in those markets where it is not present with its own operating companies, Atlantic Grupa has developed partnerships with regional and national distributors. Today, Atlantic Grupa is a company with: (i) sales revenues of HRK 5.1 billion, (ii) over 4,200 employees, (iii) developed regional distribution, (iv) 12 brands with sales over HRK 120 million, and (iv) 14 production facilities.

COMPANY HISTORY

The beginning of Atlantic Grupa goes back to 1991 and the incorporation of the company Atlantic Trade d.o.o. for distribution of consumer goods. In the following years, the company grew into a strong national distributor with distribution centres in Zagreb, Split, Rijeka and Osijek and a respectable distribution portfolio from principals such as Wrigley, Procter & Gamble, Johnson & Johnson, etc.

With the opening of the representative office in Bosnia & Herzegovina in 2001 the company became a regional company, which was in later years followed by own distribution companies in Serbia, Macedonia and

* The region includes: Croatia, Slovenia, Bosnia & Herzegovina, Serbia, Montenegro, Macedonia and Kosovo, unless stated otherwise.

Slovenia. In addition to being a distribution company, with the acquisition of Cedevita d.o.o. in 2001 Atlantic Grupa also became a production company.

Breaking out of the region followed in 2005 with the acquisition of a German producer of sports food Multipower, with which Atlantic Grupa entered the European market and became an international company. In 2006 the company was transformed into a joint stock company and next year, after successful implementation of the initial public offer of shares, Atlantic Grupa quoted its shares on the official market of the Zagreb Stock Exchange. In 2008 the company started to acquire pharmacy institutions and form its own pharmacy chain. Based on the company's business development, by mid-2010 Atlantic Grupa grew into one of the leading European producers of sports food, the regional leader in the production of vitamin drinks and food supplements, a prominent regional producer of cosmetics and personal care products, the leading consumer goods distributor in South-East Europe as well as the owner of one of the leading private pharmacy chains joined under the name Farmacia.

A turning point in the company's operations was its largest acquisition of the company with a developed brand portfolio from its own production programme and leading positions in regional markets – Droga Kolinska d.d. By finalising the acquisition in 2010 and successfully completing the complex process of integrating its operations into the existing system of the company, Atlantic Grupa became one of the leading regional food companies.

The company's operations in the post-acquisition period were marked by the processes of comprehensive integration, the most noticeable of which was certainly the process related to distribution and logistics. The executed process of merging the distribution operations of the two companies into single distribution entities in each regional market resulted in the creation of a strong regional distribution network. In the production segment, focus was placed on integrating individual production activities and transferring outsourced production activities into own activities for the purpose of a more cost-efficient use of the existing production capacities. The supply segment saw the implementation of a centralised system with the introduction of a key client concept for basic raw materials. In 2012 and 2013, IT consolidation at the Group's level was successfully completed by redefinition of the model of user support, redesign of a portion of the IT service and standardisation of the technological platform. The listed integration processes, which were successfully completed by the end of 2013, transformed Atlantic Grupa into a strong regional producer and distributor, thus creating a strong foundation for its further business development and expansion.

NATIONAL COMPANY

1991 Incorporation of Atlantic Trade and the development of consumer goods distribution

Establishing cooperation with the company Wrigley

1992 Opening of the distribution centre Split

1994 Opening of distribution centres Osijek and Rijeka

1996 Cooperation with Procter & Gamble

1997 Investment in the Ataco distribution system in BiH

1998 Launch of Montana, the first Croatian ready-made sandwich for broad distribution

1999 Establishing cooperation with Johnson & Johnson

REGIONAL COMPANY

2001 Establishing a representative office in Bosnia & Herzegovina

Start up of a distribution company Atlantic Trade d.o.o.* Serbia

Acquisition of Cedevita d.o.o.

Establishing cooperation with Ferrero

2002 Incorporation of Atlantic Grupa d.o.o.

2003 Acquisition of Neva d.o.o.

Start up of a distribution company Atlantic Trade Skopje d.o.o.

2004 Start up of a distribution company Atlantic Trade d.o.o. Ljubljana

Acquisition of the brand Melem

EUROPEAN COMPANY

2005 Acquisition of a German sports food producer Multipower

2006 Establishing a representative office in Moscow

Transformation of Atlantic Grupa into a joint-stock company

2007 Acquisition of Fidifarm d.o.o.

Acquisition of Multivita d.o.o.

Listing of Atlantic Grupa d.d. **shares on the official market of the Zagreb Stock Exchange

2008 Acquisition of pharmacies and forming of the pharmacy chain Farmacia

2010 Acquisition of Droga Kolinska d.d.

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* d.o.o. - Croatian abbreviation for "limited liability company" (Ltd)

** d.d. - Croatian abbreviation for "joint-stock company" (Inc.)

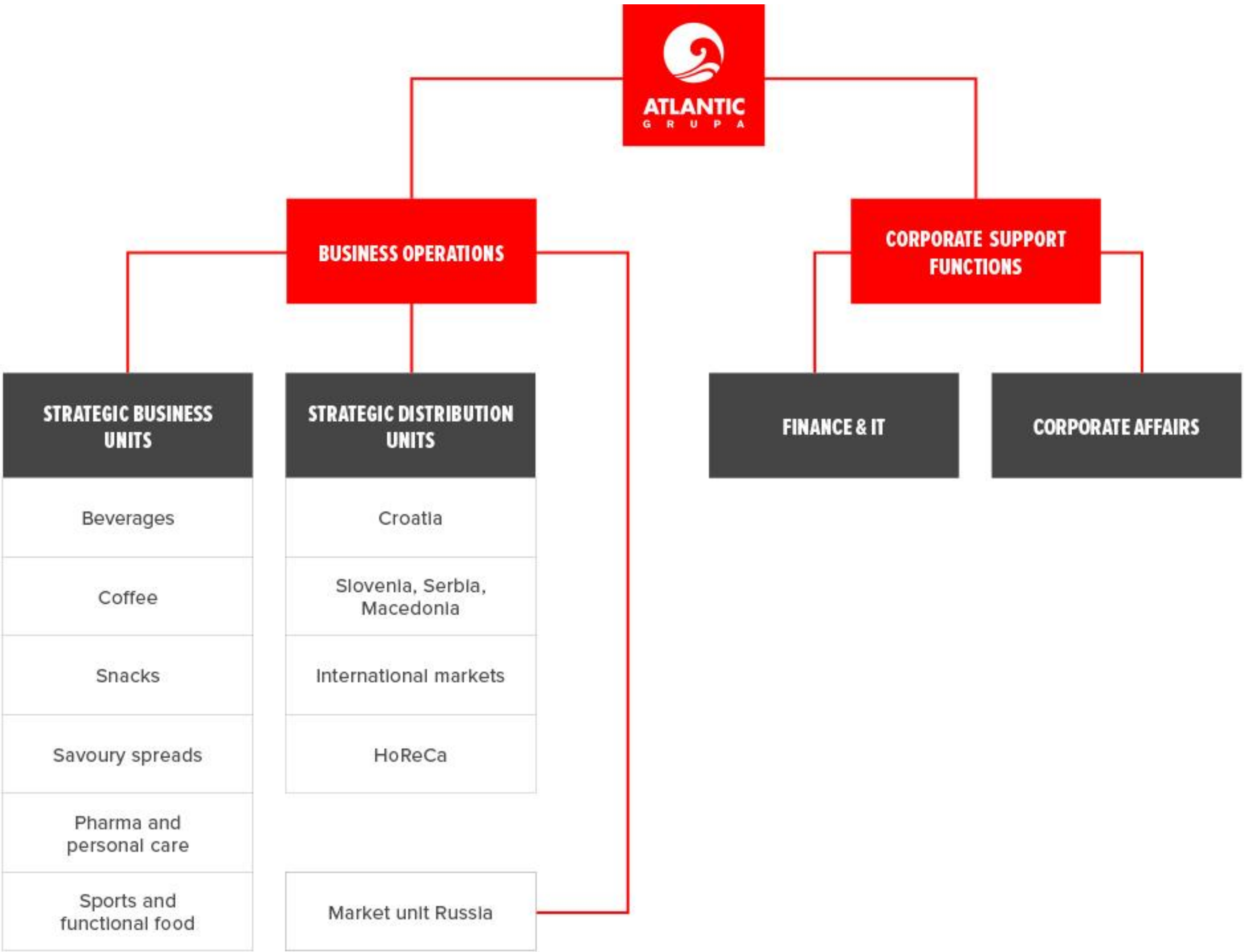
Acquisition of Kalničke Vode Bio Natura d.d.

2013 Establishing cooperation with Unilever

ORGANISATIONAL STRUCTURE

The business organisation of Atlantic Grupa comprises two basic segments:

- Business Operations and
- Corporate Support Functions.



Business operations of Atlantic Grupa in 2013 may be followed through business activities of special business units related to individual product type, and special sales units which cover all major markets as well as strategic sales channels:

- Strategic Business Unit (SBU):
  - Coffee,
  - Snacks,
  - Savoury spreads,
  - Beverages,
  - Pharma and personal care,
  - Sports and functional food.

- Strategic Distribution Unit (SDP):
  - Croatia,
  - Slovenia, Serbia and Macedonia,
  - HoReCa ,
  - International markets.
- Russian market.

Each business unit has its own internal organisational structure which is, depending on its activity and business volume, composed of organisational areas: business units, organisational units and departments. Along with Strategic Business Units and Strategic Distribution Units, the Business Operations segment of the company also includes the functions of Central Purchasing, Central Marketing and Corporate Quality Management, established in order to take advantage of all synergies within the system and to ensure efficient coordination of purchasing, marketing and quality assurance tasks as well as to establish uniform standards on the entire Group's level.

Corporate support functions ensure the implementation of uniform corporate standards and more transparent and efficient business operations at the company level. Corporate support functions are centrally organised and, depending on their respective functional area, provide support the development and management of the entire Atlantic Grupa, while being divided into:

- Corporate Affairs, and
- Finance and Information Technologies (IT).

The strategic corporate function Corporate Affairs includes the following departments: Human Resources, Corporate Communications, Legal Affairs, Investment Maintenance, and Corporate Security.

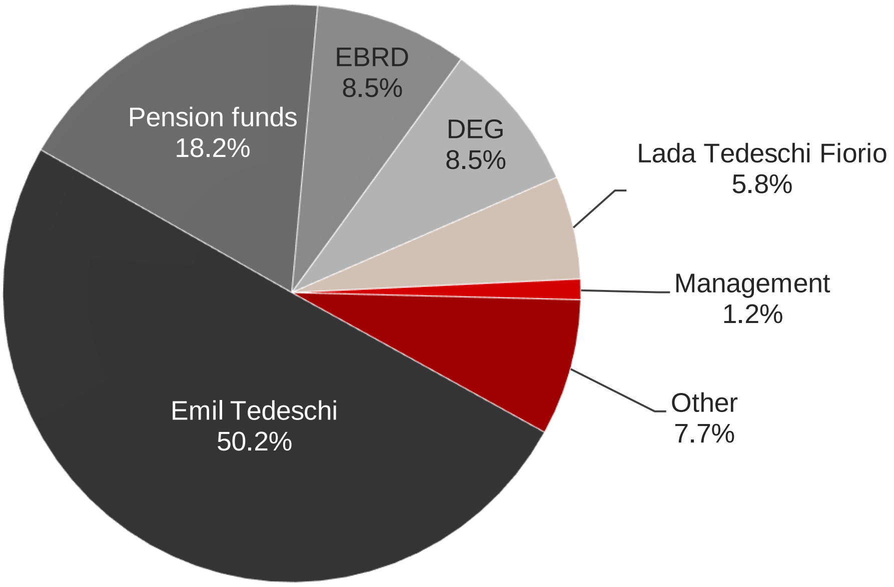
The strategic corporate function Finance and Information Technologies (IT) includes the following units: Business Development, Corporate Reporting and Consolidation, Corporate Controlling, Corporate Tax, Corporate Treasury and Strategic IT Management.

In addition to the above, the organisational structure also includes the support function of Internal Audit, which operates as an independent function that reports to the Supervisory Board of Atlantic Grupa.

OWNERSHIP STRUCTURE

Following the completed capital increase in 2010, the total number of Atlantic Grupa shares is 3,334,300, which are quoted on the official market of the Zagreb Stock Exchange (ZSE) under the code ATGR-R-A.

Ownership structure on 31/12/2013



Overview of top 15 shareholders of Atlantic Grupa d.d. on 31 Dec 2013

Ordinal	Shareholder	No. of shares	% ownership
1	Emil Tedeschi	1,673,819	50.2%
2	Raiffeisen Obligatory Pension Fund	323,500	9.7%
3	European Bank for Reconstruction and Development - EBRD	284,301	8.5%
4	German development bank - DEG	283,209	8.5%
5	Tedeschi Fiorio Lada	193,156	5.8%
6	AZ Obligatory Pension Fund	142,204	4.3%
7	Raiffeisen Voluntary Pension Fund	48,162	1.4%
8	PBZ Croatia Osiguranje Obligatory Pension Fund	45,436	1.4%
9	Erste Plavi Obligatory Pension Fund	38,304	1.1%
10	Neven Vranković	19,233	0.6%
11	PBZ d.d./The Bank of New York as custodian	15,203	0.5%
12	Mladen Veber	13,240	0.4%
13	PBZ d.d./CN LTD.	13,212	0.4%
14	Custodian account for UniCredit bank Austria AG	11,176	0.3%
15	OTP banka d.d./INS683	9,972	0.3%

RESPONSIBILITY

toward people, brands, environment and pursuit of top position

CORPORATE MANAGEMENT OF ATLANTIC GRUPA

STATEMENT OF THE GROUP VICE PRESIDENT FOR CORPORATE AFFAIRS

In the course of more than two decades Atlantic Grupa developed into a successful business system with companies in the region of South-Eastern Europe and in both West and East Europe. For us, responsibility represents the feeling and principle of behaviour which, as an integral part of the development strategy, follows our continuous growth. In relation to our shareholders, our responsibility has been a constant from the beginning until today, while business growth and expansion have at the same time extended the range of responsibility towards our internal and external surroundings and raised the awareness about the possibilities and the need to have own influence on improving the general conditions around us. In Atlantic, special attention is paid to building a unique corporate culture that respects any type of individual diversity and fosters cooperation and synergies between the different segments of production, innovations, marketing and sales. "Naturally different", the slogan that connects all diversities within the system, resting on three basic natural elements: sun (passion), wave (creativity) and mountain (responsibility). By creating a healthy and encouraging working environment we try to provide our employees with more than just a job – many programmes developed within the system are aimed at developing human resources and careers within the company as well as at performance management and appropriate rewarding of excellent results.

Since its foundation Atlantic Grupa based its business activities on the Code of Corporate Governance with which, particularly after the listing on the stock market in 2007, the standards of business transparency in line with EU directives and relevant Croatian legislation have been significantly improved. By consistent application of the Code's principles we are developing and operating in accordance with the good corporate governance practice while striving to contribute with our business strategy, policy and practice as well as with key internal acts to transparent and efficient business operations and quality relations with the business environment in which we operate. Atlantic Grupa is also a signatory of the Code of Ethics in Business and in 2007 we joined the UN initiative Global Compact.

In respect to environmental protection, we can say that, within a consistent Environmental Management System (EMS), it has expanded from a local approach to the corporate level with the key focus on sustainability and protecting the future. With its main activities in this area, which arise from three dimensions – environment and energy efficiency, people and society, and governance, Atlantic Grupa has made a big step toward sustainability. The sustainable environmental management system is based on well-considered and economical use of natural sources, using environmental friendly technologies in our production, reduction of waste and lower consumption of energy and water. The international ISO 14001 environmental management system certificate shows that our Environmental Management System complies with the best practice standards.

Finally, as a part of the wider community in which it functions, Atlantic Grupa is aware of the importance and need for making its own impact on the improvement of general social conditions, promotion of correct values and the need to invest a part of its own profits into the community. In addition to a wide range of donor projects, our sponsorship activities are also notable, especially when it comes to the promotion of sports and healthy lifestyle for youth and adults. The largest sustained, structured and comprehensive arrangement in this sense we invested in supporting projects such as the basketball club Cedevita where, other than being the main sponsor, through the club's basketball academy attended by over one thousand children and youth, we are trying to promote correct values among the new generations. Atlantic Grupa is also an active participant and organiser of a number of humanitarian actions and we systematically support a whole series of organisations and associations involved in protecting and helping vulnerable social groups.

Neven Vranković,
Group Vice President for Corporate Affairs

CORPORATE MANAGEMENT

Atlantic Grupa's corporate management structure is based on a dual system consisting of the Company's Supervisory Board and Management Board. Together with the General Assembly they represent the three principal bodies of the Company under *the Articles of Associations* and *the Companies Act*.

GENERAL ASSEMBLY

The General Assembly is a body in which shareholders accomplish their rights in Company matters. In order to decide on issues prescribed by law and the Company's Articles of Association, the regular General Assembly of Atlantic Grupa d.d. was held on 20 June 2013. The following decisions were made at that Assembly: issuing the note of release to the members of the Management Board and the Supervisory Board, amendment of the Company's list of business activities, appropriate amendment of the Articles of Association, appointment of an independent Auditor of the Company for the year 2013 and the decision on paying a dividend to the Company shareholders in the amount of HRK 9.00 per share, in proportion to the number of shares held by each shareholder. All decisions from the held General Assembly were made in line with legal regulations and are available on web pages of Atlantic Grupa (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr).

SUPERVISORY BOARD OF ATLANTIC GRUPA

The joint stock company Atlantic Grupa has a Supervisory Board consisting of seven members. In 2013, the Supervisory Board held four sessions in accordance with the previously announced Schedule posted on web pages of the Company (www.atlanticgrupa.com) and the Zagreb Stock Exchange (www.zse.hr).

The members of the Supervisory Board are:

Zdenko Adrović/President

Zdenko Adrović, one of the leading experts in Croatian financial industry, has been Chairman of the Management Board of Raiffeisenbank Austria d.d since 1996, which in his term of office developed into one of the leading financial institutions and received several awards from the Croatian Chamber of Economy as the most successful bank in Croatia. Prior to his current position, he was the Executive Vice President responsible for the treasury and liquidity at Privredna Banka Zagreb, where he also worked as the Investment Banking Sector Manager and Deputy General Manager. He received his bachelor's degree in economics at University of Zagreb, Faculty of Foreign Trade, where he also received his master's degree in the field of corporate finance. He also continued his professional specialisation at universities in USA and UK.

Lada Tedeschi Fiorio/Vice President

Lada Tedeschi Fiorio began her career in Atlantic in 1997 as the Deputy Director for Finance. As Vice President for Investor Relations she had an important role in negotiations with potential investors during different Atlantic's acquisitions as well as in the initial public offer process in 2007. As Atlantic Grupa was transformed into a joint stock company, she was appointed Vice President of the Supervisory Board and today she is also heading the Investment Committee. Before joining Atlantic, she acquired business experience in multinational companies, Wrigley in Germany and Mars Masterfood in the United Kingdom, the Netherlands, Poland and the United Arab Emirates. She received her bachelor's degree in economics at Universita' commerciale L. Bocconi in Milan, and continued her professional specialisation at the London Business School.

Željko Perić/Member

Željko Perić is one of the leading Croatian experts for mergers and acquisitions with extensive experience in leading management positions. He is the founder and director of the consulting company Caper, specialising in M&A and strategic consulting. Before his successful career as an independent consultant, he was the President of the Management Board of Lura in the period during which the company was geared towards the national and regional expansion. He was previously a member of the Management Board of Pliva where he participated in large number of complex project at the time of the company's most dynamic growth. He also worked as the Director of Projects at Ingra, the Director of Finance at Hidroelektra and in the Ministry of Foreign Affairs of the Republic of Croatia. He received his bachelor's degree in foreign trade at the Faculty of Economics and Business in Zagreb, and continued his professional specialisation at Harvard University, Management Center Europe (Brussels) and IMD (Lausanne) and IEDC (Bled).

Siniša Petrović/Member

Siniša Petrović is a tenured professor at the Commercial and Company Law Department of the Faculty of Law at the University of Zagreb. In 1995, he was a special envoy of the delegation of the Republic of Croatia for negotiations with the international community as well as a member of the delegation of the Republic of Croatia at the International Peace Conference for Bosnia & Herzegovina in Dayton. He was Vice President of the Council for the Protection of Market Competition and the Croatian representative in the Arbitration Committee of the International Chamber of Commerce. He is the author of many expert papers and participated in the drafting of Croatian regulations concerning companies, market competition, real estate mediation, privatisation, sports and prevention of conflicts of interest in performance of public functions. He was a member of the Negotiating Team for the Accession of the Republic of Croatia to the EU. He received his bachelor's, master's and doctor's degrees from the Faculty of Law at the University of Zagreb.

Franz-Josef Flosbach/Member

Franz-Josef Flosbach is an internationally recognized expert who had spent the most of his working life, since 1975, in the DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH, since 2001 a subsidiary of the German KFW-Bankengruppe, Frankfurt. He carried out a function of Director for Europe, Central Asia and Middle East for business development and portfolio management. He retired recently and serves now as a member in five Supervisory Boards in the region. Previously he worked as a Senior Consultant at the Treuhand-Vereinigung AG/Coopers Lybrand GmbH, today PWC, with a special focus on Merger & Acquisition activities. His business specialities relate mostly to financing, privatisation, restructuring and joint ventures, in different industries, like banks, financial institutions, processing industry as well as tourism industry and private infrastructure. Franz-Josef Flosbach obtained his industrial engineer´s degree at the Technische Hochschule, Darmstadt, Germany.

Aleksandar Pekeč/Member

Saša Pekeč is an Associate Professor at Duke University's Fuqua School of Business. He is an expert in managerial decision-making in complex competitive environments, and has published articles in top academic journals in management sciences, as well as in top journals in other fields such as economics, mathematics and psychology. His consulting experience includes banking, internet, pharmaceutical, retail, and telecommunications industries. Saša Pekeč holds a Ph.D. degree from Rutgers University and B.Sc. degree from the University of Zagreb. He is a member of the Council of Economic Advisers to the President of Croatia.

Vedrana Jelušić-Kašić/Member

Vedrana Jelušić Kašić is the Director for Croatia of the European Bank for Reconstruction and Development (EBRD) and Head of the Bank's Resident Office in Zagreb. Before taking the position of the EBRD Director for Croatia, she managed EBRD's investments in the food, beverage and retail sectors in South-Eastern Europe. In her 15-year career at EBRD she has completed over 40 transactions exceeding EUR 1 billion in SEE, CIS and Russia. She has been leading projects with key regional and multinational corporations as well the leading banks in the region. She gained extensive experience in reputable organisations such as Raiffeisen bank Austria d.d. Zagreb, Merrill Lynch Private Client Group in Boston, Massachusetts, Croatian National Bank and central agency for securities in Italy, Monte Titoli S.p.A., Milano. She holds B.A. from Zagreb University of Economics, and continued her professional specialisation at the Vienna Institute for International Economic Studies and received her M.A. from Brandeis University, Massachusetts, USA. She is a co-author of the book on international accounting and author of numerous expert articles in national business publications. In July 2013 she earned the diploma of Non-Executive Director by London's Financial Times.

The members of the Supervisory Board have been remunerated for their work and have the right to remuneration which is appropriate for the tasks performed as well as the Company's situation and business performance. In 2013, members of the Supervisory Board of Atlantic Grupa d.d. on the said grounds received compensation in the total gross amount of HRK 1,005,851.04.

SUPERVISORY BOARD COMMITTEES

Three Committees function within the Supervisory Board with the purpose of assisting the operation and functioning of the Supervisory Board: Audit Committee, Nomination and Remuneration Committee and Corporate Governance Committee. Each of these Committees consists of three members, of which two are appointed from the ranks of the Supervisory Board members while one member is appointed from the ranks of top experts in the subject area.

The Corporate Governance Committee defines a system of mechanisms for ensuring a balance between the rights of the shareholders and the needs of the management with regard to steering the Company's business and managing its operations. The Committee is chaired by Siniša Petrović, Vedrana Jelušić-Kašić was appointed as a member from the ranks of the Supervisory Board and Hrvoje Markovinović as a member from the ranks of external experts.

The Nomination and Remuneration Committee suggests the candidates for the Managment Board, Supervisory Board and senior management personnel and the content of contracts with the members of Management Board and the structure of their compensation and the compensation of the Supervisory Board's members. The Committee is chaired by Željko Perić, Aleksandar Pekeč was appointed as a member from the ranks of the Supervisory Board, while Zoran Sušanj was appointed as a new member from the ranks of external experts on 9 December 2013 by the decision of the Supervisory Board, after the end of term of the Committee member Goran Radman.

The Audit Committee analyses in detail the financial reports, provides support to the Company's accounting and establishes good and quality internal control within the Company. It monitors the integrity of financial information of the company, particularly the accuracy and consistency of accounting methods used by the company and the group, to which it belongs, including the criteria for consolidation of financial reports of the companies that belong to the group. Also, the Committee assess the quality of the internal control and risk management system, with the aim of properly identifying, publicizing and managing the major risks to which the company is exposed to. The Committee is chaired by Lada Tedeschi Fiorio, Franz-Josef Flosbach was appointed as a member from the ranks of the Supervisory Board and Marko Lesić as a member from the ranks of external experts.

The members of the said Committees who are not members of the Supervisory Board have received remuneration for their work and contribution to the functioning of the Supervisory Board of Atlantic Grupa in 2013 in the total gross amount of HRK 21,912.94.

MANAGEMENT BOARD OF ATLANTIC GRUPA

The Management Board of Atlantic Grupa consists of the President and Group Vice Presidents. Twenty sessions of the Management Board were held in 2013.

The Management Board of Atlantic Grupa operates in the following composition:

Emil Tedeschi/President of the Management Board

Emil Tedeschi is the founder and majority owner of Atlantic Grupa. In his career he has received numerous professional and media awards and in 2010 received the state decoration of the President of the Republic of Croatia for his special contribution to Croatian economy. He was actively involved in the process of Croatia's accession to the EU as a member of the Parliamentary Committee overseeing the negotiating process, was a member of the Social and Economic Council, and in the period 2005-2007 was the president of the Croatian Employers' Association. He is also a member of the INSEAD Alumni Association, the Programme Council of the Zagreb School of Economics and Management, the Business Council at the Faculty of Economics in Ljubljana. the Council of the University of Rijeka and the Board of Trustees of Moscow State Institute for International Relations and the Rochester Institute of Technology in Dubrovnik. He is the Vice-President of the Supervisory Board of RTL Croatia and an Honorary Consul of the Republic of Ireland in the Republic of Croatia. Since 2010 he is a member of the Economic Council of the President of the Republic of Croatia.

Mladen Veber/Senior Group Vice President for Business Operations

Mladen Veber joined Atlantic in 1996 as the Director of the Rijeka Distribution Centre, while as the General Manager of Ataco (a partnership company in BiH) he made a key contribution to its development as one of the leading distributors in BiH. In July 2001, he was appointed Vice President of Atlantic Trade responsible for brand management and international markets. In 2006 he was appointed Senior Vice President responsible for all business operations of Atlantic Grupa. Since 2001, he has been a board member of the Trade Association Council of the Croatian Chamber of Economy. He is the President of the Management Board of the basketball club Cedevita. He graduated at the Faculty of Mechanical Engineering and Naval Architecture at the University of Zagreb, and continued his education at the business school IEDC in Bled.

Neven Vranković/Group Vice President for Corporate Affairs

Neven Vranković joined Atlantic Grupa in 1998 as the Executive Director of Corporate Affairs. In 2001 he was responsible for Atlantic Grupa's merger and acquisition activities, while in 2002 he was appointed Vice President for Corporate Affairs. He gained his business experience by working in the legal department of Bergen Bank in Norway and as a career diplomat at Croatian embassies in Washington and Belgrade. He was a member of the Working Group for Preparing Negotiations for the Accession of the Republic of Croatia to the European Union for Chapter 6 – Company Law. He graduated from the Faculty of Law at the University of Zagreb and received his master's degree from the Washington College of Law, USA. Furthermore, he gained additional professional knowledge in the field of mergers and acquisitions at the business school INSEAD in France.

Zoran Stanković/Vice President for Finance and IT

Zoran Stanković joined Atlantic Grupa in February 2007 at the position of Vice President of Finance, which is also responsible for IT functions. Prior to that, he spent three years at Pliva as the Group's Director of Controlling responsible for the coordination and supervision of financial activities of the Pliva's network of companies, both domestic and abroad. Before his arrival to Pliva, from 1995 to 2003, he worked at Arthur Andersen and Ernst&Young as a Senior Audit Manager responsible for key accounts. He is a member of the Croatian Association of Certified Accountants as well as a member of the International Association of Chartered Certified Accountants. He Graduated from the Faculty of Economics and Business at the University of Zagreb.

REMUNERATION POLICY FOR MANAGEMENT BOARD MEMBERS

The contract on performing activities of a member of the Management Board i.e. the employment contract for board members who are employed at Atlantic Grupa lays down the rights and obligations of board members based on their function as the Management Board members, as follows:

- monthly salary for board members, set in the gross amount,
- annual bonus (bonus remuneration) per year of contract duration, set in the defined percentage of the realised principal annual gross salary and remuneration on the grounds of membership in supervisory boards of associated companies. The payment of the annual bonus is conditioned upon the realisation of planned business results in the ratio of at least 95% of the EBT plan for the consolidated Atlantic Grupa's business year. Provided that all contractual criteria were satisfied, board members are paid the amount of realised bonus remuneration through the Stock Option Programme by acquiring own shares of Atlantic Grupa. For the President of the Management Board, the whole bonus remuneration amount is paid in cash,
- life insurance policy for the members of the Management Board contracted by Atlantic Grupa at the reputable insurance companies in Croatia, with the annual premium of HRK 8,250.00,
- personal accident insurance policy with the annual premium of HRK 8,300.00,
- voluntary health insurance policy that includes the Management Board members, with which Atlantic Grupa, as the insurance contractor, with an annual premium of HRK 7,500 per person, provides a quality health treatment through an annual comprehensive health examination, any required specialist medical tests with the application of most contemporary and efficient medical devices and equipment in specialised polyclinics with the best health experts,
- right to use an official vehicle, right to compensation of all costs incurred by the Management Board member while performing his/her functions.

All Management Board members have manager contracts which include a whole set of binding provisions as well as incentive ones, as follows:

- confidentiality clause – board members are obliged to keep confidential the Company's business secrets during and after their employment, regardless of the reasons for employment termination. The obligation of confidentiality extends to business secrets of AG's associated companies as well,
- no-competition clause – binds a board member to a period of one year from the date of receiving severance pay, if he/she is entitled to it,
- contract penalty - in case of breaking the no-competition clause, any board member shall be liable to pay the contract penalty in the amount of twelve average net monthly salaries paid to that board member in the period of three months before contract termination,
- prohibition of participation of any board member in the ownership and/or management structure, whether directly or indirectly, in any company which is in market competition with Atlantic Grupa and associated companies, or in a company with which Atlantic Grupa and associated companies have business cooperation, as well as to act as an advisor or consultant in such companies, regardless of being paid or not for such activities,
- performance of other activities as a board member, except those performed for Atlantic Grupa's associated companies, regardless of being paid or not for such activities, including the membership in supervisory boards, advisory bodies, etc. shall only be allowed pursuant to the prior approval of the Management Board of Atlantic Grupa,
- employment, contract duration and termination periods – board members are employed for an indefinite period in Atlantic Grupa or its associated companies, and the contract on performing the function of a board member is concluded for the period of 3 years, with the possibility of termination in accordance with the periods prescribed by law,
- severance pay – severance pay is contracted in the amount of six average monthly gross salaries of the board member and gross remunerations based on the membership in supervisory boards of associated companies paid to that board member in the period of three months prior to contract termination. The obligation of severance payment occurs in a case of contract termination by Atlantic Grupa in the period of its duration, unless the contract is terminated due to reasons caused by the fault of the board member.

In 2013, members of the Management Board of Atlantic Grupa d.d., on the grounds of salary and remuneration for supervisory board membership in operating companies and annual bonus received a gross amount of HRK 13,758,172.01. From that amount, on the basis of salary, remuneration for supervisory board membership in operating companies and annual bonus, President of the Management Board Emil Tedeschi in 2013 received a gross amount of HRK 3,298,523.25.

STRATEGIC MANAGEMENT COUNCIL

Since its establishment in early 2012, the Strategic Management Council operates as a multifunctional body that discusses vital strategic and operational corporate issues, business analysis, priority definition, supervision of strategic plans, coordination between organisational units and key decision making. The Council includes the following members; President of the Management Board, Senior Group Vice President for Business Operations, Group Vice President for Finance and Information Technology, Group Vice President for Corporate Affairs, and directors of all Strategic Business Units and Strategic Distribution Units, Senior Executive Director for Regional Key Accounts Management and Sales Croatia, Secretary General, Executive Directors of Central Purchasing, Human Resources and Corporate Controlling and the Head of the Investment Committee.

BUSINESS COMMITTEES

The Investment Committee assists the Management Board by providing expert analyses and opinions on strategic decisions regarding the acquisition of companies, brands, businesses, or the sale of existing organisational business parts and on all individual investment projects exceeding EUR 2 million. The Investment Committee is headed by the Management Board Advisor, and its members are the Director of Internal Audit and the Director of Corporate Treasury.

The Social Responsibility Committee contributes to the implementation of principles of sustainable development in the company's everyday business activities, monitors its status and starts initiatives for the improvement of socially responsible business conduct. The Social Responsibility Committee is headed by the Company's Secretary General, while its members are the Executive Director of Human Resources, the Director of Corporate Communications and the Director of Corporate Quality Assurance.

IMPLEMENTING THE PRINCIPLES OF CORPORATE GOVERNANCE

Since its foundation and listing on the ZSE, Atlantic Grupa based its business activities on the Code of Corporate Governance of Atlantic Grupa with which the standards of business transparency are aligned with Croatian and EU legislation. With the given Code, Atlantic Grupa defined the procedures for the functioning of the Supervisory Board, Management Board and other bodies and structures responsible for decision-making, thus ensuring the avoidance of conflicts of interest, efficient internal control and an effective responsibility system. The Code also prescribes the obligation of publishing data belonging to categories of price-sensitive information, all in an effort to ensure equal treatment of shareholders and information transparency for present and future investors. In line with consistent implementation of the Code's principles, Atlantic Grupa develops and operates in accordance with the good corporate governance practice and strives to contribute with its business strategy, business policy, key internal acts and business practice to transparent and efficient business operations and quality relations with the business environment in which it operates.

Considering that the shares of Atlantic Grupa d.d. are quoted on the Zagreb Stock Exchange, Atlantic Grupa applies the valid Code of Corporate Governance of the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange. In accordance with relevant regulations, Atlantic Grupa in 2013 issued a Statement of Application of the Code of Corporate Governance, thereby confirming its actions and development in accordance with the good corporate governance practice in all business segments. The Statement of Application of the Code of Corporate Governance has been published on the Company's website (www.atlanticgrupa.com) as well as on the official website of the Zagreb Stock Exchange (www.zse.hr).

In addition to the above, Atlantic Grupa is a signatory of the Code of Ethics in Business initiated by the Croatian Chamber of Economy. The listed Code lays down guidelines for ethical behaviour of business subjects in the Croatian economy. Such definition of ethical criteria contributes to more transparent and efficient business operations and high quality relations between economic operators in Croatia and the business environment in which they operate. By signing the Code of Ethics, its parties are obliged to responsible and ethical behaviour towards the other companies on the market as well as the development of high quality relations and loyal competition.

SPONSORSHIPS AND DONATIONS

As a part of a broader community in which it functions, Atlantic Grupa is aware of the importance and need for making its own impact on improving general social conditions, promoting correct values and, ultimately, the need to invest a part of its own profits back into the community. In addition to its wide range of charitable projects, Atlantic Grupa is also a major sponsor focused primarily on the promotion of sports where most funds and involvement are dedicated to supporting projects such as the basketball club Cedevita. Atlantic Grupa is also an active participant and organiser of a number of humanitarian actions and it systematically supports a whole series of organisations and associations involved in protecting and helping vulnerable social groups.

SPORT

- BC Cedevita
- Planica ski jumping
- Ljubljana Marathon
- Zagreb Marathon
- Croatian Olympic Committee
- Croatian Basketball Federation
- Giro d'Italia
- HC Krim
- Cannondale Pro Tour Italy - pro cycling team
- Kitesurf world cup
- Triathlon Challenge BCN&Mallorca, Challenge Roth

Basketball

The basketball club Cedevita continues to be the flagship of all Atlantic's sponsorships. Atlantic Grupa is actively involved in the promotion of basketball as a sport of national importance by attracting increasingly better players and trainers as well as in the promotion of the brand Cedevita, to which the club was renamed. What is particularly important and upon which the success of this project lies is Atlantic Grupa's dedicated support in financing, organising, and managing the club's Basketball Academy with over 700 children. The Club and the Academy actively work in 24 basketball schools organised in Zagreb's elementary schools, thus ensuring both the future of this sport and the option of a healthy and useful free time activity. Owing to Atlantic Grupa's sponsorship, as well as the efforts put in getting additional sponsors for the BC Cedevita, the club is now one of the most promising teams in Croatia and regional leagues.

The company's involvement in encouraging the audience to support the players with the aim of achieving the best possible sport results resulted in the media's increased interest for basketball events, thus giving significant contribution to popularising this sport in the wider public. Atlantic Grupa also sponsors the umbrella organisation - the Croatian Basketball Federation, thus providing an additional impulse to the strengthening of this sport.

Multipower (cycling, bodybuilding, extreme sports)

Atlantic Grupa understands socially responsible action as a principle it applies in all the countries in which it is present with its business entities. To that end, Atlantic is a major sponsor through its sports food brand Multipower. In 2013, Multipower, in addition to its long-standing support to basketball, also sponsored sports such as cycling, bodybuilding, triathlon, iron man competitions, rugby, running, as well as some extreme sports such as parkour, mountain running and kitesurfing. Among the most significant collaborations we can point out the Italian bicycle race Giro d'Italia and support to athletes like Gunter Schlierkamp in bodybuilding, rugby star Ben Foden, who Multipower supplies with its products and helps him in achieving the best possible sports results, and Eneko Llanos in Iron Man competitions.

Other sports: ski jumping, marathon, handball

With its brands Cockta, Cedevita, Argeta, Multipower, Smoki and Barcaffé, Atlantic Grupa has already for many years supported the ski jumping competition in Planica. In 2013 Cockta celebrated its 60th anniversary in Planica, and Cockta's ambassadors added to the celebration – Peter Prevc with two third places and the Slovenian national team with an overall win in jumps.

Additionally, Atlantic Grupa also supports the Slovenian Ski Federation - Alpine and Nordic skiing national team, in which Tina Maze and Peter Prevc were voted as the best athletes in Slovenia in the past year while both are achieving important wins in the World Ski Cup supported by the brands Argeta and Cockta.

With the brand Smoki, Atlantic Grupa sponsored the 20th Children's Marathon in Belgrade, wishing to promote sports and healthy lifestyle. Furthermore, Smoki also supported the children's football competition Žogarija Loptarija sending a message how it is particularly important to recognise and support as much as possible the talent for sports in children.

The handball club Krim Ljubljana, ski competition Zlata Lisica in Maribor, FC Lokomotiva, Hamburg Marathon, beach volleyball competition in Umag are also on the list of significant Atlantic's activities with which the company supports the promotion of sports values.

CULTURE AND KNOWLEDGE

- Sarajevo Film Festival
- Špancirfest
- Entertainment event for children and youth – Rhythm of Youth
- Merry Christmas Tram
- Twitomania
- Slovenian Book Fair
- Liffe - Ljubljana International Film Festival

Atlantic Grupa has again in 2013 supported the 19th Sarajevo Film Festival (SFF) as a central cultural manifestation in the region, once more not only as a Festival sponsor, but also as the main partner of the special festival project Sarajevo grad filma ("Sarajevo Film City"). It is a project that gives an opportunity to young film professionals from the widely interpreted region to work in professional conditions. On one hand, the project is concerned with the future of young professionals, on the other, the future of the regional film industry and, finally, the future of the festival.

In line with its efforts to cooperate with institutions in the area of children and youth education, Atlantic Grupa sponsored in Belgrade the Junior Achievement Serbia – final competition of high-school students from the whole region named "Western Balkans Business Challenge". The sponsorship was aimed at contribution to youth education in the area of entrepreneurship, business and financial literacy.

Furthermore, Atlantic Grupa supported the School for Talents and Zmaj Children Games, one of the largest children's festivals in Novi Sad, named after Jovan Jovanović Zmaj, one of the most famous Serbian poets and writers of children's literature.

With the brand Grand kafa, Atlantic Grupa in Serbia supported the UNICEF project “Schools against violence”, Stand up fest, Geek Week – science festival, Aiesec Serbia - Career Days, as well as the Faculty of Organizational Sciences and their participation in the World Cup case study. There is also an already traditional sponsorship of Konak Kneginje Ljubice which has the status of cultural tradition of exceptional importance. In line with its efforts to include culture in its concept of enjoying coffee– Grand kafa continued to support cultural manifestations like festivals “Sarajevo ljubavi moja", "Splitski Đir", etc.

SOCIALLY VULNERABLE GROUPS

- Centre for Education Dubrava
- Slovenian Food Bank
- Red Cross
- Lions Club Forum
- Business Leaders Forum

Atlantic Grupa continued its cooperation with the Centre for Education Dubrava in 2013. For five consecutive years Atlantic has been investing in the Centre’s renovation and has until now reconstructed a number of sport facilities including the Centre’s sport hall and swimming hall. With the purpose of making the everyday routine of children with developmental difficulties easier, Atlantic donated new rehabilitation equipment.

In cooperation with the Lions Club Forum, Atlantic Grupa also in 2013 participated with its brand Cockta in a humanitarian action to raise funds for increasing the participation of blind and visually impaired persons in sports, recreational, cultural and art activities, development and education, and their improved inclusion in the community.

Taking care of interests of vulnerable groups and adjusting to their needs is the principal intention behind all planned donations of Štark, thus in 2013 the company continued its cooperation with institutions in Serbia for children without parental care, children with special needs, blind and visually impaired children and children with disabilities, which during the year received donations in products and gift packages.

Donations were also made to health institutions: University Children's Hospital Belgrade, Special Hospital for Child Paralysis and Rehabilitation Clinic dr. Miroslav Zotović, while Medical Centre Ljubovija received funds for purchasing a special apparatus.

The volunteer team of Atlantic Grupa in Serbia is already for five years participating in a traditional action of the Business Leaders Forum named “Our Belgrade”, so this year the team also contributed in Kalemegdan where, together with volunteers from ten other companies, it helped to clean up this well-known city park. Atlantic Grupa in Serbia is a member of the Business Leaders Forum - the first and only network of companies in Serbia dedicated to social responsibility – whose activities contribute to further development of socially responsible projects and exchange of experience on the current practice.

VALUE DAY

- Association Debra, Zagreb
- Asylum Spas, Varaždin
- Dom Moše Pijade, Belgrade
- Center Janez Levc, Ljubljana
- Retirement home, Izola

At the beginning of September we celebrated our Value Day when more than a thousand Atlanticers in the United Kingdom, Italy, Germany, Spain, Russia, Slovenia, Croatia, Bosnia & Herzegovina, Serbia and Macedonia visited children with special social needs, retirement homes, helped in the work of non-governmental organisations or institutions. We cleared wild landfills in our local communities and internally helped each other in refreshing our offices – painting walls, fences, planting flowers…

With this we demonstrated our values – the Sun, Mountain and Wave – that symbolise passion, responsibility and creativity, and we reminded each other that our job is not just a job, but also a way to act in the community.

SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PROTECTION IN 2013

Our concern for the environment has expanded from a local approach to the corporate level within a consistent Environmental Management System (EMS) with the main focus on protecting the future. By interconnecting the on-going activities from the three dimensions – environment and energy efficiency, people and society, and governance, Atlantic Grupa has made a big step toward sustainability.

Environmental management has a long tradition in individual facilities of Atlantic Grupa. Some production facilities have been awarded the ISO 14001 environmental management system certificate more than 10 years ago. The main goal in the field of environmental management has lately been harmonization of practice in all facilities of Atlantic Grupa. This has been achieved by harmonized corporate rules, harmonized performance and efficiency indicators, green team, internal education and good communication. The first step towards the goal of an integrated environmental management system was successful integration of production facilities in the region. In 2013 the environmental management system was extended to all 15 production facilities and distribution of Atlantic Grupa. As a result, the conditions for transition to the sustainable environmental management system of Atlantic Grupa were fulfilled. The international ISO 14001 environmental management system certificate shows that our Environmental Management System complies with the best practice standards.

Our corporate EMS is designed to ensure continuous improvement in our environmental performance. The core elements of this EMS are:

- commitment of top management and defined responsibilities,
- identifying environmental impacts,
- communicating the environmental management policy,
- setting environmental objectives and programmes/plans,
- regular audit and review cycle.

With the aim of reducing the impact on the environment and to be sustainable, we have set the following key environmental objectives:

- rationalisation of fuel and water consumption,
- reduction of waste quantities and improvement of waste separation practice,
- enabling compliance with environmental legislation,
- creation of environment-friendly corporate culture.

The objectives set for 2013 were in principle achieved.

A step forward was recently made in the field of measuring performance and efficiency of environmental management processes. In addition to usual environmental performance indicators – KPI (Key Performance Indicators), required by the standard ISO 14001, we have also started to use additional sustainable development indicators recommended by the GRI (Global Reporting Initiative) which enable a balanced view of environmental and sustainable development activities.

In the area of environmental care through optimising the use of natural resources and improving technologies and work processes, in 2013 Atlantic Grupa accepted a new challenge. We started implementing the Energy Management System (EnMS) as an upgrade to the corporate EMS. The main goal is to achieve continuous energy efficiency improvement, more efficient energy use and consumption. The first stage involved energy audits of particular production facilities which will serve as the basis for defining organisational and investment measures to reduce costs, CO_2 emissions and other adverse environmental impacts.

The extension of the principle of sustainable development is reflected in three areas – Atlantic Grupa's employees, business processes and suppliers. In addition to everyday care for the environment, Atlantic Grupa's employees are more actively involved in sustainable development activities on the traditional Value Day – the day of celebrating corporate values. Within the improvement of business processes we would like to point out as a good example the process of developing new products, where special attention is given to the possibility of using more environmentally acceptable packaging, reducing the weight or amount of packaging and the selection of partially recycled packaging materials. By including environmental criteria in the process of selecting suppliers we have expanded environmental care outside the "four walls" of the company.

In 2013 we can short-list the following projects and activities in the field of environmental protection:

- Droga Kolinska's beverage facility started to use water from boreholes for the production of soft drinks and construction of the storage for hazardous substances is underway,
- Neva and Fidifarm started to use groundwaters in technological processes for the purpose of reducing the consumption of municipal water supply,
- preparations started at the end of the year to introduce recyclable PET packaging for the production of Cockta,
- the action of collecting waste plastic caps for charity purposes has expanded from a local to the regional level.

QUALITY CONTROL

From the very beginning of developing a new product or during the improvement of an existing one, we endeavour to achieve a standard high quality of Atlantic Grupa’s products recognisable to customers.

The continuous following of scientific research, EU legislation and all other targeted markets and their subsequent application from the very beginning of a new product’s existence provide consumers with quality and health-safe products. To achieve such complex goals, proactive involvement of experts from the fields of research and development and quality assurance is necessary. The following factors have an important role in the production of health-safe products: selection of source materials (non-toxic, allergen-free, GMO-free, aligned with the REACH regulation, etc.), quality control of all input materials and ingredients, monitoring of all production phases, and quality assurance of finished products.

The Company’s extensive activities in the field of quality control are managed by the Corporate Quality Management Department, and executed by quality assurance departments within the Strategic Business Units and persons responsible for quality assurance within the Strategic Distribution Units. Such organisational structure enables the following:

- coordinated monitoring of legislation,
- implementation of best practices,
- optimal improvement and use of expert knowledge in the field of microbiological, chemical and other hazards,
- centralised supplier management in view of the quality of input materials,
- uniform approach with balanced product quality objectives for all own brands and control of the whole chain from receiving materials to releasing products for sale,
- specialisation of the quality assurance system according to specific issues of individual Strategic Business Units in the product segments of beverages, savoury spreads, sweet and salty snacks, children’s and sports food, cosmetics and medicines,
- traceability and maintenance of a high quality level in transport, storage and distribution to customers.

Laboratory testing of input materials, semi-finished products and finished products are carried out in three central laboratories specialised for chemical, sensory and microbiological tests with state-of-the-art measurement equipment. The accuracy of measurement results is regularly verified by the method of international interlaboratory testing. The prevention programme for control of food hazards prescribes regular monitoring of the following natural and technological pollutants: pesticide residues, heavy metals, allergens, microtoxins, alkaloids, PAHs and dioxins, nitrates, pharmacologically active substances and contamination by migration of substances from primary packaging. Such tests are outsourced to accredited and specialised laboratories. Monitoring is focused on input materials and adjusted to the supplier's risk assessment. The 2013 results show that the control system is efficient and that all hazards are well under control. In 2013 special attention was placed on microtoxin M1 due to cases of its presence in dairy raw materials in some markets and the differences in the highest permitted limits according to regulations. By increasing monitoring of our raw materials and active communication with our suppliers we have successfully contained this risk.

In 2013, our experts shared their experiences in two professional conferences that covered the following topics:

- planning of objectives and activities to achieve objectives,
- importance of good communication in crisis situation handling procedures.

In addition, several courses in the field of good hygiene practice and product safety management were organised within the internal programme School of Quality.

The activities in the field of quality assurance are supported by advanced IT solutions: the SAP QM module was implemented in the Slovenian and Croatian market, while other locations use internal IT solutions on similar platforms according to the same model. Near the end of 2013 we have started surveying SAP solution in Slovenia and Croatia in order to create one standard for QM module, which would in long term be gradually implemented in all production facilities. The first application will be the process of quality control in the new factory for the production of energy bars (project Nova Gradiška).

The efficiency of the quality assurance process is assessed on the basis of achieving target values for key indicators: the number of consumer complaints and the number of product recalls. We are investing significant efforts to receive as much comments from our consumers, so in 2013 we started free call centres in all markets, serving to additionally improve communication. All complaints were handled to the satisfaction of customers, while effective corrective actions were defined in the production process in order to prevent reoccurrence of such issues.

The total number of consumer complaints was increased in relation to the previous year mostly due to errors made by our contracted producers; these were handled during the year by introducing corrective actions to improve quality.

Our opinion is that in 2014, by implementing the listed improvements, the annual number of complaints will return to the level from previous years, thus meeting the expectations of our consumers.

All marketed products that were involved in health safety testing by inspection services or internal control officers were identified as complying with the health safety requirements. There were no food-related recalls.

One medicinal product with an active component was recognised as non-compliant and recalled. In four cases we decided to preventively recall a product due to unsatisfactory quality of the series.

In order to achieve even better results in 2014, monthly communication was introduced between the corporate quality assurance and all quality assurance departments in business programmes aimed at speeding up the transfer of good practice.

In 2013 considerable improvement was achieved in the fields of safety management and product quality. HACCP systems were introduced in all distribution markets and traceability of a product within the chain was improved, thus enabling faster preparation of customer information and communication with them. The largest central warehouses are certified according to food safety standards and good hygiene storage practices were also implemented in dislocated warehouses.

INTEGRATED SYSTEM OF QUALITY, ENVIRONMENTAL AND FOOD SAFETY MANAGEMENT

The year 2012 was the first year of operation of the integrated process management system that was introduced at the corporate level of Atlantic Grupa i.e. in all operating companies within the Group. Implementation of this process approach and standardisation of corporate processes continued in 2013.

Special attention is given to:

- monitoring process efficiency through definition of unique key performance indicators,
- implementation of defined procedures for corporate processes,
- management of non-compliances,
- standardisation of KPIs for the processes of technological development of new products and production,
- selection, evaluation and monitoring of the service provider.

INTEGRATED CERTIFICATION

The large project of implementing the integrated quality and environmental management system was initiated in 2012. The aim was to achieve integrated certification of all members of Atlantic Grupa.

The project involved a new innovative approach to certification – the implementation of the so called “multi-site” certification model.

Together with the partner, certification company DNV, the model was adapted according to specifities of Atlantic Grupa.

The first integrated certification of Atlantic Grupa was successfully implemented in March 2013. Certification was implemented in the period of two weeks, concurrently in five markets, 15 different sites and 15 legal entities of Atlantic Grupa. All joint corporate processes were reviewed at the company headquarters in Zagreb, which was then followed by monitoring the implementation in all sites.

Atlantic Grupa Certificate Family:

Legal Entity	Market	Quality Standard	Food Safety and Quality Standard	Food Safety Standard	Environmental Standard	Good Manufacturing Practice
Atlantic Grupa	Croatia	ISO 9001			ISO 14001	
Cedevita (Planinska)	Croatia	ISO 9001	FSSC 22000	HACCP	ISO 14001	
Cedevita (Apatovec)	Croatia	ISO 9001		HACCP	ISO 14001	
Neva	Croatia	ISO 9001			ISO 14001	
Montana	Croatia	ISO 9001		HACCP	ISO 14001	
Fidifarm	Croatia	ISO 9001		HACCP	ISO 14001	GMP
Atlantic Trade	Croatia			HACCP		
Bionatura	Croatia			HACCP		
Droga Kolinska (Ljubljana)	Slovenia	ISO 9001			ISO 14001	
Droga Kolinska (Mirna)	Slovenia	ISO 9001			ISO 14001	
Droga Kolinska (Rogaška)	Slovenia	ISO 9001			ISO 14001	
Droga Kolinska (Izola)	Slovenia	ISO 9001	FSSC 22000		ISO 14001	
Argeta	B&H		FSSC 22000		ISO 14001	
Kofikom Product	B&H	ISO 9001			ISO 14001	
Soko Štark (Smoki)	Serbia	ISO 9001	FSSC 22000	HACCP	ISO 14001	
Soko Štark	Serbia	ISO 9001			ISO 14001	
Palanački kiseljak	Serbia	ISO 9001		HACCP	ISO 14001	
Grand Prom	Serbia	ISO 9001		HACCP	ISO 14001	
Atlantic Brands	Serbia			HACCP		
Atlantic Multipower	Germany	ISO 9001	IFS			
Droga Kolinska (Skopje)	Macedonia	ISO 9001			ISO 14001	

Our certificate family is continually amended and enriched. For example, Fidifarm received another new certificate, GMP for dietary supplements, in September 2013.

The next certification cycle planned in February 2014 will include:

- integration of all logistics into the process approach,
- ISO 14001 in Multipower and logistics,
- FSSC 22000 in bottling plants in Croatia and Slovenia,
- GMP in Cosmetics (ISO 22 716).

CONTINUOUS EDUCATION

Atlantic Grupa continuously invests in the education of its employees in the field of quality management. To that end, the School of Quality in 2013 held over 30 workshops grouped in several themes:

- integrated process management system (process approach, process improvement methods),
- product safety and quality management (GHP, GMP, DDD),
- environmental management.

The theme of the year was improvement of non-conformity management processes.

Workshops on non-conformity management and tools for identification of non-conformity causes were held in all facilities of Atlantic Grupa.

HUMAN RESOURCES IN 2013

In 2013 we have continued all processes that were initiated and implemented in 2012. The job systematisation was supplemented with a new level within the family of jobs as well as with a new career direction. We have concluded the year 2013 with 4,228 employees in 11 markets.

In 2013 we successfully continued the project Corporate Culture at the Group's level. The programme "Value a Colleague" was started within this project, in which all employees may nominate a colleague and/or team for whom they think that he/she best represents the company's corporate values. The programme proved to be very successful and will continue to be implemented on an annual basis.

At the end of 2013 we also introduced another project "Naturally Caring" at the Group's level, whose aim was to raise awareness about the attachment that connects us with our work colleagues.

We have celebrated another Value Day when more than thousands of Atlantic's employees in Great Britain, Italy, Germany, Spain, Russia, Slovenia, Croatia, Bosnia & Herzegovina, Serbia and Macedonia participated in socially beneficial activities: cleaning of public areas (parks, forests, green areas around the company site), visiting children with special social needs and helping animal shelter associations. This in the best possible way demonstrated our values – sun, mountain and wave - symbols of passion, responsibility and creativity, and reminded each other that our job is more than just a job – it is also a way to act in the community.

Passion (Sun symbol)

At the time of economic crisis when best companies are recognised by their ability to find new approaches to production, distribution and end consumers, Atlantic Grupa has promoted the programme aimed at promoting the idea that each individual employed in our company can with his/her unique insight contribute to the growth and development of the company. The programme INNOWAVE, merging the words "innovation" and "wave" in its title, symbolises one of our core corporate values – creativity. The large letter A symbolises Atlantic, something that holds us all together.

Responsibility (Mountain symbol)

Creativity (Wave symbol).

Near the end of 2013 we started the recertification process and believe that we will retain our high standard and confirm the status of Employer Partner obtained in previous years.

The performance management process (U3) continues for a third consecutive year and in 2013 the implementation of HRnet performance management module was completed, thus making the whole process of annual evaluations and bonus payments available in a single application.

In the field of headcount planning and employee costs great steps forward were made in defining processes, regulating the data collection system, communicating with other departments involved in the process and in costs monitoring and reporting. A system of monthly reporting was introduced as well as the improved possibility of using career history for planning purposes. Plans for the next period include even stronger integration i.e. interconnection with other processes through HRnet like employment, career development and management.

HRIS - HRnet

The beginning of 2013 saw the implementation of HRnet, an information system under the competence of the Human Resources Department that integrates all information on Atlantic Grupa's employees. Between the many benefits included in this new HRnet system are reduced administration and increased engagement of employees in key HRM processes.

The HRnet system essentially includes all personnel administration, annual leave and business travel management as well as all advanced processes like performance management, employee development management, recruitment and selection management, talent and career management, etc. The launching of this software solution integrated in one place all important HR processes available through a simple application to more than 4,200 employees of Atlantic Grupa.

LEARN DEVELOPMENT@AG

Management skills - leadership competencies "L E A R N" represent the basis for all education / development programmes created for specific groups and/or specific learning needs.

The AG's leadership competencies are those competencies that are assessed as central, essential for the Company's success and as such apply to all employees. In their description they contain the defined expected behaviours for different management levels: personal management, management of others and team management.

The L E A R N development@AG Academy has been operating since October 2012 as a result of cooperation between the Group's human resources and the best local and regional education providers. An innovative approach to development, learning based on artistic, sports and scientific metaphors, and a personalized approach to students are just some of the characteristics of this programme.

Considering the different programme user groups and their development needs, certain programmes are defined and executed at the group level, while others are defined at the group level, but executed at the local level or both defined and executed at the local level.

CUTTING EDGE is a programme designed to stimulate passion, vision and inspiration of the Atlantic leadership to render them even more prepared to face changes coming with contemporary business practice, transforming them into Atlantic's strategic advantages. The programme includes both creative content and stimulating learning methodology. Through a series of interactive action-based workshops, visits to other companies and lectures by known business experts, participants develop a more expanded awareness on business itself, Atlantic Grupa's priorities and its strategic positioning and gain insight in the essence of strategic challenges which multinational companies are or will be facing in the 21st century.

The programme is intended for the members of the Strategic Management Council and until now has been implemented in cooperation with IEDC Business School, Bled, Slovenia (www.iedc.si) and Centre for Creative Leadership (www.ccl.org), one of the best ranked global education providers for top management.

INSPIRE is a programme intended for senior management and its goal is to define a joint approach to managing existing resources and team abilities in an international environment where Atlantic Grupa is doing business. The programme is structured in a series of modules performed in cooperation with known business schools Program (IEDC, Bled, Slovenia), and also includes work on strategically important projects for Atlantic Grupa.

LEAD and MANAGE are comprehensive programmes meant for middle and lower management. They are conceptualized as a launch program based on the defined LEARN competencies and realised in cooperation with external associates according to a harmonized curriculum in all markets of Atlantic Grupa. The "Business Foundation" part of the LEAD programme was created as a mini MBA and held in cooperation with the Cotrugli Business School (www.cotrugli.eu). In 2012 and 2013 the LEARN Academy trained approximately 450 managers, while overall participant satisfaction was evaluated as 4.4 out of 5.

In 2013 the first cycle of the ADVENTURE programme was realised. The programme is meant for young professionals and managers with 2-5 years of experience whereby at least 1 year is with Atlantic Grupa. After the application process and great interest of employees, 20 participants were selected who in 4-member teams worked on project proposals – topics relevant for Atlantic Grupa. The backbone of the program was their personal development. Emphasis was on learning how to work in international teams, building a network of contacts with senior management, top experts and colleagues from the whole Atlantic Grupa, gaining insight into business in general as well as specifities of Atlantic Grupa's operations. They were also provided support in cooperation with the Cotrugli Business School in the form of theoretic knowledge for realising project proposals. The final part of the programme was related to presenting the project proposals to the members of the Strategic Management Council. After the presentations it was decided to initiate two of the five proposed projects and to further develop one of the project proposals with great potential. All programme participants, regardless of whether they are engaged in the implementation of their projects, are provided with a defined detailed career/individual development plan to be monitored in regular time intervals.

As a part of the new HRIS system HRnet, the module My Development was also implemented in 2013; it supports the development concept of Atlantic Grupa according to the model 70-20-10 (70% On-the-job, 20% Coaching and Mentorship, 10% Training). All development activities at the level of the entire Atlantic Grupa are managed through modules.

In addition to leadership competencies in Atlantic Grupa, we also defined functional competencies assessed as critical for the success of particular functional areas grouped according to the job systematization i.e. job family. The development of functional competencies will be supported by the Functional Academy planned to start in April 2014.

TALENT MANAGEMENT

Talent management in Atlantic Grupa represents a form of human capital management – a long-term, comprehensive and integrated approach for support and strengthening of the company's core competencies. The general aim of this project is to introduce a structured process of identification, selection, development and retention of talents/successors for present and future needs of Atlantic Grupa. After the model is established at the level of the entire employee population, we expect that it will ensure a highly flexible and agile organisation through the creation of a sustainable succession of management personnel at all levels.

Key benefits:

- ensuring business continuity through succession management,
- recognition, motivation and retention of the best people,
- platform for strategic decision-making in human resource management.

In this process each participant (sponsor, supervising manager, employee and HRM) has its role and responsibility and active engagement is expected from all participants in order to ensure successful implementation.

The central event of the project "Organisation & People" is a panel designed to assess employees in view of the quality of performance and the level of potential for assuming positions with more complex responsibilities.

Based on the received results and the quality of pilot project implementation, the process was evaluated as a highly useful tool for human resource management and the process was implemented on a wider corporate level in the second quarter of 2013.

EMPLOYEE ENGAGEMENT

As in the previous year, the employee engagement survey was carried out in 2013. It included all employees of Atlantic Grupa in all markets, while the analysis of results and reports were prepared by an external consulting firm. The implemented actions plans based on the 2012 results were efficiently accepted among employees and according to the 2013 survey results a positive change took place. The Engagement Index serves as an integral part of the annual performance evaluation for managers and as such serve as indicators of successful people management. We plan to carry out such research once a year in order to be able to monitor the results of our targeted actions and to ensure that all employees give their opinion about working in the company.

PASSION

expressed through our relationship toward our brands, colleagues and clients

BUSINESS OPERATIONS OF ATLANTIC GRUPA

STATEMENT OF THE SENIOR GROUP VICE PRESIDENT FOR BUSINESS OPERATIONS

Atlantic Grupa operates today as a vertically integrated multinational company whose business operations include the production, development, distribution and sales of consumer goods. With continuous investments in production facilities, developments of new processes, following the latest technologies and educating production and sales personnel, Atlantic Grupa became one of the most dynamic business systems in the region and even wider with the internationalisation of operations as our main strategic focus of development.

Our presence in a number of European markets, particularly in respect to the allocation of production capacities, enables relatively simple servicing of each individual market. Our plants are located in Germany, Slovenia, Croatia, Serbia, Bosnia & Herzegovina and Macedonia, while our product range is strongly supported in the region by our own distribution capacities and in other markets by cooperation with expert distributors who share our dedication and values. All of this allowed for ambitious development plans, especially in the West and East Europe and the CIS countries.

The main levers of this strategic internationalisation process are our brands with the highest international potential – Argeta, Donat Mg, Multipower, Cedevita GO! and Bebi. In the last year Argeta confirmed its status as the flagship of our product assortment by entering Spain, achieving excellent sales results in Austria and significant growth in Russia. With the new design Donat Mg additionally improved its prerequisites for growth, while Multipower extended its product range in the markets of Germany and Austria, and increased its presence in distribution channels in the market of Spain. With increased focus on sports, recreation and healthy nutrition, Multipower has made steps forward in view of its organisation, operations and communication that represent a stable foundation for long-term growth and stronger market positions of the sports and functional food segment.

At the end of September 2013, Atlantic Grupa started the investment in a new factory for the production of energy bars from the sports and functional food product range located in Nova Gradiška. This is a project with the total value of HRK 120 million, which will create 50 new jobs in the first year of production and, with the planned business growth, ultimately 160 new jobs. After the required preparations, the beginning of the factory construction is planned for April 2014, and first products from the new lines are expected on the market in the first quarter of 2015. This project continues the company strategy of transferring a part of the core assortment production from contractual producers to own plants, under which in previous years the bottling of Multipower beverages was transferred from the contractor to own production plant in Rogaška, and of Cockta in Croatia to own production plant in Apatovec.

During the year we have launched new products in all Business Units, while the expansion and strengthening of distribution operations as one of the strategic goals was crowned by the agreement on the distribution of Unilever, one of the leading global producers of consumer goods, in the markets of Croatia and Slovenia. The agreement, considering the annual value of portfolio sales in those markets, has the total value of EUR 32 million. By taking over the Unilever's distribution portfolio in Croatia and Slovenia, Atlantic Grupa confirmed its status of the leading distributor in the region, offering the highest level of distribution service together with the high realisation of distribution parameters.

The quality of our products is further confirmed by the research of the Valicon agency, according to which brands Argeta, Cedevita, Cockta and Smoki are among the top 10 brands in the region on the basis of their recognisability, experience and use. While such acknowledgements are appreciated, they also strengthen our commitment to constant efforts in improving quality in order to continue earning the trust of our consumers.

Mladen Veber,
Senior Group Vice President for Business Operations

STRATEGIC BUSINESS UNITS

The Strategic Business Units produce and develop brands which have through continuous development of new and innovation of existing products secured leading market positions not only in Croatia and the region, but also in EU and Russian markets. The Strategic Business Units are divided into six categories: Beverages, Coffee, Snacks, Savoury Spreads, Pharma and Personal Care, and Sports and Functional Food.

STRATEGIC BUSINESS UNIT BEVERAGES

Through the activities of the Strategic Business Unit Beverages (SBU Beverages), Atlantic Grupa is a prominent regional producer of instant vitamin drinks, soft drinks, food supplements, teas, sparkling and natural (spring) water and multivitamin candies. A large number of Atlantic's brands are market leaders in the Croatian as well as in the South-East European market. The SBU Beverages' products are known on the market under the following brands; instant vitamin drinks Cedevita and Multivita, effervescent tablets Multivita, refreshing soft drinks Cockta and Jupi, consumer Cedevita teas, Naturavita medicinal teas, natural mineral water rich in magnesium Donat Mg and, in the segment of natural and sparkling mineral water, brands Kala, Kalnička, Tempel, Tiha and Karađorđe. Furthermore, the SBU Beverages is also manufacturing a part of the assortment of the Strategic Business Unit Sports and Functional Food (liquid forms of Multipower products). In 2013 the SBU Beverages generated sales revenues in the amount of HRK 652 million.

CEDEVITA

Cedevita is an established Croatian brand best known for its instant vitamin drink containing 9 essential vitamins, where granules are mixed with water to get a refreshing and healthy drink. Cedevita instant vitamin drink is the market leader in its category in all regional markets. The brand Cedevita also includes: (i) Cedevita GO! intended for those who live on-the-go, consisting of a bottle of spring water and a cap that contains Cedevita granules, (ii) Cedevita multivitamin candies with a long tradition in the market of Croatia, and (iii) Cedevita teas. Cedevita GO! is the product in which Atlantic Grupa sees international potential and as such is distributed in a number of European and other markets.

MULTIVITA

Products under the brand Multivita include vitamin products in the form of instant vitamin drink and effervescent tablets. Multivita products under the SBU Beverages are present in Serbia, BiH, Croatia and Montenegro. Multivita instant vitamin drink is particularly strong in the Serbian market where it holds the second position in its category, right after Cedevita.

COCKTA

The most significant Atlantic Grupa’s brand in the category of soft soda drinks, Cockta, is the most popular non-alcoholic soda drink of former Yugoslavia, which many generations of youth grew up with. Cockta is the regional version of Coca-Cola, but unlike the latter, it does not contain caffeine nor orthophosphoric acid. The secret of Cockta’s special flavour lies in the unique mixture of eleven herbs, with pomegranate giving it special aroma, while its overwhelming freshness comes from lemon and orange flavours. The Cockta’s brand portfolio consists of: Cockta Original, Cockta Easy, Cockta Rossa, Cockta Lime, and Cockta Chinotto. Cockta Original holds the second market position in Slovenia, right after the global leader, while in most of the other regional markets it is among the first three brands in its category.

DONAT MG

Donat Mg is a natural mineral water with high content of magnesium. Magnesium is soluble in Donat Mg mineral water so that the metabolism need not overexert itself dissolving it and transferring it to cells that need it. Due to its chemical composition, physical properties, and medical discoveries, this water is used both therapeutically and preventively. It is an excellent laxative and natural agent recommended for heartburn, improves the metabolism and digestion, compensates for the lack of magnesium and minerals, regulates the acidity balance of the body and also has other medicinal purposes. In addition to being the market leader in regional markets in the category of functional mineral waters, Donat Mg has a strong presence in Russia where it represents 7% of all imported waters.

WATERS

Atlantic Grupa is a regional player in the water market whose product range includes the following brands: (i) Kala (natural spring water) and Kalnička (sparkling spring water), both being the strongest brands in the water category, (ii) natural and sparkling spring water Karađorđe present in the market of Serbia, (iii) sparkling spring water Tempel present in the market of Slovenia, and (iv) natural spring water Tiha present in the market of Slovenia.

NATURAVITA

Atlantic Grupa produces a range of functional teas for taking care of health and quality of life under the brand Naturavita. The well- known Uvin H tea is the flagship Naturavita tea that has been the most famous and best-selling urological tea on the market, whose tradition dates back to 1977. Apart from the urological ones, other functional teas in the Naturavita assortment are: Marshmallow, Marshmallow Root, Chamomile and Sage. Naturavita is the market leader in the category of functional teas in Croatia.

SBU BEVERAGES IN 2013

In 2013, the research of the agency Valicon measured the strength of brands in the whole region. The strength of brands was calculated on the basis of their recognisability, experience and use. According to this research, Cedevita ranked in the fifth place, thus improving by three places compared to the previous year's research. In the category of in-home consumption Cedevita again in 2013 confirmed its status of the number one brand in Croatia and Slovenia. Additionally, according to the Valicon's consumer research, Cedevita is for a second year in a row the brand with the highest rise in popularity in the HoReCa channel. In its home HoReCa market of Croatia, Cedevita is by its strength and image the second strongest brand, right after the global leader. In 2013 Cedevita launched a new flavour in the HoReCa channel, elderberry-lemon, which achieved great market success in Croatia and Slovenia where during the summer season it sold even better than Cedevita's highest selling flavours, orange and lemon. In April 2013 we launched a new flavour of Cedevita GO!, Cedevita Kids Orange + Calcium. Moreover, quantities exported to Australia also increased and the market of Russia was opened. In the category of small candies, according to the Nielsen Retail Panel, Cedevita candies are ranked third, while the highest selling candy in 2013 was our Rondo C Classic (28g). We have also expanded our product range with a new product for children – Cedevita Kids strawberry-flavoured candies. Cedevita teas are still in the strong second place in the category of consumer teas, and in 2013 we launched two new products: Cedevita Kids Strawberry and Vanilla (fruit tea for kids) and Cedevita tea Chamomile and Honey.

The product range of Kalnik Springs (brands Kala and Kalnička) was in 2013 expanded with a new packaging – spring water Kala 7 litres, of which 2 are free for the consumer. Additionally, Kala PET packaging of 5L and 7L was redesigned.

In 2013, Multivita instant vitamin drink continued with appropriate strong marketing activities that resulted in higher brand recognisability and strength which, according to the Valicon's research in Serbia, has for the first time entered the top 16 in-home brands of soft drinks, holding the 13th place. According to the Nielsen Retail Panel, Multivita held its second market position in Serbia, with the highest growth recorded in the market of Bosnia & Herzegovina. Multivita's effervescent product portfolio kept its leading market positions in Serbia and BiH.

In 2013 Cockta celebrated its 60th birthday. The celebration was held at the Ski Jumping World Cup on Planica, where Cockta was first introduced to consumers in 1953. Like 60 years ago, Cockta's birthday in Planica was also used to launch a new product Cockta Chinotto, a sparkling soft drink based on the Mediterranean orange which with its mildly bitter flavour and fruit content of chinotto orange conjures up the summer. Cockta Chinotto became a real summer hit, surpassing all sales goals and accepted by consumers in all markets. The activities related to the anniversary continued during the whole 2013 in retail points of sale, HoReCa channel and advertising. This occasion was also used to launch a retro bottle of Cockta, reminding of the first bottle, in selected locations in the region. The year 2013 was extremely important and demanding due to more challenging market conditions in both retail and HoReCa sales, as well as due to changed consumer

habits. Despite all of the above, Cockta managed to retain or increase its market shares in most of the markets. In Valicon's survey on the regional strength of brands, Cockta was ranked sixth in the entire region.

In 2013 a new strategy was adopted concerning the medicalisation, globalisation and general design renewal of Donat Mg. After 12 years the brand experienced substantial change of PET packaging and accordingly a whole new look and manner of presentation in all advertising activities. In all regional countries Donat Mg's strength and reputation index in the category of functional products increased. In Slovenia it is still the leading brand in the segment despite great pressure from the OTC product group. In Croatia, where competition is growing, Donat Mg is at the level of primary use acquired and retained the second market position. In Bosnia and Herzegovina Donat Mg improved its recognisability and experience which is especially seen in the growth of reputation elements that form the basis of the brand. Donat Mg in Serbia is now increasingly perceived as unique and functional water. In 2013 we increased medical marketing in the region by 300 visits to medical staff a month. Additionally, Donat Mg participates in the most important medical congresses in the fields of gastroenterology, gynaecology and diabetes, while it also formed one of the largest communities of pregnant women in the world within the Facebook community of more than 300,000 pregnant women. In 2013, Donat Mg also achieved significant sales growth in the market of Russia while at the same time being successfully launched on the markets of Sweden and China, thus making it available on 28 markets worldwide.

STRATEGIC BUSINESS UNIT COFFEE

Atlantic Grupa, with its Strategic Business Unit Coffee (SBU Coffee), is the leading coffee producer in the region known for consumption of Turkish coffee. The foundations for the leading position are strong and include a quality product portfolio, regional “know-how” and flexible organisation. The product categories of the SBU Coffee are Turkish coffee, instant and espresso. Atlantic’s brands are market leaders in the category of Turkish coffee in Serbia, Slovenia, Bosnia & Herzegovina and Macedonia with strong presence on other markets in the region. The most important brands are Barcaffe, Grand kafa and Bonito. The Strategic Business Unit Coffee has in 2013 generated HRK 1,087 million of sales revenues.

BARCAFFE

Barcaffe is dominating the market of Slovenia as one of the strongest FMGC brands as well as the most trusted brand among coffee consumers. Over 40 years of tradition and quality, recognisable taste and aroma are the main characteristics of Barcaffe. Positive brand image in on-the-go segment in Slovenia resulted in a significant market share in that segment. At the same time, Barcaffe is aggressively taking over a larger market share in Croatia. Atlantic Grupa’s strategy is to position the brand Barcaffe as the regional brand for espresso category. Barcaffe is the winner of many awards and prizes for its quality, among which we can point out a special award in 2011 for winning the “Trusted Brand” award for five years in a row.

The brand portfolio of Barcaffe includes: Barcaffe Classic, Barcaffe Espresso, Barcaffe Dekofe, Barcaffe Filter, Barcaffe Cappuccino, Barcaffe Slim & Fit, Barcaffe Frezze, Barcaffe Bio and Barcaffe Selection.

GRAND KAFA

Grand Kafa is a young brand established in 1997. From a small family business, by steady efforts towards the top and constant quality and originality, in only a few years it developed an image of a quality product and achieved the leading market position in the category of Turkish coffee in the markets of Serbia, Bosnia & Herzegovina and Macedonia. In addition to its production facility in Serbia, regional ambitions were shown by opening two more production facilities (one in BiH and other in Macedonia) in order to meet the market needs.

Brand portfolio of Grand kafa includes: Grand Kafa Gold, Grand Aroma, Grand Aroma Balans, Grand Aroma Dekofe, Grand De Luxe, Grand kafa instant.

BONITO

Bonito is the youngest brand in the category of Turkish coffee in the portfolio of the SBU Coffee. Bonito Turkish coffee appeared in the Serbian market at the beginning of the 21st century and was acquired in 2005 in order to extend the portfolio in the “smart buy” product segment.

The production portfolio of the brand Bonito consists of: Bonito standard fried coffee and Bonito dark fried coffee.

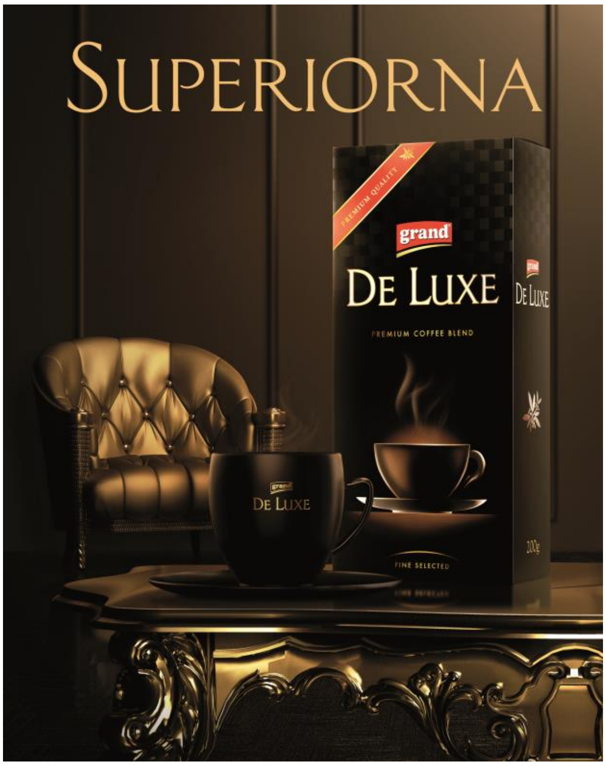
SBU COFFEE IN 2013

The regional markets in 2013 recorded negative trends in the segment of traditional coffee within which the SBU Coffee’s largest market – Serbia posted a 5.5% decline in consumption of products from that category, which in volume represents 1,400 tonnes of finished products. Decline was also present in the markets of Slovenia and BiH, while the Croatian market remained stable.

Despite the complex market situation, the leading market shares in all regional markets apart from Croatia were successfully maintained, while the market share in Bosnia & Herzegovina was increased. Additionally, record coffee sales volumes were recorded in BiH and Macedonia, while instant drinks posted growth in Serbia.

It should be pointed out that the market of raw coffee was very dynamic since particular types of raw coffee (Minas) achieved record low prices in the last eight years, which on one hand generated a positive effect on the profitability of operations and, on the other, enabled strong growth of competition.

In the area of product development, three new flavours of instant drinks were launched – one in the "freeze" segment and two in the 3in1 segment. Furthermore, the three existing flavours in the instant category were launched in the markets of Bosnia & Herzegovina and Macedonia. Under the espresso coffee category, a new product was launched – Porto Caffe – for the markets of Bosnia & Herzegovina and Montenegro. By its formulation the blend belongs to the economy segment and is intended for customers who do not require investments in HoReCa equipment.



In order to build strength and image of our brands we have established a new communication platform under the slogan "For a Better Day" with strong marketing activities in the primary market of Slovenia. The same was after many years also implemented in Croatia and for the first time in Bosnia & Herzegovina, where in the last quarter of 2013 three different size packaging were introduced. Products Barcaffe Selection and BIO, introduced last year, found their position with more demanding consumers and like "niche" products achieve good results.

It is also required to mention the finalisation of the redesign of the Grand portfolio Gold, Aroma and Delux, as well as a new campaign for Grand Aroma which is soon going to be implemented.

STRATEGIC BUSINESS UNIT SNACKS

With its Strategic Business Unit Snacks (SBU Snacks), Atlantic Grupa produces a wide range of sweet and salty snacks in the category of chocolate products, tea biscuits, wafers, flips, and sticks. The listed business unit consists of one of the oldest leading companies in the area of candy products and salty snacks in the region, Soko Štark, which started operations back in 1922. With its product range of the SBU Snacks, Atlantic Grupa is present in Serbia, Slovenia, Bosnia & Herzegovina, Croatia, Macedonia and Montenegro. The most prominent brands in this business unit are Najlepše želje, Bananica, Sweet, Smoki and Prima. Two production facilities are located in Serbia (Belgrade and Ljubovija). In 2013 the Strategic Business Unit Snacks generated sales revenues in the amount of HRK 617 million.

NAJLEPŠE ŽELJE

The brand Najlepše želje entered the homes of consumers at the same time as television and, owing to a special flavour that hasn't changed for 50 years, marked the childhood of many generations. Najlepše želje is

the brand with the longest tradition in Serbia with a wide product portfolio of 11 flavours and several subsegments. The brand is a winner of numerous prizes and awards for its quality and in Serbia it holds the second market position in the category of chocolate bars after the regional leader and has a significant market share in Bosnia & Herzegovina and Macedonia.

The brand portfolio of Najlepše želje includes: chocolate bars Najlepše želje, Najlepše želje mini, chocolate mini bars Najlepše želje, Najlepše želje Cherry and Najlepše željice.

BANANICA

Bananica is a soft creamy dessert dressed in chocolate. The product is 75 years old and as such highly recognisable. Bananica has been awarded many times for its quality and it is the market leader in its category in Serbia.

SWEET

The brand Sweet has been present on the market since 1996 and it is one of the most popular products in the chocolate portfolio of Soko Štark. In addition to the caramel and peanuts bar, there is also a milky bar and hazelnut-cream bar.

SMOKI

Smoki is the first flips produced in South-Eastern Europe. It was created in 1972, and for many snack lovers it was the first and remains the number one flavour of flips. Since its very beginnings Smoki has enjoyed an incredible popularity, and its dominant *peanuty* taste along with its crunchiness made it the food of choice for all generations at all times. In addition to the classic Smoki, there is also Smoki Smokić for the youngest and Čoko Smoki for the devotees who cannot imagine even a dessert without their favourite snack. Smoki is the leading brand in its category in all regional markets with strong market presence in Slovenia, B&H and Serbia.

The brand portfolio of Smoki includes: Smoki Classic, Čoko Smoki, Smoki Smokić and Smoki King Size.

PRIMA

Atlantic Grupa produces salty sticks under the brand Prima that holds the second position in the market of Serbia and significant presence in Bosnia & Herzegovina.

The product range of the brand Prima includes: Prima salty sticks, Prima peanut sticks, Prima integral sticks and Prima sticks with tomato, olive and oregano flavours.

SBU SNACKS IN 2013

The year 2013 was marked by novelties in the production programme. 16 new products were launched, of which 9 completely new recipes while the brand Smoki was expanded with a new sub-brand Flipster in the category of pellet products.

The strategically most important brand in the SBU Snacks, Smoki, posted both sales and market share growth in the entire region, thus retaining the leading positions in Serbia, Bosnia & Herzegovina, Montenegro, Slovenia and, recently, Croatia, primarily due to good distribution coverage, product quality and marketing investments. According to Valicon's research of the strength of brands in the region, in comparison to last year Smoki climbed eight places and now holds the ninth position.

The strategic brand building approach has been recognised as a quality and praised by awards, both by consumers and expert public. In 2013 Smoki received the following awards:

- for the fourth time in a row Smoki was proclaimed the snack of the year by consumers in Serbia, PR campaign "Bananica may change its design, but never its flavour" won the first prize of the PR association of Serbia,

- in one of the most important advertising festivals in Europe, the Golden Drum Festival, Bananica won the silver medal in the category of radio commercials for the campaign "Happiness is found in small things",
- Grand Prix for the best packaging design in the category Best Supermarket Pack for 2012/13 was won by Integrino. The award was given during the traditional manifestation Pactivity by an international jury.
- 2013 saw the launching of Flipster, a new sub-brand under the brand Smoki. The product belongs to the category of pellet products which is by consumers perceived as the combination of two largest snacks categories – flips and chips. Three flavours were launched: Beef Ham, Pizza and Hot, with planned extension of the assortment.

STRATEGIC BUSINESS UNIT SAVOURY SPREADS

The Strategic Business Unit Savoury Spreads (SBU Savoury Spreads) consists of Atlantic Grupa's production segment related to high-quality food product range under the brands Argeta and Montana, present not only in Serbia, Slovenia, BiH, Croatia, Macedonia, Montenegro, but also in Western Europe. Argeta's success story started in 2001 when its rise of recognisability began, while significant brand growth and strengthening started in 2007 when Argeta became one of the strategic programmes of Droga Kolinska. In the summer of 2012 the Strategic Business Unit Savoury Spreads was joined by the brand Montana. The production facilities of the SBU Savoury Spreads are located in Slovenia (Izola), Bosnia & Herzegovina (Hadžići) and Croatia (Zagreb). In 2013 the SBU Savoury Spreads generated sales revenues in the amount of HRK 459 million.

ARGETA

Argeta is a particularly successful brand with international potential and good position in many markets. The most significant competitive advantage of Argeta is its high quality, resulting from the use of quality ingredients. This product is the source of high-quality proteins and minerals often missing in everyday diet. Argeta is the market leader in Slovenia, Macedonia and BiH, while in the markets of Serbia, Austria and Switzerland it holds one of the three top positions. Argeta is also a proud holder of the Halal certificate.

The Argeta brand includes the following sub-brands: Argeta Junior, Argeta Exclusive, Argeta Delight and Argeta Snack.

MONTANA

Montana was established in 1998 in Croatia as the first brand of sandwiches of prolonged freshness on that market, and until today grew into a regionally recognised brand providing for nourishment of the people on the move. Today Montana occupies the leading position in the category of packaged sandwiches in its home market Croatia. The market entry of Montana was also a success in Slovenia, where in the segment of triangle sandwiches it became the bestselling brand on the market. Montana is also present in the market of Serbia.

The product assortment of the brand Montana consists of triangle sandwiches, classic bread roll sandwiches and chocolate and apple cakes.

SBU SAVOURY SPREADS IN 2013

According to Valicon's survey on the brand strength in the entire region, in 2013 Argeta was in an impressive fourth place. Along with strong presence in regional markets, European markets (Austria, Germany, Switzerland, Italy, Sweden, UK, Ireland) and other export markets (Russia, Kosovo, Bulgaria, Albania, Canada, Australia, USA) are becoming more important for Argeta, since their share in the total sales is 40%.

The internationalisation of Argeta in 2013 was marked by successfully entering the market of Spain, where it was introduced to consumers at the beginning of the year. Argeta was included in the sales offer of supermarkets owned by the Spanish retail chain Masymas.

The year 2013 was also marked by the campaign "Approved by Moms" by which the distinctiveness, specialty and quality of Argeta was brought closer to consumers in a special way. For the purpose of carefully inspecting the factories, production and ingredient selection processes, we have invited the harshest judges of

quality when it comes to family food – moms. Within the whole region 1,413 moms applied and their applications were collected on a dedicated website adjusted for each country. We selected 18 moms, 3 for each market, and the finalists went through a detailed inspection of Argeta's factories and they unanimously approved Argeta's quality. After their inspections Argeta's products were labelled with a stamp "Approved by Moms". The project included all media with focus on television and internet. The campaign was a great success and played a positive role in achieving:

- market share growth - after the campaign Argeta's market shares in all the countries have increased in comparison to before the campaign,
- building brand strength - BSI- Brand Strength Index in most of the countries increased in comparison to the 2012 index,
- improved brand image – all the elements of the Argeta brand image have improved in comparison to 2012.

A special edition of pâtés was launched at the end of the year under the name Argeta Exclusive a la Dvorac Zemono in the markets of Slovenia, Croatia, Serbia, Macedonia and Bosnia & Herzegovina. This new savoury spread was prepared in cooperation with the kitchen chef and owner of the restaurant Dvorac Zemono, Tomaž Kavčič, thus continuing Argeta's cooperation with renowned restaurants in the region.

In 2013 Montana posted a significant sales growth in Slovenia where the market of packaged sandwiches in characterised by the highest level of development and competition. Additionally, Montana in 2013 surprised its consumers, especially vegetarian ones, with a new triangle "3 cheese" sandwich, which already in the first several months exceeded the expected sales. After such success in Croatia, near the end of 2013 the same product was launched in Slovenia. This was only one of the products with which Montana last year expanded its offer in Slovenia: in addition to the "3 cheese" sandwich, Slovenian consumers were offered flavours veggie and ham, thus raising to 8 the total number of Montana's sandwich flavours. In addition to the above, distribution expansion and marketing support have largely contributed to Montana's success in Slovenia in its only second year of market presence.

STRATEGIC BUSINESS UNIT PHARMA AND PERSONAL CARE

The Strategic Business Unit Pharma and Personal Care (SBU Pharma and Personal Care) includes: (i) production of cosmetics and personal care products, (ii) production of dietary supplements, over-the-counter (OTC) and prescription medicines, (iii) production of vitamin C and other mineral-vitamin products in effervescent form for the market of Russia, and (iv) operation of pharmacies and specialised stores for medicinal products joined in the chain Farmacia. The SBU Pharma and Personal Care also includes wholesale pharmacy operations organised under Atlantic Pharmacentar. A large number of Atlantic's brands in the segments of cosmetics, personal care products and dietary supplements are among the market leaders not only in Croatia but also in regional markets. Moreover, by acquiring and opening numerous pharmacies and specialised shops united under the name Farmacia, Atlantic Grupa entered and took over the leading position in the segment of pharmacy business in Croatia. The SBU Pharma and Personal Care in 2013 generated sales revenues in the amount of HRK 506 million.

COSMETICS AND PERSONAL CARE

The operations of cosmetics and personal care are managed through the company Neva d.o.o. established in 1926. The range of personal care products includes oral hygiene, lip care, universal skin and lips protection, body care and other products. The most prominent brands in the segment of cosmetics and personal care are: (i) Plidenta toothpaste, as the market leader in Croatia, (ii) Rosal Lip Balm, which holds the second position in the market of Croatia, and (iii) Melem universal protective cream, with a significant market share in the body and lip care in Croatia.

DIETARY SUPPLEMENTS, OTCs AND PRESCRIPTION MEDICINES

Fidifarm d.o.o. is for years established as the dominant producer of dietary supplements in the market of Croatia. Fidifarm manufactures vitamin and mineral preparations, herbal dietary supplements, over-the-counter and prescription medicines. The main brand is Dietpharm with 95 products in 2013, of which 10 are market leaders in their category. With its Dietpharm brand, Fidifarm is active in the markets of Bosnia & Herzegovina, Serbia, Montenegro, Macedonia, Slovenia, Hungary, Kosovo, Slovakia, Russia and Azerbaijan.

The rich product range of Dietpharm includes: Magnezij 300/375, Makulin/Makulin plus, Centravit, Ginko Omega, Hemero Protect.

MULTIVITA

The SBU Pharma and Personal Care includes the marketing of effervescent tablets under the brand Multivita in the market of Russia, especially of vitamin C. Multivita's product offer in Russia consists of multivitamin effervescent tablets with vitamin C, magnesium, calcium, iron, zinc, etc. Vitamin C1000 has the highest market share in the vitamin C market of Russia and is sold in more than 70% of pharmacies.

PHARMACY BUSINESS

The pharmacy chain Farmacia at the end of 2013 has the total of 67 locations, of which 19 specialised shops and 48 pharmacy units. The new locations in shopping centres have considerably strengthened the position of the leading pharmacy chain in over-the-counter sales and one of the leading pharmacy chains by the number of locations in Zagreb and the region of Dalmatia.

WHOLESALE PHARMACY BUSINESS

The wholesale pharmacy Atlantic Pharmacentar is a reliable and quality distributor of top domestic and international brands intended for pharmacy chains and specialised shops. In addition to the brand Dietpharm, and a part of the distribution mix of Atlantic Trade (Wrigley, Johnson & Johnson, Durex, Scholl, Vivera, Cedevita, Neva products), Atlantic Pharmacentar also distributes the OTC product portfolio of Arenda as well as the brands of other prominent external partners, including:

- Vichy,
- La Roche Posay,
- Uriage,
- Mustela,
- Phyto,

  etc.

SBU PHARMA AND PERSONAL CARE IN 2013

The product range of Plidenta toothpastes is the strongest segment of Neva's assortment, which despite strong competition and increased prices in 2013 maintained its role of market leader in Croatia.

In 2013 the product Melem Men stopped being a seasonal product and, along with the new design, became a part of the regular assortment. Melem also started its development as the brand in the pharmacy channel. With cooperation of masters of pharmacy from Farmacia, the brand Melem Pharma was launched, and the result of cooperation is the first product of the assortment: Melem Pharma Akut – emulsion for relieving discomforts of extremely irritated skin. This establishes a good basis for developing the brand Melem Pharma.

ROSAL Lip Balm in 2013 launched two revolutionary products in its category from the line ROSAL Lip Balm (INK)REDIBLE COLORS, which in addition to principal care and protection also have a long-term and stable colour, like a real lipstick. This represents a significant turn in the lip balm category which has until now been based only on principal care products. A great step forward was taken by re-launching the brand in Serbia which was confirmed by successful sales.

In the market of Bosnia & Herzegovina as the largest export market, Dietpharm in 2013 posted growth compared to the previous year, with leading market positions in the categories of magnesium, eye vitamins and multivitamins. The future growth and development of Fidifarm is expected to be achieved by increasing sales shares in export markets and by expanding to new export markets like Russia, Azerbaijan and Slovakia with the brand Dietpharm. In 2013 Dietpharm's product range was extended by nine new products launched in the category of dietary supplements, while near the end of the year a new OTC medicine was launched Fidiprofen Flu. By the end of 2013 the prescription medicine Purisan granules was unlisted, while during the whole year intensive activities on the development of new prescription and OTC medicines. Marketing authorisation procedures are currently underway for Acekal C oral effervescent powder (OTC medicine), D-Vital ampoules 25,000 (prescription medicine) and D-Vital ampoules 100,000 (prescription medicine).

The loyalty programme that joins the most loyal consumers of the brand Dietpharm – Health Club – remained active throughout 2013 with 10,500 new members and now has a total of 57,000 members. In 2013 the Dietpharm Club concluded contracts with new Health Club partners – reputable polyclinics and health institutions in Croatia – and in that way expanded the membership benefits with new partner services. Additionally, a large project of the Health Club magnetic card was launched in 2013, with which members automatically collect points in pharmacies that are Health Club partners. We have concluded agreements with the following pharmacies – Health Club partners: pharmacies Farmacia, pharmacies Vaše zdravlje and pharmacy chain Primapharme.

At the beginning of 2013 Multivita changed its partner in Russian market and signed a new Distribution Agreement with the wholesale pharmacy Protek. Protek is one of the leading Russian national pharma distributors dealing exclusively in distribution and it has been a stable market operator for years. In addition to changing the distributor, in the second half of the year Multivita started to strengthen its own sales team with the goal of further development and sales growth in Russia.

Nine new locations were opened within the pharmacy business. Three pharmacies were opened under the Health Institution Farmacia and six new operating units within Farmacia specijalizirane prodavaonice d.o.o.

Moreover, in 2013 the cooperation based on strategic partnership with Dvoržak Pharmacies, Pavlić Pharmacies and Filipović Pharmacies was continued. The partnership is realised through the joint coordination and management of purchasing, marketing, education and other professional functions. Visual identity and recognisability of what is now already the brand Farmacia continued to be improved in 2013 by continuous action sales, activities, advertising methods and maintenance of already existing projects, of which we list the following: (i) project of Personal Pharmacist directed at minimising harmful and maximising positive effects of patient therapy, presented at this year's Forum of SEE Pharmacists, (ii) service of nutritional and phitoaromatherapy counselling centre, and (iii) project of a sports counselling centre that offers the entire line of Multipower sports foods, supported by individual counselling and creation of menus for professional and amateur athletes. Continued work, education, visual identity of our branches and a modern marketing concept were also recognised in the survey about the logo Farmacia's recognisability, according to which 57% of participants at the level of entire Croatia recognised the pharmacy chain Farmacia, while in Zagreb and its surroundings that number grows to the high 80%. Our masters of pharmacy and pharmacy technicians participated in education for health works within the project SUTRA (Self-healing during pregnancy and nursing), which is sponsored by Farmacia, and the project is implemented nationally under the Ministry of Health and the Croatian Pharmaceutical Society.

In 2013 the wholesale pharmacy's assortment was additionally expanded by contracting distribution for the market of Croatia for the brands of partners Formasana (12 cosmetics brands, of which most well-known are Uriage, Mustela, Phyto, Lierac), Mediacom with the product Slimmies, Terralab (Metasys), etc.

STRATEGIC BUSINESS UNIT SPORTS AND FUNCTIONAL FOOD

The Strategic Business Unit Sports and Functional Food (SBU Sports and Functional Food) specialises in the development, production and sales of sports food and weight-loss products. Thirty seven years of tradition and a leading position in the sports food segment have resulted in the leading brands Multipower, Champ i Multaben. The headquarters of the SBU Sports and Functional Food is in Hamburg and products under the core brand Multipower are present, on the sports food market in the entire Europe. The production plant for powder products and supplements is located in Bleckede (Germany), sports drinks facilities are in Slovenia, while the production of energy bars is currently performed by a contracted producer until 2015 when it will be transferred to own production plant in Croatia. The SBU Sports and Functional Food in 2013 generated sales revenues in the amount of HRK 781 million.

MULTIPOWER

Multipower is one of the leading European brands in the field of sports food whose products are based on the combination of high-value proteins, amino acids, vitamins, carbohydrates and other nutrients required for athletes and persons in training. Products can be found in conventional packaging, whether for direct consummation during the performance of activities or for consummation at home in practical packaging. Multipower products are divided into three production lines depending on consumer needs: (i) Multipower Sportsfood is a line for active athletes or regular fitness goers, (ii) Multipower Body is a line with reduced calorie products for consumer who want to lose or maintain muscle mass, and (iii) Multipower Professional is a line for consumers involved in body-building or martial arts who wish to significantly increase their body mass.

The product range of Multipower consists of protein bars, powder products, drinks, gels, ready (RTD) drinks and other supplements.

MULTABEN

Multaben is the brand behind which there is a group of functional food products for the purpose of supporting body-shaping, balance of the organism and personal well-being. According to its functional purpose, these products are divided into two lines – Vita and Figur. The line Vita includes food supplements during light activities and wellness that help the body and spirit to preserve balance and vitality by restoring balance of nutrients lost during mental and physical fitness. The line Figur includes a complete meal replacement in various forms such as drinks, soups and creams envisioned as a healthy diet with emphasis on the protein base of formulations including recommended doses of vitamins, minerals and fibres. According to the strict German legislation, these products fall under the category of dietary products.

CHAMP

Champ is a daily nutritional support system for younger persons who live and work intensely and whose free time and time spent at work is intertwined with physical and sports activities for which it is necessary to optimise metabolic functions of the organism. The product offer is conceptualized according to the functional segments depending on the intensity and the nature of activities which in the end result in a specific effect. We offer the following lines: Muscle, which satisfies the organism's needs for nutrients before and after engaging in activities, Body Shape, for athletes who wish to decrease the intake of calories and Energy, which supplies the organism with required energy for an active day or support of all physical activities in free time.

SBU SPORTS AND FUNCTIONAL FOOD IN 2013

The strategy of the SBU Sports and Functional Food is based on: (i) the idea of continuous development of new innovative sports and health food products in line with keeping up with the needs of the modern market and the needs of end consumers, (ii) growth of sales shares in key markets, as well as (iii) initiatives related to increasing the share of consumers-users of sports food, which is generally still low with only 3-5% of the total population. Due to the specific consumer group for which the SBU's products are intended, special distribution channels have been developed through fitness centres and sports shops, but more focus is also given to growth in the traditional retail sales channel as well as in the fast-growing online sales channel. During 2013

the SBU's main business focus was on further development of key markets as well as new markets like Spain, Turkey and Russia. In the product categories highest growth was achieved by the category of Endurance products, which the SBU identified as the key category. In the following period, efforts will focus on further growth of this category through the development of new products, increasing Multipower's share in this category in the key markets and entering new markets.

From the marketing aspect, as one of the leading sports food producers in Europe, the activities of the SBU Sports and Functional Food will continue to be directed at increasing the share of new users of sports foods among active and amateur athletes through developing practical packaging and new concepts of product use. In the segment of private labels, the SBU achieved excellent results related to the growth of existing clients and the development of a new assortment. In this segment special focus in the following period will be on developing the client base.

In 2013 Multipower became an exclusive partner to the famous bicycle race Giro d'Italia, thus expanding its portfolio of international cycling sponsorships. The race of strong competition and demanding roads, lasting more than 21 days, made this stage race a perfect platform to point out the advantages of Multipower as a sports nutrition solution for athletes' endurance. With its continued role as technical sponsor and official supplier of Cannondale Pro Cycling, Multipower in 2013 provided support to a cycling team, among which a double winner of Giro d'Italia Ivan Basso, with a line of products from its Sportsfood assortment.

STRATEGIC DISTRIBUTION UNITS

The Strategic Distribution Units have a highly developed know-how in the fields of key client management, product category management, supply chain management, trade marketing and sales improvement, which is continuously adapted to market trends. The primary activity of the Strategic Distribution Units is the distribution of the entire product range from Atlantic's own production and the assortment of external principals, divided into four units: Croatia, SSM (Slovenia, Serbia and Macedonia), International Markets and HoReCa Channel. Distribution in B&H and Montenegro is organised in cooperation with the partner company Ataco.

STRATEGIC DISTRIBUTION UNIT CROATIA

With its Strategic Distribution Unit Croatia (SDU Croatia), Atlantic Grupa is the leading distributor of some of the most well-known Croatian brands from its own assortment as well as a number of high-quality regional and global brands. The strong organisation that covers all segments within the business chain, including focused brand management, optimised logistics management and highly developed know-how in key and regional client management ensures an exceptional distribution quality of products from own production and the product range of external principals in the market of Croatia. In addition to a diverse distribution range of the company, at the end of 2013 the agreement on the distribution of Unilever products was signed, thus making our distribution assortment richer for a number of globally known brands in both food and non-food segments.

Along with the distribution of brands from own production programme, the SDU Croatia is an authorised distributor of renowned international brands, including:

- Wrigley,
- Ferrero,
- Johnson & Johnson,
- Unilever,
- Durex,
- Duracell,
- Schwartau,

- Emco,
- Qimiq,
- Sofidel (Regina),
- Vivera,
- Rauch,
- Orangina,

  etc.

Of the listed brands, altogether nine brands from Atlantic Grupa's distribution portfolio have the status of Superbrands, three of which are company's own brands (Cedevita, Plidenta, Melem), and six are principals' brands (Wrigley, Ferrero, Nutella, Kinder, Duracell, Durex).

The SDU Croatia's operations in 2013 were marked by implementing a new commercial policy, increasing and strengthening distribution by introducing a single electronic system TP 2.0, increasing the number of direct distribution delivery points, focused approach to the development of all distribution channels, efficient operating costs management and preparation for reorganisation of the entire SBU Croatia (implementation on 1 Jan 2014) with strong emphasis on the management on food and non-food product ranges

STRATEGIC DISTRIBUTION UNIT SLOVENIA, SERBIA, MACEDONIA

Through the operations of the Strategic Distribution Unit Slovenia, Serbia and Macedonia (SDU SSM), Atlantic Grupa operates as the leading distributor of high-quality consumer goods with leading regional and global brands. The primary activity of the SDU SSM is to distribute the entire product portfolio from own production and the assortment of external principals in Slovenia, Serbia and Macedonia.

SLOVENIAN MARKET

The SDU Slovenia has in the course of 2013 affirmed itself as the leading distributor of high-quality consumer goods in Slovenia whose distribution portfolio is constantly growing. In order to facilitate operations and adjustment to ever-growing market demands, the DU Slovenia in 2013 carried out the implementation of new information technologies - such as implementing a mobile office for sales staff.

Along with the distribution of brands from own production programme, the DU Slovenia in 2013 operated as an authorised distributor of renowned international brands, including:

- Ferrero,
- Hipp,
- Italfood,
- Rauch,
- Orangina,
- BIC,
- Stock.

In 2013 the distribution portfolio was extended with the brands BIC and Stock. The year was marked by strong presence and maximum exposure in all distribution channels and by the end of the business year presence of the Company's distribution assortment was recorded in more than 2,400 retail consumer goods stores, 5,000 vending machines and 500 post offices across Slovenia. Additionally, growth was realised in almost all product groups in the distribution assortment. The distribution network in this market operates through the synergy of the Distribution Centre Ljubljana, two production locations in Izola and Rogaška Slatina and the sales and marketing team consisting of 107 employees.

SERBIAN MARKET

In 2013 the distribution portfolio was extended with the brands Klas, Tradicionalno Znanje and Schwartau. The Distribution Unit Serbia in 2013 developed into one of the three leading distributors of high-quality consumer goods in Serbia whose distribution portfolio is continuously expanding. The DU Serbia, in order to facilitate business operations and adjust to ever-growing market demands, carried out the implementation of new information technologies - such as the second stage of WHS system for monitoring warehouse operations in all warehouses in Serbia, LOGNEt transport organisation and monitoring system through online transport exchange, upgrade of the existing ERP system with new advanced reporting systems, which significantly contributed to the development of customer and supplier communications and relationships.

Along with the distribution of brands from own production programme, the DU Serbia in 2013 operated as an authorised distributor of renowned international brands, including:

- Ferrero,
- Zvečevo,
- Gorki List,
- Klas,
- Tradicionalno znanje,
- Schwartau.

The operations in 2013 were marked by strong presence and maximum exposure in all distribution channels and by the end of the business year the Company's distribution portfolio was present in more than 15,500 consumer goods retail stores in this market. The Company's distribution network in this market operates through the synergy of the central Distribution Centre Šimanovci, 4 production locations (Ljubovija, Smederevska Palanka, two in Belgrade) and the sales-marketing-logistics team consisting of 289 employees.

MACEDONIAN MARKET

The Distribution Unit Macedonia has in the course of 2013 confirmed itself as one of the leading distributors of high-quality consumer goods in Macedonia. In order to follow the ever-growing market demands, the DU in 2013 carried out the upgrade of its IT support systems as well as the further reorganisation of its logistics, which significantly contributed to the improvement of customer and supplier communications and relations in this market.

Along with the distribution of brands from own production programme, the DU Macedonia in 2013 operated as an authorised distributor of renowned international brands:

- Ferrero,
- Bakers,
- Zvečevo,
- Orangina.

The 2013 operations in the market of Macedonia were marked by strong presence and maximum exposure in all distribution channels and by the end of the business year the Company's distribution portfolio was present in more than 3,000 consumer goods retail stores in this market. The Company's distribution network in this market operates through the synergy of the central Distribution Centre Skopje and the sales/marketing/logistics team consisting of 112 employees.

STRATEGIC DISTRIBUTION UNIT HORECA

The HoReCa channel represents the distribution channel to hotels, restaurants and cafés and as such offers the possibility of accessing a wide number of consumers. The strategy of Atlantic Grupa is to develop distribution in the HoReCa channel and position itself as the leading distributor of own and international brands. The support to such strategy is Atlantic Grupa's complete distribution assortment with which the company covers 24-hour needs of consumers – from coffee in the morning to a refreshing drink for a cocktail in the evening.

In 2013 in all Strategic Distribution Units of the HoReCa channel (SDU HoReCa) – Croatia, Serbia, Slovenia, Macedonia – reorganisation was carried out in order to ensure higher distribution market coverage, realising improved sales results and strengthening HoReCa brands. In addition to optimising sales teams, all HoReCa markets unified business processes and established clear working standards and technologies.

Additionally, new products have been successfully launched in all markets, and the portfolio of international brands in the HoReCa market of Macedonia was strengthened by Nestle Professional products. Considering that the espresso segment was recognised as a potential in all markets, the HoReCa markets in Croatia, Serbia, Slovenia and Macedonia are recording growth of installed espresso machines, while Barcaffe on-the-go is available at gas stations in Slovenia and Croatia. Strategic partnership with particular key clients was also strengthened.

STRATEGIC DISTRIBUTION UNIT INTERNATIONAL MARKETS

The main purpose of the Strategic Distribution Unit International Markets (SDU International Markets) is to achieve profitable growth in the markets outside the key markets of Atlantic Grupa in a way to increase the availability of the company's own brands in those markets, primarily in retail. The market entry strategy is based on local market structures where the SDU International Markets is operating directly with the leading retail chains, but at the same time cooperating with long-standing distribution partners in order to optimise the availability of our products to consumers.

It is worth pointing out the increase of availability of our brands in Austria and Spain, as well as first results in the distribution of high-quality personal care products.

The key Atlantic Grupa's brands for the distribution in international markets are: Argeta, Multipower, Cedevita GO! and Donat Mg.

RUSSIAN AND CIS MARKET

Russia and neighbouring countries (region of the Commonwealth of Independent States, CIS)) are becoming increasingly important for the business development of Atlantic Grupa. At the end of 2013 reorganisation was carried out with which the CIS market became the Strategic Business Unit responsible for the distribution of all brands which by their development within Strategic Business Units have the potential and opportunity to take quality positions and achieve growth in this market with above-average growth.

In 2013 new multi-year agreements were signed with the leading distributors in Russia on behalf of the SBU Beverages and the SBU Pharma and Personal Care which ensure growth of revenues and profitability. Furthermore, agreements were signed for placing products from the savoury spreads and baby food segments in the leading retail chains. Together with these agreements and contracts with sub-distributors, further increase of product availability in retail chains across Russia is expected. Other CIS countries that posted the highest growth were Belarus, Tajikistan and the Baltic states.

BEBI

The most significant product of Atlantic Grupa in the market of Russia and CIS is baby food under the brand Bebi. This brand offers a wide assortment of baby food, from which we can point out cereals and instant milk formula (IMF). Bebi cereals can be prepared with water, IMF, milk or breast milk. As this segment implies especially high food quality and safety standards, Bebi products are produced from natural ingredients only, without artificial aromas and colours, preservatives or GMO. Bebi cereals can be divided in 3 different lines - Bebi, Bebi Premium and Bebi Junior. Additional milk, non-milk and low allergenic tastes can be found in these lines.

The principal assortment of cereals for children underwent a redesign in the lines Premium and Junior, while such growth was achieved that the production plant Mirna posted record-high production. The most significant growth was realised in the categories of children’s biscuits and replacement milk. At the end of 2013 the Russian professional magazine for moms "Shape Mama" awarded two Bebi products for 2013 (children’s biscuit with 6 cereals and fruit cereals with biscuits for children over 6 months). The organisation was further strengthened by new recruitment within the segments during 2013.

CREATIVITY

expressed through ideas, innovations and different view on things

FINANCIAL OPERATIONS OF ATLANTIC GRUPA

STATEMENT OF THE GROUP VICE PRESIDENT FOR FINANCE AND INFORMATION TECHNOLOGY

With its financial results in 2013, Atlantic Grupa for the seventh consecutive year delivers announced guidance and confirms its focus on business development with continuous monitoring of operating costs, management of financial and operating risks, prudent liquidity management, further deleveraging and achievement of strong cash flows from operating activities.

We are especially pleased that last year's successful refinancing of long-term credit obligations, primarily emerging from the acquisition of Droga Kolinska and taking over its credit obligations in 2010, resulted with considerably better credit arrangement that included lower interest rate and prolonged maturity. Consequently, in 2013 we witnessed considerably lower interest expenses compared to 2012. Furthermore, since the acquisition of Droga Kolinska in 2010, Atlantic Grupa conducts the policy of active interest rate management that requires the Group to have fixed interest rates on financial obligations ranging from 50% to 100% in the next 12 months. However, the Group's focus on deleveraging should be highlighted, that reflected in reduction of net debt to EBITDA ratio from 4.7 at the end of 2010 to 3.5 at the end of 2013.

In the field of risk management and liquidity maintenance, considering macroeconomic instability in the region from 2008 onward, Atlantic Grupa constantly monitors customers risk and payment process from the largest buyers by limiting exposure to buyers that are rated as risky. Following the acquisition of Droga Kolinska, Atlantic Grupa pays special attention to active monitoring of trends and hedging prices of raw materials, especially raw coffee as well as hedging currency risk arising from changes in foreign currency exchange rates, mostly euro (EUR) and US dollar (USD).

In the information technology segment, in 2013 the project of implementing a regional data centre in Zagreb was finished, which has consolidated in one location all server and network infrastructure required for the operation of IT services for the territories of Croatia and Slovenia, and which will support more than 1,000 users in Croatia, Slovenia and Russia. Through the consolidation of infrastructure and support for IT services, significant savings are achieved by redefining the model of user support, redesigning a portion of IT services and standardising the technological platform

The regional data centre will be the infrastructural basis for consolidation projects that are being prepared, related to the consolidation and integration of the business solutions system for the region of Croatia and Slovenia in the ERP (Enterprise Resource Planning) solution segment and reporting and analytical systems that are planned during 2014.

At the end of the third quarter, the new system for vehicle surveillance, fleet management and optimisation of delivery routes in logistics for the distribution company Atlantic Trade Zagreb was employed. By successfully implementing modern technologies in vehicle tracking and optimisation of delivery routes, the quality of goods delivery to customers was improved, with a measurable impact in savings on fleet's expenses. Based on the project's success, in the last quarter of 2013, the same solution started to be implemented in the distribution company Atlantic Brands in Serbia, and will be fully implemented in the first half of 2014.

Zoran Stanković,
Group Vice President for Finance and Information Technology

SALES DYNAMICS IN 2013

SALES PROFILE BY STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(in HRK thousands)	2013	2012	2013/2012
SBU Beverages	**651,991**	671,934	(3.0%)
SBU Coffee	**1,087,157**	1,090,672	(0.3%)
SBU (Sweet and Salted) Snacks	**617,494**	600,473	2.8%
SBU Savoury Spreads	**458,843**	463,664	(1.0%)
SBU Sports and Functional Food	**780,992**	679,971	14.9%
SBU Pharma and Personal Care	**505,954**	481,328	5.1%
SDU Croatia	**806,721**	876,829	(8.0%)
SDU Slovenia, Serbia, Macedonia	**1,938,605**	1,930,387	0.4%
Other segments*	**423,659**	373,152	13.5%
Reconciliation**	**(2,220,129)**	(2,237,969)	(0.8%)
Sales	**5,051,287**	4,930,441	2.5%

Atlantic Grupa in **2013 recorded sales of HRK 5.1 billion** which is a 2.5% growth compared to the previous year. The growth was mainly impacted by the growth in sales in the strategic business units Sports and Functional Food, Pharma and Personal Care and Snacks, which compensated for the decline in sales of other strategic business units and the Strategic Distribution Unit Croatia.

- Recorded sales of the **Strategic Business Unit Beverages** were negatively impacted by the temporarily suspended distribution in the Croatian market in the 1Q 2013 due to negotiations related to the implementation of new commercial terms and conditions and generally unfavourable developments in the beverages segment in the regional markets (e.g. the soft drinks category declines 6.8% in Slovenia by sales volume). Analysing by markets, the decline was recorded in the markets of Bosnia and Herzegovina and Croatia, while the most significant growth was recorded in the markets of Russia, Italy and Macedonia. Analysing by the most significant categories, vitamin instant drinks make 43% of sales, carbonated soft drinks 26%, and functional waters 20% of sales. In this, the most significant decline was recorded in the vitamin instant drinks category and the carbonated soft drinks category, while the most prominent growth

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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".

*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.

was recorded by the functional waters category with the Donat Mg brand, the most important growth being recorded in the markets of Slovenia, Russia and Italy, partly stimulated by the new packaging design.

- In the **Strategic Business Unit Coffee** the Serbian market recorded lower sales, thus reflecting unfavourable market developments in the Turkish coffee category and redirecting the marketing into price discounts, which was mitigated by the growth in other markets, the most prominent of which was seen in the markets of Slovenia, Bosnia and Herzegovina and Croatia. The Croatian market recorded a double-digit growth resulting from the growth of the Barcaffe brand in the Turkish coffee and espresso categories in retail and HoReCa channels. Analysing by categories, the most significant is Turkish coffee with an 89 percent share, espresso makes 5% of sales, and instant 3%. In this, the most prominent growth was realised in the instant category and the Turkish coffee category. The instant category realised a double-digit growth rate primarily resulting from the growth in sales of the Grand kafa brand in the Serbian market, while the Turkish coffee category achieved the best results in the markets of Slovenia and Croatia with the Barcaffe brand and in the market of Bosnia and Herzegovina with the Grand kafa brand.

- The **Strategic Business Unit Snacks** posted growth in sales primarily due to good results in the markets of Serbia, Macedonia and Croatia. Analysing by categories, the sweet segment makes 66% of sales and the salty segment 34%, while of the most significant individual categories, flips make 30%, chocolate 29%, and biscuits 16% of the total sales. In this, the highest growth in sales was delivered in the categories of flips, chocolate and biscuits. The flips category with the Smoki brand and the biscuits category with the Štark brand recorded growth in all regional markets, while the chocolate category posted the most significant growth with the Menaž brand in the markets of Serbia and Bosnia and Herzegovina.

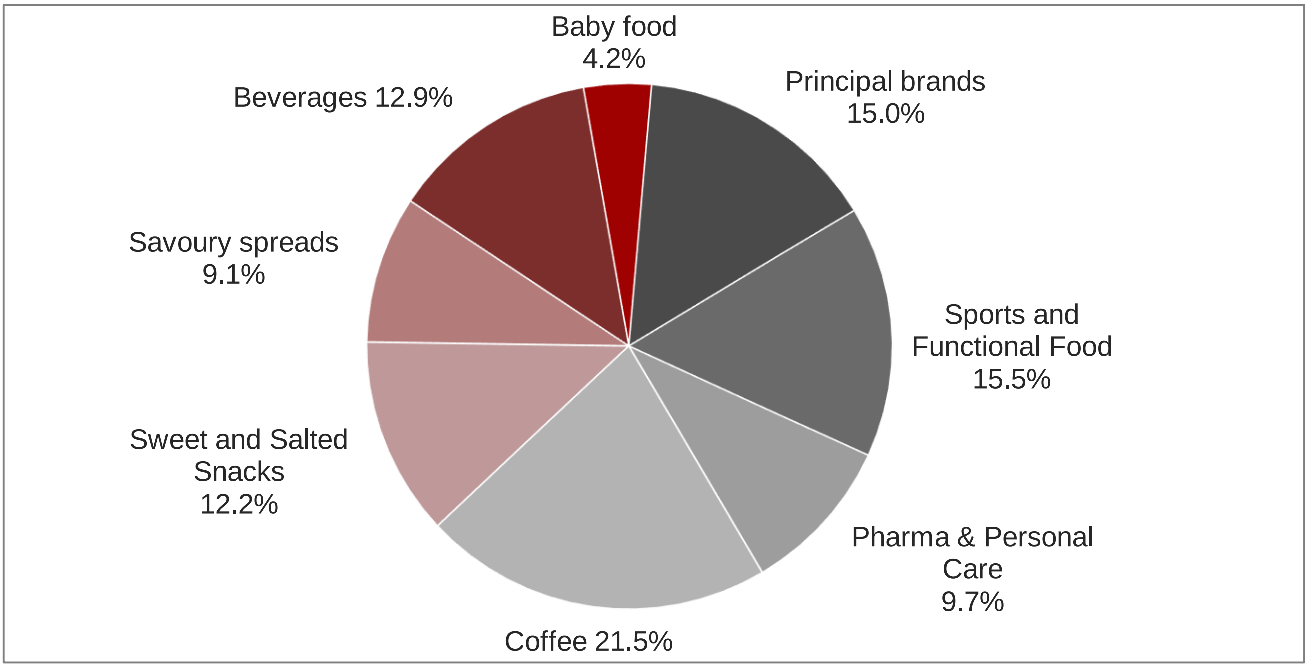
- The **Strategic Business Unit Savoury Spreads** delivered 1.0% lower sales, primarily due to lower results of the Argeta brand in the markets of: (i) Bosnia and Herzegovina, due to decline in the category, but also due to unfavourable macroeconomic situation, which resulted in lower consumption of premium products, including Argeta, (ii) Kosovo, due to a decrease in distributor's stock and (iii) Serbia, due to lower consumption of premium brands. At the year end, negative movements were stopped primarily by combining ATL and BTL marketing investments (marketing campaign “Odobrile mame” (“Approved by Mums”) and price discounts). On the other hand, the significant growth in sales in the markets of Slovenia, Austria (as the second and third largest markets of savoury spreads), Russia and Sweden, as well as entering the market of Spain mitigated the decline in sales in the above mentioned markets.

- The double-digit growth rate of the **Strategic Business Unit Sports and Functional Food** is primarily a consequence of the growth in sales in the markets of Germany, Spain and Russia. Analysing by brands, the growth in sales was recorded by all brands in the segment of Sports and Functional Food – Multipower, Champ and Multaben. The Multipower brand recorded the most prominent growth in sales in the markets of Germany, Spain and Russia. Private labels posted a double-digit growth in sales, primarily as a result of the growth in sales in the markets of Germany and Switzerland.

- **The Strategic Business Unit Pharma and Personal Care** saw an increase in sales due to: (i) the growth in sales of Multivita in the market of Russia, (ii) the growth in sales of own products from the Dietpharm product range and new principal brands in the Atlantic Pharmacentar product range and (iii) the sales of 9 newly opened units in the pharmacy chain Farmacia. Analysing by markets, the most prominent growth was recorded in the market of Croatia and the market of Russia, where the distributor was successfully replaced, compensating in the remaining portion of 2013 the sales absent during the first quarter.

- Lower sales of the **Strategic Distribution Unit Croatia** are a consequence of: (i) the temporarily suspended distribution of own and principal brands in the first quarter of 2013 during negotiations related to the implementation of new commercial terms and conditions, (ii) lower sales of the beverages segment and (iii) the termination of the one2play and Red Bull product ranges distribution. This result was dwarfed by the growth in sales of certain own brands, such as the Barcaffe brand in the Turkish coffee category and the Smoki brand in the flips category, but also by the growth of certain principal brands such as Ferrero and Rauch.
- **The Strategic Distribution Unit Slovenia, Serbia, Macedonia** saw a mild growth in sales resulting from: (i) the snacks segment, (ii) the functional waters category and (iv) principal brands, annulling the drop in sales of the coffee and savoury spreads segments. Analysing individual markets, the distribution in the Slovenian market recorded growth in sales primarily as a result of higher sales in the coffee, savoury spreads and principal brands segments. The distribution recorded lower sales in the market of Serbia, primarily influenced by the drop in sales of the Turkish coffee category, and in the market of Macedonia, primarily due to lower sales of the savoury spreads segment.
- **Other segments** posted a significant growth in sales due to a double-digit sales growth rate of the Russian market, resulting mainly from the strong growth in sales of baby food with the Bebi brand. The Strategic Distribution Unit HoReCa also recorded a growth in sales primarily due to the growth in the distribution of the coffee segment, vitamin instant drinks category and some principal brands.

SALES OVERVIEW BY SEGMENTS



SALES PROFILE BY MARKETS

(in HRK millions)	2013	% of sales	2012	% of sales	2013/2012
Croatia	**1,254.1**	24.8%	1,313.3	26.6%	(4.5%)
Serbia	**1,215.2**	24.1%	1,226.8	24.9%	(0.9%)
Slovenia	**689.3**	13.6%	648.7	13.2%	6.3%
Bosnia and Herzegovina	**364.2**	7.2%	377.0	7.6%	(3.4%)
Other regional markets*	**317.1**	6.3%	316.9	6.4%	0.0%
Key European markets**	**589.8**	11.7%	542.8	11.0%	8.7%
Russia and CIS	**299.3**	5.9%	245.0	5.0%	22.2%
Other markets	**322.3**	6.4%	260.0	5.3%	24.0%
Total sales	**5,051.3**	100.0%	4,930.4	100.0%	2.5%

- **The Croatian market** posted 4.5% lower sales impacted by: (i) the temporarily suspended distribution in the first quarter of 2013 during negotiations related to the implementation of new commercial terms and conditions, (ii) lower sales of the beverages segment and (iii) the termination of the one2play and Red Bull product ranges distribution. The decline in sales in the Croatian market was mitigated by the growth in sales of: (i) the pharmacy chain Farmacia, (ii) the Turkish and espresso coffee categories with the Barcaffe brand, (iii) the flips category with the Smoki brand, (iv) the Dietpharm brand, (v) principal brands through the drug wholesale operations and (vi) some principal brands through distribution operations.

- Lower sales in the **market of Serbia** are a result of the lower sales of the Turkish coffee category and the savoury spreads segment. The lower sales in the Turkish coffee category reflect unfavourable movements of the category in the market that recorded the volume drop of 5.5% compared to the previous year. On the other hand, the growth in sales was delivered in: (i) the carbonated soft drinks category with the Cockta brand (primarily in the HoReCa channel), (ii) the snacks segment with Smoki, Štark and Menaž brands, and (iii) the principal brands segment, primarily as a result of the Gorki list brand distribution, the distribution of which started in August 2012.

- The greatest contribution to the growth in sales of the **Slovenian market** was made by: (i) the Turkish coffee category (although the category in the market recorded a volume drop of 0.9%) with the Barcaffe brand, (ii) the functional waters category, with the Donat Mg brand, (iii) the savoury spreads segment with the Argeta and Montana brands and (iii) principal brands, primarily Ferrero and principals that were not distributed in the same period of the previous year (Rauch, Stock).

*Other regional markets: Macedonia, Montenegro, Kosovo
**Key European markets: Germany, the United Kingdom, Italy, Switzerland, Austria, Sweden, Spain

- Lower sales of the **market of Bosnia and Herzegovina** are a result of lower sales of the beverages segment and the savoury spreads segment. The sales in the savoury spreads segment were negatively impacted by the drop of the category in the market (the volume drop of 0.8%), but also by unfavourable macroeconomic situation, resulting in lower consumption of premium products, including Argeta. On the other hand, the growth in sales was recorded in: (i) the Turkish coffee category with the Grand kafa brand, (ii) the biscuits (the Štark brand) and chocolate (the Menaž brand) categories and (iii) the flips category with the Smoki brand.

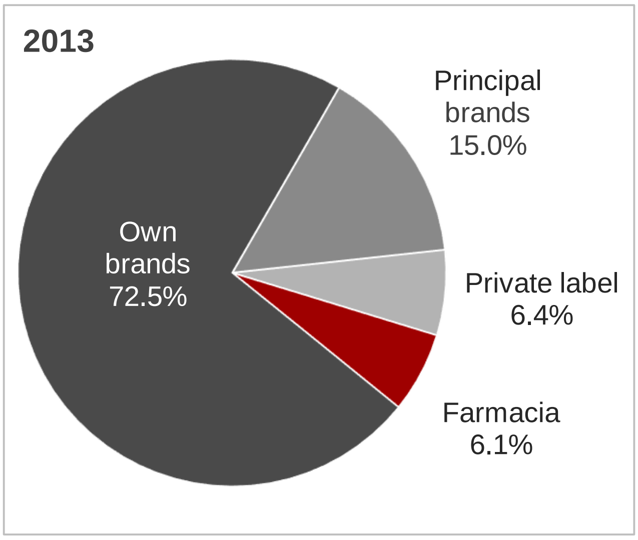
- **Other regional markets** achieved the result at the previous year's level with lower sales of the savoury spreads segment, which was compensated by the growth in sales in: (i) the flips category with the Smoki brand, (ii) the biscuits category with the Štark brand, (iii) the carbonated soft drinks category with the Cockta brand and (iv) the Turkish coffee category with the Grand kafa brand.

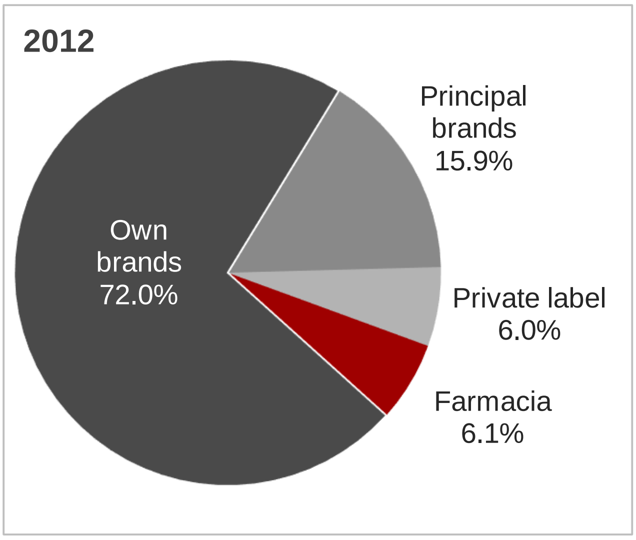
- The greatest contribution to the 8.7% higher sales of **key European markets** was made by the growth in the sports and functional food segment, where the growth was delivered by Multipower, Champ and Multaben brands and private labels. The growth in sales was also recorded by the savoury spreads segment with the Argeta brand, growing in the markets of Austria, Sweden and Switzerland and the functional waters category with the Donat Mg brand.

- The strong 22.2 percent growth in sales in the **markets of Russia and the Commonwealth of Independent States** was mainly impacted by the double-digit growth in sales of the baby food segment with the Bebi brand (in two most represented sub-segments, cereals and milk formula). In addition, the growth in sales was also achieved in (i) the pharma and personal care segment, with the Multivita brand, (ii) the savoury spreads segment, with the Argeta brand, (iii) the sports and functional food segment with the Multipower brand and in (iv) the functional waters category with the Donat Mg brand.

- **Other markets** recorded a 24.0% growth in sales driven by the growth in sales in the sports and functional food segment with the Multipower brand and private labels.

SALES PROFILE BY PRODUCT CATEGORY





- In 2013, **own brands** recorded sales of HRK 3,660.5 million, which is a 3.1% yoy growth. The most prominent growth was posted in: (i) the baby food segment with the Bebi brand, (ii) the sports and functional food segment with Multipower, Champ and Multaben brands, (iii) the snacks segment with Smoki and Štark brands (iv) the pharma and personal care segment with Multivita and Dietpharm brands, and (v) the functional waters category with the Donat Mg brand. On the other hand, due to the reasons mentioned above, the Grand Kafa brand in the coffee segment, Cedevita and Cockta brands in the beverages segment and Argeta in the savoury spreads segment recorded a lower single-digit sales decline rate.

- With sales of HRK 756.8 million, **principal brands** record a 3.2% yoy lower result, following the suspended distribution in the first quarter due to negotiations related to the implementation of new commercial terms and conditions and the termination of the one2play and Red Bull product ranges distribution.

- **Private labels** saw sales of HRK 325.5 million which is a 10.0% yoy growth. The growth primarily relates to the sports and functional food product range.

- The pharmacy chain **Farmacia** recorded sales of HRK 308.5 million, which is a 2.8% better yoy result due to the newly opened units. As at 31 December 2013, the pharmacy chain Farmacia consisted of 48 pharmacies (3 more compared to 2012) and 19 specialised stores (6 more compared to 2012).

PROFITABILITY DYNAMICS IN 2013

ATLANTIC GRUPA'S PROFITABILITY

(in HRK millions)	2013	2012	2013/2012
Sales	**5,051.3**	4,930.4	2.5%
EBITDA	**590.8**	575.1	2.7%
Normalized EBITDA	**590.8**	558.6	5.8%
EBIT	**424.6**	395.1	7.5%
Normalized EBIT	**424.6**	399.2	6.4%
Net profit/loss	**199.0**	66.1	201.0%
Normalized Net profit/loss	**199.0**	112.5	77.0%
Profitability margins			
EBITDA margin	**11.7%**	11.7%	+3 bp
Normalized EBITDA margin	**11.7%**	11.3%	+37 bp
EBIT margin	**8.4%**	8.0%	+39 bp
Normalized EBIT margin	**8.4%**	8.1%	+31 bp
Net profit margin	**3.9%**	1.3%	+260 bp
Normalized Net profit margin	**3.9%**	2.3%	+166 bp

In 2013, Atlantic Grupa recorded a 5.8% higher **EBITDA** as a result of (i) growth in sales, (ii) cost optimisation and improvement in business processes and (iii) favourable movements in the prices of certain raw materials in the global commodity markets, primarily raw coffee, the effect of which was strengthened by the movements in the exchange rate EURUSD. However, the result was negatively impacted by the temporarily suspended distribution of own and principal brands during the first quarter of 2013 in the Croatian market, which resulted in lower sales with equal fixed expenses.

In 2013, a 6.4% higher **EBIT** was recorded, whereby the improved operating profitability was achieved primarily due to the impacts above the EBITDA level. The growth was partially limited by impairment loss on intangible assets with indefinite useful lives in the amount of HRK 27.1 million.

In 2013, Atlantic Grupa delivered a 1.8 times higher **net profit**, which, in addition to improvements in operating result, is a consequence of: (i) a significant decrease in interest expense by 26.1% due to a successful refinancing of long-term borrowings completed at the end of 2012 and (ii) more favourable movements in foreign exchange rates, which decreased the previous year's net foreign exchange losses arisen primarily due to the depreciation of the Serbian dinar. However, the negative impact had the significant increase in effective tax rate to 21% from the previous year's 6% due to the last year recognised deferred tax asset based on the expected utilisation of tax losses.

One-off items excluded in the normalisation process in 2012:

- Above the EBITDA level;
  - i. +1.1 million HRK of transaction costs related to the acquisition of Droga Kolinska and refinancing,
  - ii. +3.1 million HRK of restructuring costs in the SBU Sports and Functional Food,
  - iii. -20.7 million HRK of profit due to cancelation of liability under the option for sale of property in Ljubljana.
- Above the EBIT level;
  - i. -16.5 million HRK related to items with impact above the EBITDA level,
  - ii. +20.7 million HRK impact of impairment of property in Ljubljana.
- Above the EBT (earnings before tax) level;
  - i. +4.2 million HRK related to items with impact above the EBIT level,
  - ii. +42.2 million HRK impact of refinancing costs.

OPERATING COST STRUCTURE

(in HRK millions)	2013	% of sales	2012*	% of sales	2013/2012
Cost of goods sold	**1,223.5**	24.2%	1,155.4	23.4%	5.9%
Change in inventory	**(4.6)**	(0.1%)	(3.7)	(0.1%)	n/a
Production materials	**1,652.2**	32.7%	1,750.1	35.5%	(5.6%)
Energy	**63.7**	1.3%	64.8	1.3%	(1.8%)
Services	**324.9**	6.4%	314.9	6.4%	3.2%
Staff costs	**672.1**	13.3%	650.4	13.2%	3.3%
Marketing and selling expenses	**351.8**	7.0%	320.8	6.5%	9.7%
Other operating expenses	**210.4**	4.2%	182.5	3.7%	15.3%
Other (gains)/losses, net	**7.5**	0.1%	(9.1)	(0.2%)	n/a
Depreciation and amortisation	**166.2**	3.3%	159.4	3.2%	4.2%
Total operating expenses	**4,667.6**	**92.4%**	**4,585.6**	**93.0%**	**1.8%**

The growth in cost of goods sold is a result of the change in the sales mix in 2013, where the share of private labels and own brands with outsourced production grows.

* Normalized

Production material expenses in 2013 decreased by 5.6%, mainly due to favourable movements in the prices of certain raw materials in the global commodity market, primarily the prices of raw coffee. However, some raw materials saw an increase in prices in 2013, such as powdered milk and tuna fish.

Service costs grew by 3.2% due to (i) higher transportation and logistics costs primarily as a consequence of the growth in sales of the baby food segment in the markets of Russia and the CIS (while the production is located in Slovenia) and the change in the distribution model of Multivita in the Russian market and (ii) higher rent expenses following the opening of new locations of pharmacy units.

Staff costs in 2013 came in higher by 3.3% primarily due to the increase in bonuses to employees. As at 31 December 2013, Atlantic Grupa had 4,228 employees, 86.4% of which was employed in the markets of Croatia, Serbia and Slovenia, while as at 31 December 2012, the number of employees was 4,247.

Marketing and promotion expenses in 2013 grew by 9.7% due to more intensive marketing activities, primarily in the coffee segment in line with increased competitors' investments, because of the space opened in the market as a consequence of the decrease in the price of raw coffee in the global market.

Other operating expenses are higher due to provisions for risks and potential costs related to the deteriorated macroeconomic situation in the region and certain legal disputes.

OPERATING RESULT OF STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(in HRK millions)	2013	2012*	2013/2012
SBU Beverages	122.2	137.0	(10.8%)
SBU Coffee	238.7	156.7	52.3%
SBU (Sweet and Salted) Snacks	111.8	115.3	(3.0%)
SBU Savoury Spreads	123.3	122.8	0.4%
SBU Sports and Functional Food	22.6	14.4	57.5%
SBU Pharma and Personal Care	47.9	57.3	(16.3%)
SDU Croatia	15.2	12.6	20.8%
SDU Slovenia, Serbia, Macedonia	82.6	84.5	(2.3%)
Other segments	(173.6)	(142.0)	22.3%
Group EBITDA	590.8	558.6	5.8%

* Normalized

Normalized profitability by segments was adjusted in 2012 in order to be comparable to the 2013 results.

SBU Beverages: The decline in profitability in 2013 primarily reflects lower sales of the majority of categories and higher marketing investments.

SBU Coffee: The strong profitability growth mainly reflects favourable movements in the price of raw coffee in the global commodity markets, the effect of which is additionally strengthened by the movements in the exchange rate EURUSD.

SBU Snacks: The mild decrease in profitability reflects the preparation for launching a new product Flipster in the pellet category and the increase in staff costs due to adjustment with the inflation growth.

SBU Savoury Spreads: Profitability mildly grows despite the decrease in sales, reflecting an improvement in the gross profit margin on a better product mix and marketing savings.

SBU Sports and Functional Food: The strong profitability growth is a consequence of the growth in sales with stable operating expenses.

SBU Pharma and Personal Care: The decrease in profitability reflects the lower profitability of the pharmacy chain Farmacia, primarily due to the increase in rent costs and staff costs on the basis of newly opened pharmacy units and the lower profitability of the personal care and cosmetics segment due to the increase in prices of raw materials and marketing investments.

SDU Croatia: Despite the decline in sales, improved profitability reflects a better gross profitability following the better product mix and lower service costs and staff costs.

SDU Slovenia, Serbia, Macedonia: Lower profitability of the segment reflects the decrease in profitability in the markets of Serbia and Macedonia primarily due to a poorer gross profitability caused by the concentration of customers. The decline in these two markets was however partially neutralised by the growth in profitability of the Slovenian market, as a result of the increased sales and improved gross profitability.

FINANCIAL INDICATORS IN 2013

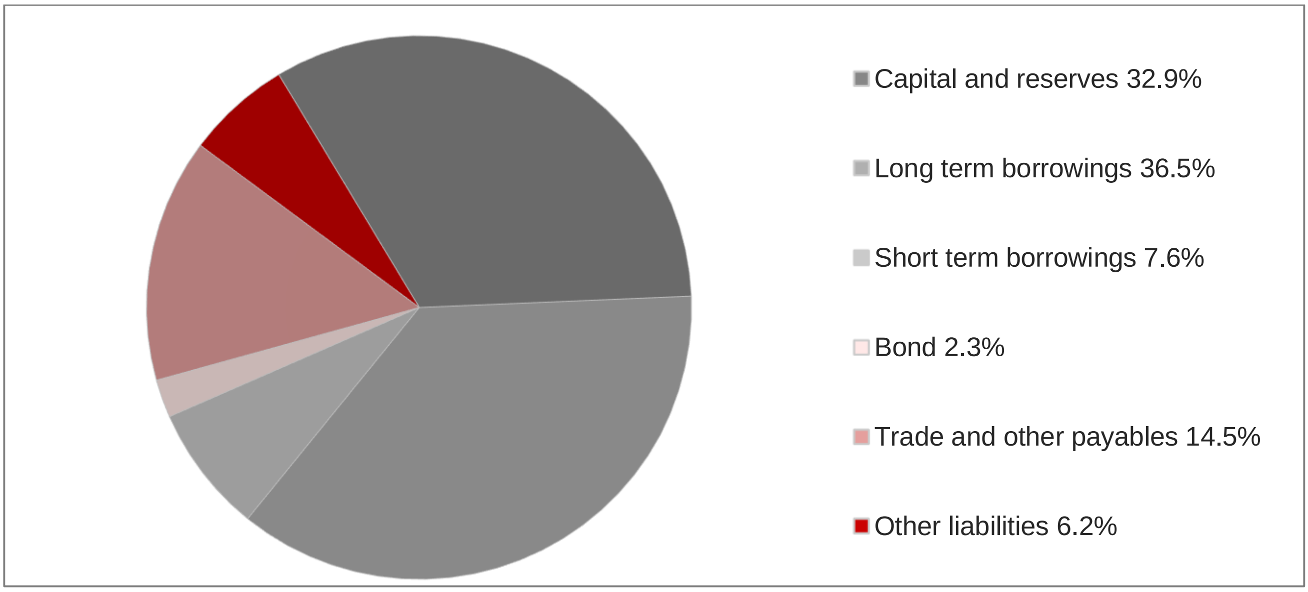
(in HRK millions)	2013	2012
Net debt	**2,059.3**	2,353.1
Total assets	**5,082.8**	5,149.5
Total Equity	**1,674.5**	1,461.4
Current ratio	**1.8**	1.8
Gearing ratio	**55.2%**	61.7%
Net debt/EBITDA*	**3.5**	4.2
Interest coverage ratio*	**3.7**	2.6
Capital expenditure	**100.0**	78.8
Cash flow from operating activities	**420.2**	296.0

*Normalized in 2012

Among key determinants of the Atlantic Grupa's financial position in 2013, the following should be pointed out:

- Net debt of HRK 2,059.3 million was reduced by HRK 293.8 million compared to the end of 2012 and it reflects the financial debt of HRK 2,356.2 million, net derivative liabilities of HRK 28.7 million and cash and cash equivalents and deposits in the total amount of HRK 325.6 million. Consequently, the debt indicators are as follows: (i) ratio of net debt and total capital increased by net debt of 55.2%, (ii) ratio of net debt and EBITDA of 3.5 times and (iii) 3.7 times coverage of interest expense by EBITDA. These indicators reflect the company's focus on a continued deleveraging.

The Atlantic Grupa's equity and liabilities structure as at 31 December 2013 is as follows:



The company's capital expenditure in 2013 amounts to HRK 100.0 million, with the most significant investments related to the following:

(i) SBU Coffee: automation of the line for coffee and purchase of espresso and Coffee 2 Go machines,

(ii) SBU Snacks: investment in the flips packaging machine, investment in the equipment for the production of pellets and purchase of line for the production of fillings,

(iii) SBU Beverages: investment in the line for packaging multi-packs of Donat Mg, investment in the equipment for the production of the Donat Mg new bottle, purchase of automated line for packaging Cedevita granules,

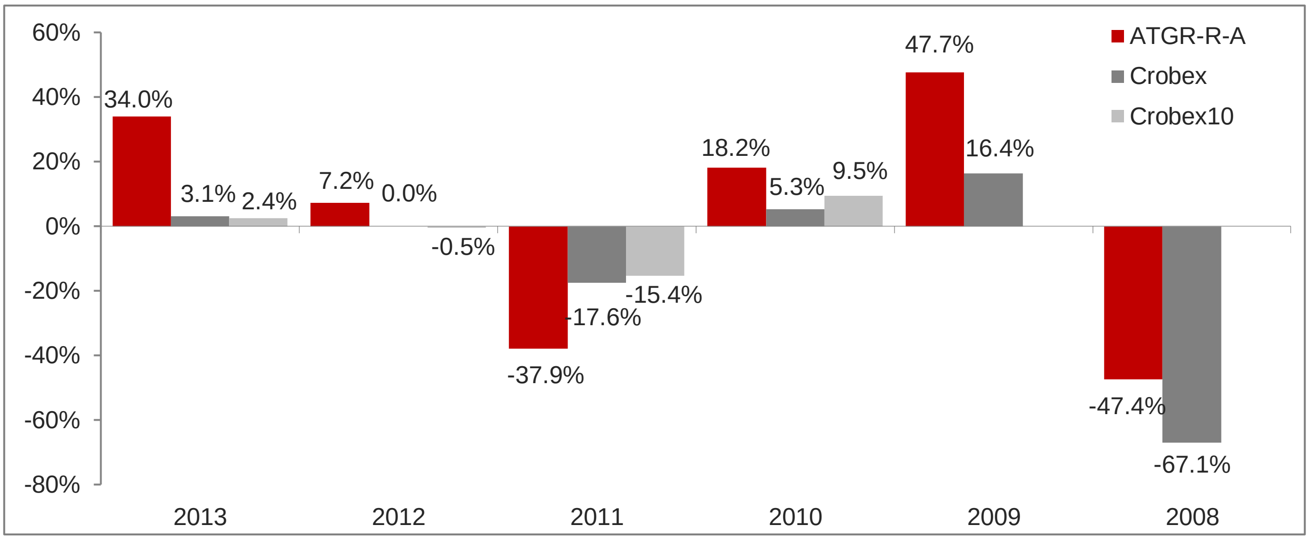
(iv) SBU Pharma and Personal care: refurbishment of pharmacies and specialised stores and

(v) Other: investments related to the HRIS system (human resources information system) and the project of developing, implementing and relocating the regional data centre in Zagreb.

PERFORMANCE ON THE CROATIAN CAPITAL MARKET IN 2013

In 2013, trading at the Zagreb Stock Exchange did not offer a recovery compared to the year before. The turnover of stocks dropped by 6.8% and the turnover of all securities was lower by 1.2%. The volume of stocks dropped by 6.6% and the total volume of all securities recorded a 39.7% decline. In such conditions, the CROBEX stock index grew by 3.1%, while the CROBEX10 stock index grew by 2.4% compared to 2012. The Atlantic Grupa's share significantly outperformed the growth of both indices and ended 2013 at HRK 718.00, which is a 34.0% growth within a year.

PERFORMANCE ON CAPITAL MARKET

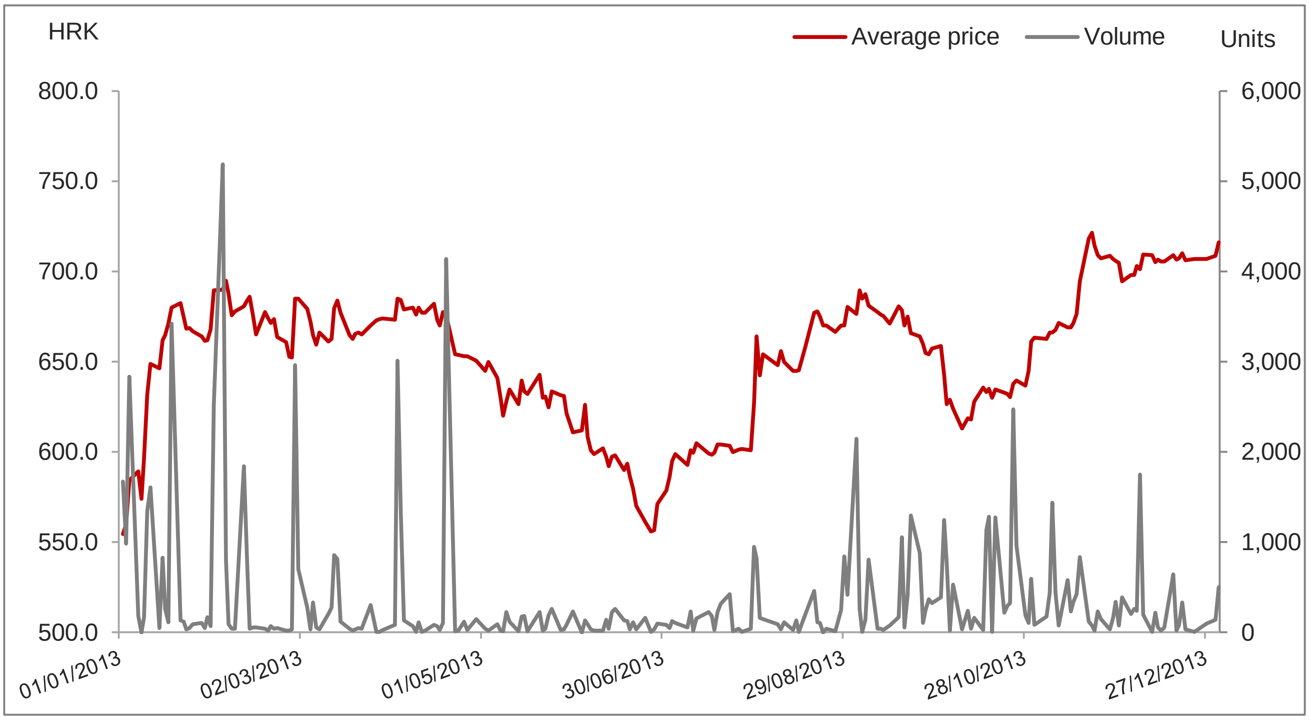


The average price of an Atlantic Grupa's share in 2013 amounted to HRK 653.4, while the average daily turnover in the same period amounted to HRK 237.8 thousand, which is an 18.3% increase compared to the 2012. In 2013, the Atlantic Grupa's share was the 13th most traded share on the Zagreb Stock Exchange which is an improvement by 3 positions compared to 2012. With the average market capitalisation of HRK 2,178.7 million, Atlantic Grupa takes the fifth place among the components of the CROBEX10 stock index.

Valuation	2013	2012
Last price in reporting period	**718.0**	536.0
Market capitalisation* (in HRK millions)	**2,394.0**	1,787.2
Average daily turnover (in HRK thousands)	**237.8**	201.0
EV (in HRK millions)	**4,504.7**	4,187.5
EV/EBITDA**	**7.6**	7.5
EV/EBIT**	**10.6**	10.5
EV/sales**	**0.9**	0.8
EPS (in HRK)**	**58.5**	30.5
P/E**	**12.3**	17.6

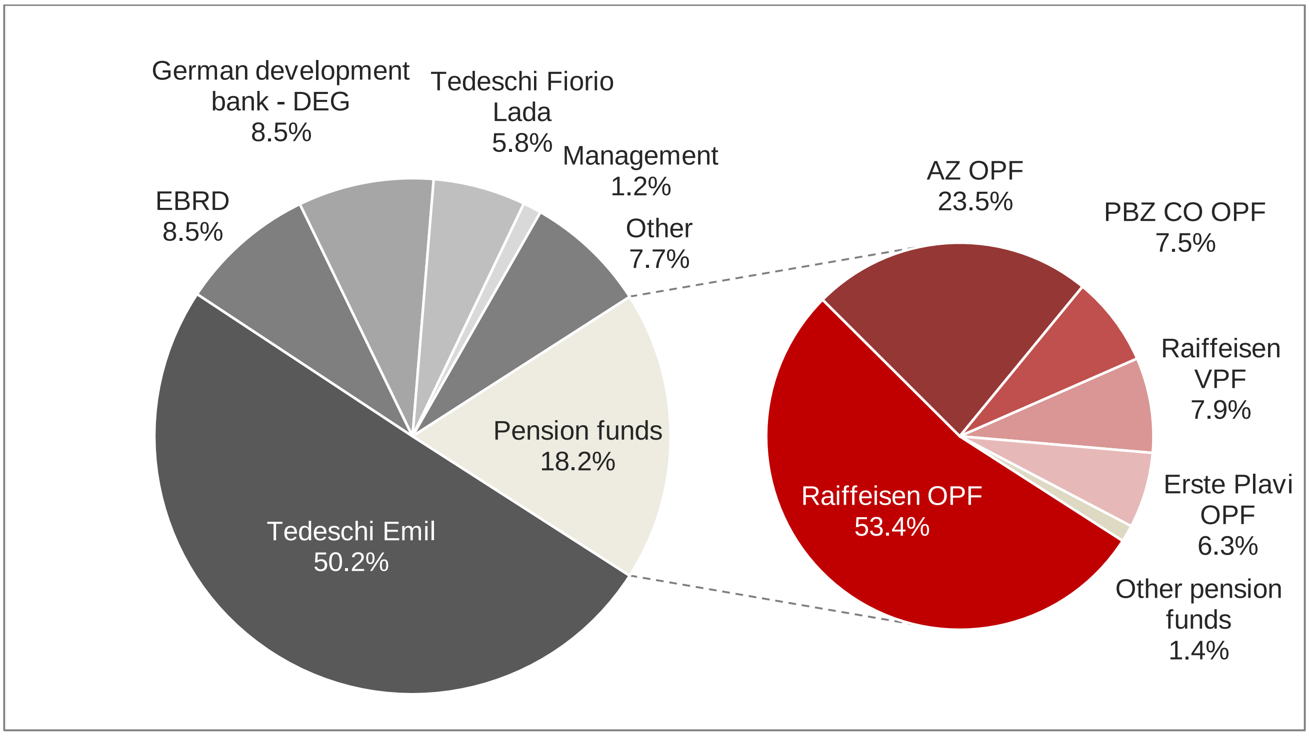
*Closing price multiplied by the total number of shares ** Normalized in 2012

MOVEMENTS IN THE AVERAGE PRICE OF THE ATLANTIC GRUPA'S SHARE IN 2013



Atlantic Grupa has a stable ownership structure: 50.2% of the company is owned by Emil Tedeschi, 8.5% by the European Bank for Reconstruction and Development and the German Development Bank – DEG, respectively, 5.8% by Lada Tedeschi Fiorio, and 18.2% of Atlantic Grupa is owned by pension funds.

OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2013



OUTLOOK FOR 2014

MANAGEMENT'S VIEW ON MACROECONOMIC EXPECTATIONS

Atlantic Grupa's management considers that it is not realistic to expect significant changes in economic activities in Croatia in 2014. Developments in the labour market, characterised during the entire 2013 by a high unemployment rate, do not indicate that the negative trend might change, while further deleveraging of households and general macroeconomic insecurity negatively impact personal consumption. European Commission's guidelines might be an incentive for the implementation of structural reforms in order to retain the credit rating and to exit the Excessive deficit procedure. Until then, the lack of structural reforms will continue to present the greatest barrier to economic recovery.

In 2014 Atlantic Grupa's management does not expect significant improvements in any of the countries in the region. For the Slovenian market, 2014 will be marked by restructuring of the banking sector and the decrease in consumption due to deleveraging of the private sector, as well as the increase in unemployment. The Serbian market will face poor personal consumption, while it remains to be seen whether the announced significant infrastructural investments that should give impetus to the economy will be realised. The market of Bosnia and Herzegovina, in addition to the high unemployment rate, is also characterised by political uncertainty, all of which is negatively reflected on personal consumption.

Under the presumption that the planned implementation of fiscal and monetary measures will provide the basis for further development, the management expects the economy growth at the EU level during 2014. Further incentive to the economic recovery might be more favourable conditions in the labour market, better financing conditions and the decrease in the need for deleveraging. Considering unemployment and personal consumption, significant improvements cannot be expected soon, since certain period of time is required for the economic recovery to come into full swing.

As for the Russian market, in 2014 we may expect a gradual strengthening of the economic growth, primarily due to new investments in the infrastructure. It may be expected that personal consumption in the following year will continue the sustainable growth due to low employment and the growth in real salaries, especially in the public sector.

ATLANTIC GRUPA'S STRATEGIC MANAGEMENT GUIDANCE FOR 2014

In order to achieve the planned business growth during 2014, management will be focused on the implementation of strategic business guidelines that include the following:

- Focus on organic business growth through active brand management with a special emphasis on strengthening the position of regional brands (Cockta, Cedevita, Smoki, Grand Kafa, Barcaffe, Bananica, Štark) and brands with international potential (Multipower, Argeta, Donat Mg, Bebi, Cedevita GO!);
- Strengthening the regional character of distribution operations through the extension of the principals' brands portfolio;

- Active development of the regional HoReCa segment with a portfolio that covers '24/7 consumer needs' and other sale channels (Online, Etno channel);
- Rationalisation of operations, cost management and optimisation of business processes on all operating levels aimed at improving operating efficiency;
- Active monitoring of trends and hedging the price of raw coffee and other raw materials;
- Regular settlement of existing financial liabilities with an active management of debt and financial expenses; and
- Prudent liquidity management and further deleveraging.

Management expectations for 2014 are as follows:

(in HRK millions)	**2014 Guidance**	2013	2014/2013
Sales	**5,440**	5,051	7.7%
EBITDA	**620**	591	4.9%
EBIT	**460**	425	8.3%
Interest expense	**140**	159	(12.1%)

The stated expectations related to sales reflect the 3 percent sales growth at the organic level and sales from the distribution of the Unilever product range of HRK 240 million.

In 2014, we expect capital expenditure in the amount of HRK 216 million, 46% of which relates to the investment in the new factory of energy bars in Nova Gradiška.

The expected effective tax rate in 2014 should be at the 2013 level.

RISKS OF ATLANTIC GRUPA

BUSINESS ENVIRONMENT RISK

Business environment risk includes political, macroeconomic and social risks with a direct impact on business activities in all markets in which the company operates, while the company cannot individually influence any of them. Political risk relates to all the risks associated with a potential political instability of an individual state. Taking into consideration the current internal and external political affairs, Croatia functions as a stable parliamentary democracy that successfully entered the European Union on 1 July 2013 and became its 28th member state. Considering that the political and general social risk is inherent to all parts of a society, it cannot be individually influenced by any single person.

By entering the European Union, Croatia exited from the Central European Free Trade Agreement (CEFTA). The company doesn't expect disturbances in business operations due to exiting CEFTA on the account of geographic dispersion of its production facilities. Namely, Atlantic Grupa has production facilities both in EU states (Germany, Slovenia, Croatia) and in CEFTA countries (Bosnia and Herzegovina, Serbia, Macedonia) and in that way leaving CEFTA won't have a significant effect on the Group's business. Furthermore, in view of harmonising its business operations with relevant EU legislation, Atlantic Grupa has in recent years focused its efforts on harmonising its activities and the integrated quality, environmental and food safety management system, so in this regard it already operates in accordance with international standards like ISO 9001, HACCP, ISO 14001, IFS, GMP and has readily faced entry in the EU.

In conclusion, it should be pointed out that the Atlantic Grupa's Pan-European strategy is reflected in the combination of recognisable European brands in the segment of sports and functional food with the leading brand Multipower, in the segment of savoury spreads with the brand Argeta, in the segment of baby food with the brand Bebi and in the segment of beverages with the brand Donat Mg and regional brands in the segment of coffee with leading brands Barcaffe and Grand Kafa, in the segment of beverages with leading brands Cedevita, Cockta and Donat Mg, in the segment of snacks with leading brands Najlepše Želje, Bananica, Štark and Smoki and, finally, in the segment pharma and personal care with leading brands Dietpharm, Plidenta, Melem and Rosal.

As previously stated, political and general social risk is inherent to all components of a society and therefore cannot be individually influenced by any single company. International companies that do business in more countries can diversify the listed risk, which primarily depends on individual risks of the states in which such companies operate. The companies that operate in regional markets i.e. the area of former Yugoslavia should bear in mind the political and general social risk considering that those countries are still in the process of political transition. Therefore, each investor should be aware of the political and general social risk inherent to the markets in which the company operates.

Business transactions of any company are influenced by macroeconomic risks, but the extent of their impact depends primarily on the level of cyclicity of the industry in which a company operates. Despite its relatively diversified business model, Atlantic Grupa operates in a stable non-cyclical food industry. Considering that the sales of Atlantic Grupa's production and distribution portfolio are influenced by macroeconomic variables like personal consumption, the level of disposable personal income and trends in retail trade, the company continuously monitors the aforementioned macroeconomic factors while at the same time not underestimating the still unfavourable macroeconomic trends for 2014.

INDUSTRY AND COMPETITION RISKS

CONSUMER GOODS INDUSTRY AND RETAIL (PHARMACIES)

Despite unfavourable macroeconomic trends in 2013, the consumer goods industry in the segment of food products in Croatia is considered interesting mostly due to inelastic product demand since such products are necessary to fulfil basic needs. When considering the development of the consumer goods industry, it is precisely the market liberalisation and globalisation which opened the gates to global producers and retail chains, which in the end resulted in a stronger market competition, more diverse product offer, increase of product quality, establishment of global manufacturing standards and opening of new distribution channels. In such conditions, domestic manufactures can only compete through continuous investment in research and development of new production lines, technological development, marketing in order to improve the brand recognition, and human resources.

Macroeconomic conditions, GDP fluctuation dynamics, in particular personal consumption as a component of the GDP, fluctuation of the disposable personal income and the development of the living standard of consumers largely dictate the trends in the consumption goods industry. In addition to that, the development of the consumer goods industry is also largely influenced by the ability of companies to constantly adapt to consumer needs and market trends, which in turn requires investments in research and development, marketing and technology. Consequently, main risks of this industry include limited growth rates in line with macroeconomic conditions and the need for significant investments in order to achieve competitive advantages in relation to local and global producers.

The consumer goods industry is strictly regulated and at the same time supervised by regulatory authorities, primarily because it has direct influence on the health of consumers. At the same time, this industry is exposed to the risk of uncertainty from the introduction of new, stricter standards which may also require additional material costs.

Certain segments of the consumer goods industry, particularly the segment of food products, are influenced by the factors which companies cannot control, like volatile prices of commodities (coffee, sugar, cacao, etc.) on global markets, weather conditions or the tourist season efficacy. Considering that within the company is the most significant individual commodity by value, special attention is given to planning procurement of raw coffee, following trends in global markets, stock level management and risk management concerning price changes of raw coffee in global markets. By using available protection instruments, Atlantic Grupa successfully neutralises the effect of price volatility of raw materials on its operating results. Certain segments of this industry are of seasonal character, which makes quality management of working capital an extremely important component of ensuring regular business operations of companies. Additionally, a relatively low level of cyclicity of the consumer goods industry makes it attractive to a large number of companies, which in turn results in a larger number of competitors in the market. Furthermore, since there is no significant market leader, there is a risk of new competitors entering the market.

Atlantic Grupa operates in the consumer goods industry segment that includes food products with added value and, accordingly, it uses activities like investing in research and development, investing in technology and closely monitoring market trends and consumer preferences to maintain high market shares in the listed segment. The portfolio of Atlantic Grupa includes a wide range of brands with leading market positions in the region in the segments of coffee, savoury spreads, snacks and beverages. Considering that some of the listed segments are exposed to strong competitive pressures by local and multinational companies, Atlantic Grupa in 2013 continued to actively manage its own brands.

The segment of products dedicated to health and personal care largely depends on the purchasing power of consumers and, consequently, on GDP fluctuations. This segment is characterised by strong competition pressures from multinational companies which have a variety of resources at their disposal, including modern technology, aggressive pricing policy, aggressive and frequent marketing campaigns, research and development investments and fast adaptability to changing market trends. All of the above presents a significant challenge for domestic producers in this segment that calls for significant financial investments in order to keep up with the competition.

Following its entry in the pharmacy business segment in 2008 and its further expansion of the pharmacy chain Farmacia in subsequent years, Atlantic Grupa now owns a pharmacy chain with a national distribution of its pharmacy units. Among the main risks in this business, three risks stand out. The first one refers to the risk of uncertainty from the introduction of new and potentially stricter regulations the pharmacy units must comply with since pharmacy as an industry is strictly regulated and supervised by regulatory authorities. The second pertains to fluctuations of prices on the principal and supplemental list of medicines which must be complied with by pharmacies as subjects contracted by the Croatian Institute for Health Insurance (HZZO). Thirdly, in addition to the volatility of price lists, a significant risk also arises from the risk of delayed payment of receivables by HZZO, which as a result aggravates quality and sensible working capital management. However, Atlantic Grupa uses particular activities aimed at decreasing the listed risks, such as the focus on increasing the share of over-the-counter medicines and food supplements in the product portfolio of pharmacy units, opening of specialised stores (with the portfolio of over-the-counter medicines and food supplements) which are regulated by the Agency for Medicinal Products and Medical Devices and, finally, exploring of synergies across the company's distribution and production portfolio. Moreover, the company views pharmacy units as a significant distribution channel for other products from Atlantic Grupa's production and distribution portfolio.

COMPETITION RISK

With Croatia's accession to the EU and the harmonisation of legislation with the *acquis communautaire*, new standards and norms are established and, at the same time, final obstacles to free competition are removed as a result of the accession to the internal market of the European Union. In line with the mentioned processes, on one hand local companies are becoming increasingly exposed to international competition and, on the other hand, are experiencing the opening of new business opportunities in foreign markets. In recent years, local companies have focused their efforts on business expansion in regional markets that are generally characterised by the increasing demand for consumer goods and, at the same time, the increasing recognisability of domestic brands. The acquisition of the regional food company Droga Kolinska in 2010 certainly reflects the efforts of Atlantic Grupa in expanding its business operations to regional markets.

Foreign food competitors have the advantage over local companies with regard to technological infrastructure, capacity to invest in research and development, financial power, marketing budget size and the global recognisability of their brands. However, the Croatian market and regional markets display a high level of loyalty to tradition as well as to the previously acquired purchasing habits, thus prompting the demand for domestic products. It is exactly the brand recognisability of the products Atlantic Grupa manufactures and/or distributes coupled with their high market shares that emerges as the main comparative advantage of Atlantic Grupa's production/distribution portfolio. With the strategic focus on the development of strong and market recognised brands, Atlantic Grupa aims to reduce the risks brought on by the competition.

Atlantic Grupa is facing strong foreign competition in the segment of health and personal care products, but the expansion of the product offer, quality retention, marketing support, brand recognisability and distribution support provided by the distribution units facilitate the consumption of products from this segment with well-known brands like Plidenta, Rosal, Melem and Dietpharm.

Competition in the pharmacy segment comes primarily from city and county pharmacies and small private pharmacies owned by natural persons, and in lesser extent also from wholesale pharmacy chains and generic pharmaceutical companies which also operate in the pharmacy segment. Atlantic Grupa aims to ensure its competitive advantage over the existing competitors by combining several key factors related to: continuous expansion of the pharmacy chain, national distribution of pharmacy units, opening of specialised stores which represent an upgrade and development of the pharmacy business, managing the pharmacy business in line with the best pharmacy practices and focusing on the education and competence development of pharmacy personnel with the goal of achieving high-quality pharmacy service.

BUSINESS RISK

Business risk refers to the risks present in the company's day-to-day activities which in turn directly influence the keeping of the company's competitive positions as well as the stability of the company's regular business operations. The listed risk is determined by the business environment in which the company operates and its regular business policies and decisions.

IMPACT OF INDIVIDUAL PRODUCTS AND BUSINESS PARTNERS ON BUSINESS PERFORMANCE

In previous years Atlantic Grupa has given significant attention to the diversification and expansion of its production as well as distribution portfolio with the strategic objective of reducing its dependence on the sales of any individual product and thus also the volatility in the realisation of sales results, particularly during the changes of macroeconomic cycles.

Considering the listed diversification in its production and distribution portfolios, changes in the business environment relating to either a specific production segment or a specific partner will not jeopardise the overall business operations of Atlantic Grupa.

PRODUCT DEPENDENCE

Resulting from the significant expansion and diversification of the production and distribution portfolio in previous years, today Atlantic Grupa's regular business operations do not depend significantly on any individual product. At the same time, the most prominent product category is the segment of coffee, followed by the segment of beverages and sports and functional food.

During the past years, Atlantic Grupa combined acquisition activities, innovative approach to new product development and conclusion of new distribution agreements in the diversification of both the production and distribution portfolio. These acquisition activities resulted in what is so far Atlantic Grupa's biggest acquisition – Droga Kolinska at the end of 2010, which has further reduced the company's dependence on one product.

BUSINESS PARTNERSHIP DEPENDENCE

In previous years Atlantic Grupa developed strong partnerships with both domestic and international producers of brands within the distribution portfolio of Atlantic Grupa and continues to realise good collaboration with principals of the new brands in the company's distribution portfolio. Although a loss of exclusive distribution rights to a particular product would have a certain impact on the business performance of Strategic Distribution Units, the risk of that has been greatly reduced in recent years due to the significant expansion of the distribution portfolio. Moreover, in 2013 Atlantic Grupa continued to expand its distribution portfolio by adding new categories and expanding the existing ones to new markets or new distribution channels.

Atlantic Grupa is continually monitoring developments in the brand market with the purpose of concluding new business partnerships. The continuous expansion of the distribution portfolio enables the company to quickly adjust to new conditions in the case of termination of cooperation with any of its present partners.

Close business cooperation with leading domestic retail chains is at the very nature of distribution activities. However, a distributor's dependence on major retail chains may result in additional costs of retaining the partnership in the form of additional discounts, longer payment terms and similar activities. Although Atlantic Grupa has developed good business cooperation with a majority of domestic retail chains, which in turn are the company's major buyers, its dependence on any individual buyer is at an appropriate level. In the case of termination of partnership, or bankruptcy of one of the more important buyers, the impact on business results of Strategic Distribution Units could be significant. However, with the continuous monitoring of the buyers' risk level and payment process and the resulting limitation of exposure to risky buyers, the company aims to reduce the risk to its own operations in the case of termination of partnership or bankruptcy of one of its major buyers. Moreover, Atlantic Grupa strives to reduce the dependence of distribution on retail chains by developing the "alternative distribution channels" like the HoReCa channel (catering), outlets for sales of technical goods and the pharmacy channel.

FINANCIAL RISKS

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

CURRENCY RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro (EUR), Serbian Dinar (RSD) and, in lesser extent, to the American Dollar (USD) and the Russian Ruble (RUB).

Given that the Group also has subsidiaries outside of Croatia, its shareholders equity value is exposed to fluctuations in exchange rates. Equity changes caused by movements in foreign exchange rates are shown as translation differences in the Group's consolidated statement of comprehensive income.

EQUITY SECURITIES RISK

The Group is exposed to equity securities fair value and price risk amid investments held by the Group classified on the consolidated balance sheet as available for sale. Equity investments classified as available for sale are not listed on the stock exchange. To manage its fair value and price risk arising from investments in equity securities, the Group monitors market transactions and performance of investment entities.

CASH FLOW AND FAIR VALUE INTEREST RATE RISK

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

The Group's interest rate risk arises from long-term borrowings and bonds issued. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, which is partially covered by variable rate investments. Borrowings issued at fixed rates expose the Group to fair value interest rate risk regardless of the fact that borrowings received are not expressed at fair value

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

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

CREDIT RISK

The Group's credit risk bearing assets primarily include cash, deposits and trade and other receivables. The Group has policies in place to ensure that sales of products are made to buyers with an appropriate credit history, within previously defined credit limits. The Group's credit risk is low, since receivables are dispersed among a large group of buyers. Additionally, the Group's key buyers are large retail chains, whereas dependence on these buyers is reduced by developing alternative distribution channels. The Group reduces credit risk by implementing strict policies for receivables collection and goods delivery, as well as securing receivables with standard security instruments (bills of exchange and promissory notes)..

LIQUIDITY RISK

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

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

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

EQUITY RISKS

As the riskiest asset class, market value of shares can be extremely volatile amidst general capital market volatility, macroeconomic dynamics on the markets in which the company operates, analysts expectations and delivered results gap, changes in the dividend policy, activities in the M&A area and entry to strategic partnerships, potential difficulties with related parties (suppliers, buyers, strategic partners, etc.), business model instability, fluctuations in the company's financial results. Should mentioned factors have a negative sign, there is significant risk of share's market value decline. Moreover, each investor should be aware that there is a risk of inability to sell shares on the market anytime at fair market value.

ABBREVIATIONS

Abbreviation	Meaning
GDP	Gross Domestic Product
CEFTA	Central European Free Trade Agreement
DDD	Disinfection, Disinsection, Deratization
EMS	Environmental Management System
EnMS	Energy Management System
ERP	Enterprise Resource Planning
FMCG	Fast Moving Consumer Goods
GHP	Good Hygienic Practices
GMO	Genetically Modified Organism
GMP	Good Manufacturing Practice
GRI	Global Reporting Initiative
HACCP	Hazard Analysis and Critical Control Point
CCE	Croatian Chamber of Economy
HoReCa	Hotel, Restaurant, Caffe – sales channel
HRIS	Human Resources Inofrmation System
HZZO	Croatian Institute for Health Insurance
IMF	Instant Milk Formula
IPO	Initial Public Offering
IT	Information Technologies
KPI	Key Performance Indicators
MBA	Master of Business Administration
OTC	Over-The-Counter
PAH	Polycyclic Aromatic Hydrocarbons
SDU	Strategic Distribution Unit
SBU	Strategic Business Unit
CIS	Commonwealth of Independent States (former member states of the Soviet Union)

ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

pwc

Independent Auditor's Report

To the Shareholders and Management of Atlantic Grupa d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Atlantic Grupa d.d. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2013 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Report on Other Legal and Regulatory Requirements

We have read the accompanying Annual Report of the Group for the year ended 31 December 2013 set out on pages 1 to 104. We have verified that the information included in the Annual Report which describes matters that are also presented in the consolidated financial statements is consistent, in all material respects, with the consolidated financial statements referred to above.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 28 March 2014

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ATLANTIC GRUPA d.d.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	Note	2013	2012
Revenues	5	5,092,222	5,005,484
Cost of trade goods sold		(1,223,485)	(1,155,448)
Change in inventories of finished goods and work in progress		4,636	3,667
Material and energy costs		(1,715,825)	(1,814,941)
Staff costs	6	(672,118)	(653,464)
Marketing and promotion costs	7	(351,820)	(320,754)
Depreciation, amortisation and impairment	2.24, 13, 13a, 14	(166,158)	(180,065)
Other operating costs	8	(535,295)	(498,526)
Other (losses)/ gains - net	9	(7,538)	9,105
Operating profit		**424,619**	**395,058**
Finance income	10	46,141	49,085
Finance costs	10	(217,607)	(370,566)
Finance costs - net	10	(171,466)	(321,481)
Profit before tax		**253,153**	**73,577**
Income tax expense	11	(54,159)	(7,465)
Profit for the year		**198,994**	**66,112**
Attributable to:			
Owners of the parent		194,872	55,230
Non-controlling interests		4,122	10,882
		198,994	66,112
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		58.46	16.57
- diluted		58.46	16.57

The consolidated financial statements set out on pages 107 to 167 were approved by the Management Board of Atlantic Grupa d.d. in Zagreb on 28 March 2014.

President of the Management Board

Emil Tedeschi

The accompanying notes on pages 112 to 167 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	**Note**	**2013**	**2012**
Profit for the year		**198,994**	**66,112**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gains from defined benefit plan		2,495	-
		2,495	**-**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences	22	9,707	(56,069)
Cash flow hedges	22	32,332	(10,226)
		42,039	**(66,295)**
Other comprehensive income/(loss) for the year, net of tax		**44,534**	**(66,295)**
Total comprehensive income/(loss) for the year		**243,528**	**(183)**
Attributable to:			
Owners of the parent		239,372	(5,620)
Non-controlling interests		4,156	5,437
Total comprehensive income/(loss) for the year		243,528	(183)

The accompanying notes on pages 112 to 167 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,060,847	1,093,108
Investment property		1,672	1,707
Intangible assets	14	1,851,023	1,870,965
Deferred income tax assets	25	47,912	72,182
Available-for-sale financial assets	17	1,072	1,300
Trade and other receivables	18	9,054	9,584
		2,971,580	3,048,846
Current assets			
Inventories	19	537,232	543,317
Trade and other receivables	18	1,126,410	1,148,770
Prepaid income tax		22,820	23,703
Deposits	18	251	20,142
Cash and cash equivalents	20	325,334	250,865
		2,012,047	1,986,797
Non-current assets held for sale	13a	99,133	113,868
Total current assets		2,111,180	2,100,665
TOTAL ASSETS		**5,082,760**	**5,149,511**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	882,597	882,748
Treasury shares	21	(16)	-
Reserves	22	(15,363)	(57,091)
Retained earnings		622,613	455,201
		1,623,203	1,414,230
Non-controlling interests		51,292	47,136
Total equity		1,674,495	1,461,366
Non-current liabilities			
Borrowings	24	1,968,950	2,198,901
Deferred income tax liabilities	25	181,378	186,955
Derivative financial instruments	15	9,733	50,224
Other non-current liabilities		143	191
Provisions	26	59,723	56,477
		2,219,927	2,492,748
Current liabilities			
Trade and other payables	23	736,172	793,596
Borrowings	24	387,288	354,101
Derivative financial instruments	15	18,950	20,911
Current income tax liabilities		16,213	3,575
Provisions	26	29,715	23,214
		1,188,338	1,195,397
Total liabilities		3,408,265	3,688,145
TOTAL EQUITY AND LIABILITIES		**5,082,760**	**5,149,511**

The accompanying notes on pages 112 to 167 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance 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 year	-	-	55,230	55,230	10,882	66,112
Other comprehensive loss	-	(60,850)	-	(60,850)	(5,445)	(66,295)
Total comprehensive (loss)/income	-	(60,850)	55,230	(5,620)	5,437	(183)
Transaction with owners:						
Acquisition of non-controlling interest (Note 28)	-	-	(23,919)	(23,919)	(25,342)	(49,261)
Share based payment (Note 21)	5,609	-	247	5,856	-	5,856
Purchase of treasury shares (Note 21)	(5,393)	-	-	(5,393)	-	(5,393)
Transfer	-	556	(556)	-	-	-
Dividends relating to 2011	-	-	(1,098)	(1,098)	(879)	(1,977)
Balance at 31 December 2012	**1,016,120**	**(57,091)**	**455,201**	**1,414,230**	**47,136**	**1,461,366**
Comprehensive income:						
Net profit for the year	-	-	194,872	194,872	4,122	198,994
Other comprehensive income	-	42,005	2,495	44,500	34	44,534
Total comprehensive income	-	42,005	197,367	239,372	4,156	243,528
Transaction with owners:						
Share based payment (Note 21)	8,896	-	(224)	8,672	-	8,672
Purchase of treasury shares (Note 21)	(9,063)	-	-	(9,063)	-	(9,063)
Transfer	-	(277)	277	-	-	-
Dividends relating to 2012 (Note 21)	-	-	(30,008)	(30,008)	-	(30,008)
Balance at 31 December 2013	**1,015,953**	**(15,363)**	**622,613**	**1,623,203**	**51,292**	**1,674,495**

The accompanying notes on pages 112 to 167 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	**Note**	**2013**	**2012**
Cash flows from operating activities:			
Cash generated from operations	29	598,423	554,686
Interest paid		(146,761)	(219,779)
Income tax paid		(31,417)	(38,950)
		420,245	295,957
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13, 14, 24	(99,994)	(78,811)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		21,360	20,071
Acquisition of available-for-sale financial assets		(58,005)	(21,000)
Proceeds from sale of available-for-sale financial assets		58,048	21,043
Advance for acquisition of subsidiary	28	(6,775)	-
Loans granted and deposits placed		(4,328)	(91,293)
Repayments of loan and deposits granted		23,161	112,291
Interest received		8,189	9,741
		(58,344)	(27,958)
Cash flows used in financing activities			
Purchase of treasury shares	21	(9,063)	(5,393)
Proceeds from borrowings, net of fees paid	24	85,111	1,919,805
Repayments of borrowings	24	(334,591)	(2,127,499)
Acquisition of interest in a subsidiary from non-controlling interests	28	-	(40,536)
Dividends paid to Company shareholders	21	(30,008)	-
Dividends paid to non-controlling interests		-	(879)
Withholding tax paid on dividend distributed within the Group		-	(1,098)
		(288,551)	(255,600)
Net increase in cash and cash equivalents		**73,350**	**12,399**
Exchange gains/(losses) on cash and cash equivalents		1,119	(9,130)
Cash and cash equivalents at beginning of year		250,865	247,596
Cash and cash equivalents at end of year	20	**325,334**	**250,865**

The accompanying notes on pages 112 to 167 are an integral part of these consolidated financial statements.

NOTE 1 – GENERAL INFORMATION

Operating as a vertically integrated multinational company, Atlantic Grupa d.d. (the Company) and its subsidiaries (as disclosed in Note 32 "the Group") have business activities that incorporate R&D, production and distribution of fast moving consumer goods in Southeast Europe, the European markets and Russia and CIS (Commonwealth of Independent States). With its modern production network, the Group stands out as one of the leading food & beverage producers in Southeast Europe with prominent coffee brands Grand Kafa and Barcaffe, a range of beverage brands Cockta, Donat Mg, Cedevita, Cedevita GO!, a portfolio of sweet and salted snacks brands Smoki, Najlepše želje and Bananica and the savoury spread brand Argeta. Additionally, the Group has a wide range of personal care product portfolio, owns the leading Croatian producer of vitamins, minerals, supplements and OTC drugs as well as the leading pharmacy chain in Croatia under the Farmacia brand. Furthermore, the Group manufactures and distributes the leading European brand in sports nutrition - Multipower and has a strong foothold on the Russian and CIS markets with its baby food portfolio under the Bebi brand. With its own distribution network in Croatia, Slovenia, Serbia and Macedonia, the Group also distributes a range of products from external partners (Unilever, Ferrero, Wrigley, Johnson & Johnson, Duracell and others). The Group has manufacturing plants in Croatia, Slovenia, Serbia, Bosnia and Herzegovina, Macedonia and Germany with firms and representative offices in 11 countries. The Group exports its products to more than 40 markets worldwide.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year which were endorsed by the EU. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendments 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 and affects presentation only and therefore did not have an impact on the Group’s financial position or performance.

- *Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013).* Makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income. The Group reports accumulated amount of these re-measurements in retained earnings in equity. Retrospective application of the standard was not applied as it did not have material impact on the consolidated financial statements of the Group.

- *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 Group’s operations, because the Group is not a first-time adopter nor user of government loans.

- *Amendment to IFRS 7 Financial Instruments: Disclosures on Asset and Liability Offsetting (effective for annual periods beginning on or after 1 January 2013*). This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The amendment has impact on disclosure only and did not have an impact on the Group’s financial position or performance.

- *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, which are largely aligned between IFRS and US GAAP, 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 did not have an impact on the Group’s financial statements.

- *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 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. This interpretation is not relevant to the Group’s operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *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'

  These improvements did not have an impact on the Group's financial statements.

(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 2014, and have not been applied in preparing these financial statements. None of these is expected to have significant effect on the consolidated financial statements of the Group and the Group plans to adopt them on their effective date as of and when endorsed by the EU.

- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014).* 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.

- *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014).* IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- *IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014).* 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.

- *IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014).* IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- *IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014).* IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendment to IFRSs 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2014).* 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 remove the requirement to present comparative information for periods before IFRS 12 is first applied.

- *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.

- *Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).* These amendments are to the application guidance in IAS 32 Financial instruments: Presentation, and clarify some of requirements for offsetting financial assets and financial liabilities on the statement of financial position.

- *Amendments to IFRS 10, IFRS 12 and IAS 27 – on Consolidation for Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).* These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through comprehensive income. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

- *Amendment to IAS 36 Impairment of Assets on Recoverable Amount Disclosures (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014)* This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment could have an impact on disclosure only, but not on measurement and recognition of the assets in the Group's financial position or performance.

- *Amendment to IAS 39 Financial Instruments: Recognition and Measurement 'Novation of Derivatives' (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014)* This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.

- *IFRIC 21 Levies (issued on 20 May 2013 and effective for annual periods beginning on or after 1 January 2014)* This is an interpretation of IAS 37 Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendments to IAS 19 – Defined benefit plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014)* The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

- *Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below)* The improvements consist of changes to seven standards:
    - IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; It is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
    - IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments are effective for business combinations where the acquisition date is on or after 1 July 2014.
    - IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.
    - The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
    - IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
    - IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

- *Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014)* The improvements consist of changes to four standards:
    - The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
    - IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
    - The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.
    - IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

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

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

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

(b) Mergers

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

(c) Transactions with non-controlling interests

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

(d) Disposal of subsidiary

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Strategic Management Council.

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

The results and financial position of all Group entities with a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates; and
(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken into other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are reclassified from other comprehensive income to the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, if required. Historical cost includes expenditure directly attributable to the acquisition of items.

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

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

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

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are recognised immediately as an expense and not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Distribution rights

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

(c) Brands

Brands acquired in a business combination are carried at initially determined fair value (recognised at acquisition date) less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of brands over their estimated useful life (15 years).

Brands with indefinite useful lives are not amortized, but are tested annually for impairment at the cash generating unit level.

(d) Computer software

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

(e) Licences

Licences acquired in a business combination are recognized at fair value at the acquisition date. Licences have indefinite useful lives and are not amortised, but are tested annually for impairment at the cash generating unit level.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

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

2.8 Financial assets

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

(a) Loans and receivables

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

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

(b) Available-for-sale financial assets

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 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 Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

2.9 Leases

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

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

2.10 Inventories

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and other receivables

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

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

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

2.14 Borrowings

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax

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

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

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

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

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

The Group makes payments to mandatory pension funds on behalf of its employees in the ordinary course of business through salary deductions, as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group has no other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits except for the one-off retirement payment as prescribed by local legislation. The liability recognised in the balance sheet in respect of one-off retirement payment is the present value of the defined benefit obligation at the end of the reporting period. This obligation is calculated annually by independent actuaries. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Interest costs/income arising from actuarial calculation are charged/credited to income statement within ‘interest expenses’.

(b) Termination benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged immediately or credited to the income statement within 'staff costs'. Interest costs/income arising from actuarial calculation are charged/credited to income statement within 'interest expense'.

(d) Share-based compensation

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

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

(e) Short-term employee benefits

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

2.17 Provisions

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, returns, rebates and discounts, expenses of listing the products and marketing activities that are an integral part of contracts with customers. All other marketing activities related to marketing campaigns that are not integral part of customer contract are presented within Marketing and promotion costs.

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

(a) Sales of products and trade goods – wholesale

The Group manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Group has delivered the products to the wholesaler, the wholesaler has full discretion over the price to sell and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of loss have been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

Products are sold with volume discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specific in the sales contracts, net of estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of up to 90 days, which is consistent with the market practice.

(b) Sales of goods - retail

The Group operates a pharmacy and specialised stores.

Sale of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The Group operates a customer loyalty programme, allowing customers to accumulate points when they purchase products. The points can then be redeemed as discount on subsequent purchase, subject to a minimum number of points being obtained. Consideration received is allocated between the products sold and the points issued. Part of fair value of the points issued is deferred as liability in the balance sheet and recognised as revenue when the points are redeemed.

(c) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Interest income

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Dividend distribution

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

2.20 Value added tax

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

2.21 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.22 Derivative financial instruments and hedging activities

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

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

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

The fair value of cash flow hedge derivatives is disclosed in Note 15 and changes in cash flow hedge reserves are disclosed in Note 22.

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Trade payables

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

2.24 Investment property

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Investment property is derecognized when it either has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Transfers are made to or from investment property only when there is a change in use. The carrying amount approximates fair value. Investment property is held for long term rental yields and is not occupied by the Group. Depreciation expense related to investment property amounted to HRK 49 thousand in 2013 (2012: HRK 231 thousand).

2.25 Comparatives

In 2013 the classification of Representative offices costs has changed from ‘Other operating costs’ to ‘Staff costs’, reflecting the classification of these costs by their nature. The classification of these costs in the 2012 comparative information has been changed to reflect the 2013 presentation.

The effect of these changes on comparative figures for 2012 is as follows:

(in thousands of HRK)	2012
Increase in staff costs	1,966
Decrease in other operating costs	(1,966)

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO, Serbian dinar (RSD), and to the lesser extent the US dollar (USD) and Russian Rubles (RUB).

Movements in exchange rates between the above mentioned currencies and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow of the Group. The amounts in tables below represent the HRK amounts denominated in these currencies at the balance sheet date for major balance sheet monetary items.

31 December 2013

(in thousands of HRK)	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	393,240	304,130	222	31,823
Cash and cash equivalents	146,888	51,226	6,759	1,781
Trade and other payables	(287,061)	(89,362)	(31,289)	(2,135)
Borrowings	(2,100,238)	-	(6,510)	-
Net balance sheet exposure	**(1,847,171)**	**265,994**	**(30,818)**	**31,469**

31 December 2012

(in thousands of HRK)	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	387,350	328,988	192	24,501
Cash and cash equivalents	113,105	52,249	224	2,452
Trade and other payables	(268,135)	(100,547)	(35,287)	(1,757)
Borrowings	(2,296,234)	-	(3,867)	-
Net balance sheet exposure	**(2,063,914)**	**280,690**	**(38,738)**	**25,196**

Given that the Group also has subsidiaries outside of Croatia, its shareholders equity value is exposed to fluctuations in exchange rates. Equity changes caused by movements in foreign exchange rates are shown as translation differences in the Group's consolidated statement of comprehensive income.

In the event of a rise of 1% in the EUR against HRK and RSD, assuming all other variables remain constant, the profit after tax for the year would have been HRK 7,886 thousand lower (2012: HRK 9,826 thousand lower), mainly due to the EUR denominated borrowings and other comprehensive income would be HRK 10,803 thousand higher (2012: HRK 10,148 thousand higher), due to the translation differences arising on consolidation of subsidiaries whose local currency is EUR.

In the event of a rise of 1% in the RSD against HRK, assuming all other variables remain constant, the profit after tax for the year would have been HRK 1,079 thousand higher (2012: HRK 280 thousand higher) and other comprehensive income would be HRK 3,484 thousand higher (2012: HRK 3,094 thousand higher), assuming no change in other items.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(ii) Equity securities risk

The Group is exposed to equity securities fair value and price risk with respect to investments held by the Group classified on the consolidated balance sheet as available for sale. Equity investments classified as available for sale are not listed. To manage its fair value and price risk arising from investments in equity securities, the Group monitors market transactions and performance of investment entities.

No reliable external information exists with respect to fair value. Management believes, based on internal information, that the fair value equals or exceeds carrying value. However, due to limited information available, management has not carried out a sensitivity analysis. At 31 December 2013, if the fair value of the available-for-sale investment would change, with all other variables held constant, other comprehensive income and revaluation reserves would also change by the same amount.

(iii) Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises from long-term borrowings and bonds issued. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable interests rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk although no borrowings are carried at fair value.

The Group analyses its interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. As at 31 December 2013, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2012: 100 basis points), the profit after tax would have been lower/higher by HRK 7,337 thousand (2012: HRK 10,992 thousand) mainly as a result of increased/decreased interest expense.

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group's assets, potentially subjecting the Group to concentrations of credit risk, primarily include cash, deposits and trade and other receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. The Group's credit risk is low, since receivables are dispersed among a large group of customers. Additionally, the Group's key customers are large retail chains, whereas dependence on these customers is reduced by developing alternative distribution channels. The Group reduces credit risk by implementing strict policies for receivables collection and goods delivery, as well as securing receivables with standard security instruments (bills of exchange and promissory notes). No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. A detailed analysis and maximum exposure to credit risk is shown in Notes 15, 16 and 18.

(c) Liquidity risk

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

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

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

At 31 December 2013, the Group held cash and cash equivalents in the amount of HRK 325,334 thousand (2012: HRK 250,865 thousand) and short-term deposits in the amount of HRK 251 thousand (2012: HRK 20,142 thousand). These are expected to readily generate cash inflows for managing liquidity risk.

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

The table below analyses financial liabilities of the Group according to contracted maturities. The amounts disclosed in the table below represent the contractual undiscounted cash flows.

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
31 December 2013				
Trade and other payables	691,779	-	-	691,779
Borrowings (excluding finance lease)	457,997	1,808,040	443,254	2,709,291
Finance lease liabilities	3,412	1,644	-	5,056
Derivative financial instruments	18,950	9,733	-	28,683

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
31 December 2012				
Trade and other payables	735,312	-	-	735,312
Borrowings (excluding finance lease)	401,304	1,719,333	943,548	3,064,185
Finance lease liabilities	10,396	5,163	-	15,559
Derivative financial instruments	20,911	50,224	-	71,135

3.2 Capital risk management

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

The gearing ratios were as follows:

	2013	2012
	(in thousands of HRK)	
Total borrowings (Note 24)	2,356,238	2,553,002
Derivative financial instruments (Note 15)	28,683	71,135
Less: Short-term deposits given and Cash and cash equivalents (Note 18 and 20)	(325,585)	(271,007)
Net debt	2,059,336	2,353,130
Total equity	1,674,495	1,461,366
Total capital	**3,733,831**	**3,814,496**
Gearing ratio	**55%**	**62%**

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Comparing to previous year, gearing ratio decreased as a result of repayment of borrowings and increase in cash and cash equivalents.

3.3 Fair value estimation

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

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

(a) Deferred income tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (Note 25).

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

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment as stated in Note 2.7. Intangible assets with indefinite useful lives are tested for impairment on an individual asset basis whereas goodwill is tested based on the operating segment to which it is allocated.

Goodwill and intangible assets with indefinite lives have been allocated to cash generating units within operating segments as follows:

Operating segment *(in thousands of HRK)*	**Goodwill**	**Licences**	**Brands**
SBU Beverages	91,576	-	76,735
SBU Coffee	66,505	-	261,399
SBU (Sweet and Salted) Snacks	232,104	-	146,404
SBU Savoury Spreads	128,286	-	245,367
SBU Pharma and Personal Care	198,848	170,211	-
Russian market	22,162	-	28,924
SDU Croatia	38,605	-	-
SDU Slovenia, Serbia, Macedonia	90,076	-	-

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial forecasts approved by the management, covering a seven-year period.

Value in use calculations for goodwill were determined based on the following assumptions:

Operating segment	Pre-tax discount rate
SBU Beverages	10.4%
SBU Coffee	10.9%
SBU (Sweet and Salted) Snacks	11.6%
SBU Savoury Spreads	10.9%
SBU Pharma and Personal Care	9.1%
Russian market	11.4%
SDU Croatia	9.6%
SDU Slovenia, Serbia, Macedonia	9.6%

The Growth rate assumptions were based on historical data and management's expectations for market development. Terminal growth rate is 2% for all Operating segments and is based on management's expectations for market development.

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 27,096 thousand was recognised (2012: HRK 4,002 thousand) in respect of impairment of intangible assets with indefinite useful lives.

The sensitivity analysis of key assumptions used in the impairment testing showed that a discount rate increase by 100 basis points would result on average in an 10.7% decrease of the recoverable amount of cash generating units. Despite the decrease, the net recoverable amount of cash generating units would still exceed the carrying value.

(c) Brand valuation

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

Key assumptions used for cash flow projections were as follows:

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(c) Brand valuation (continued)

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

This valuation relied on the following assumptions:

	Estimated royalty rates	**Discount rate**
Barcaffe	4.0%	9.5%
Grand Kafa	4.0%	11.6%
Najlepše želje	8.0%	11.7%
Bananica	5.0%	11.5%
Smoki	8.0%	11.5%
Argeta	8.0%	11.5%
Donat	8.0%	10.3%
Cockta	5.0%	10.9%
Bebi	3.0%	11.4%

(d) Licences valuation

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

Key assumptions used for cash flow projections were as follows:

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

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

NOTE 5 – SEGMENT INFORMATION

The business model of the Group is organized through six strategic business units and three strategic distribution units, which have been joined by a separate market unit, Russia. Strategic Management Council is responsible for strategic and operational issues.

For more efficient management of individual strategic business and strategic distribution units, the organization unites similar business activities or products, shared markets or channels, together. Specifically, 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. For the time being, performance of SDU International will not be measured as a separate segment. Instead, sales and profitability of this unit will be reported within related SBUs.

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

Sales of individual SBUs represent market sales made to third parties (either directly through SBUs or through SDUs). SDU sales include 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.

The measure of assets and liabilities has not been disclosed for reportable segments as assets and liabilities are provided to the Strategic Management Council on a Group basis only.

NOTE 5 – SEGMENT INFORMATION (continued)

Sales revenues *(in thousands of HRK)*	**2013**	**2012**
SBU Beverages	651,991	671,934
SBU Coffee	1,087,157	1,090,672
SBU (Sweet and Salted) Snacks	617,494	600,473
SBU Savoury Spreads	458,843	463,664
SBU Sports and Functional Food	780,992	679,971
SBU Pharma and Personal Care	505,954	481,328
SDU Croatia	806,721	876,829
SDU Slovenia, Serbia, Macedonia	1,938,605	1,930,387
Other segments	423,659	373,152
Reconciliation	(2,220,129)	(2,237,969)
Total	**5,051,287**	**4,930,441**

Operating results	**For the year ending 31 December 2013**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	122,237	40,521	81,716
SBU Coffee	238,704	15,148	223,556
SBU (Sweet and Salted) Snacks	111,827	20,920	90,907
SBU Savoury Spreads	123,320	14,024	109,296
SBU Sports and Functional Food	22,639	5,672	16,967
SBU Pharma and Personal Care	47,926	10,110	37,816
SDU Croatia	15,178	5,788	9,390
SDU Slovenia, Serbia, Macedonia	82,588	5,897	76,691
Other segments	(173,642)	48,078	(221,720)
Total	**590,777**	**166,158**	**424,619**

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results	**For the year ending 31 December 2012**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	137,019	44,164	92,855
SBU Coffee	156,734	17,854	138,880
SBU (Sweet and Salted) Snacks	115,334	21,612	93,722
SBU Savoury Spreads	122,791	16,525	106,266
SBU Sports and Functional Food	11,281	6,440	4,841
SBU Pharma and Personal Care	57,140	10,062	47,078
SDU Croatia	12,562	6,491	6,071
SDU Slovenia, Serbia, Macedonia	84,539	5,450	79,089
Other segments	(122,277)	51,467	(173,744)
Total	**575,123**	**180,065**	**395,058**

Geographical information

The total of non-current assets other than financial instruments, deferred income tax assets and trade and other receivables is located as follows:

	2013	**2012**
	(in thousands of HRK)	
Serbia	1,004,932	1,029,562
Slovenia	990,665	978,566
Croatia	704,384	729,777
Other	213,561	227,875
Total geographically allocated non-current assets	**2,913,542**	**2,965,780**

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2013 (in thousands of HRK)	2013 %	2012 (in thousands of HRK)	2012 %
Croatia	1,254,097	24.8	1,313,338	26.6
Serbia	1,215,221	24.1	1,226,774	24.9
Slovenia	689,269	13.6	648,695	13.2
Bosnia and Herzegovina	364,201	7.2	376,980	7.7
Macedonia, Montenegro, Kosovo	317,073	6.3	316,936	6.4
Germany, Italy, United Kingdom	387,943	7.7	361,952	7.3
Russia and CIS countries	299,285	5.9	244,960	5.0
Other markets	524,198	10.4	440,806	8.9
Total sales by markets	**5,051,287**	**100.0**	**4,930,441**	**100.0**

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

Analysis of revenue by category	2013 (in thousands of HRK)	2013 %	2012 (in thousands of HRK)	2012 %
Sales by type of products				
Own brands	3,660,516	71.9	3,552,099	71.0
Principal brands	756,782	14.9	782,099	15.6
Pharmacy	308,508	6.0	300,230	6.0
Private label	325,481	6.4	296,013	5.9
Total sales by type of products	**5,051,287**	**99.2**	**4,930,441**	**98.5**
Other income /i/	40,935	0.8	75,043	1.5
Total revenues	**5,092,222**	**100.0**	**5,005,484**	**100.0**

/i/ Of total other income in 2012, HRK 20,673 thousand relates to income from the expiry of liability under the option for sale of property in Ljubljana.

NOTE 6 – STAFF COSTS

	2013	2012
	(in thousands of HRK)	
Gross salaries /i/	596,715	580,498
Public transport	15,357	14,815
Termination benefits	4,664	7,128
Share options granted (Note 21)	5,849	6,083
Other staff costs /ii/	49,533	44,940
	672,118	**653,464**

At 31 December 2013, the number of staff employed by the Group was 4,228 (2012: 4,247).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2013 amounted to HRK 92,287 thousand (2012: HRK 87,056 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2013	2012
	(in thousands of HRK)	
Marketing and promotion costs - external	283,584	266,322
Marketing and promotion costs - related parties (Note 30)	20,662	17,045
Sponsorships and donations	47,574	37,387
	351,820	**320,754**

NOTE 8 – OTHER OPERATING COSTS

	2013	2012
	(in thousands of HRK)	
Transportation costs	109,044	102,822
Maintenance	97,575	96,563
Rentals (Note 27)	79,709	75,860
Non-production material	26,831	29,844
Fuel	21,311	23,023
Provision for impairment of inventories (Note 19)	18,060	22,454
Intellectual services	17,390	20,420
Taxes and contributions not related to operating results	15,100	16,365
Travel expense and daily allowances	16,554	14,827
Non-production services	14,169	14,165
Telecommunication services	13,009	13,730
Entertainment	13,859	12,515
Bank charges	9,133	10,175
Provision for impairment of receivables (Note 18)	30,930	9,960
Production services	5,737	5,895
Supervisory Board fees	1,398	1,358
Royalties	1,464	1,441
Collection of receivables previously provided for (Note 18)	(3,739)	(5,148)
Other – related parties (Note 30)	2,689	2,743
Other	45,072	29,514
	535,295	**498,526**

NOTE 9 – OTHER (LOSSES)/GAINS – NET

	2013	2012
	(in thousands of HRK)	
(Loss)/gain on sale of property, plant and equipment	(250)	9,248
Gain on sale of available-for-sale financial assets	48	43
Fair value losses on financial assets	(5,846)	(1,168)
Foreign exchange (losses)/gains – net	(2,757)	1,470
Other gains/(losses) – net	1,267	(488)
	(7,538)	**9,105**

NOTE 10 – FINANCE COSTS – NET

	2013	2012
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	(46,141)	(49,033)
Other finance income	-	(52)
	(46,141)	(49,085)
Finance costs		
Foreign exchange loss on borrowings	58,342	113,020
Interest expense on bank borrowings	66,722	195,348
Interest expense on bonds	8,371	8,419
Interest expense on provisions for employee benefits	1,544	-
Interest expense on borrowings – related parties (Note 30)	82,628	53,779
	217,607	370,566
Finance costs - net	**171,466**	**321,481**

NOTE 11 – INCOME TAX

	2013	2012
	(in thousands of HRK)	
Current income tax	42,737	25,975
Deferred tax (Note 25)	11,422	(18,510)
	54,159	**7,465**

NOTE 11 – INCOME TAX (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2013	2012
	(in thousands of HRK)	
Profit before taxation	**253,153**	**73,577**
Income tax calculated at domestic tax rates applicable to profits in the respective countries	51,580	23,398
Tax effects of: Adjustments in respect of prior years	(198)	(404)
Income not subject to tax	(24,751)	(9,288)
Expenses not deductible for tax purposes	26,451	13,342
Utilisation of previously unrecognized tax losses	(21,339)	(21,095)
Tax losses for which no deferred tax assets was recognised	10,995	20,022
Effect of utilized tax losses	22,825	2,680
Effect of recognized tax losses	(2,799)	(22,866)
Effect of change in tax rate	-	(811)
Origination and reversal of temporary tax differences	(8,605)	2,487
Tax expense	**54,159**	**7,465**

The weighted average effective tax rate was 21.4% (2012: 10.1%). The increase comparing to the previous year is primarily caused by the recognition of income tax losses in 2012 and their utilisation in 2013.

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

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

	2013	2012
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	194,872	55,230
Weighted average number of ordinary shares in issue	3,333,240	3,334,014
Basic earnings per share *(in HRK)*	58.46	16.57

Diluted earnings per share

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

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land**	**Buildings**	**Plant and equipment**	**Assets not yet in use**	**Total**
At 31 December 2011					
Cost	95,960	752,800	1,640,606	33,926	2,523,292
Accumulated depreciation	-	(308,693)	(1,025,097)	-	(1,333,790)
Net book amount	**95,960**	**444,107**	**615,509**	**33,926**	**1,189,502**
At 1 January 2012					
Opening net book amount	95,960	444,107	615,509	33,926	1,189,502
Additions	-	472	9,406	60,817	70,695
Transfer	-	17,799	55,543	(73,342)	-
Disposals	-	(582)	(3,604)	-	(4,186)
Depreciation	-	(21,471)	(113,140)	-	(134,611)
Transfer to / from assets held for sale	(4,034)	(1,461)	21	-	(5,474)
Foreign exchange differences	(238)	(6,756)	(13,872)	(1,952)	(22,818)
Closing net book amount	**91,688**	**432,108**	**549,863**	**19,449**	**1,093,108**
At 31 December 2012					
Cost	91,688	772,920	1,633,867	19,449	2,517,924
Accumulated depreciation	-	(340,812)	(1,084,004)	-	(1,424,816)
Net book amount	**91,688**	**432,108**	**549,863**	**19,449**	**1,093,108**
At 1 January 2013					
Opening net book amount	91,688	432,108	549,863	19,449	1,093,108
Additions	-	-	-	91,187	91,187
Transfer	337	11,812	70,124	(82,273)	-
Disposals	-	(839)	(2,633)	-	(3,472)
Depreciation	-	(19,452)	(106,609)	-	(126,061)
Transfer to / from assets held for sale	(150)	-	(602)	-	(752)
Foreign exchange differences	807	3,184	2,696	150	6,837
Closing net book amount	**92,682**	**426,813**	**512,839**	**28,513**	**1,060,847**
At 31 December 2013					
Cost	92,682	787,784	1,678,909	28,513	2,587,888
Accumulated depreciation	-	(360,971)	(1,166,070)	-	(1,527,041)
Net book amount	**92,682**	**426,813**	**512,839**	**28,513**	**1,060,847**

Property, plant and equipment with a net book value of HRK 316,793 thousand as at 31 December 2013 (2012: HRK 331,153 thousand), have been pledged as collateral for borrowings (Note 24).

Property, plant and equipment include assets leased under a finance lease with a net book value of HRK 27,534 thousand (2012: HRK 35,791 thousand).

NOTE 13a – NON-CURRENT ASSETS HELD FOR SALE

	2013	2012
	(in thousands of HRK)	
Opening net book amount	113,868	139,127
Classified as held for sale during the year	752	5,495
Disposals	(16,617)	(5,551)
Impairment charge /i/	-	(25,107)
Transfer to own use assets	-	(21)
Foreign exchange differences	1,130	(75)
Closing net book amount	**99,133**	**113,868**

Non-current assets held for sale relate to the property of Droga Kolinska d.d. and Atlantic Trade Zagreb d.o.o. An active program to complete the sale plan has been initiated and one part of assets has been sold during 2013 whilst the remaining part is expected to be sold in 2014.

Assets in the amount of HRK 72,659 thousand (2012: nil) have been pledged as collateral for borrowings (Note 24).

/i/ An impairment charge of HRK 25,107 thousand was recognized in 2012 to reduce the carrying amount of the assets to the fair value less costs to sell.

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	**Goodwill**	**Licences**	**Brands**	**Rights**	**Software**	**Total**
At 31 December 2011						
Cost	911,927	210,292	839,377	5,646	108,436	2,075,678
Accumulated amortisation and impairment	-	(15,196)	(19,482)	(5,646)	(79,160)	(119,484)
Net book amount	**911,927**	**195,096**	**819,895**	**-**	**29,276**	**1,956,194**
At 1 January 2012						
Opening net book amount	911,927	195,096	819,895	-	29,276	1,956,194
Foreign exchange differences	(43,551)	-	(18,803)	-	8	(62,346)
Additions	-	-	-	-	8,116	8,116
Disposals	(3,916)	(5,855)	-	-	(1,112)	(10,883)
Amortisation	-	-	(3,752)	-	(12,362)	(16,114)
Impairment charge /i/	-	(4,002)	-	-	-	(4,002)
Closing net book amount	**864,460**	**185,239**	**797,340**	**-**	**23,926**	**1,870,965**
At 31 December 2012						
Cost	864,460	204,437	820,574	-	114,711	2,004,182
Accumulated amortisation and impairment	-	(19,198)	(23,234)	-	(90,785)	(133,217)
Net book amount	**864,460**	**185,239**	**797,340**	**-**	**23,926**	**1,870,965**
At 1 January 2013						
Opening net book amount	864,460	185,239	797,340	-	23,926	1,870,965
Foreign exchange differences	3,702	-	7,474	-	140	11,316
Additions	-	-	-	-	8,807	8,807
Disposals	-	-	-	-	(17)	(17)
Amortisation	-	-	(3,761)	-	(9,191)	(12,952)
Impairment charge /i/	-	(15,028)	(12,068)	-	-	(27,096)
Closing net book amount	**868,162**	**170,211**	**788,985**	**-**	**23,665**	**1,851,023**
At 31 December 2013						
Cost	868,162	204,437	823,577	-	124,620	2,020,796
Accumulated amortisation and impairment	-	(34,226)	(34,592)	-	(100,955)	(169,773)
Net book amount	**868,162**	**170,211**	**788,985**	**-**	**23,665**	**1,851,023**

The disclosure on goodwill and intangible assets with indefinite useful lives impairment test is provided in Note 4 b).

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

The 2012 disposal of goodwill and licences relate to the sale of one pharmacy, as part of the acquisition of non-controlling interests (Note 28).

Intangible assets with a net book value of HRK 703,618 thousand as at 31 December 2013 (2012: HRK 711,703) have been pledged as collateral for borrowings (Note 24).

NOTE 15 – FINANCIAL INSTRUMENTS BY CATEGORY

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

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	Total
31 December 2013			
Financial assets			
Available-for-sale	-	1,072	**1,072**
Trade and other receivables	1,090,037	-	**1,090,037**
Short-term deposits	251	-	**251**
Cash and cash equivalents	325,334	-	**325,334**
Total	**1,415,622**	**1,072**	**1,416,694**

(in thousands of HRK)	Other financial liabilities	Finance leases	Derivatives used for hedging	Total
31 December 2013				
Financial liabilities				
Borrowings	2,351,484	-	-	**2,351,484**
Finance leases	-	4,754	-	**4,754**
Derivative financial instruments /i/	-	-	28,683	**28,683**
Trade and other payables	691,397	-	-	**691,397**
Total	**3,042,881**	**4,754**	**28,683**	**3,076,318**

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	Total
31 December 2012			
Financial assets			
Available-for-sale	-	1,300	**1,300**
Trade and other receivables	1,105,359	-	**1,105,359**
Short-term deposits	20,142	-	**20,142**
Cash and cash equivalents	250,865	-	**250,865**
Total	**1,376,366**	**1,300**	**1,377,666**

(in thousands of HRK)	Other financial liabilities	Finance leases	Derivatives used for hedging	Liabilities at fair value through profit or loss	Total
31 December 2012					
Financial liabilities					
Borrowings	2,538,342	-	-	-	**2,538,342**
Finance leases	-	14,660	-	-	**14,660**
Derivative financial instruments /i/	-	-	63,724	7,411	**71,135**
Trade and other payables	734,395	-	-	-	**734,395**
Total	**3,272,737**	**14,660**	**63,724**	**7,411**	**3,358,532**

i/ Derivative financial instruments classified as held for trading relate to the fair value of interest-risk hedges.

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS

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

As at 31 December 2013, financial assets classified as trade and other receivables and short-term deposits given that are not past due amounted to HRK 895,080 thousand (2012: HRK 919,572 thousand). These receivables relate to existing customers with no defaults in the past.

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

Credit rating	**2013**	**2012**
	(in thousands of HRK)	
A-1/Negative (Standard &Poor's)	118,784	120,269
A-2/Negative (Standard &Poor's)	134,716	105,063
Non-Prime /Stable (Moody's)	35,835	-
Non-Prime /Negative (Moody's)	-	3,891
Petty cash and other banks	35,999	21,642
	325,334	**250,865**

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:

	2013	**2012**
	(in thousands of HRK)	
Trade receivables		
Counterparties without external credit rating		
Group 1	22,991	25,839
Group 2	617,977	501,065
Group 3	214,387	320,389
Total unimpaired trade receivables	**855,355**	**847,293**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2013	2012
	(in thousands of HRK)	
Other receivables		
A-	-	3
Counterparties without external credit rating		
Group 2	21,830	35,337
Total unimpaired other receivables	**21,830**	**35,340**

	2013	2012
	(in thousands of HRK)	
Loans and long-term deposits		
Counterparties without external credit rating		
Group 2	10,763	11,777
Group 3	6,881	5,020
	17,644	**16,797**

	2013	2012
	(in thousands of HRK)	
Short-term deposits		
A-1/Negative	251	20,142
	251	**20,142**

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

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

NOTE 17 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

Investments in available-for-sale financial assets relate to unlisted equity instruments and are carried at cost since they do not have quoted market price and fair value cannot be reliably measured.
During 2013 and 2012, there were no impairment provisions on available-for-sale financial assets.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2013	2012
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	8,777	9,547
Other non-current receivables /iv/	277	37
	9,054	9,584
Current receivables		
Trade receivables /ii/	1,050,563	1,053,222
Loans receivable and deposits /i/	8,867	7,250
Current portion of other non-current receivables /iv/	-	9,595
Other receivables /iii/	66,980	78,703
	1,126,410	1,148,770
Short-term deposits /vi/	251	20,142
	1,135,715	**1,178,496**

	2013	2012
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	17,644	16,797
Trade receivables	1,050,563	1,053,222
Other receivables	21,830	35,340
Short-term deposits	251	20,142
	1,090,288	**1,125,501**

/i/ Loans receivable and deposits are as follows:

	2013	2012
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	1,621	1,084
Loans	9,127	9,727
Current portion	(1,971)	(1,264)
	8,777	9,547
Current receivables		
Loans – related parties (Note 30)	5,764	4,248
Loans	1,132	1,738
Current portion of non-current receivables	1,971	1,264
	8,867	7,250
	17,644	**16,797**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

/ii/ Trade receivables are as follows:

	2013	2012
	(in thousands of HRK)	
Gross trade receivables	1,107,429	1,115,853
Trade receivables – related parties (Note 30)	87,442	76,099
Provision for trade receivables	(144,308)	(138,730)
	1,050,563	**1,053,222**

/iii/ Other receivables are as follows:

	2013	2012
	(in thousands of HRK)	
Receivables from government institutions	22,881	35,164
Outstanding advances	8,746	2,206
Factoring receivables	9,298	7,387
Prepaid expenses	5,673	5,068
Interest receivable	6	18
Other receivables – related parties (Note 30)	88	79
Other /v/	20,288	28,781
	66,980	**78,703**

/iv/ Other non-current receivables in the amount of HRK 9,595 thousand as at 31 December 2012 related to receivables from continuous cession on trade receivables of Badel 1862 d.d.. Since Badel 1862 d.d. experienced significant difficulties including pre-bankruptcy procedures in 2013, provision for the uncollected receivables of HRK 8,669 thousand was made (Note 8).

/v/ Due to uncertainty in collection, other receivables of HRK 6,873 thousand were impaired (Note 8).

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

As of 31 December 2013, trade receivables in the amount of HRK 144,308 thousand (2012: HRK 138,730 thousand) were impaired and provided for. The individually impaired receivables relate to customers that are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2013	2012
	(in thousands of HRK)	
Up to 3 months	810	850
3 to 6 months	2,001	945
Over 6 months	141,497	136,935
	144,308	**138,730**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2013, trade receivables in the amount of HRK 195,208 thousand (2012: HRK 205,929 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2013	2012
	(in thousands of HRK)	
Up to 3 months	164,753	143,328
3 to 6 months	24,477	37,028
Over 6 months	5,978	25,573
	195,208	**205,929**

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

	2013	2012
	(in thousands of HRK)	
EUR	393,240	387,350
HRK	291,342	326,043
RSD	304,130	328,988
Other	101,576	83,120
	1,090,288	**1,125,501**

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

	2013	2012
	(in thousands of HRK)	
As at 1 January	138,730	156,156
Provision for receivables impairment (Note 8)	15,388	9,960
Collected amounts reversed (Note 8)	(3,739)	(5,148)
Receivables written off	(6,579)	(21,016)
Exchange differences	508	(1,222)
As at 31 December	**144,308**	**138,730**

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

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

NOTE 19 – INVENTORIES

	2013	2012
	(in thousands of HRK)	
Raw materials and supplies	175,428	199,332
Work in progress	13,783	16,968
Finished goods	181,181	195,494
Trade goods	166,840	131,523
	537,232	**543,317**

As of 31 December 2013, inventories of HRK 18,060 thousand (2012: HRK 22,454 thousand) were impaired and fully provided for, due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2013	2012
	(in thousands of HRK)	
Current account and cash on hand	94,249	71,490
Foreign currency account	111,490	93,977
Deposits up to three months /i/	119,595	85,398
	325,334	**250,865**

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

Cash and cash equivalents are denominated in the following currencies:

	2013	2012
	(in thousands of HRK)	
EUR	146,888	113,105
HRK	97,190	71,583
RSD	51,226	52,249
Other	30,030	13,928
	325,334	**250,865**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2012	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**
Purchase of treasury shares	(13,029)	-	-	(9,063)	(9,063)
Share based payments	13,007	-	(151)	9,047	8,896
31 December 2013	**3,334,278**	**133,372**	**882,597**	**(16)**	**1,015,953**

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

The ownership structure of the Company is as follows:

	31 December 2013		31 December 2012	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	323,500	9.70	322,943	9.69
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 the Company	38,386	1,15	37,481	1.12
Other shareholders	537,907	16.14	539,391	16.18
Treasury shares	22	-	-	-
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

NOTE 21 – SHARE CAPITAL (continued)

Share based payments

According to the 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, 6,254 new shares have been granted in 2013 (2012: 6,538 shares).

The fair value of equity-settled share based payment transactions amounted to HRK 6,182 thousand (2012: HRK 6,491 thousand). Of that amount, HRK 5,849 thousand (2012: HRK 6,083 thousand) has been reported, together with appropriated tax, as staff costs (Note 6), relating to shares for which vesting conditions were met in 2013 (5,887 shares; 2012: 6,127 shares) and HRK 332 thousand (2012: HRK 408 thousand) was deferred, relating to shares for which vesting conditions will be met in the next two years (367 shares; 2012: 411 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 (2012: HRK 700).

Dividend distribution

According to the decision of the Company's General Assembly from 20 June 2013, the distribution of dividend in the amount of HRK 9.00 per share, or HRK 30,008 thousand in total was approved. Dividend was paid in July 2013.

In 2012 there were no payments of dividends to the Company's shareholders.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves /i/**	**Translation reserves /ii/**	**Cash flow hedge reserve /ii/**	**Total**
At 1 January 2012	5,428	45,136	(47,361)	3,203
Foreign exchange differences	-	(50,737)	-	(50,737)
Transfer from retained earnings	556	-	-	556
Cash flow hedge	-	-	(10,113)	(10,113)
At 31 December 2012	**5,984**	**(5,601)**	**(57,474)**	**(57,091)**
Foreign exchange differences	-	9,707	-	9,707
Transfer to retained earnings	(277)	-	-	(277)
Cash flow hedge	-	-	32,298	32,298
At 31 December 2013	**5,707**	**4,106**	**(25,176)**	**(15,363)**

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

/ii/ Movements represent amounts attributable to the owner of the Company only.

NOTE 23 – TRADE AND OTHER PAYABLES

	2013	2012
	(in thousands of HRK)	
Trade payables	595,226	626,685
Trade payables – related parties (Note 30)	1,416	1,816
Other payables	139,530	165,095
	736,172	**793,596**

Other payables recorded as at 31 December are as follows:

	2013	2012
	(in thousands of HRK)	
Gross salaries payable	32,766	41,254
Liabilities to state institutions	11,920	17,648
Liabilities to Kapitalni Fond d.d. /i/	22,036	33,136
Accrued expenses	41,368	27,610
Vacation accrual	14,515	13,800
Severance payable	89	299
Deferred income	1,361	1,112
Dividend payable (Note 30)	111	22
Other	15,364	30,214
	139,530	**165,095**

/i/ The maturity of these liabilities has been prolonged to 2014.

Financial liabilities are denominated in the following currencies:

	2013	2012
	(in thousands of HRK)	
EUR	287,061	268,135
HRK	270,970	314,433
RSD	89,362	100,547
Other	44,004	51,280
	691,397	**734,395**

NOTE 24 – BORROWINGS

	2013	2012
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /i/	373,807	415,045
Related parties /ii/ (Note 30)	1,479,720	1,665,948
Bonds /iii/	113,984	113,375
Finance lease	1,439	4,533
Long-term debt	**1,968,950**	**2,198,901**
Short-term borrowings:		
Financial institutions /i/	184,035	186,171
Related parties /ii/ (Note 30)	198,577	156,442
Bonds /iii/	1,361	1,361
Finance lease	3,315	10,127
	387,288	**354,101**
	2,356,238	**2,553,002**

/i/ In November 2012, Atlantic Grupa signed agreements to refinance its existing loans. The Agreements were signed with the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC) and other local commercial banks. The amount of the loan package granted was EUR 307 million and was structured as such that the EBRD arranged a loan of EUR 232 million, the IFC participated in the package with a loan of EUR 50 million, while the remaining EUR 25 million were ensured by Raiffeisenbank Austria Zagreb and Zagrebačka banka. The funds from the contracted package were primarily used for restructuring of the Group’s balance sheet, (EUR 272 million), an additional uncommitted energy efficiency line (EUR 10 million) and a working capital line (EUR 25 million). As at 31 December 2013, EUR 20.7 million of the committed line was unused (31 December 2012: EUR 20.7 million).

/ii/ Borrowings from EBRD and DEG are disclosed separately since these financial institutions own shares of the Company (Note 21) and are therefore considered as related parties.

/iii/ Bonds were issued in September 2011 in amount of HRK 115 million at the price of 99.375% with a coupon of 6.75% per annum and final redemption on 20 September 2016.

Borrowings from financial institutions (including related parties) are secured by pledges over property, plant and equipment (Notes 13 and 13a), intangible assets (Note 14) and shares of subsidiaries (Atlantic Trade d.o.o., Droga Kolinska d.d., Grand Prom d.o.o. and Soko Štark d.o.o.). Furthermore, issued bonds and part of borrowings from financial institutions are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators such as total net debt cover, interest cover, cash flow cover and maximum capital expenditures. At the balance sheet date, all covenant clauses were met.

NOTE 24 – BORROWINGS (continued)

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

	2013	2012
	(in thousands of HRK)	
Fixed interest rate	171,461	192,728
Up to 3 months	1,668,810	1,808,750
3 to 6 months	515,967	551,524
	2,356,238	**2,553,002**

The maturity of long-term borrowings is as follows:

	2013	2012
	(in thousands of HRK)	
Between 1 and 2 years	292,769	233,084
Between 2 and 5 years	1,351,843	1,098,612
Over 5 years	324,338	867,205
	1,968,950	**2,198,901**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 4.16% (2012: 4.51%). The effective annual interest rate related to bonds at the balance sheet date was 7.26% (2012: 7.25%).

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

	Carrying amounts		**Fair value**	
	2013	**2012**	**2013**	**2012**
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Financial institutions	1,853,527	2,080,993	1,852,845	2,079,354
Bonds	113,984	113,375	119,703	119,669
Finance lease	1,439	4,533	1,439	4,533
	1,968,950	**2,198,901**	**1,973,987**	**2,203,556**

NOTE 24 – BORROWINGS (continued)

The fair values of borrowings from banks and financial institutions are based on cash flows discounted using a rate of 4.16% (2012: 4.51%).

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

Gross finance lease liabilities – minimum lease payments:

	2013	2012
	(in thousands of HRK)	
No later than 1 year	3,412	10,396
Later than 1 year and no later than 5 years	1,644	5,163
	5,056	15,559
Future finance charges on finance leases	(302)	(899)
Present value of finance lease liabilities	**4,754**	**14,660**

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

	2013	2012
	(in thousands of HRK)	
HRK	247,732	252,901
EUR	2,100,238	2,296,234
USD	6,510	3,867
Other	1,758	-
	2,356,238	**2,553,002**

NOTE 25 – DEFERRED INCOME TAX

	2013	2012
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	34,852	60,914
- Deferred tax assets to be recovered within 12 months	13,060	11,268
	47,912	72,182
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(179,792)	(185,970)
- Deferred tax liabilities to be recovered within 12 months	(1,586)	(985)
	(181,378)	(186,955)
Deferred tax liabilities - net	**(133,466)**	**(114,773)**

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

The Group did not recognise deferred income tax assets of HRK 74,000 thousand (2012: HRK 78,838 thousand) in respect of losses that arose in its subsidiaries that can be carried forward against future taxable income. Deferred tax assets have not been recognised in respect of these losses as it is not certain that future taxable profit will be available for utilisation of the temporary differences. Losses amounting to HRK 407,009 thousand (2012: HRK 388,118 thousand) expire over the next ten years, while the losses in the amount of HRK 8,223 thousand (2012: HRK 10,730 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	Tax losses	Provisions	Other	Total
At 1 January 2012	11,677	5,963	38,772	56,412
(Charged)/credited to the income statement (Note 11)	18,678	1,800	(2,138)	18,340
(Charged)/credited to other comprehensive income	-	-	(818)	(818)
Exchange differences	(680)	(44)	(1,028)	(1,752)
At 31 December 2012	**29,675**	**7,719**	**34,788**	**72,182**
At 1 January 2013	29,675	7,719	34,788	72,182
(Charged)/credited to the income statement (Note 11)	(20,027)	(244)	2,214	(18,057)
(Charged)/credited to other comprehensive income	-	(71)	(5,944)	(6,015)
Other movements	-	(544)	130	(414)
Exchange differences	96	14	106	216
At 31 December 2013	**9,744**	**6,874**	**31,294**	**47,912**

NOTE 25 – DEFERRED INCOME TAX (continued)

Deferred tax liabilities

(in thousands of HRK)	Fair value gains	Fair value uplifts of assets acquired in business combinations	Other	Total
At 1 January 2012	66	185,066	7,932	193,064
Charged/(credited) to the income statement (Note 11)	19	(1,057)	868	(170)
Other movements	-	(1,171)	(3,062)	(4,233)
Exchange differences	3	(1,323)	(386)	(1,706)
At 31 December 2012	**88**	**181,515**	**5,352**	**186,955**
At 1 January 2013	88	181,515	5,352	186,955
Charged/(credited) to the income statement (Note 11)	-	(5,594)	(1,041)	(6,635)
Other movements	(88)	-	(717)	(805)
Exchange differences	-	1,834	29	1,863
At 31 December 2013	**-**	**177,755**	**3,623**	**181,378**

NOTE 26 – PROVISIONS

(in thousands of HRK)	Employee benefits	Legal proceedings	Warranties	Other provisions	Total
At 31 December 2012	45,964	26,546	2,450	4,731	79,691
Analysis of total provisions:					
Non-current	29,762	25,146	-	1,569	56,477
Current	16,202	1,400	2,450	3,162	23,214
At 1 January 2013	**45,964**	**26,546**	**2,450**	**4,731**	**79,691**
Additions	20,782	13,233	2,531	24	36,570
Used during year	(20,057)	(241)	(2,459)	(863)	(23,620)
Unused amounts reversed	(2,475)	(757)	-	(2,310)	(5,542)
Interest expense	1,544	-	-	-	1,544
Exchange differences	204	541	31	19	795
At 31 December 2013	**45,962**	**39,322**	**2,553**	**1,601**	**89,438**
Analysis of total provisions:					
Non-current	30,332	27,827	-	1,564	59,723
Current	15,630	11,495	2,553	37	29,715

NOTE 26 – PROVISIONS (continued)

Legal proceedings

In the ordinary course of business, the Group is defendant and plaintiff in pending legal proceedings. In Management's opinion, the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2013.

Employee benefits

This provision comprises estimated long-term employee benefits relating to termination benefits and jubilee awards, as defined by the collective bargaining agreement and bonuses to employees. The non-current portion of the provision relates to estimated acquired rights to termination benefits and jubilee awards that will be paid after 31 December 2014. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 1,159 thousand that will be paid out within the following year from the balance sheet date. During 2013 the group adopted Amendment to IAS 19 in presentation of post-employment benefit obligation. The financial statements for 2012 were not adjusted related to this accounting change due to immateriality.

Other provisions

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

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2013 but not yet incurred amounted to HRK 20,697 thousand (2012: nil) for property, plant and equipment and HRK 1,745 thousand for intangible assets (2012: nil).

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

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

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

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

	2013	**2012**
	(in thousands of HRK)	
Not later than 1 year	47,611	35,317
Later than 1 year and not later than 5 years	79,162	65,066
Over 5 years	4,277	6,495
	131,050	**106,878**

NOTE 28 – BUSINESS COMBINATIONS

(i) Acquisitions in 2013/2014

In December 2013, the Group signed an agreement to acquire Prodis d.o.o. in Slovenia. When completed, this transaction effectively represents the acquisition of distribution rights of one of the leading global producers of consumer goods, Unilever, for the markets of Croatia and Slovenia. In accordance with the purchase agreement, one part of the purchase consideration was paid in advance, while the remaining amount will be paid in 2014, upon the finalization of acquisition process. The finalization of the acquisition process is expected to be realized by the end of March 2014, as the the approval from the Slovenian Competition Protection Agency was obtained at the end of February 2014.

(ii) Acquisitions in 2012

During the year ended 31 December 2012, the Group acquired non-controlling interests and became the sole owner of subsidiaries ZU Ljekarne Bamapharm and Atlantic Farmacia d.o.o.. Acquisition of these non-controlling interests was partially settled in cash (HRK 20,343 thousand) and partially in kind by selling one pharmacy from the subsidiary ZU Farmacia (Note 14). The subsidiary Atlantic Farmacia d.o.o. was subsequently merged into Fidifarm d.o.o.

In October 2012, the Group became the sole owner of Soko Štark d.o.o., Belgrade, by acquiring the remaining 5.86% of the share capital from non-controlling interest shareholders through the majority shareholder Grand Kafa d.o.o., Belgrade for purchase consideration of EUR 2.3 million (HRK 19,601 thousand).

Finally, in December 2012, the Group became the sole owner of Palanački Kiseljak a.d., Smederevska Palanka, after acquiring the remaining 7.1% of the share capital for cash consideration of HRK 592 thousand.

The Group derecognised non-controlling interests of HRK 25,342 thousand and recorded a decrease in equity attributable to owners of the parent of HRK 23,919 thousand.

The effect of changes in ownership interest in the above mentioned subsidiaries on the equity attributable to owners of the company during the year is summarised as follows:

(in thousands of HRK)	
Carrying amount of non-controlling interests acquired	25,342
Cash consideration paid to non-controlling interests	(40,536)
Consideration in kind, net of tax	(8,725)
Excess of consideration paid recognized in equity	**(23,919)**

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2013	2012
Net profit		**198,994**	**66,112**
Income tax	11	54,159	7,465
Depreciation, amortisation and impairment	13, 13a, 14, 2.24	166,158	180,065
Loss/ (gain) on sale of property, plant and equipment	9	250	(9,248)
Gain on sale of available-for-sale financial assets	9	(48)	(43)
Provision for current assets		48,990	32,414
Foreign exchange differences - net		19,349	49,460
Increase in provision for risks and charges - net	26	9,747	3,176
Fair value losses on financial assets	9	5,846	1,168
Share based payment		8,671	5,855
Interest income		(8,189)	(9,741)
Interest expense	10	159,265	257,546
Other non-cash items, net		(3,212)	918
Changes in working capital:			
Increase in inventories		(11,979)	(32,090)
Increase in current receivables		(1,845)	(31,576)
(Decrease)/ increase in current payables		(47,733)	33,205
Cash generated from operations		**598,423**	**554,686**

NOTE 30 – RELATED PARTY TRANSACTIONS

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

Related party transactions that relate to balances as at 31 December 2013 and as at 31 December 2012 and transactions recognised for years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2013	2012
RECEIVABLES			
Current receivables			
Other entities	18	93,294	80,426
LIABILITIES			
Borrowings			
Shareholders	24	1,678,297	1,822,390
Trade payables			
Shareholders	23	111	22
Other entities	23	1,416	1,816
		1,527	1,838
REVENUES			
Sales revenues			
Other entities		455,364	459,324
Other revenues			
Other entities		1,379	-
EXPENSES			
Marketing and promotion expenses	7		
Other entities		20,662	17,045
Other operating expenses	8		
Other entities		2,689	2,743
Finance cost - net	10		
Shareholder		82,628	53,779

Management board compensation

In 2013 members of the Management Board received total gross amount of HRK 13,758 thousand relating to salaries, bonuses and supervisory board compensations in operative companies (2012: HRK 13,733 thousand).

NOTE 31 – AUDITORS' FEES

PricewaterhouseCoopers d.o.o., the auditor of the Group's financial statements has rendered services in the amount of HRK 3,375 thousand (2012: HRK 3,062 thousand). These services relate to the audits and reviews of the financial statements and agreed upon procedures in relation to financial covenants calculation.

NOTE 32 – SUBSIDIARIES

The Group is comprised of the Company and the following subsidiaries in which the Company has an ownership interest above 50% and exercises control:

	2013	2012
Cedevita d.o.o., Croatia	81%	81%
- Multivita d.o.o., Serbia	100%	100%
Neva d.o.o., Croatia	100%	100%
Atlantic Trade d.o.o., Croatia	100%	100%
- Droga Kolinska d.d.,Slovenia	100%	100%
- Soko Štark d.o.o. Serbia	100%	100%
- Palanački kiseljak a.d., Serbia (merged to Soko Štark d.o.o. in 2013)	-	100%
- Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- Droga d.o.o.e.l., Macedonia (liquidated in 2013)	-	100%
- o.o.o. Droga Kolinska, Russia	100%	100%
- Grand Prom d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Kofikom Produkt d.o.o., Bosnia and Herzegovina	100%	100%
- Droga Kolinska d.o.o.e.l., Macedonia	100%	100%
- Atlantic Brands d.o.o., Serbia	100%	100%
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., Macedonia	75%	75%
- Lasago d.o.o., Croatia (bankruptcy proceedings)	100%	100%
- Bionatura bidon vode d.o.o., Croatia	100%	100%
- Atlantic Multipower d.o.o., Croatia (founded in 2013)	100%	-
Atlantic Trade Sofia e.o.o.d., Bulgaria (liquidated in 2013)	-	100%
Fidifarm d.o.o. Croatia	100%	100%
- Atlantic Pharmacentar d.o.o., Croatia	100%	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- ZU Ljekarne Bamapharm, Croatia (merged to ZU Ljekarne Farmacia in 2013)	-	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	100%
- ZU Ljekarne Dvoržak 2, Croatia (merged to ZU Ljekarne Farmacia in 2013)	-	100%
-ZU Ljekarne Marijam, Croatia (merged to ZU Ljekarne Farmacia in 2013)	-	100%
Montana Plus d.o.o., Croatia	100%	100%
Atlantic s.r.l., Italy (liquidation proceedings)	100%	100%
Hopen Investments, BV, Netherlands	100%	100%
-Atlantic Multipower GmbH & CO OHG, Germany	100%	100%
- Atlantic Multipower UK Ltd, Great Britain	65%	65%
- Sport Direct Ltd, Great Britain	100%	100%
- Atlantic Multipower Srl, Italy	100%	100%
- Atlantic Multipower Iberica, Spain	100%	100%
- AKTIVKOST Handelsgesellschaft mbH, Germany	100%	100%
- Atlantic Management GmbH, Germany	100%	100%

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