Atlantic Grupa

Annual Report

2014

ATLANTIC GRUPA

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SUMMARY OF KEY FINANCIAL INDICATORS

(in HRK million)	2014	2013	2014/2013
Revenues	5,168.6	5,039.9	2.6%
Sales	5,118.4	4,998.9	2.4%
EBITDA	597.0	590.8	1.1%
EBITDA margin	11.7%	11.8%	+15 bb
EBIT	440.7	424.6	3.8%
EBIT margin	8.6%	8.5%	+12 bb
Net profit	213.4	199.0	7.2%
Net profit margin	4.2%	4.0%	+19bb
Net debt	1,927.7	2,059.3	(6.4%)
Net debt/EBITDA	3.2	3.5	n/p
Cash flow from operating activities	445.7	420.2	6.1%
Capital expenditures	190.1	100.0	90.1%
Market capitalization as at 31.12	3,134.2	2,394.0	30.9%
EPS (in HRK)	60.0	58.5	2.6%
PPS as at 31.12 (in HRK)	940.0	718.0	30.9%
DPS (in HRK)	10.5	9.0	16.7%

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD TO SHAREHOLDERS

In 2014, Atlantic Grupa continued its business growth by expanding its distribution portfolio and innovating its product portfolio. In accordance with the set timeframe, we completed the largest capital expenditure in our history - construction of the new production plant for the production of energy bars in Nova Gradiška within our sports food segment, which will deliver first products to the market by the end of the first quarter of 2015, and by acquiring the company Foodland with the brand Granny's Secret we have in a single step moved towards the realisation of two strategic goals - expanding the current brand portfolio, and internationalisation.

Foodland's products are the finest ambassadors of quality and potentials of authentic regional food production globally. Granny's Secret offers jams, sweets, and juices from unique local fruits, with perfect traceability and prepared the old-fashioned way. The crown jewel is obviously the homemade red-pepper chutney (ajvar), recognised as a delicatessen product by international food retail chains such as the Swedish Coop, Australian Woolworths or American Ross, as well as premium retailers such as the French Lafayette and Le Bon Marché, Swiss Globus, Swedish Hemkop, British Selfridges, Russian Azbuka Vkusa, American Fairway, and Japanese Fressay. This brand has a substantial potential for development within the region and beyond, where it already achieves excellent results.

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 are continuously successful in generating growth in an environment of general decline or stagnation, which also includes the region, while by the results achieved in key European markets we confirm company's orientation towards internationalisation as our strategic focus. The main levers of this process are our brands with the highest development and expansion potential in international markets – Granny's Secret, 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.

As the company whose shares have been quoted on the official market of the Zagreb Stock Exchange for 28 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. In addition to constantly working on building and developing quality working conditions and distinguishable corporate culture, we have placed additional 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.

Emil Tedeschi,
President of the Management Board of Atlantic Grupa

CORPORATE PROFILE OF ATLANTIC GRUPA

ABOUT THE COMPANY

Atlantic Grupa is a vertically integrated multinational company whose business activities incorporate R&D, production and distribution of fast moving consumer goods in the Southeast Europe, the European markets and Russia and Commonwealth of Independent States. Since the company's inception in early 1990's, Atlantic Grupa pursued growth strategy based on combination of organic growth and M&A activities that culminated with the company's largest acquisition ever - acquisition of Droga Kolinska in 2010.

Today, Atlantic Grupa is the company with: (i) HRK 5.1 billion in sales revenues, (ii) modern production network (in Croatia, Germany, Slovenia, Serbia, Bosnia and Herzegovina and Macedonia), (iii) regional distribution infrastructure and (iv) 12 brands with sales above HRK 120 millions, high market shares and consumer recognisability. Atlantic Grupa has a well-balanced regional presence accounting for 76% of total sales while 24% refers to the company's presence in Europe and CIS countries. From 2014 the company's business operations are organized in six Strategic Business Units (SBU), one Business Unit (BU), five Strategic Distribution Units (SDU) and two Distribution Units (DU), allowing the company to manage its production and distribution operations more effectively.

Atlantic Grupa stands out today as one of the leading food & beverages producers in the region with prominent coffee brands Grand Kafa and Barcaffe, range of beverage brands Cockta, Donat Mg, Cedevita, Cedevita GO!, Kala and Kalnička, portfolio of sweet and salted snacks brands Smoki, Najlepše želje and Bananica and savoury spread brand Argeta. Additionally, Atlantic Grupa has a wide range of personal care product portfolio, owns a leading Croatian producer of vitamins, minerals, supplements and OTC drugs as well as the leading pharmacy chain in Croatia under Farmacia brand. Furthermore, Atlantic Grupa manufactures and distributes the leading European brand in the sports nutrition - Multipower and has a strong foothold on the Russian and CIS markets with its baby food portfolio under Bebi brand. With its own distribution network in Croatia, Slovenia, Serbia and Macedonia, the company also distributes a range of products from external partners.

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 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 with the well-known 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.

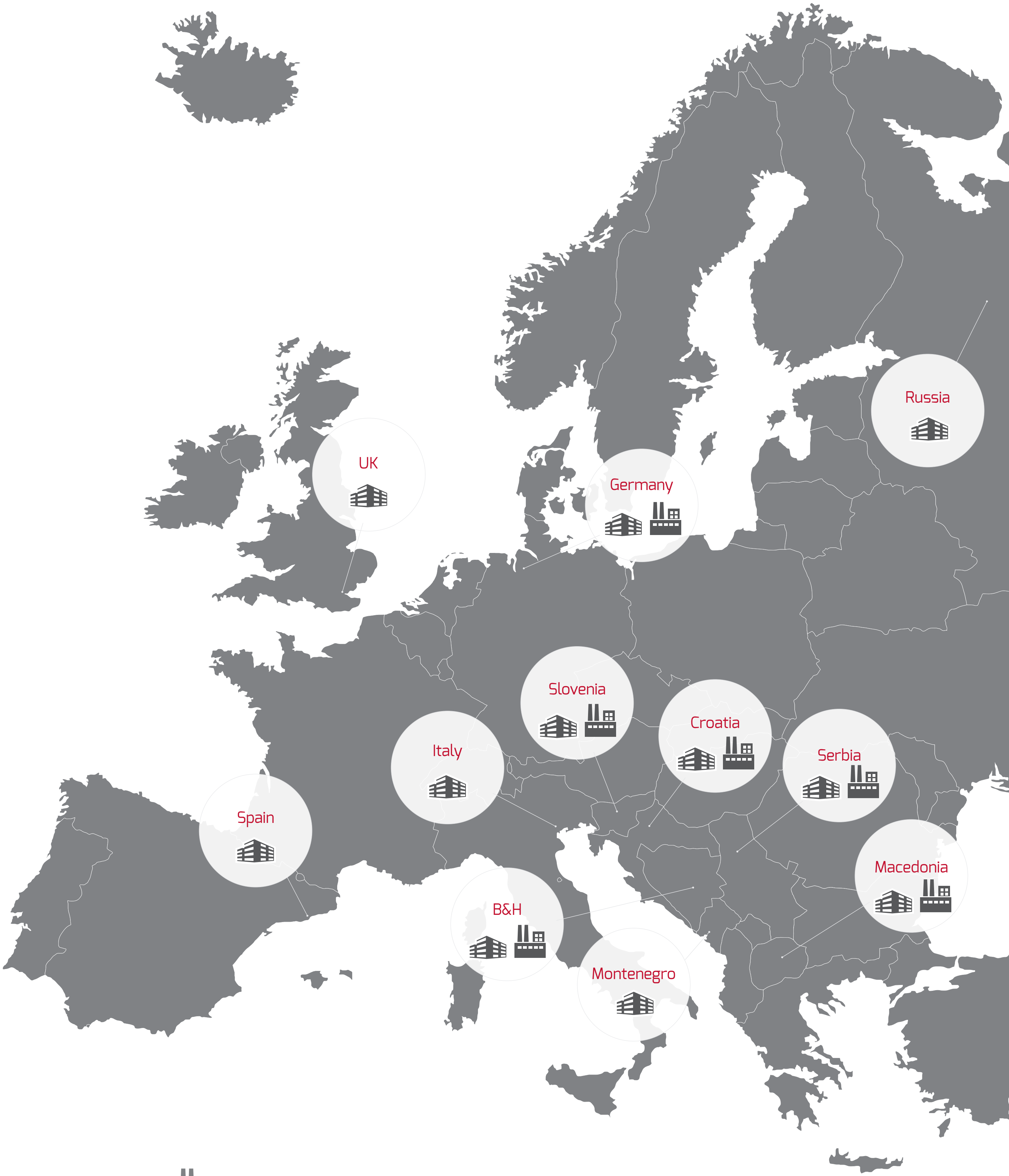
A turning point in the company's operations was its largest acquisition in the Group's history - acquisition of the company with a developed brand portfolio from its own production programme and leading positions in regional markets – Droga Kolinska d.d. By finalising the acquisition in 2010, Atlantic 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.

In November 2014, Atlantic Grupa signed the agreement on the acquisition of 100 percent of the company Foodland d.o.o. with headquarters in Belgrade and production plants in Igros at the base of the Kopaonik mountain range. In January 2015, the Serbian Agency for Protection of Market Competition approved the Atlantic Grupa's acquisition of Foodland. The acquisition of this food company with the recognisable brand Granny's Secret and a range of high-quality products strengthens the Atlantic Grupa's brand assortment and represents an additional impulse in internationalisation of operations. More precisely, the Foodland range is present in over 20 countries, while approximately a third of its total production is exported to markets outside the region (Western Europe, America, Australia, Russia and Japan).

The year 2014 was also characterised by the largest capital expenditure in Atlantic Grupa's history, that is, the construction of the new production plant for energy bars from the sports and functional food product range in the Industrial Park Nova Gradiška. This is a project with the total value of HRK 100 million, which will create 50 new jobs in the first year of production and, with the planned business growth, ultimately 160 new jobs. The construction of the new energy bars production plant was completed near the end of 2014 and the project's technological team started test production in order to achieve full functionality of the energy bars production after the first quarter of 2015.

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.
		Acquisition of Kalničke Vode Bio Natura d.d.
	2013	Establishing cooperation with Unilever
	2014	Signing of the agreement on the acquisition of the company Foodland d.o.o., Serbia



office factory

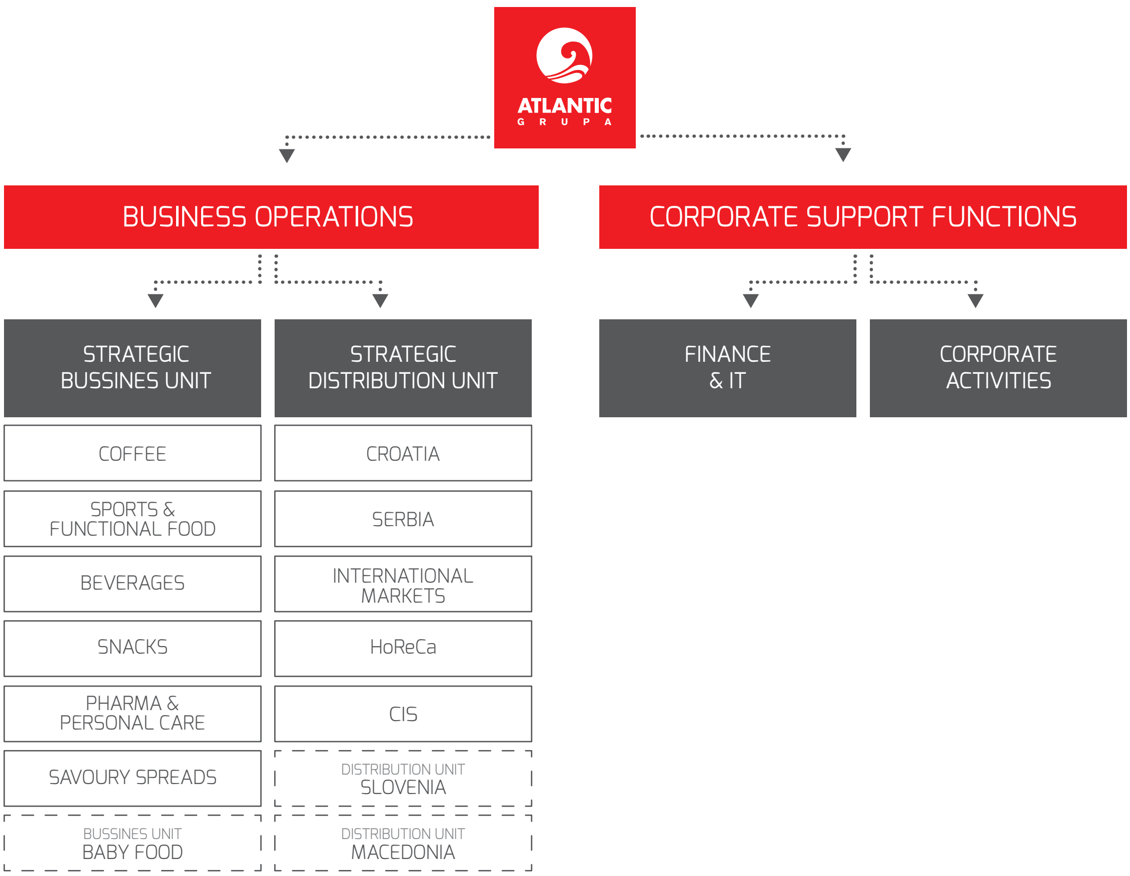
NEW ORGANISATIONAL STRUCTURE OF BUSINESS OPERATIONS

In 2014, Atlantic Grupa introduced a new organisational structure of business operations with the aim to manage business segments and distribution markets as effectively as possible.

Namely, in accordance with the strategic focus on the internationalisation of operations, the company nominated the CIS market as its new Strategic Distribution Unit. Taking into account the importance and the size of the Serbian market (the second largest individual market in the Atlantic Grupa's portfolio), management decided to promote the Serbian market into a Strategic Distribution Unit.

Accordingly, the new business organisation includes:

- Six Strategic Business Units (SBUs) – Coffee, Snacks, Beverages, Savoury Spreads, Pharma and Personal Care, and Sports and Functional Food
- Business Unit (BU) Baby Food
- Five Strategic Distribution Units (SDUs) – Croatia, Serbia, International markets, HoReCa and the Commonwealth of Independent States (CIS), and
- Two Distribution Units (DUs) – Slovenia and Macedonia.



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, Business Units, Strategic Distribution Units and 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 Activities, and
- Finance and Information Technologies (IT).

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

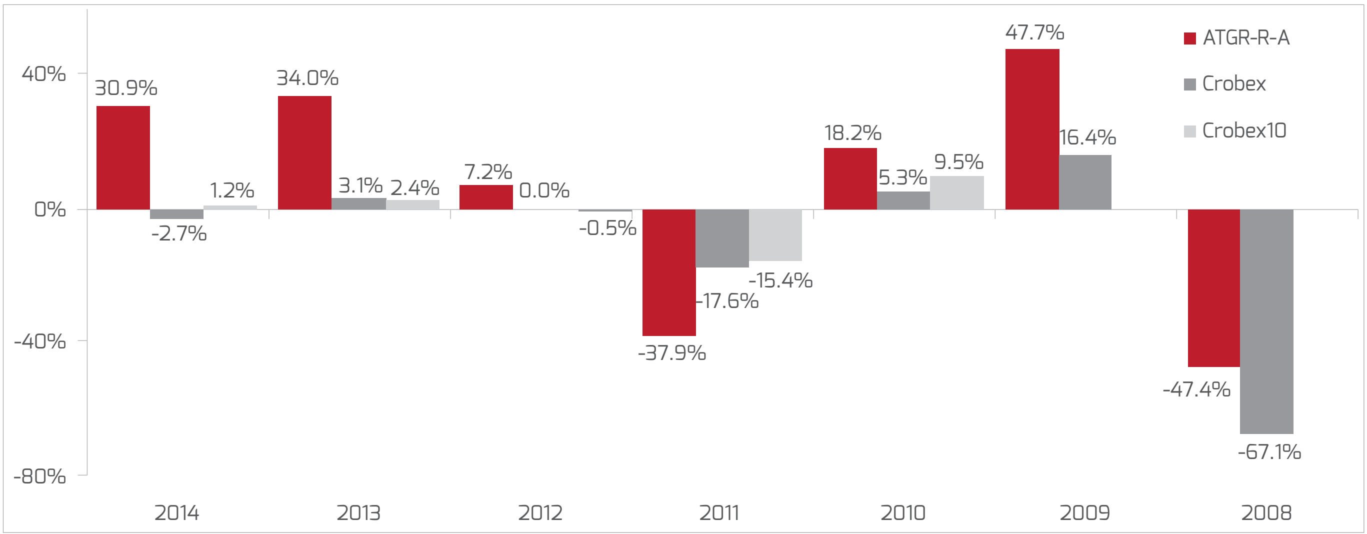
The strategic corporate function Finance and Information Technologies (IT) includes the following units: Business Development and Investor Relations, Corporate Reporting and Consolidation, Corporate Controlling, Corporate Tax, Corporate Treasury and Strategic IT Management.

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.

PERFORMANCE ON THE CROATIAN CAPITAL MARKET IN 2014

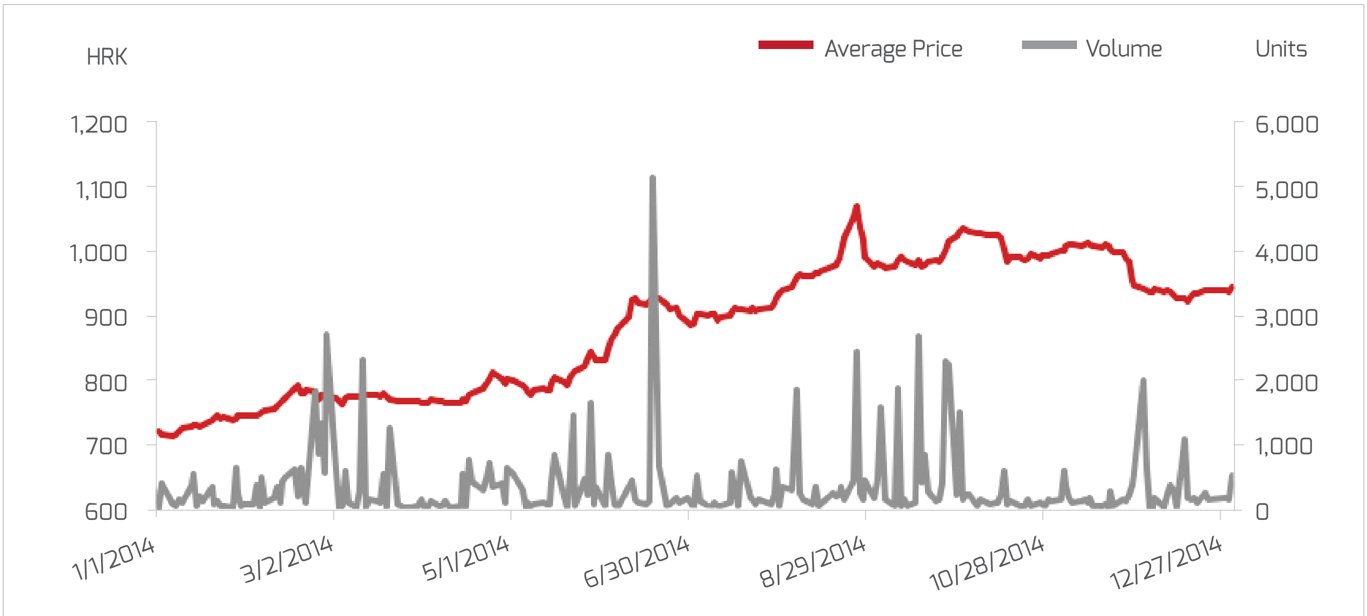
On the Zagreb Stock Exchange in 2014, the CROBEX stock index dropped by 2.7%, while the CROBEX10 stock index recorded a slight growth of 1.2%. Contrary to the stock indices, in August 2014 the Atlantic Grupa's share reached the highest price of HRK 1,080.50 since its IPO on the Zagreb Stock Exchange in late 2007, while its growth of 31% compared to the previous year significantly outperformed both indices.

Performance on capital market



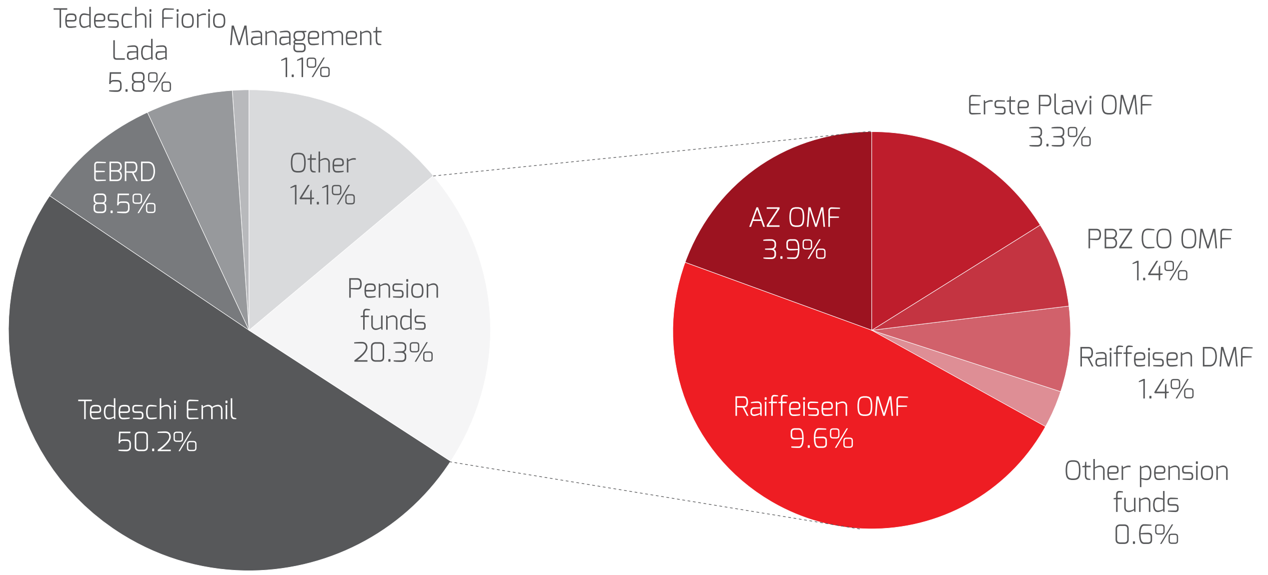
The average price of an Atlantic Grupa's share in 2014 amounted to HRK 880.0, while the average daily turnover amounted to HRK 299.5 thousand, which is a 25.9% increase compared to the previous year. With the average market capitalisation of HRK 3,134.2 million, Atlantic Grupa takes the significant third place among the components of the CROBEX10 stock index. Moreover, according to the total turnover in 2014, the Atlantic Grupa's share holds the ninth place compared to all the shares quoted on the Zagreb Stock Exchange.

Movements in the average price and volume of the Atlantic Grupa's share in 2014



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, 5.8% by Lada Tedeschi Fiorio, and 20.3% of Atlantic Grupa is owned by pension funds. In November 2014, the German development finance institution – DEG reduced its ownership share from 8.5% to 2.3% in the process executed via the accelerated bookbuilt. DEG has been a long standing partner in the development of Atlantic Grupa, dating back from the acquisition of Cedevita in 2001 when the institution joined the company in financing the deal, only to further extend the partnership with an equity investment in 2006, and later with another capital increase in 2010. Following this transaction, the partnership will be further continued with the DEG remaining a significant shareholder with 2.28% stake in Atlantic Grupa. In light of the strong demand of investors, the book was oversubscribed by 1.7x and the complete offering was allocated at a unique price of HRK 925 a share. Both domestic and foreign investors participated in the process, ensuring a strong shareholder's base with 65% of stake being subscribed by domestic investors and 35% by foreign investors. In the transaction amounting to EUR 25 million, 58% was allocated to investment funds, 39% to pension funds and 3% to banks and individual investors. Additionally, this transaction significantly expanded the free float to 35.5%, which places the Atlantic Grupa's share in the eight place in terms of the free float market capitalisation.

Ownership structure on 31/12/2014



*Free-float: 35.5%

Overview of top 10 shareholders of Atlantic Grupa d.d. on 31 Dec 2014

No	Shareholder	No. of shares	% ownership
1.	Emil Tedeschi	1,673,819	50.20%
2.	Raiffeisen Obligatory Pension Fund, category B	321,000	9.63%
3.	European Bank for Reconstruction and Development - EBRD	284,301	8.53%
4.	Tedeschi Fiorio Lada	193,156	5.79%
5.	AZ Obligatory Pension Fund, category B	130,439	3.91%
6.	Erste Plavi Obligatory Pension Fund, category B	110,304	3.31%
7.	PBZ d.d. State street client account	108,968	3.27%
8.	Raiffeisen Voluntary Pension Fund	48,298	1.45%
9.	PBZ CO Obligatory Pension Fund, category B	45,436	1.36%
10.	PBZ d.d. Joint custodial account	32,723	0.98%

According to the decision of the Company's General Assembly held on 30 June 2014, the dividend distribution was approved in the amount of HRK 10.50 per share, i.e. a total of HRK 35 million. The dividend was distributed in July 2014.

Investor Relations in 2014

In 2014, Atlantic Grupa won the first prize for best relations with investors, an award given by Poslovni dnevnik as the investment community's recognition of companies who have fair and transparent relations with investors. The award has been given for five years in a row now, out of which Atlantic Grupa has 4 times been the winner of one of the top three awards.

Moreover, in 2014 Atlantic Grupa participated in various investor conferences across Europe, held numerous meetings with domestic and foreign investors and participated in the road show where meetings with around forty investors in seven European cities were held.

CORPORATE MANAGEMENT OF ATLANTIC GRUPA

STATEMENT OF THE GROUP VICE PRESIDENT FOR CORPORATE ACTIVITIES

Atlantic Grupa represents a successful business system with companies in the region of South-East Europe and in both West and East Europe. Our responsibility with regard to all shareholders has been an integral part of the company's development strategy, 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. Special attention is paid to building a unique corporate culture that respects individual diversity and fosters cooperation and synergies between the different segments of production, innovations, marketing and sales. The core values of our corporate culture rest on symbols of the three basic natural elements: sun (passion), wave (creativity) and mountain (growth). 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. 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 a 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, while the report issued in 2014 in accordance with the GRI 4.0 guidelines shows that we are a steadily progressive regional company in respect of the criterion of transparency.

Finally, but certainly not least, Atlantic Grupa, as a part of the wider community, 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 Activities

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 Association 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 30 June 2014. The following decisions were made at that Assembly: issuing the note of release to the members of the Management Board and the Supervisory Board, granting an authorisation to the Management Board to acquire treasury shares, exclusion of the existing shareholders' pre-emption rights upon disposal of treasury shares, paying a dividend to the Company shareholders in the amount of HRK 10.50 per share, in proportion to the number of shares held by each shareholder, election of four members of the Supervisory Board, and appointment of an auditor for the year 2014. 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

Atlantic Grupa d.d. has a Supervisory Board consisting of seven members. After the end of term for Željko Perić, under the decision of the General Assembly dated 30 June 2014, Lars Peter Elam Håkansson was appointed as a new member of the Supervisory Board, with his term beginning on 30 June 2014. In 2014, 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 in the period 1996 - 2014, 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. Since 2008 he is a member of the Executive Board of the Croatian Employers Association, while in the period 2004 - 2013 he was a member of the Management Board of the Croatian Chamber of Economy. In addition to the above, he was a member of the Supervisory Board in Pliva d.d. in the period 1999 - 2006. He graduated from the Faculty for foreign trade, University of Zagreb, where he also earned his M. Sc. degree in "Corporate Finance". He also continued his professional specialisation at universities in USA and UK.

Lada Tedeschi Fiorio/Vice President

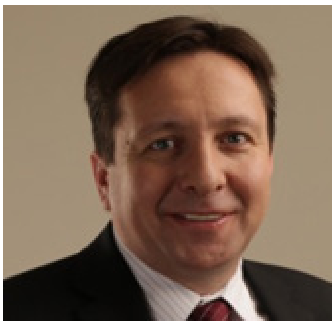
Lada Tedeschi Fiorio began her career in Atlantic in 1997 as the Deputy Director for Finance. As Vice President for Investor Relations she had an important role in negotiations with potential investors during different Atlantic's acquisitions as well as in the initial public offer process in 2007. As 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.

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 (which is a subsidiary of the German KFW-Bankengruppe, Frankfurt since 2001). He carried out a function of Director for Europe, Central Asia and Middle East for business development and portfolio management. Prior to his career in DEG, he worked as a Senior Consultant at the Treuhand-Vereinigung AG/Coopers Lybrand GmbH, today PricewaterhouseCoopers, with a special focus on Merger & Acquisition activities. His business specialities relate mostly to financing, privatisation, restructuring and joint ventures, etc. in different industries, like banks, financial institutions, processing industry as well as tourism industry and private infrastructure. Mr. Flosbach has retired in 2013 and now serves as a Supervisory Board member in five renowned companies in the region. 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. He was a member of the Economic Council of the President of the Republic of Croatia in the period 2010 - 2015. Saša Pekeč holds a Ph.D. degree from Rutgers University and B.Sc. degree from the University of Zagreb.

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., Milan. 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.

Lars Peter Elam Håkansson/Member

As Chairman and Chief Investment Officer Peter Elam Håkansson leads East Capital's different investment teams in Eastern Europe and Asia. Peter established East Capital's investment philosophy and strategy, which he still oversees. He has worked within emerging and frontier markets since the early nineties and continues to travel and visit companies throughout the world. Peter has been awarded the Gold Star for best Fund Manager five times by Morningstar and Sweden's largest financial daily Dagens Industri. He and the investment teams have also received numerous Lipper awards for the performance of the funds that East Capital manages. He is Chairman of the Board of Swedish Music Hall of Fame, member of the Board of Bonnier Business Press, Inter Peace Sweden and the Advisory Board of Stena Long Term Equity. Prior to founding East Capital, Peter held a series of senior positions at Enskilda Securities in London, Paris and Stockholm – where his last role was Head of Equities and Global Head of Research. Peter has a degree from Stockholm School of Economics and has also studied at l´EDHEC in Lille. He is fluent in Swedish, English and French.

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 2014, members of the Supervisory Board of Atlantic Grupa d.d. on the said grounds received compensation in the total gross amount of HRK 1,384,206.58.

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 shareholders and the needs of management to direct and manage the company's operations. It provides a framework to establish the company's objectives and define the funds required to achieve those objectives as well as to monitor the implementation and efficacy of those objectives. The Committee is chaired by Siniša Petrović, Vedrana Jelušić-Kašić was appointed as a member from the ranks of the Supervisory Board and, after the end of term for Hrvoje Markovinović, by the decision of the Supervisory Board dated 23 September 2014, Nina Tepeš was appointed as a new Committee member from the ranks of external experts.

The Nomination and Remuneration Committee proposes candidates for the Management Board, Supervisory Board and senior management personnel as well as contents of contracts with the members of Management Board, structure of their compensation and compensation of the Supervisory Board's members. The Committee is chaired by Aleksandar Pekeč and, after the end of term for Željko Perić, by the decision of the Supervisory Board dated 23 September 2014, Lars Peter Elam Håkanssonwas appointed as a member from the ranks of the Supervisory Board, while Zoran Sušanj was appointed as a member from the ranks of external experts.

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 2014 in the total gross amount of HRK 58,997.32.

MANAGEMENT BOARD OF ATLANTIC GRUPA

The Management Board of Atlantic Grupa consists of the President and Group Vice Presidents. Eighteen sessions of the Management Board were held in 2014.

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 engaged in the process of Croatia's accession to the EU by participating in the work of the Parliamentary Committee overseeing the negotiating process. He was a member of the Social-Economic Council, President of the Croatian Employers Association in the period 2005 - 2007 and a member of the Council of Economic Advisers to the President of Croatia in the period 2010 - 2015. 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.

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 Activities
Neven Vranković joined Atlantic Grupa in 1998 as the Executive Director of Corporate Activities. In 2001 he was responsible for Atlantic Grupa's merger and acquisition activities, while in 2002 he was appointed Vice President for Corporate Activities. 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 2014, 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 10,379,065.72. 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 2014 received a gross amount of HRK 3,335,241.97.

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 Activities, and directors of all Strategic Business Units and Strategic Distribution Units, Senior Executive Director of Corporate Legal Affairs, Corporate Investments and Investment Maintenance, Senior Executive Director for Regional Key Accounts Management and Sales Croatia, Secretary General, Executive Directors of Central Purchasing, Human Resources, Corporate Controlling , Information Technology 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 operations, 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 MANAGEMENT

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 2014 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

- Planica SKI JUMP
- Giro d'Italia
- Basket tour (street basket)
- BC Cedevita
- Mario Todorović (swimming)
- Slovenian Ski Federation
- Belgrade Kids marathon

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 (skiing, 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 2014, 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. Since 2014 Multipower sponsors the Slovenian Biathlon team, and its member Teja Gregorin won the bronze medal at the Winter Olympics in Sochi in Women's 10km Pursuit, which is also the first Olympic medal for Multipower. Additionally, Multipower achieved strong presence by sponsoring the race Giro d'Italia.

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. Last year Cockta celebrated its 60th anniversary in Planica, and this year the traditional sponsorship was continued.
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 2013, while both achieved excellent results at the 2014 Winter Olympics in Sochi where Tina Maze won two Olympic gold medals.
With the brand Smoki, Atlantic Grupa again sponsored the 20th Children's Marathon in Belgrade, wishing to promote sports and healthy lifestyle.

CULTURE AND KNOWLEDGE

- 20th Sarajevo Film Festival
- Atomski s desna–film and regional premieres
- MSU summer fest sponsorship with Cockta
- Tourism and gastro fair Bijeljina with Grand instant
- SOF, Marketing summit sponsorship
- SPORTO, Croatian Sport Conference
- Špancirfest (Varaždin)
- Coffee fest (Belgrade), Coffee&Chocolate fest (Zagreb)
- CMC Vodice – Croatian music festival

Atlantic Grupa has again in 2014 supported the 20th 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 June, Cedevita's plant was visited by around forty students of the Master's degree programme "International management", University of Klagenfurt. The reason for their stay in Zagreb was to visit the Faculty of Economics and Business and their colleagues. Their wish was to visit one of the most developed Croatian food companies and Atlantic Grupa was a logical choice, giving its contribution to wider cooperation with the academic and student community.

SOCIALLY VULNERABLE GROUPS

- Rehabilitation Centre Zagreb - Paunovac
- Centre for Education Dubrava
- Slovenian Food Bank
- Red Cross
- Forum for Sustainable Communities
- Institute of Economic Sciences (Serbia)
- All for Her

Atlantic Grupa continued its cooperation with the Centre for Education Dubrava in 2014. This year Atlantic welcomed young entrepreneurs from the Centre at its Cedevita production plant, introducing them to its business processes. This year, the Rehabilitation Centre Zagreb's branch Paunovac received funds for reconstruction of the tennis court.

In the course of 2014, Atlantic Grupa supported the Institute of Economic Sciences in organising the fourth agricultural forum "Food for Europe", organised as part of the Strategy for Agricultural and Rural Development of the Republic of Serbia 2014 - 2024. The association "Centre for Youth Integration" better known as the "Drop-in Centre" received a donation in support of providing services within the programme "For a Sustainable Drop-in Centre". Atlantic also supported the "Forum for Sustainable Communities" dealing with the subjects of corporate philanthropy, intersectoral collaboration, civil society sustainability and the role of the business sector, donors and foundations in the development of local communities.

With its brands Dietpharm and Farmacia, Atlantic Grupa helped in raising funds for establishing the Centre for psychological assistance to women with cancer diseases. Since 2008, the Association of Women with Cancer Diseases "All for Her" provides information, psychological and organisational support to afflicted women as well as their family and friends.

With the brand Argeta Junior and the project "Mali dar za važnu stvar!" (Small offering for an important thing!), Atlantic Grupa donated equipment for two kindergartens in flood-stricken areas - "Majka Jugović" in Doboj and "Dječji vrtić" in Maglaj.
The Croatian Association of Leukaemia and Lymphoma Patients is implementing the project "Plastic Bottle Caps for Expensive Medicines" aimed at collecting and recycling plastic bottle caps, whereas the funds raised in this way will be used to co-finance expensive medicines for the treatment of the Association's members. The Atlantic's Follow Me Team supported this project in Atlantic's locations in Zagreb and other cities and invited all colleagues to participate in this humanitarian and environmental initiative.

VALUE DAY



This already traditional annual gathering of Atlantic Grupa members brought together a record 1,206 Atlantic employees who year after year with their positive energy, unity, humanitarian support and harmony, leave a positive trace in their environment through activities that they nominate themselves. This year Atlantic members could be seen in 10 countries and 24 cities where they, through more than 70 activities, creatively, responsibly and passionately assisted their local communities and each other through improving their work spaces, gardening, cleaning the environment, painting and maintenance of public homes, shelters and schools; and by donating blood. Some employees visited former colleagues in retirement homes, others displayed their culinary talents by cooking for the homeless, while a number of Atlantic employees spent the day at a seminar with fellow colleagues from production, where they were shown, first-hand, how our products are developed, packaged and distributed.

HUMANITY AT WORK

The VALUE DAY activities also included coordinated relief actions in all three countries affected by the raging waters during the spring floods in Croatia, BiH and Serbia. Atlantic Grupa as a whole and through the organised activities of its regional companies, contributed in aiding the affected population, including their own employees whose homes were affected by the floods.

Atlantic Grupa established the crisis headquarters in Serbia that met regularly, agreed on and monitored all actions and donations of goods and aid to employees. All of the companies operating under the Atlantic's system in Serbia joined the Humanity at Work action by organising a donation of packages of goods for people in the affected areas. A Solidarity Fund was also opened for employees and companies to voluntarily donate funds for the renewal of homes for 34 Atlantic employees and their families.

SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PROTECTION in 2014

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. In terms of scope, the major milestone of the environmental management system development in 2014 was the implementation of the system to the distribution and to entire Atlantic Grupa.

The second aspect of the environmental management system development was the revalorisation of how our business affects the environment. With the introduction of some elements of the environmental risk management, we took a closer look from all the perspectives to all the environmental factors in Atlantic Grupa that could harm the environment. By changing the methodology of the identification and valorisation of the aspects, we gave a chance to devote even more attention and control of factors with high risk.

We continue developing procedures and transferring best practice for key environmental tasks. The focus in 2014 was the implementation of the energy management system. The main goal of the implementation is to identify opportunities to optimise energy consumption, costs and environmental impacts. The first step was the conduction of energy audits on Sites and identification of the necessary measures for improving the energy performing. Waste management and pollution prevention remain our ongoing priority. Other important environmental activities were conducted simultaneously on four key fields:

- the integration of environmental perspective in all areas and functions of business
- the integration of environmental values into existing projects
- series of activities to raise employee environmental awareness
- first sustainability reporting according to GRI principles.

Last year Atlantic Grupa's environmental awareness programme **FOLLOW ME** launched a green stickers project. Little green positive messages were posted in work spaces near light switches, bathroom faucets and paper towel dispensers, recycling bin areas or by a network printer. They are there to remind employees that they can also contribute to preserving the environment.

Integration of environmental perspective in all aspects of business and beyond

In 2014 Atlantic Grupa started actively to look across the whole value chain, including supply chain, operations and logistics, development of products, marketing, use of products by consumers, end-use of product and potential disposal.
We recognised this approach as a base of the live-cycle thinking. The essential step in this direction was the beginning of recognising and managing the potential environmental impacts of our business beyond the internal boundaries.

In the previous years we focused our environmental concern among our external stakeholders on suppliers. In 2014 we transferred it also on our customers and consumers.

Some projects that have to be highlighted:

- The switch to a recycled plastic Cockta bottle (50% r-PET). With using the *environmentally* friendly *package for Cockta* instead of virgin PET, *we are reducing* the bottle's lifecycle impact by a reduction of CO_2 emissions. Furthermore, the replacement allows the saving of natural resources and reducing the *quantity* of *waste*.

- Participation in the educational project / competition named "Packaging - product - consumer - protection of the environment" in aim to affect the consciousness of the public about the importance of the recycling. The winning evening dress was made out of Barcaffeè waste sacks.

- Promoting the upcycling through the presentation of the urban subsistence gardening made of 3300 Cockta plastic bottles and over 2800 stoppers. The main objective of the project was to promote the recovery *of discarded materials* and give them a new use.

Integration of environmental values into existing projects

In 2014 we started with new environmental project called **ATLANTIC GREEN** – Opportunity to grow in harmony with the nature, which encompasses:

- Value day – the traditional day when AG employees leave their jobs and devote the day to charitable and environmental activities. The next step is to dedicate the day entirely to environmental issues as landscaping of the Sites, removing *trash from the banks of the river and city parks*, raising environmental awareness in kindergarten, planting trees.
- Inowave – the program for notification of innovation is going to be upgraded with the Greeninowave section for environmental ideas.
- Naturally fit project, focused on the promotion of bike to work campaign that will result in reduction of greenhouse gas emissions and energy consumption in relation with the arrival at work.

New environmental activities that will colour Atlantic Grupa in GREEN are:

- the unification of the ecological islands for all locations of Atlantic Grupa,
- celebration of the Earth day through special activities for all employees of Atlantic Grupa,
- planting apple threes on the production site,
- eco cars in the car fleet.

Raising employee environmental awareness

Atlantic Grupa is constantly working on raising employee environmental awareness, due to the fact that employees are the key holders towards sustainable environmental management system. Therefore, FOLLOW ME! slogan conducted this environmental journey for raising the environmental awareness. The most notable activity was the setup of the eco-labels to reduce the water, paper and energy consumption and promote the proper sorting of waste.

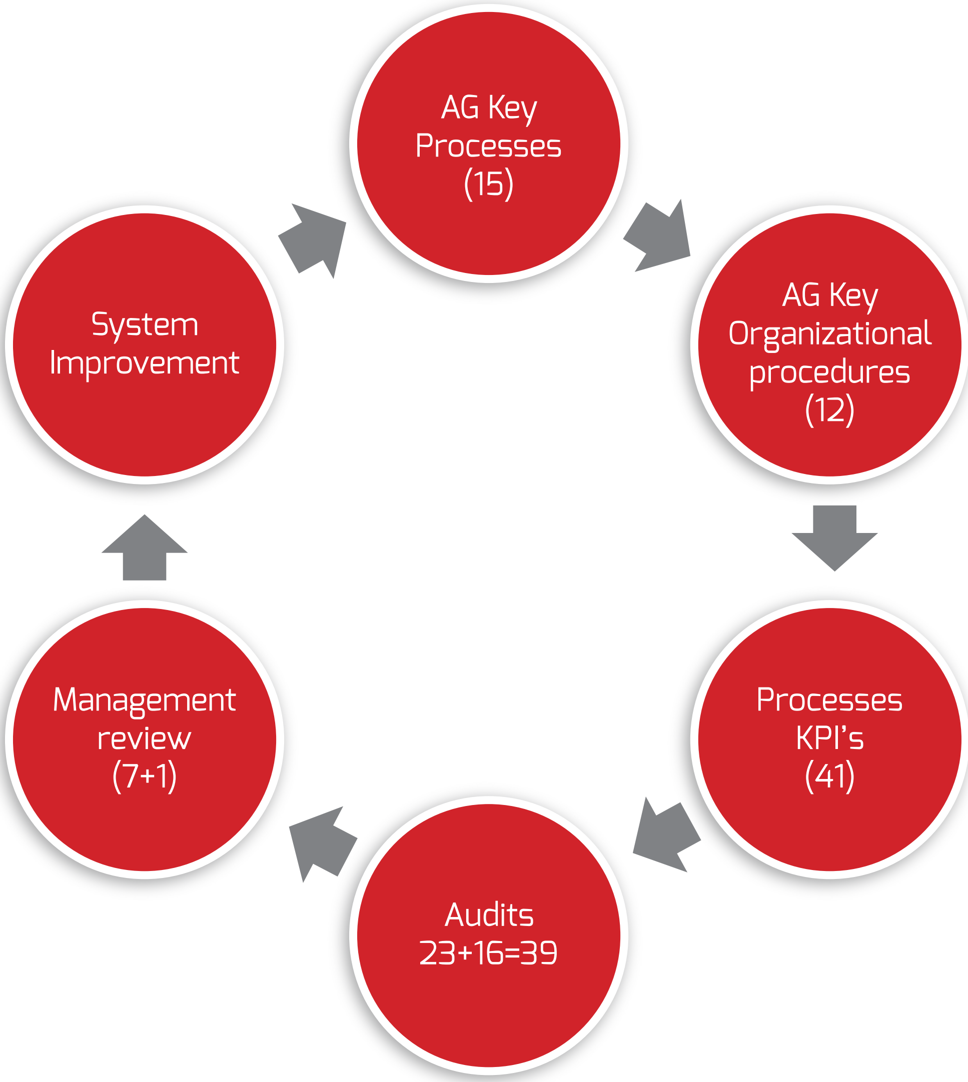
Reporting according to GRI principles

In order to fully integrate sustainability into our business operations in 2014 we have prepared the first Annual report according to Global Reporting Initiative (GRI). The GRI reporting methodology provides a globally recognised framework to monitor and improve our sustainability performance. Our sustainability reporting is constantly evolving and underpins our strategic priorities, shapes our values and influences the way we do business.

Having in mind all the environmental potentials and gaps of the company, we will continue to search best solutions for improvements on environmental field.

INTEGRATED PROCESS MANAGEMENT SYSTEM - 2014

The intensive process of improving the Atlantic Grupa's integrated process management system continued in 2014.



In 2014, improvement efforts primarily focused on:

- Implementation of the process approach in new processes (Logistics),
- Integrated AG supplier monitoring system,
- Improvement of internal audit processes,
- Redefining joint processes key performance indicators for the production process at the AG level.

Implementation of the process approach in new processes (Logistics)

The process of implementing the process approach in Logistics started in 2013 and continued in 2014. The process is defined at the level of entire Atlantic Grupa and includes subprocesses: Transport, Storage and Fleet Management, while the monitoring process was established on two levels, corporate and subprocess. The entire project was successfully verified during a certification audit for ISO 9001 & 14001 in the three major AG logistics centres (Atlantic Trade Zagreb, Atlantic Brands Belgrade and Atlantic Trade Skopje).

Integrated AG supplier monitoring system

The common model for monitoring the Atlantic Grupa's suppliers was defined and established in 2014. The system includes unique criteria for approval, evaluation and auditing of suppliers, while intensive work was performed on the data collection and processing system as well as on the evaluation and monitoring model based on the risk management model.

Improvement of internal audit processes

In May 2014, the first Annual Conference of Atlantic Grupa internal auditors was organised with the aim to strongly support internal audits as a toll for process improvement and risk identification.

Redefining joint processes key performance indicators for the production process at the level of Atlantic Grupa

In 2014, workshops on the analysis of monitoring process performance were held at the level of entire Atlantic Grupa, together with all production process holders. The aim of these workshops was to analyse the current individual process efficiency monitoring models and identify possibilities to establish joint key performance indicators (KPIs) for the year 2015.
Additionally, in the last quarter of 2014, the first Annual Process Management Conference was held, where accomplishments in that year were analysed and the 2015 objectives were set.

Document management

In addition to the above, the year 2014 was also dedicated to the project of launching a new document management tool in Atlantic Grupa.

In October 2014, the document management system was established – this is a new Atlantic Grupa web portal available to all company users, allowing a single access and search of multilingual corporate and local documents by markets.

INTEGRATED CERTIFICATION

The significant project of implementing the integrated quality and environmental management system was initiated in 2012, aimed at integrated certification of all members of Atlantic Grupa. The project involved a new innovative approach to certification and implementation of the so called “multi-site” certification model for Atlantic Grupa.
The second Atlantic Grupa’s integrated certification cycle was implemented in March 2014.

The Atlantic Grupa certificate family comprises

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	FSSC22000	HACCP	ISO 14001	
Neva	Croatia	ISO 9001			ISO 14001	GMP
Montana	Croatia	ISO 9001		HACCP	ISO 14001	
Fidifarm	Croatia	ISO 9001		HACCP	ISO 14001	GMP
Atlantic Trade	Croatia	ISO 9001		HACCP	ISO 14001	
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	FSSC22000		ISO 14001	
Droga Kolinska (Izola)	Slovenia	ISO 9001	FSSC 22000		ISO 14001	
Argeta	BiH		FSSC 22000		ISO 14001	
Kofikom Product	BiH	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	ISO 9001		HACCP	ISO 14001	
Atlantic Multipower	Germany	ISO 9001	IFS		ISO 14001	
Droga Kolinska (Skopje)	Macedonia	ISO 9001			ISO 14001	
Atlantic Trade (Skoplje)	Macedonia	ISO 9001		HACCP	ISO 14001	

New members of our family are marked in red:

- ISO 14001 in Multipower and Logistics,
- FSSC 22000 in bottling plants in Croatia and Slovenia,
- GMP in Cosmetics (ISO 22 716).

In addition, two new major certifications were prepared in 2014 that will enter the certification cycle in 2015:

- IFS Multipower Croatia,
- IFS HPC Neva.

CONTINUOUS EDUCATION

Atlantic Grupa continuously invests in the education of its employees in the field of quality management. Several workshops were held as part of the Functional Education Module, grouped under the following topics:

- product safety and quality management (GHP, GMP, DDD),
- environmental management,
- new documentation and methodology,

all pointing to the fact that this structured education model is year after year growing into an organised education centre for corporate quality assurance.

HUMAN RESOURCES in 2014

In 2014 we have continued all processes that were initiated and implemented in 2013. At the end of 2014, analysed by all 11 markets in which Atlantic Grupa operates, the company had 5,152 employees (average number of people registered in legal entities within AG, including freelancers), recording a continuous upward trend with regard to the number of its employees.

In 2014 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.

During 2014 we continued the project "Naturally Caring" at the Group's level, whose aim was to raise awareness about the attachment that connects us with our work colleagues.

Near the end of 2014 we launched a new project called Body and Mind-Opportunity to be fit with the principal aim to allow our employees to apply a healthy lifestyle throughout the day. This may relate to what they eat during lunch-break, how they get to work, adjustments of work places, organised activities with colleagues interested in the same sports, forming of sports clubs, annual sports games and a series of actions aimed to promote activity, sports and health in our immediate work surroundings. You think this is a philosophy? Of course it is. Healthy living is an entire philosophy to be borne in mind throughout the day, even while we work, because we spend a good part of the day at work. It doesn't mean that this time is anything less than our life.

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. 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. During 2014 we worked on improving the processes by awarding good ideas and establishing a system for their evaluation, and the employees' response to participating in this programme is very good.

Near the end of 2014 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 fourth consecutive year and in 2014 the HRnet

performance management module was redesigned and new functionalities were added in order to facilitate the use of the system for end-users.

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. We have also introduced a new model of business partnerships and excellence centres within the Human Resources Department which contributed to strengthening the function of human resources in the company.

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. During 2014, new functionalities were introduced and the existing ones were improved and redesigned (reporting, employment module, performance management module, development module) in order to increase the efficiency and usability of our processes. 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 5,100 employees of Atlantic Grupa.

LEARN DEVELOPMENT@AG

Development in Atlantic Grupa is defined and realised in four development LABS: LEADER LAB, FUNCTION LAB, TALENT LAB, MY LAB.

The task of LEADER LAB is primarily to develop LEARN leadership competencies for all Atlantic Grupa leaders. By concept, it consists of two parts: Basic Leadership Skills and Leadership in Action. The Basic Leadership Skills programme is designed for newly hired or newly promoted leaders and it is realised through a set of development activities intended to develop basic leadership skills, while the Leadership in Action is a concept that supports active involvement of leaders in rethinking and maintaining the desired leadership culture. The Leadership in Action concept was announced at the end of 2014, while the implementation of both concepts began in early 2015. The year 2014 was characterised by an active individual approach to developing leadership skills in response to the needs arising from talent management processes and the Leadership Academy cycle in 2012/2013.
FUNCTION LAB is focused on the development of functional competencies for the following areas: Quality,

Safety, Pharma, Marketing and KAM. The areas of Quality, Safety and Pharma are under the organisation and control of the business units that manage them, while Marketing and KAM are realised as the joint project of Central Marketing, that is, KAM/Sales Department and the Corporate Talent & Development Team. The year 2014 saw the continuation and, in some segments, expansion of activities in the areas of Quality, Safety and Pharma, while the areas of Marketing and KAM were introduced as a concept and several initial modules were implemented.

TALENT LAB covers programmes defined on the corporate level, corresponding to the development needs resulting from the talent management process, while MY LAB covers all forms of individual development. TALENT LAB has launched some of its projects in 2015, of which the most significant is the young talent identification programme. Preparatory activities for launching the TALENT LAB projects were performed in 2014.

In addition to the above, each Atlantic Grupa employee through his/her individual development plan available via the information system, during the entire 2014 had access to the catalogue of development activities according to defined competencies as well as to options related to applying for and realising required activities which are not a part of the standard catalogue of trainings.

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 mode 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.
In 2014 the Talent Management process included close to 150 employees. This process is repeated every two years with the same group of employees.

EMPLOYEE ENGAGEMENT

At the end of 2014, the employee engagement survey was carried out. 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 2013 results were efficiently accepted among employees and according to the initial 2014 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.

EMPLOYER BRANDING

During the summer of 2014, a comprehensive project of employer branding under the working title "Imagen Atlantic" was started. A series of external and internal research of our company's perception as an employer and months of dedicated work resulted in no longer a working title, but a slogan that was adopted by consensus: Atlantic Grupa - Ocean of Opportunities. This slogan is the basis for a wider concept of employer branding and a series of activities and projects to be implemented, both existing and new.

ATLANTIC
GRUPA
Ocean of opportunities

Employer branding is a project dedicated to the targeted and structured building of Atlantic Grupa's image as an employer. It extends beyond as well, as a business entity in countries we are active in since, by its nature, it extends to other similar corporate areas. Until now, the second demanding phase of collecting information on how we perceive ourselves and how we are perceived by others was carried out, and the results were used as a starting point for defining Atlantic Grupa's employer brand. As a result of research and focus groups, it emerged that the company profile is that of a creator and entrepreneur.

According to the results of research and our aspirations, Atlantic Grupa is defined as an inspirational company (society) of people who operate and love to work in an inspirational environment. Open, inquisitive and motivated, Atlantic offers present and new colleagues, partners and investors an endless ocean of growth and development opportunities. Together we wish to create a vision and provide long term well-being, always keeping our fundamental corporate values in mind: CREATIVITY, symbolized by a wave, PASSION, symbolized by the sun, and GROWTH, symbolized by a mountain. You will notice that the values experienced a slight makeover, not at all unusual for this generation. After all, they also have to grow with us.

The market research in the initial project phase included Croatia, Serbia, Slovenia and Germany – where we have the most extensive business activities and the largest number of employees, while the entire project is related to all markets of Atlantic Grupa.
The aim of the entire project is primarily to be seen and recognised as a desirable employer on all markets. This applies to internal community – our employees, through continuous development and maintaining a high level of engagement, as well as to external community – potential employees, partners, investors... the Ocean of Opportunities is the framework from which all human resources activities will be developed, including different projects in this field. Moreover, the project has an obvious effect on Atlantic Grupa's

overall image, hence the ocean tide will pull with it other related areas of corporate identity and promotional activities. A kind of launching into the Ocean of Opportunities, which as a project will actively sail from the beginning of 2015, are schedule books and calendars that will be used during the next year. The seas will surely not be calm, but we at Atlantic always knew how to seize the opportunities carried by waves, together in the Ocean of Opportunities.

BUSINESS OPERATIONS OF ATLANTIC GRUPA

STATEMENT OF THE SENIOR GROUP VICE PRESIDENT FOR BUSINESS OPERATIONS

Operations of Atlantic Grupa, as one of the most dynamic business systems in the region, were characterised by several key business developments in 2014. The signing of the distribution agreement with Unilever in December 2013 and the successful distribution throughout 2014 have once again confirmed the status of Atlantic Grupa as the leading distributor in the region, offering the highest level of distribution service together with the high realisation of distribution parameters.
Furthermore, the largest investment cycle in the history of Atlantic Grupa's operations was completed in 2014 – construction of the new plant for production of energy bars from the sports and functional food product range in the Industrial Park Nova Gradiška, which began in April 2014. Considering that all the necessary conditions were realised, the technological team started test production in order to achieve full functionality of the energy bars production after the first quarter of 2015.

For the purpose of further internationalisation of Atlantic Grupa's business operations and strengthening of its brand assortment, Atlantic Grupa signed the agreement on the acquisition of 100 percent of the company Foodland d.o.o. with headquarters in Belgrade. Foodland's main activity is the production of natural health food from selected ingredients. The most important part of the product range under the brand Granny's Secret includes savoury spreads, sauces, sweet spreads, natural syrups and juices made from fresh fruits and vegetables. In addition to strengthening the brand assortment and further internationalisation of operations, this acquisition will achieve cost synergies and stronger regional presence of the brands Granny's Secret, Amfissa and principal brands by using the existing regional distribution infrastructure of Atlantic Grupa.

Another development that marked the year 2014 was strategic partnership with the largest oil company in Croatia – INA. On this basis, Montana sandwiches are exclusively sold on Ina's gas stations from April, while the strategic partnership was extended to the coffee segment from June. This cooperation represents a significant step forward in the development and expansion of the coffee business and is an example of an effective synergy of business units.

Our constant work on improving and advancing our products resulted in numerous awards and prizes. To name just a few, Donat Mg was proclaimed the best mineral water in Russia in the competition „Healthy Nutrition Award". In cooperation with a marketing agency, it also won the title of the "General web champion" and the gold Sampler in the category "Best Target Action" for "Preggy Mg" website. Furthermore, Argeta's campaign "Approved by Moms" won one of the most respected awards in market communications – the silver Euro Effie, which best illustrates the strength of the Argeta brand. Moreover, Barcaffe broke all records and won four gold medals in 2014 International Coffee Tasting competition among 149 coffee blends from 15 countries. The quality of our products is additionally confirmed by the research of the Valicon agency, according to which brands Argeta, Barcaffe, Cedevita, Cockta and Smoki are among the top 10 brands in the region on the basis of their recognisability, experience and use. All these prominent prizes and awards represent an additional incentive to our efforts aimed at improving our products and satisfying our customers.

Mladen Veber
Senior Group Vice President for Business Operations

STRATEGIC BUSINESS UNITS AND BUSINESS UNITS

Strategic Business Units and 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. Business Units include six Strategic Business Units – Beverages, Coffee, Snacks, Savoury Spreads, Pharma and Personal Care, and Sports and Functional Food and one Business Unit - Baby 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 2014, the SBU Beverages generated sales in the amount of HRK 638.8 million.

In the last year the intense focus was on the brand Cedevita, which is visible from the research results of the agency Valicon. According to the results of Valicon's survey on the strength of brands in 2014, Cedevita holds the second place in Croatia in the category of soft drinks (in-home consumption) and the fourth place in the region. In the category of instant vitamin drinks, Cedevita posted a market share growth in the strongest regional markets of Croatia and Slovenia. It should be mentioned that in 2014 Cedevita's volume share in the Croatian market grew by 6.7 percent. The best market share in the last two years was posted in both Croatia and Slovenia. These positive results were supported by extending the product range and launching of new products. New packs were launched within the in-home channel: 75g and 150g. These packs allow for a simpler preparation of 1 or 2 litres of this drink, for the whole family or more consumers at once. The effects planned with regard to new packs were also achieved on less developed markets: Serbia, Bosnia and Herzegovina, and Macedonia. Within the in-home channel, Cedevita Kids launched a new strawberry flavour. Considering that these are products intended for children, Cedevita Kids Strawberry has alluring organoleptic features and all necessary ingredients of 9 vitamins and calcium. According to that same survey, in the HoReCa channel Cedevita ranks second in Croatia and Bosnia and Herzegovina and fifth in Slovenia.

The absolute hit of 2014 is a new HoReCa 19g bag. This innovation created a whole new experience of drinking Cedevita in cafés. In 2014, the HoReCa segment grew by 7% and, since the launching of new 19 gram bags, sales by item grew by 22%. Based on outstanding results, the HoReCa bestseller, Cedevita Elderberry-Lemon, was also launched in a new 1,000g pack in order to make this flavour available to consumers at home as well. In May 2014, new Cedevita GO! flavours were launched: Cedevita Kids Strawberry, for the youngest consumers and Cedevita GO! Cupuacu-Lime, a fruit combination from Brazil. Cedevita GO! also posted more significant exports to Australia and opened the market of Russia.

Another innovation was launched in May 2014 in the segment of Cedevita candies – Cedevita Kids Puc Puc, a popping powder in forest fruits and strawberry flavours. Sales surpassed even the most optimistic expectations with 1.3 million sold items just in Croatia. Almost half of the sales were achieved in December during an extremely successful TV campaign when the Puc Puc popping powder accounted for as much as 71% of total sales of Cedevita candies.

Cedevita teas are still in the strong second place in the category of consumer teas, and in 2014 two new products were launched: Cedevita rum punch tea and Cedevita green tea with ginger. The market leader in the category of functional teas – Naturavita, in line with the latest consumption trends, broadened its product range with a new tea. The existing teas under the Naturavita brand were joined by nettle tea in September 2014.

In 2014, Multivita instant vitamin drink continued promotional activities in line with its role and position in the SBU Beverages. The product range was extended with a new product Multivita tropical mix, an extraordinary combination of pineapple, mango and lemon flavours. The brand strength increased in the principal market – Serbia, and the volume market share grew to 19%. In other regional markets - Montenegro and Bosnia and Herzegovina, planned activities were carried out and market positions retained. Multivita effervescent tablets were the number one brand in Serbia in 2014 as well, and their market share grew on all the markets compared to 2013.

Kalnik Springs are definitely one of the most successful product groups in 2014 due to exceptional growth in sales in the retail channel, amounting to 151% compared to the previous year, while the best results were achieved in the segment of natural spring waters. Accordingly, the water Kala, with a continuous growth of its market share, at the end of the year occupied a high third market position with a 7.6% market share.

Cockta also in 2014 followed its values: distinctiveness, quality, innovation and focus on nature - which is simply stated by the brand's slogan "Cockta - Created Different". These key elements were also considered in the development of new products. So in March 2014 a new line of products Cockta Plus was launched with two new flavours: Lime & Ginger and Mandarin. The share of fruits in the composition of Cockta Rossa was increased and the packaging was redesigned. Nevertheless, consumers remain most devoted to Cockta Original and its distinctive aroma of rose hip, specific composition of herbal extracts, free of caffeine and orthophosphoric acid, otherwise usual ingredients of cola drinks. Cockta retained its high

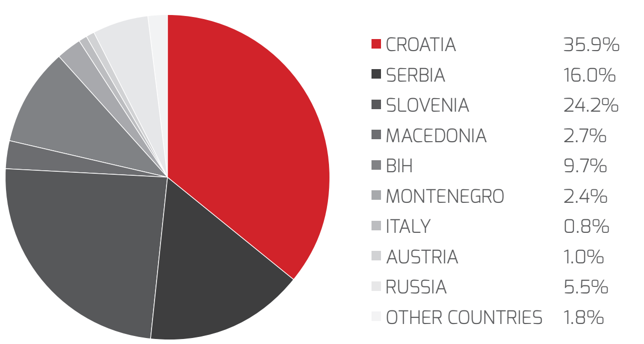
market positions on the regional market, while the best results outside the region were achieved in Russia, Austria and Sweden. In 2014, Financial Times also recognised that Cockta is a top product even in global terms by ranking Cockta Original among the best 4 cola drinks in the world. Moreover, Cockta consistently fulfils its environmental obligations. Accordingly, since the summer of 2014, the entire range of Cockta Original, Cockta Easy and Cockta Plus is available in bottles made of 50% recycled plastics.

The new strategy concerning the medicalisation, globalisation and general design renewal of Donat Mg continued in 2014. After 12 years the brand experienced a substantial change in PET packaging and 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 continues to be the leading brand in the segment despite great pressures from the OTC product group. In Croatia, at the level of primary use Donat Mg retained the second market position. In Bosnia and Herzegovina, Donat Mg improved its recognisability, reputation and consumption levels.

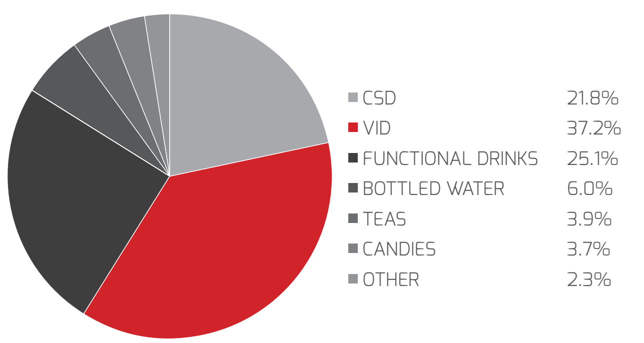
In Serbia, Donat Mg's perception as a unique and functional water increased. In 2014, the largest growth in sales was recorded in the Russian Federation, where Donat Mg won the award of the "Best mineral water in Russia". The product was also successfully launched in United Kingdom and Kosovo. Donat Mg is currently available on 30 markets worldwide. Medical marketing activities were increased in 2014. Around 300 visits to medical staff in the region are made every month and Donat Mg participates in the most important medical congresses in the fields of gastroenterology, gynaecology and diabetes. One of the largest communities of pregnant women in the world – Facebook community was established, joined by more than 488,000 pregnant women. Eight digital awards were received for this action (Websi, Diggit, Pomp, Sempl, etc.).

The SBU Beverages continues to invest in its facilities with the aim of increasing the process safety level, work productivity, product quality standards and, in general, product competitiveness in a very demanding market. To that end, EUR 3,2 million was invested in 2014 for interventions in technological processes and purchasing of new equipment.

SALES BY COUNTRIES 2014



SALES BY CATEGORIES 2014



STRATEGIC BUSINESS UNIT COFFEE

With its Strategic Business Unit Coffee (SBU Coffee), Atlantic Grupa's coffee brands successfully compete in all coffee segments and have an impressive market leading position in the Adriatic region. Atlantic Grupa is consequently the leading coffee producer in the region, known for its production of Turkish coffee. Key business strengths are strong brand portfolio, product and regional know-how, flexible business operations and a high quality product portfolio in the categories of Turkish, instant and espresso coffee. The most prominent brands in SBU coffee are Barcaffe, Grand kafa and Bonito. As a market leader in the category of Turkish coffee in Slovenia, Serbia, Bosnia & Herzegovina and Macedonia, the SBU Coffee stands out as Atlantic Grupa's leading business unit by generating HRK 1,026.7 million of sales in 2014 and representing 20.1% of the total AG turnover, with the total sales volume of 23,461 coffee tonnes in 2014. Key markets in 2014 are Serbia comprising 50% of sales and Slovenia making up 29% of sales. Sales in coffee categories are dominated by Turkish coffee with 89% of total sales, followed by espresso with 6%, instant coffee with 4% and other coffee with 1%.

The regional markets in 2014 continued negative trends in the segment of traditional coffee, within which the SBU's largest market – Serbia posted a 6,3% decline in consumption of products from that category, which is equivalent to 1,300 tonnes of end products. Furthermore, the market of raw coffee had an extremely turbulent year, with a 100% price increase in the second part of the year in comparison with the beginning of the year. High expectations of price increase in the second half of the year made the whole market exposed and sensitive to producers' price discount competition. Despite the complex market situation, the leading market shares in all regional markets were successfully maintained and increased.

On a decreasing Slovenian market, Barcaffe maintained stable sales with support of the loyalty programme "Kavamanija" and increased market shares. In the white cup segment, Barcaffe took the 3rd position. In Croatia, Barcaffe took 10% of the Turkish coffee market, increased sales by 31% and improved its market share.

In Bosnia and Herzegovina, Grand Gold improved its 2nd position in the volume market share, at the same time holding the absolute leading position in the value market share with 16% in the last measurement period, while Grand Aroma raised its market share by becoming more price-attractive to consumers. In Serbia, Grand Kafa took over 50% of the Turkish coffee market during the loyalty programme "Vidim ti siguran dobitak" (I see sure winnings for you), which was supported with "above the line" (ATL) and "below the line" (BTL) marketing activities. This year, Grand Aroma started to increase its sales, while Grand Gold successfully defended and improved its leading position.

In 2014, Bonito defended its strong 3rd position on the Serbian market due to a much better performance in the region Srbobran: 19% sales increased on YTD basis. In the second part of the year, Bonito took the 2nd place from its main competitor C kafa, while Grand kafa instant successfully defended its 2nd position in the white cup segment.

In the area of product development, Barcaffe covered the market with new extensions of Barcaffe Selection: Irish Cream & Chocolate. In November, Barcaffe entered the leading Croatian retail chain and significantly improved its level of distribution in Croatia. The Grand kafa instant portfolio was expanded by two more flavours – Freeze banana in the Ice Coffee segment and Rum Cocktail in the 3in1 segment.

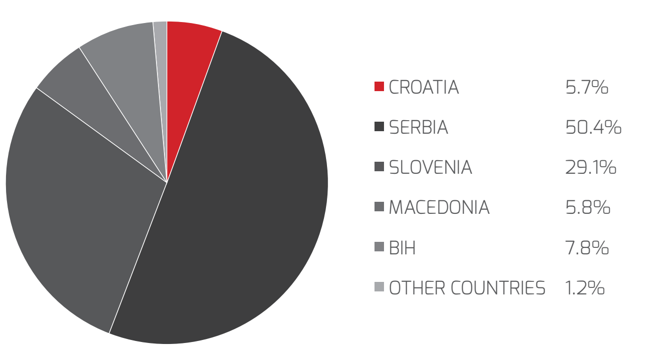
The SBU Coffee is strongly developing the Barcaffe&Go segment, a modern and trendy concept that provides freedom of movement together with the top quality of Barcaffe espresso. For Barcaffe&Go, 2014 was a very significant year due to a strategic partnership that was concluded with INA Gas Station, a strong partner that will enable Barcaffe&Go to develop regionally as an established brand. Partnership with INA, together with further development of Barcaffe&Go, enabled Barcaffe Espresso to enter more than 600 new locations in the region in 2014, which has already made Barcaffe number one in the Coffee2Go segment in the Adriatic region.

Barcaffe broke all records and won four gold medals in 2014 International Coffee Tasting competition among 149 coffee blends from 15 countries. The winning products were selected by an international panel of judges which evaluated coffee blends from Italy, Korea, Australia, Canada, China, Germany, Japan, Portugal, Spain, Switzerland, Thailand, Taiwan, Vietnam, USA and Slovenia. Judges evaluated coffee beverages based on several criteria such as body and intensity of aroma and structure of the cream. Amongst this year's winners are three espresso and one filter blend of Barcaffè coffee - Barcaffè Bar, Barcaffè Prestige and Barcaffè Filter, brands for which this is a second gold medal in this competition.

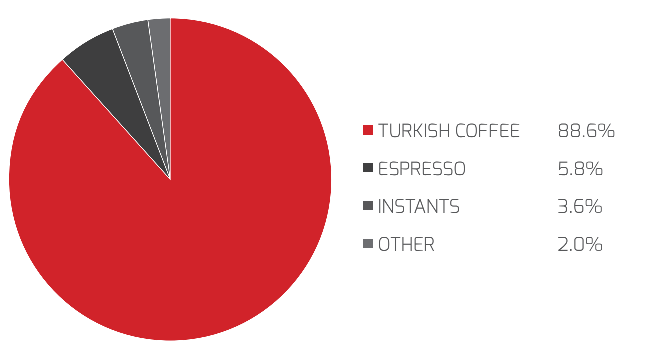
In order to refresh its communication platform, Grand Aroma launched a new campaign named "Conquers", as a response to women's needs for a modern and trendy brand which they can identify with. Barcaffe continued its communication on the platform "For a beautiful day", as well as Grand kafa Gold with the campaign "And with whom do you drink coffee with?". Together with Grand kafa Instant campaigns "Summer schemes" and "Flavours for your soul", this resulted in the market share increase and in winning the award given by the Association of Market Communication Professionals of Serbia, with the gold medal awarded to Grand kafa Gold for the best Integrated campaign.

In 2014, automatisation of final packaging in production facilities in Serbia started its implementation in order to increase operating efficiency in the following years. A strong focus has been placed on product development in the new coffee category that is going to be launched in 2015 as the future key market investment in attracting new consumers and further strengthening of the SBU Coffee and Atlantic Grupa, an absolute leader in the region.

SALES BY COUNTRIES 2014



SALES BY CATEGORIES 2014



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 leading companies in the area of candy products and salty snacks in the region, Soko Štark. Production facilities are located in Serbia (Belgrade and Ljubovija) with 840 employees. The most prominent brands in this business unit are Najlepše želje, Bananica, Sweet, Smoki and Prima. The SBU Snacks in 2014 recorded sales of HRK 614.4 million.

During 2014, the SBU Snacks launched several new products. According to the type of innovation, this includes:

- 15 completely new recipes,
- 14 packaging redesigns,
- 53 discount and LC products,
- others included different modifications on the existing products.

By launching new products, in the last year the SBU Snacks also expanded to new categories: Chips and breakfast cereals. The production in both new categories is organised as outsourced services (chips within the company Kannan in Croatia; cereals within the company Emco in the Czech Republic). Chips were launched on the market as an entirely new brand Chipsos with 16 products and 7 flavours, while cereals were launched as three types of muesli products under the already affirmed brand Integrino.

The existing categories were also enriched by new products. The chocolate brand Najlepše želje was extended by the sub-brand Najlepše Želje Plus with three filled dark chocolates: rum, orange and cherry. Changes in the architecture of this brand are also expected in 2015. Furthermore, the sub-brand Integrino under the Štark brand of biscuits was extended with new flavours: hazelnut-chocolate and orange-flavoured covering.

Other than introducing entirely new products in the production programme in 2014, the range of existing products was expanded in some markets. Sales of wafer products were started in Croatia and Integrino was launched in Kosovo.

Analysed by geography, the Serbian market retained its dominant position in sales, although the share of exports increased slightly in the previous year.

Analysed by categories, chocolates and salty sticks recorded growth due to launching of novelties, attractive marketing activities and discount offers in line with the latest consumer trends. The regional retail panel showed growth in the market share of strategic brands:

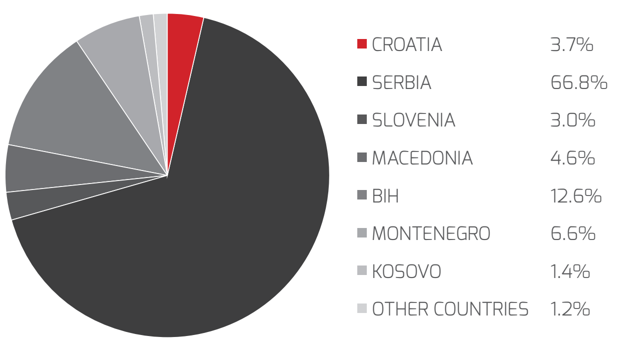
The Smoki master brand improved its volume and value market share in all markets in the region. The newly launched brand Chipsos already achieved an excellent 8.5% market share in Serbia. Moreover, Najlepše želje strengthened its status in the category of chocolates in Serbia, while Bananica is more and more popular not only in Serbia, but also in Bosnia and Herzegovina.

The building of brands through original marketing support and innovative communication with target groups were in 2014 awarded by numerous awards from the professional public. Najlepše želje won the following awards:

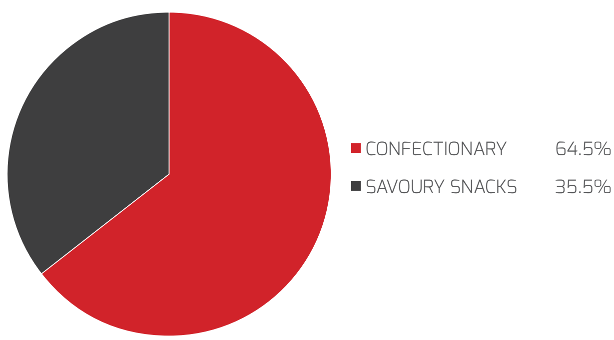
- Gold medal for the best PR campaign (UEPS - Association of Market Communication Professionals),
- Gold medal for the best consumer relations campaign “Care Day” (UEPS),
- Silver medal in the category of brand PR campaigns (UEPS),
- Silver medal in the category of Promotion at the Point of Sale (UEPS).

Further, chocolate bars Sweet won the SoMust Have awards, for the WhatsApp campaign “Sweeeter challenges” in the category of different social networks (SoMO Borac - Weekend media festival Rovinj), while Bananica won the gold medal in the category of Promotion at the Point of Sale for the campaign “Bananica barcode“ (UEPS).

SALES BY COUNTRIES 2014



SALES BY CATEGORIES 2014



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 in Serbia, Slovenia, BiH, Croatia, Macedonia, Montenegro, and 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 SBU Savoury Spreads was joined by the brand Montana. The production facilities are located in Slovenia (Izola), Bosnia and Herzegovina (Hadžići), and Croatia (Zagreb). The SBU Savoury Spreads in 2014 recorded sales of HRK 471.4 million.

According to Valicon's survey on the brand strength in the entire region, Argeta holds an impressive first place in Macedonia and Bosnia and Herzegovina. Along with the strong presence in regional markets, Argeta's presence on European markets (Austria, Germany, Switzerland, Italy, Sweden, UK, Ireland) and other export markets (Russia, Kosovo, Bulgaria, Albania, Canada, Australia, USA) has been further improved. Argeta's entry into the Spanish market from 2013 was continued in 2014 by improving distribution and entering retail chains Carrefour, Caperabo and Dia.

The year 2014 further confirmed the success of the "Approved by Moms" campaign from 2013, when we invited 18 real moms from the region to inspect our factory and confirm the quality of Argeta. The campaign was a great success and played a positive role in achieving the following:

- Our market shares continued to grow in 2014 compared to 2013 on all markets.
- Argeta has a 100% ownership of the following brand image elements in the region: best taste, good spreading, highest quality and trustworthiness.
- We received the silver Euro Effie award (for effective marketing communications) for the above mentioned campaign.

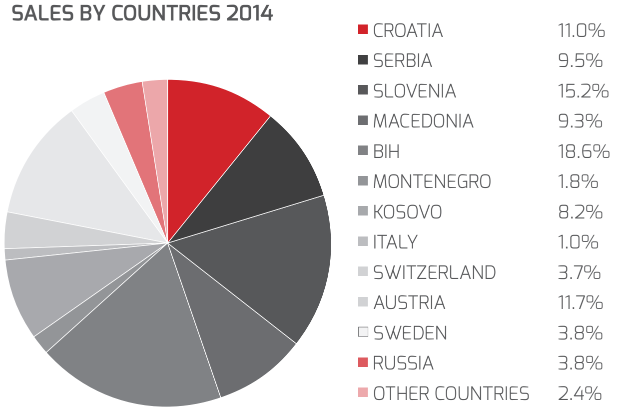
A new taste, Argeta “tea” pâté, was launched in the Croatian market in May. A product specially developed according to the habits of local consumers, well-executed distribution and strong ATL and BTL support led to a huge success: only after a few months of sales, Argeta “tea” pâté became our second best selling taste in the meat segment on the Croatian market. Because of its huge success on the Croatian market, we launched Argeta “tea” pâté also in Slovenia in September.

A special edition of pâtés was launched at the end of the year under the name Argeta Exclusive a la Subida in the markets of Slovenia, Croatia, Serbia, Macedonia and Bosnia and Herzegovina. This new savoury spread was prepared in cooperation with the kitchen chef of a Michelin awarded restaurant La Subida, Alessandro Gavagna, thus continuing Argeta’s cooperation with renowned restaurants in the region.

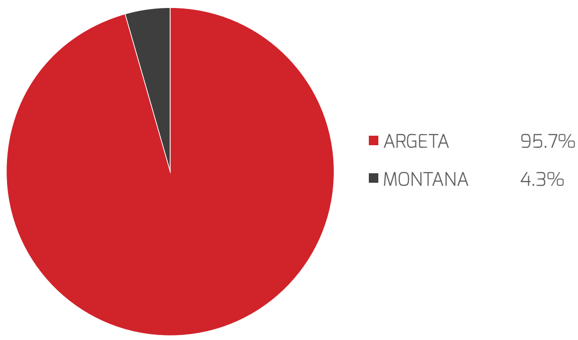
In 2014, Montana surprised its consumers with a packaging redesign, improving its image of the tastiest choice in its category in the region. In Croatia and Slovenia, a range of new products, specially developed for this purpose, opened the door to a totally new distribution channel with high prospects for future – vending machines. In the end of the year, Montana widened its product assortment in Slovenia with classic sandwiches in rolls.

In 2015, the SBU Savoury Spreads will be further strengthened with several more recognisable brands due to the November 2014 signing of the agreement on the acquisition of 100% of the company Foodland d.o.o. with headquarters in Belgrade and production plants in Igros at the base of the Kopaonik mountain range.

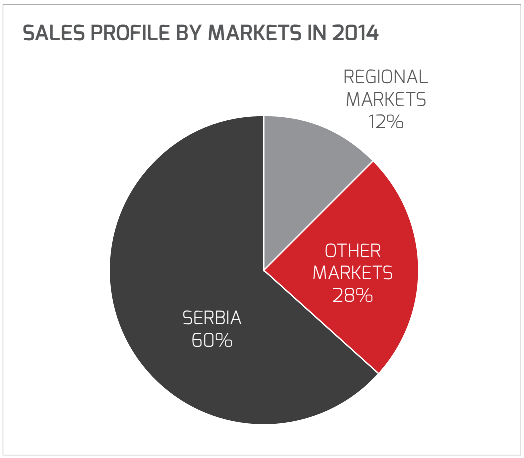
SALES BY COUNTRIES 2014



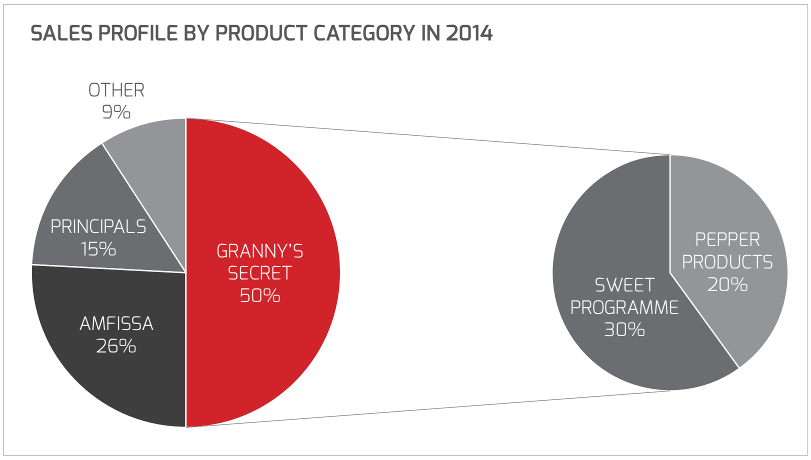
SALES BY CATEGORIES 2014



Foodland d.o.o. was founded in 1998 and its main activity is the production of natural health food from selected ingredients. The most important part of the product range under the brand Bakina Tajna (Granny's Secret) includes delicacies such as savoury spreads and sauces (Ajvar relish, Pindjur relish, ketchup, pasta sauces) and sweet spreads (jams, jellies, sweets) and natural syrups and juices made from fresh fruits and vegetables. Vegetables and fruits selected for the production are the yield of the untouched nature of the broader area of Kopaonik and the local farms. All products are made with the highest percentage of fruit and vegetables and prepared in a traditional way, without additives or preservatives. Production at the Foodland plants is set up in accordance with the high standards of the worldwide HCCP certificates, ISO 9001 and BRC.



SALES PROFILE BY MARKETS IN 2014



SALES PROFILE BY PRODUCT CATEGORY IN 2014

In 2014*, the company's overall sales amounted to EUR 8.3 million. In this, 85% of sales related to own production and 15% to principal brands that the company is distributing. The brand Granny's Secret covers 50% of sales and the brand Amfissa (olives, sour pickles, capers, dried tomatoes, etc.) covers 26% of sales from own production, the rest being mostly production for private labels. Geographically, the company's largest market is Serbia with 60% of sales, while outside the region (West Europe, USA, Australia, Japan) it realises 28% of sales, Russia being the largest export market.

* Preliminary unaudited results

STRATEGIC BUSINESS UNIT PHARMA AND PERSONAL CARE

The Strategic Business Unit Pharma and Personal Care (SBU Pharma and Personal Care) includes the operations of pharmacies and specialised stores for medicinal products joined in the chain Farmacia and the production of dietary supplements, over-the-counter (OTC) medicines, cosmetics and personal care products. 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 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 most prominent products of the Strategic Business Unit Pharma and Personal Care are known under the following brands: Dietpharm nutritional supplements and medical purpose products, Plidenta toothpastes, face and body cosmetics Rosal, lip care sticks Lip Balm and universal protective cream Melem. The SBU Pharma and Personal Care in 2014 recorded sales of HRK 493.3 million.

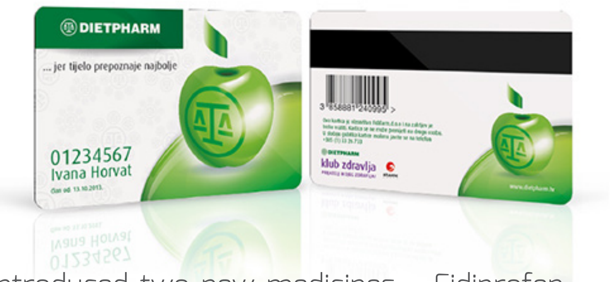
In 2014, the chain of pharmacies and specialised stores Farmacia opened 7 new units and ended the year with the total of 73 venues across the Republic of Croatia (25 specialised stores and 48 pharmacies).

In addition to new counselling centres initiated as pilot projects in 2014, it is also worth mentioning new services in the sports counselling centre: consultations with the physician specialising in physical medicine and rehabilitation, analysis of blood metabolites and diet measures in the form of a dietary programme prepared by a nutritionist and dietician. In 2014, Farmacia launched new additional services by establishing 2 new patient counselling centres – cardiology counselling centres (in 3 pharmacies in Zagreb) and paediatric counselling centres (in 16 locations evenly distributed across Croatia). Likewise, the phitotherapy EPS service that we introduced in 2013 as the only pharmacy chain showed excellent results and was also presented in November 2014 at the congress Renaissance of Primary Health Care. The Education Centre Farmacia in 2014 organised a number of educational courses covering different topics for our masters of pharmacy and pharmacy technicians. Farmacia demonstrated its professional work in the form of a poster presentation at the counselling of pharmacists in Osijek, and our masters of pharmacy won HALMED awards for reporting side-effects for a fourth year in a row.

Farmacia was also awarded by the Croatian Society for Patient Safety as the first candidate from pharmacy for the project of Personal Pharmacist directed at maximising the treatment of patients and improving their quality of life.

Great efforts made in the Commission for improving pharmacy care and Commission for economic issues resulted in our participation in negotiations with HZZO together with the president of the Croatian Chamber of Pharmacists and adoption of the new model of pharmacy service.

Dietpharm has been for years established as the dominant producer of dietary supplements in Croatia with a 23% market share. Fidifarm's production programme in 2014 included 86 products under the brand Dietpharm, of which 10 are market leaders in their respective segment (magnesium, calcium in the prevention and treatment of osteoporosis, menopause, eye vitamins, nutritional supplements for the easing of haemorrhoid pains, iron in nutritional supplements, vitamin C in nutritional supplements, oral rehydration salts, and nutritional supplements for aiding the lowering of blood fats). In 2014, Dietpharm's product range was extended by two new products launched in the category of dietary supplements: Ideal Slim capsules and Floradix Epressat multivitamin tonic. The loyalty programme that joins the most loyal consumers of the brand Dietpharm – Health Club – remained active throughout 2014. During 2014, the Health Club was joined by 9,000 new members and now has a total of 66,000 members. Fidifarm's future growth and development is expected to be achieved by developing new products and increasing sales in export markets. Today, Dietpharm is present on ten export markets: Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Hungary, Kosovo, Slovakia, Azerbaijan, Slovenia and Russia. As regards prescription medicines, in 2014 we introduced two new medicines – Fidiprofen Flu and D-vital ampoules (prescription medicine). Numerous activities are dedicated to more successful market positioning of those products.



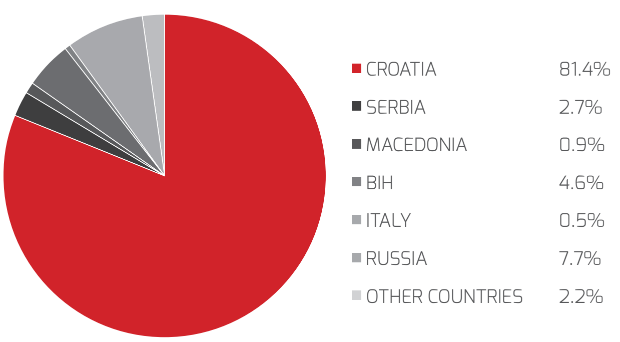
In 2014, the brand Multivita included 7 different types of effervescent tablets. Multivita's product range consists of multivitamin effervescent tablets, effervescent tablets with vitamin C, magnesium, iron, and zinc. Multivita is also present in the pharmacy channel in Russia and Serbia. Sales on the Russian market are especially important, namely Vitamin C1000 that has the leading market share in the effervescent vitamin C market.

The product range of Plidenta toothpastes is the strongest segment of Neva's assortment with a 30% share in the total sales. Regardless of very demanding market conditions, Plidenta recorded an increase in volume market share, while the largest step forward was made in Bosnia and Herzegovina where Plidenta, despite the decline of the entire category, recorded a sharp increase in its market share of more than 35%.

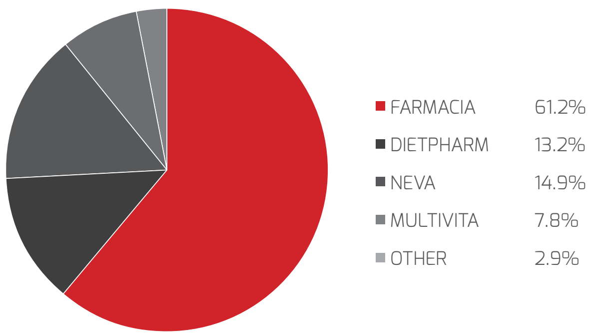
The development of Melem as a brand in the pharmacy channel, which started last year by launching Melem Pharma Akut, was continued in 2014 by launching the line Melem Pharma Atopic. In cooperation with Croatian dermatologists, Melem's research laboratories launched Melem Pharma Atopic emollient face and body cream and Melem Pharma Atopic soothing bath oil. Both products are intended for very dry and atopic skin, and may be purchased in pharmacies across Croatia.

Rosal Lip Balm (INK)REDIBLE COLORS, revolutionary products, which in addition to principal care and protection also have a long-term and stable colour, like a real lipstick, launched near the end of the last year, were enriched by 2 new and attractive shades Coral Candy and Flash Nude. The entire sub-line of (INK)REDIBLE COLORS products was splendidly accepted by our female consumers in the whole region, and Rosal Lip Balm took the first place in sales by item in Croatia and the second place in Serbia with a respectable 18% volume market share gained in only a year. Cosmopolitan Beauty Award - Innovation, imagination and quality of Rosal products was also recognised by the expert panel of judges head by the chief editor of the women's magazine Cosmopolitan by giving Rosal Lip Balm the prestigious award in the category "Innovation of the Year" for the product Rosal Lip Balm (INK)REDIBLE COLORS Morning Rose. As an acclamation for the entire market communication in 2014, Rosal also received a gold medal for an integrated campaign given by the UEPS - Serbian Association of Market Communication Professionals.

SALES BY COUNTRIES 2014



SALES BY CATEGORIES 2014



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 eight years of tradition and a leading position in the sports food segment have resulted in the leading brands Multipower and Champ. The headquarters of the SBU Sports and Functional Food is in Hamburg and products under the core brand Multipower are leaders on the sports food market in the entire Europe.

The SBU Sports and Functional Food's production processes are certified by ISO 9001:2000 and IFS. The production plant for powder products and supplements is located in Bleckede, and from the first quarter of 2015 the SBU Sports and Functional Food will start production of protein bars in Nova Gradiška. After signing a pre-agreement in September 2013 with the Industrial Park Nova Gradiška, Atlantic Grupa started the investment in a new plant for the production of energy bars. This is a project with the total value of HRK 100 million, which will create around 50 new jobs in the first year of production and, with the planned business growth, ultimately 160 new jobs. The project was successfully completed in 2014 within a record time of only seven months. The plant is equipped with the top technology capable of producing 100 million protein bars a year already from January 2015. In the new plant construction project, the project team prepared the implementation of SAP solution for supporting business processes of the new plant. The implementation was completed in line with the plan and the SAP system went active at the beginning of November, in time for first orders of raw materials and the beginning of the test production. Considering that all the necessary preconditions were realised, the technological team started test production in order to achieve full functionality of the energy bars production after the first quarter of 2015. The new plant for the production of protein bars will enable the SBU Sports and Functional Food to transfer the production of this segment from external producers into new facilities.

The strategy of the SBU Sports and Functional Food is based on an 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, growth in sales shares on key markets, and 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.

The SBU Sports and Functional Food in 2014 recorded sales of HRK 779,1 million. During 2014, the SBU's main business focus was on further development of key markets, in particular Great Britain and Germany, as well as new markets, of which some recorded excellent sales compared to the previous year.

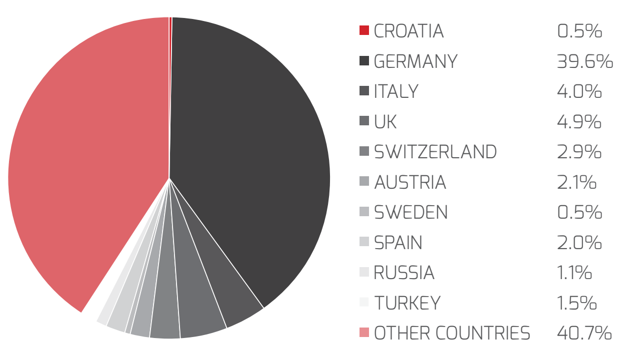
Temporary sanctions and depreciation of the Russian ruble had a significant negative effect on the markets of Russia and Commonwealth of Independent States, which experienced a decline compared to 2013.

In 2014, the best results were again recorded in the category of Endurance products, with a 54% growth, identified as the key category with a high market growth of 16%. In the following period, efforts will focus on further growth in this category through the development of new products, increasing Multipower's share in this category on the key markets and entering new markets.

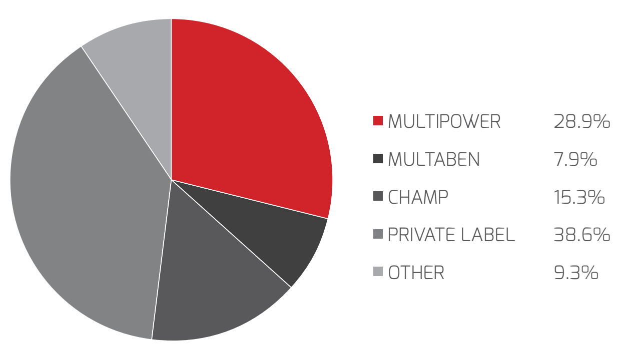
Special attention in 2014 was also given to developing a new assortment of protein powders for the consumer segment "Sculptor". The launching of this new line with extensive marketing support is expected in March 2015.

From the marketing aspect, as 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.

SALES BY COUNTRIES 2014



SALES BY CATEGORIES 2014



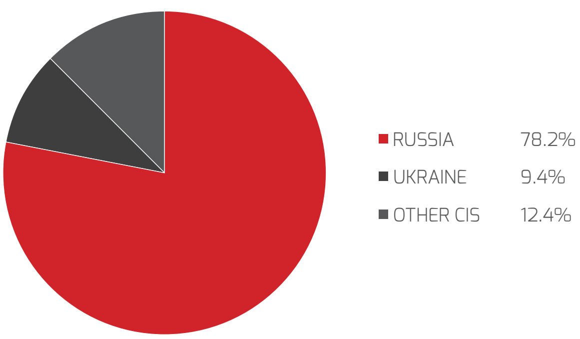
BUSINESS UNIT BABY FOOD

Despite the political instability in Ukraine, unfavourable macroeconomic environment, negative market trends in the category of baby cereals, suspension of deliveries to Russia in December due to extremely strong depreciation of the Russian ruble, the baby food segment recorded sales at the level of 2013 in terms of volume. Bebi as a brand managed to increase its value market share to 7,8%, capturing the fourth position on the Cereals market.

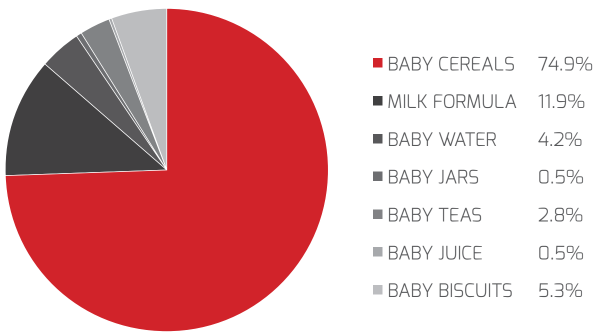
Simplification of Brand Architecture and design update were the main strategic pillars ensuring further Bebi development and new communication with consumers on the shelves. Clear navigation within brand sub-ranges facilitated the consumers' choice of Bebi products, new redesigned packs attracted attention and generated more visible product benefits. Furthermore, optimisation of the product range significantly reduced the complexity of production, logistics and sales.

The Business Unit Baby food is constantly improving its horizontal and vertical distribution in national and regional key accounts. The Bebi brand strengthened its presence in retail chains Achan, Lenta, X5, HyperGlobus, Zelgros, and Kesko. The above mentioned distribution extension, together with careful price manoeuvres, enabled this Business Unit to retain a stable market position.

SALES BY COUNTRIES 2014



SALES BY CATEGORIES 2014



STRATEGIC DISTRIBUTION UNITS AND DISTRIBUTION UNITS

The Strategic Distribution Units and 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 and Distribution Units is distribution of the entire product range from Atlantic's own production and the portfolio of external principals, divided into seven units: Croatia, Slovenia, Serbia, Macedonia, CIS, International Markets, and HoReCa Channel. Distribution in BiH and Montenegro is organised in cooperation with the partner company Ataco.

STRATEGIC DISTRIBUTION UNIT CROATIA

We entered into 2014 with a new organisation that helped raising the quality of distribution by focusing the organisation of sales on food and non-food segments and by focusing the organisation of KAM (Key account management) on specific customer groups.

In the part of organisation competent for brand improvement, teams were focused by product category and special teams were organised for our strongest external principals - Fererro and Unilever. Departments responsible for finding new principals/sales channels and for planning and reporting were established at the level of the entire organisation. The implementation of new organisational structure facilitated an increase in number and weight distribution of brands we distribute.

Our distribution portfolio was in 2014 expanded by three (3) new principals - Unilever, Hipp and Monster, allowing us to add even more strength to our customer position, especially in the pharmacy channel where we became the most significant supplier.

It is worth mentioning the exceptionally successful launching of the product group Le Petit Marseillais (under Johnson&Johnson), which Johnson&Johnson recognised as the most successful launching on the entire market of South-East Europe. The distribution of Atlantic Grupa brands Barcaffe and Argeta was successfully broadened (primarily by their inclusion in the leading retail chain), which created realistic assumptions for further growth in market shares of those product ranges in Croatia. With the launching of the brand Chipsos (chips category) produced by Soko Štark, we became a significant player in that category as well.

The pilot project in the distribution centre Rijeka, involving focused sales force and logistics in the category of beverages, significantly increased distribution and created new potentials for the future. Logistics also finalised preparations for the new work technology in distribution centres Rijeka and Osijek, operating as cross-docking terminals, whose implementation will begin in early 2015.

In Bionatura, new sales channels (D2D and Vending) were opened, the call centre was reorganised and sales were significantly increased through a proactive approach to users with regard to other product ranges (brands distributed by the SDU Croatia) as additional to water bottles, for both private and business users.

STRATEGIC DISTRIBUTION UNIT SERBIA

The SDU Serbia in the course of 2014 remained among the top 3 distributing companies in Serbia, despite a lot of difficulties that the market experienced. Serbia faced serious floods in May of 2014 that heavily influenced the country's economy.

Despite this, the SDU Serbia maintained its leading position as a supplier of Turkish coffee on the market with the leading share above 50%. Also in the confectionary segment, we improved our position as a supplier of the retail market, especially in the segment of chocolates, and we also successfully launched new chips products under the brand Chipsos. On the other hand, due to a very rainy summer, we have experienced a serious drop in the segment of drinks that was also reflected in lower sales.

During 2014, the SDU Serbia secured contracts with new international and regional principals, so apart from the existing brands, the SDU Serbia's current portfolio consist of:

- Monster – energy drink,
- Voda Voda – still water,
- L´Oreal – for distribution in local key accounts and traditional trade channels,
- Becutan - baby care from Alkaloid.

To be able to compete on a reducing market, the SDU Serbia launched a successful project named "Vaš komšija" (Your Neighbour) which focused on 2,000 shops in traditional trade channels, targeting the clients and final consumers in the regions where traditional trade still has potential to compete with big players in retail business, using synergy with the SDU Serbia's distribution portfolio.

The SDU Serbia's direct distribution in 2014 reached 12,000 points of sales, 400 pharmacies and 200 perfumeries, while registering their geo coordinates. This will enable dynamic routing for logistics, bringing more efficient service to clients.

STRATEGIC DISTRIBUTION UNIT INTERNATIONAL MARKETS

The continued focus in 2014 for the Strategic Distribution Unit International Markets, was profitable growth on markets outside the core region of the company by improving the availability of Atlantic Grupa's own brands. While the focus in 2013 was mainly on sales in the modern trade channels (food and drug), in 2014 the SDU International Markets also assumed responsibility for the sales and distribution of the product portfolio of the brand Multipower in specialised retail channels (gyms, fitness clubs, sport stores and sport nutrition stores). In addition, the SDU International Markets signed the first contract for the distribution of an external brand as well as the first contract for the supply of private label personal care products for a German retailer.

In 2014, the SDU International Markets recorded sales of HRK 582.4 million, or a top line growth of 4.8% versus 2013. The main contributors to this growth were the SBU SFF and functional waters. On a brand level, both Donat Mg and Multipower (with mass market sales in Germany and Austria nearly doubling) strongly contributed to the results. From a geographical point of view, we experienced solid growth in Germany, the UK and Turkey, while difficult macro-economic factors impacted our result in Italy and Spain.

To sustain the current growth, the SDU International Markets also initiated a strategic review of the current route to market and distributor's network. The first impact of this review has been seen in Australia with the appointment of a dedicated agent for the full portfolio of Atlantic Grupa's brands, as well as the signing of an agreement for the distribution of a selection of our beverage brands in the North West of the USA.

STRATEGIC DISTRIBUTION UNIT HORECA

In 2014, the Strategic Distribution Unit HoReCa (SDU HoReCa), regionally operative in Croatia, Serbia, Slovenia and Macedonia, has focused on the growth policy which resulted in positive sales results, higher numbers of distributed items and the regional coverage of approximately 17,900 points of sale.

High business standards were set with the implemented reorganisation and unification of business standards on all markets, including a new Route-to-Market (RTM) on the Croatian market. Winning at the points of sale was achieved with coordinated regional activities of HoReCa sales, merchandising and the Trade Marketing team.

The strategic and regional potential of the espresso business was enforced with Barcaffe business development teams in Croatia and Serbia. All markets have strengthened their espresso operations with the growth of installed espresso machines in the cafe bar segment as well as in gas station cafe bars such as Ina and Marche.

The SDU HoReCa regional business operations in 2014 were marked by the successful launching and expeditious penetration of Cedevita 19g, an exclusive Cedevita packaging for the HoReCa channel.

Recognising market needs, especially in the segment of coffee business, HoReCa team launched BAR latte UHT long life milk on Slovenia and Croatia market, in Q3. BAR latte was launched in cooperation with Meggle Croatia. This specialised milk for barista and caffe bars has 3,8% milk fat and special formula for rich foam of coffee drinks.

SDU HoReCa proactivly considers new potentials and sales opportunities in HoReCa channel to meet competitive market demands and increase business efficiency.

STRATEGIC DISTRIBUTION UNIT CIS

In 2014, Argeta's focus was on extending its distribution, which translated into a sales growth with successful listing campaigns in the major federal chains Magnit (more than 8,000 points of sale), Karusel (81 points of sale) and strategic presence in local chains - Maria Ra (main local chain in the Siberia region) and Monetka (Urals region). The listing campaign was supported by a massive tasting programme in several points of sale to increase the brand awareness.

New Commercial and Credit Policy for Bebi and Argeta implemented at the end of 2014 allowed the setting of clear unified standards for all distributors in Russia and pave the way for further distribution development in 2015. The growth was also ensured by focused regional extention to CIS countries. The high birth rate and growing economics opened up opportunities for further achievements.

In 2014, a new model of collaboration with exclusive distributer of Donat Mg in Russia was successfully implemented. This new model provided additional possibilities to gain total control over the marketing budget. A well-coordinated and focused marketing approach supported by successful redesign resulted in the growth of Donat Mg's sales in 2014.

In 2014, Donat Mg was honoured to receive an award as the Best Mineral Water within the Healthy Nutrition Award.

This is an indicator of recognition of Donat Mg's unique properties, both from scientific society and consumers. The constantly growing brand awareness, improvement of distribution and better visibility at points of sale through granting Donat Mg premium shelf places gave the product possibilities for further development in 2015.

As for Multipower, a new marketing approach was implemented with more active involvement of local, well known, respectable and professional athletes. This activity allowed Multipower to participate in sport events, which had a strong mass media support on federal TV (Run Asics and Pro Sport Park). By participating in the Moscow Sport Nutrition exhibition, which is one of the biggest Sport Nutrition event, Multipower managed to expand its core sales channel shops and attract regular consumers.

DISTRIBUTION UNIT SLOVENIA

The Distribution Unit Slovenia (DU Slovenia) has in the course of 2014 confirmed and developed itself as one of the three leading distributor of high-quality consumer goods in Slovenia whose distribution portfolio is constantly growing. The year 2014 was marked with the acquisition and integration of the distribution company Prodis into the DU Slovenia and integrating the distribution of the Unilever portfolio within Atlantic Ljubljana's portfolio.

In order to facilitate operations and adjustment to ever-growing market demands, the DU Slovenia in 2014 upgraded information technologies - such as implementing electronic invoicing towards state-owned companies.

Along with the distribution of brands from Atlantic Grupa's production programme, the DU Slovenia in 2014 operated as an exclusive distributor of renowned international brands, including:

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

Since the beginning of 2014 the distribution portfolio was extended with the Unilever brands (Rama, Knorr, Becel, Hellmans's, Dove, Axe, etc.) which resulted in 18% higher turnover compared to 2013. 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 150 pharmacies across Slovenia. Additionally, growth was achieved 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 163 employees.

DISTRIBUTION UNIT MACEDONIA

In 2014, the DU Macedonia was one of the three leading distributors of consumer goods in Macedonia. The distribution portfolio accepted both by consumers and customers as high-quality products is composed of internal and external principals. To stay in line with the ever-growing and changing market demands and technology developments, the DU Macedonia implemented QlikView and Cost Budget in order to simplify and accelerate daily operations, reporting and budgeting.

Along with the distribution of brands from Atlantic Grupa's production programme, the DU Macedonia operated as an exclusive distributor of renowned international brands, including:

- Ferrero,
- Monster,
- Nescafe,
- Aleva,
- The Bakers,
- Orangina.

All this above mentioned principals, together with internal principals, represent a strong must-have portfolio for every single retail outlet in Macedonia. Through the lens of statistics validity, the DU Macedonia is present in 2,970 retail stores, 190 gas stations, 1,520 coffee shops and 280 drugstore and pharmacy outlets in the whole territory of Macedonia. This strong direct presence in outlets resulted in a turnover close to the actual result from the previous year. Related to the previous year, the actual result in 2014 was accomplished mainly with Argeta and the best result of Ferrero in Macedonia ever.

Further, other product groups such as instant drinks and snacks also pushed the 2014 turnover. Our policy of 24 hours delivery everywhere in Macedonia worked flawlessly with two locations in Skopje divided into the retail warehouse and HoReCa/Pharma warehouse. The DU Macedonia employs 113 highly skilled and well trained workers.

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 2014 results show that the control system is efficient and that all hazards are well under control. In 2014, special attention was placed on heavy metals and allergens. Heavy metals are lately often mentioned in the context of risks related to their presence in wheat, potato, meat and fish. By increasing monitoring of our raw materials and active communication with our suppliers we have successfully contained this risk.
In 2014, our experts shared their experiences in an internal professional conference that covered the following topics:

- new risks related to genetically modified organisms,
- proper management of cross contamination with allergens,
- substantiated risk assessment,
- supplier management based on risk analysis.

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 support the company operations and represent advanced IT solutions: the SAP QM module was implemented in the Slovenian market and in some legal entities in the Croatian market, while other locations use internal IT solutions on similar platforms according to the same model. Furthermore, a new AG QM SAP standard was prepared in 2014 and implemented in the location of Atlantic Multipower Croatia. This standard joins the best practices from SAP Slovenia and SAP Cedevita solutions or, more precisely, upgrades the extensive experience in the field of quality management.

The efficiency of the quality assurance process is assessed on the basis of achieving target values of key indicators: the number of consumer complaints and the number of product recalls. We in Atlantic Grupa are investing significant efforts to receive as much comments from our consumers as possible, which is the reason for organising regular trainings of personnel answering phones in our free call centres. All received complaints in 2014 were handled to the satisfaction of customers, while effective corrective actions were taken in the production process in order to prevent reoccurrence of such issues.
All marketed food products, except one, that were involved in health safety monitoring by inspection services or internal control officers were identified as complying with the health safety requirements. Compared to the previous year, we cut the number of situations where it was decided to preventively recall a product in half, which shows that the system is being improved in the right direction.
In 2014, considerable improvement was also achieved in the fields of safety management and product quality. HACCP systems were improved in all distribution markets and traceability of a product within the chain was significantly improved, allowing for faster preparation of customer information and communication with them.

The safety management and product quality system was in 2014 enhanced with the product protection system which analyses all production and logistic locations according to the risk of intentional contamination of products.
In line with the presented unique quality assurance standards applied in the whole Atlantic Grupa, an equal process of preparation, training of new personnel and efficient control was implemented for Atlantic Multipower Croatia's new production plant in Nova Gradiška, which started production in 2015.

FINANCIAL OPERATIONS OF ATLANTIC GRUPA

STATEMENT OF THE GROUP VICE PRESIDENT FOR FINANCE AND INFORMATION TECHNOLOGY

Regardless of the extremely difficult macro- and micro-economic conditions in 2014, reflected in lower personal consumption, strong depreciation of the Russian ruble, depreciation of the Serbian dinar, natural disasters in the region and negative movements in most market categories across the region, Atlantic Grupa recorded sales and profitability in line with the announced expectations and with continuous deleveraging. This means that Atlantic Grupa achieved its announced expectations for seven years in a row. Deleveraging is reflected in the lower net debt to EBITDA ratio, from 3.5 times in 2013 to 3.2 times in 2014. Moreover, cash flow from operating activities, growing 6.1% compared to the previous year, is growing faster than EBITDA, indicating stability of the business model of Atlantic Grupa.

In addition to the aforementioned challenges, a special challenge in our 2014 operations was related to the volatility of currencies, the Serbian dinar and especially the Russian ruble, and to a significant growth in prices of raw coffee in the global commodity markets. However, by using available hedging instruments Atlantic Grupa largely reduced the effects of higher prices of raw coffee. The listed pressures will continue in 2015 as well, and our plan is to, as in the year before, compensate them by active hedging, continuous cost management and optimisation of business processes.

With regard to risk management and liquidity maintenance, since the 2008 start of macroeconomic instability in the region, Atlantic Grupa is continuously monitoring the major buyers' risk level and payment process and limiting the exposure to risky buyers.

It also worth noting the exemplary performance of the Atlantic Grupa's share on the Croatian capital market in FY 2014. In August 2014, the Atlantic Grupa's share reached the highest price of HRK 1,080.50 since its quotation on the Zagreb Stock Exchange in late 2007, while its growth of 31% compared to the previous year significantly outperformed stock indices CROBEX and CROBEX10. In 2014, the German development finance institution – DEG reduced its ownership share from 8.5% to 2.3% in the process executed via the accelerated bookbuilt, in which the strong demand of investors resulted in the book being oversubscribed by 1.7 times. This EUR 25 million transaction included 25 investors, with 65% of stake being subscribed by domestic investors and 35% by foreign investors.

Zoran Stanković,
Vice President for Finance and IT

INFORMATION TECHNOLOGY IN 2014

Atlantic Grupa's ICT team received a valuable recognition from the IDC analytics company, whereby the executive officer for corporative information and communication technologies of Atlantic Grupa was proclaimed the best CIO (Chief Investment Officer) in Croatia for the private sector, and Atlantic Grupa's "private cloud" for Croatia and Slovenia was proclaimed the best IT project in the private sector.

Further, the possibilities of the regional data centre in Zagreb were used for the purposes of further consolidation of IT infrastructure and services. In 2014, all infrastructure required for operation of business solutions for companies in Slovenia, such as support systems for SAP and other IT solutions, was migrated to that data centre.

The business solution segment continues intensive work on equalising the platform in the ERP (Enterprise Resource Planning) system segment. In line with the Group's strategic orientation to SAP solutions, two preparatory projects for drafting functional specifications for SAP implementation were carried out in production and distribution companies. The template for production companies has already been successfully implemented in the company Atlantic Multipower Nova Gradiška, while the initial implementation, planned in 2015, of the template for distribution companies will take place in the company Atlantic Trade Zagreb. In order to strengthen the SAP support, the internal SAP team was formed by hiring SAP experts, thus realising the preconditions for reducing dependence on external partners and even more efficient linking of IT and business users in preparing the solution for all companies.

The segment of business solutions also includes reporting/analysis systems for supporting activities in the segment of BI solutions (Business Intelligence). In 2014, infrastructure for the Enterprise Data Warehouse was prepared that will in 2015 allow implementation of support solutions for integrated reporting, data analysis and planning processes.

SALES DYNAMICS in 2014

Sales profile by business segments

(HRK 000)	2014	2013*	2014/2013
SBU Beverages	638,817	644,137	(0.8%)
SBU Coffee	1,026,680	1,091,348	(5.9%)
SBU (Sweet and Salted) Snacks	614,426	616,517	(0.3%)
SBU Savoury Spreads	471,385	457,035	3.1%
SBU Sports and Functional Food	779,075	781,080	(0.3%)
SBU Pharma and Personal Care	493,344	498,939	(1.1%)
SDU Croatia	844,252	764,849	10.4%
SDU Serbia	1,083,149	1,145,258	(5.4%)
SDU International markets	582,426	555,632	4.8%
DU Slovenia	725,487	615,014	18.0%
Other segments**	820,505	851,106	(3.6%)
Reconciliation***	(2,961,173)	(3,021,979)	n/p
Sales	5,118,373	4,998,936	2.4%

In 2014, Atlantic Grupa **recorded sales of HRK 5.1 billion**, which is a 2.4% growth compared to the previous year. This growth was primarily a result of the growth in sales in the Strategic Business Unit Savoury Spreads, the Strategic Distribution Unit International Markets and the beginning of the Unilever principal distribution in the Strategic Distribution Unit Croatia and the Distribution Unit Slovenia. The sales are mildly higher than in 2013 excluding the effect of new and old principals (the beginning of Unilever distribution and the termination of cooperation with principals Manner, Lorenz, Bobi and Red Bull in Croatia) and extremely unfavourable movements in exchange rates (the average depreciation of the Russian ruble of 19.4 % and the average depreciation of the Serbian dinar of 2.9% compared to the previous year).

Atlantic Grupa records sales by business segments in a way that sales of individual Strategic Business Units and 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 or a Distribution Unit), while sales of Strategic Distribution Units and Distribution Units include both sales of external principals' products and sales of own products.
* In 2014 the classification of contracted marketing expenses has changed from "Marketing and selling expenses" to decrease in "Sales revenues", and classification of support for contracted marketing expenses has changed from decrease in "Marketing and selling expenses" to decrease in "Cost of merchandise sold". In accordance with this change, sales revenue, referring to sales from the distribution company Atlantic Trade Zagreb and sales of SBU Savoury Spreads and BU Baby Food in the market of Russia for segment information in 2013 has been restated, but no restatement has been made for sales revenue referring to SBU Savoury Spreads on markets outside the region and Russia due to immateriality.
** Other segments include SDU HoReCa, SDU CIS, BU Baby Food, DU Macedonia and business activities not allocated to business and distribution units (headquarters and support functions in Serbia, Slovenia and Macedonia) which are excluded from the reportable operating segments.
*** Line item "Reconciliation" relates to the sale of own brands which is included in the appropriate SBU and BU and in SDUs and DUs through which the products were distributed.

- **Strategic Business Unit Beverages** recorded lower sales primarily as a consequence to a decrease in sales of vitamin drinks and carbonated soft drinks. The decrease in sales of mentioned categories is a consequence of unstable weather conditions during the summer tourist season, negative impact of floods in May across the region as well as the volume and value drop in the overall market categories on regional markets*. It should be mentioned that Cedevita continues to increase its market share, both in terms of value and volume, in Croatia and Slovenia, despite the total volume (Slovenia -7,6%, Croatia -11,2%) and value drop in that category on both markets. The category of functional waters with the Donat Mg brand recorded double-digit growth rates in Slovenia, Bosnia and Herzegovina and Russia, whereas growth in the latter market was achieved despite adverse economic and political conditions. Further, in 2014, Kala recorded excellent results by taking the second position (including the sale of gallons) in the category of spring waters, while Kalnička holds the third position in the category of mineral waters** in the Croatian market.

- The decrease in sales of the **Strategic Business Unit Coffee** is primarily a consequence of lower sales of Turkish coffee in the markets of Serbia, Bosnia and Herzegovina and Macedonia, which was partially compensated by the growth in sales in the markets of Slovenia and Croatia. The drop in sales in Serbia is mainly a consequence of the growth of 'cheap' competition in the form of small roasting plants, the depreciation of the dinar and significantly higher price discounts compared to 2013. Nevertheless, while the overall coffee market category recorded the volume drop of 6.3% and the value drop of 13.7%* in Serbia, the Grand Kafa brand retained its market shares. In Croatia, Barcaffe recorded excellent results and increased its volume and value market shares above 10%*, mostly due to Barcaffe's inclusion in the leading Croatian retail chain in the fourth quarter of 2014. In Slovenia, great results of the "Kavamania" loyalty programme resulted in Barcaffe continuing to improve its leading positions through the growth of the volume and value market shares, while the overall market category recorded the volume and value drop of 3.0% and 4.1%*, respectively.

- The **Strategic Business Unit Snacks** recorded a slight decrease in sales as a consequence of lower sales in biscuits, flips and wafers categories, partly mitigated by launching the new category – chips under the brand Chipsos in September. Analysed by markets, the greatest drop in sales was recorded in the markets of (i) Bosnia and Herzegovina, primarily due to the drop in sales of chocolate and wafers and (ii) Serbia due to the drop in sales of biscuits and flips and the depreciation of the dinar, while both markets experienced lower consumption during the floods in May. On the positive side, the brand Chipsos in the chips category in a very short period after launching took the second position in Serbia with an 8.5% volume and value growth in market shares (period October-November)*. The Croatian market recorded double-digit growth rates, primarily due to increased sales of flips under the brand Smoki with both volume and value market share growth, while this market category recorded the volume and value drop of 7.6% and 10.4%*, respectively.

- The **Strategic Business Unit Savoury Spreads** recorded a sales growth due to key regional markets (Bosnia and Herzegovina, Croatia, Slovenia, Serbia) and international markets, primarily Russia and Austria. It should also be mentioned that Argeta holds the best ever market shares in Austria and Switzerland as well as in Croatia and Slovenia. The Croatian market recorded the volume and value market growth, primarily due to the launching of Argeta tea pâté and Argeta's inclusion in the leading retail chain in the fourth quarter of 2014, while the overall category recorded the volume and value drop of 8.3% and 6.2%*, respectively.

* AC Nielsen Retail Panel, January-November 2014 (percentage movements on an annual level)
** According to the report of the Croatian Association of Drink Producers, January-December 2014

- The **Strategic Business Unit Sports and Functional Food** recorded a mild decrease in sales primarily caused by the drop in private labels following the termination of the contract with one customer and a drop in sales in Switzerland and Russia. This was largely compensated by the growth in sales in UK and Germany. Analysed by brands, the highest sales growth was recorded by the brands Multipower and Champ, while Multaben recorded a decrease in sales.

- The **Strategic Business Unit Pharma and Personal Care** recorded a decrease in sales as a consequence of (i) lower sales of Dietpharm product range due to the volume and value drop in the overall market category of food supplements in Croatia and also due to the application of the EU legislation that caused the delisting of certain products under the Dietpharm brand and (ii) Neva's cosmetics product range. This was partially compensated by the growth in sales of the pharmacy chain Farmacia (despite the decrease in prices of prescription drugs by the Croatian Institute for Health Insurance (HZZO) on four occasions during 2014) and product range of Multivita in Russia.

- The double-digit growth in sales of the **Strategic Distribution Unit Croatia** is largely result of the beginning of the distribution of new principals, primarily of the Unilever product range, but also others, such as Ilirija and Monster, and (i) an increase in the sales of own brands, especially Barcaffe and Argeta (driven also by their inclusion in the Croatian leading retail chain in the fourth quarter) and Kala and Smoki, (ii) an increase in the sales of principal brands such as Johnson&Johnson, Rauch, Duracell, and (iii) previous year's temporarily suspended distribution in March during negotiations related to the implementation of new commercial terms and conditions. If we exclude the effect of Unilever sales and the termination of distribution of Lorenz, Manner and Bobi, the Strategic Distribution Unit Croatia recorded a 1.0% growth in sales.

- The decrease in sales of the **Strategic Distribution Unit Serbia** is a consequence of several factors: (i) the depreciation of the dinar, (ii) unstable weather conditions and natural disasters in May, (iii) the decrease in sales of the coffee, carbonated soft drinks, vitamin instant drinks and sweet snacks and flips segments, as a consequence of the volume and value drop in all these categories in the market of Serbia (excluding flips, which records only the value drop)* and (iv) extremely aggressive price competition that resulted in significantly higher price discounts. The drop was partly compensated by the increase in sales of Argeta and the beginning of the distribution of new principals (L'Oréal and Alkaloid).

- The **Strategic Distribution Unit International Markets** recorded a growth in sales, primarily in the markets of Germany, United Kingdom, Turkey and Austria, mainly in the sports and functional food and functional waters segments.

- The highest sales growth among all segments was recorded by the **Distribution Unit Slovenia**, primarily due to the beginning of the Unilever product range distribution and the increase in sales of internal principals from the segments of functional waters and savoury spreads as well as the increase in sales of the existing external principals, such as Ferrero. If sales of Unilever are excluded, the DU Slovenia recorded a growth in sales of 0.6%.

- **Other segments** recorded a decrease in sales resulting from lower sales of the Business Unit Baby Food, the Distribution Unit Macedonia, the Strategic Distribution Unit HoReCa and the Strategic Distribution Unit CIS.

* AC Nielsen Retail Panel, January-November 2014 (percentage movements on an annual level)

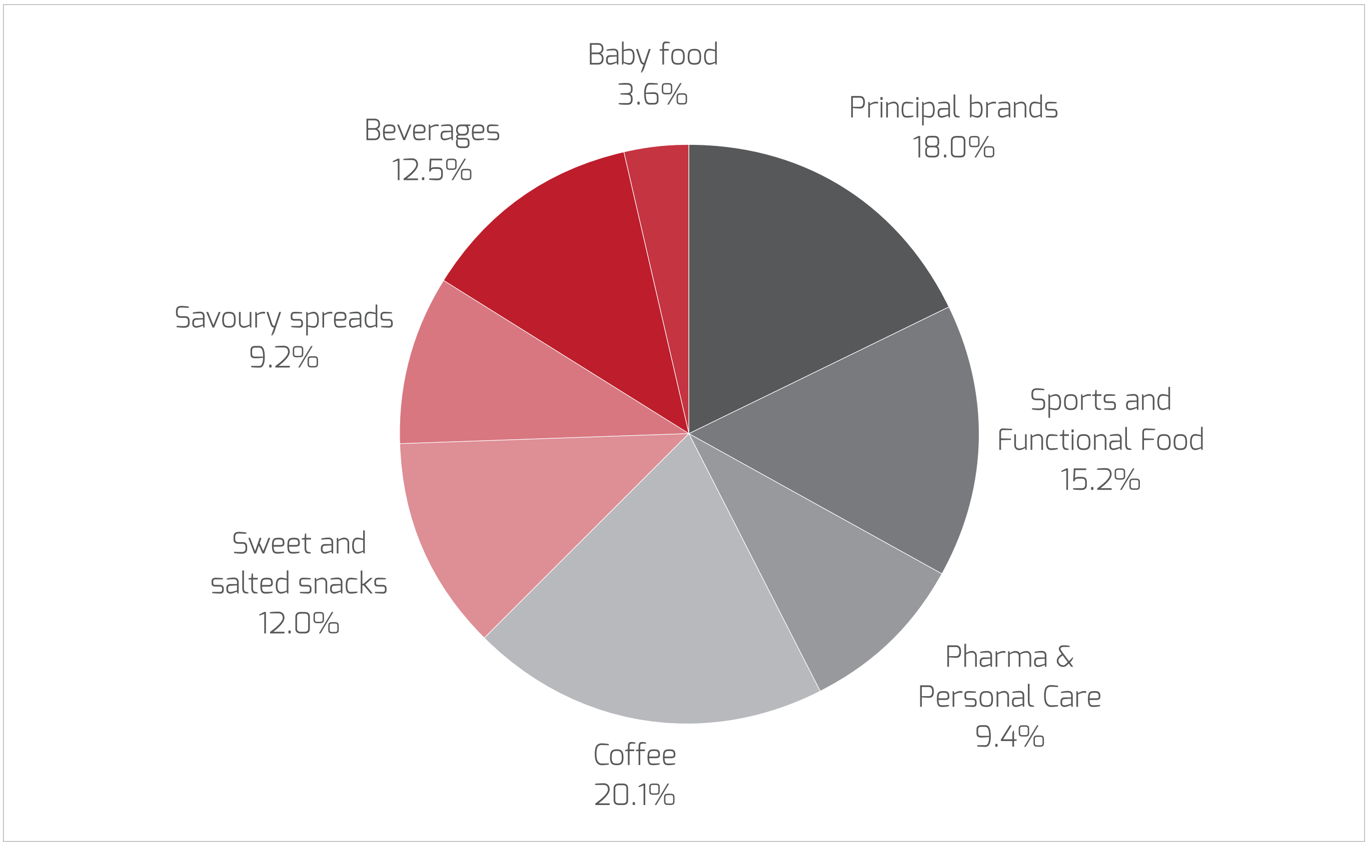
- The **Business Unit Baby Food** recorded a drop in sales primarily due to political instability in Ukraine, unfavourable macroeconomic environment, negative market trends in the category of baby cereals, suspension of deliveries to Russia in December due to extremely strong depreciation of the Russian ruble and changes in the classification of contracted marketing expenses and sales promotion*. In terms of volume, the baby food segment recorded sales at the level of 2013.

- The **Distribution Unit Macedonia** recorded lower sales primarily due to a decrease in sales of coffee caused by exceptionally aggressive price discounts by competitors and the drop in sales of savoury spreads. This drop was partly compensated by the increase in sales of the external principal Ferrero.

- The **Strategic Distribution Unit HoReCa** recorded lower sales primarily in Croatia (following the termination of cooperation with the principal Red Bull) and Serbia due to adverse weather conditions during the summer season. The decrease was partly mitigated by the growth in sales in the HoReCa channel in the markets of Slovenia and Macedonia. In terms of product groups, coffee and instant vitamin drinks recorded higher sales, while carbonated soft drinks recorded lower sales. If we exclude the effect of terminating cooperation with the principal Red Bull, SDU HoReCa recorded a growth in sales of 2.1%.

- The **Strategic Distribution Unit CIS** recorded a mild drop in sales primarily due to lower sales of baby food (the effect of depreciation of the Russian ruble) and sports and functional food (the effect of sanctions), which was partially compensated by higher sales of functional waters with the Donat Mg brand, Argeta and Vitamin C on the Russian market.

Sales profile by segments



*Described in detail on page 73 of this document

Sales profile by markets

(in HRK millions)	2014	% of sales	2013	% of sales	2014/2013
Croatia	**1,285.1**	25.1%	1,209.2	24.2%	6.3%
Serbia	**1,145.2**	22.4%	1,215.2	24.3%	(5.8%)
Slovenia	**809.1**	15.8%	689.3	13.8%	17.4%
Bosnia and Herzegovina	**357.3**	7.0%	364.2	7.3%	(1.9%)
Other regional markets*	**312.7**	6.1%	317.1	6.3%	(1.4%)
Key European markets**	**584.5**	11.4%	591.7	11.8%	(1.2%)
Russia and CIS	**289.6**	5.7%	293.6	5.9%	(1.4%)
Other markets	**334.9**	6.5%	318.7	6.4%	5.1%
Total sales	**5,118.4**	100.0%	4,998.9	100.0%	2.4%

- The **Croatian market** recorded a 6.3% higher sales due to: (i) the beginning of the Unilever product range distribution, (ii) an increase in sales of own brands Barcaffe in the coffee category and Argeta in the savoury spreads category (driven also by their inclusion in the leading retail chain in the fourth quarter of 2014), Kala in the waters category and Smoki in the flips category, (iii) an increase in sales of the existing principals' brands, especially Rauch, Johnson&Johnson and Duracell, and (iv) the effect of the previous year's temporarily suspended distribution in March during negotiations related to the implementation of new commercial terms and conditions. Despite the sixth consecutive year of adverse macroeconomic conditions characterised by high unemployment and low personal consumption, if we exclude the effect of new and old principals (the beginning of the Unilever distribution and the termination of cooperation with principals Red Bull, Bobi, Lorenz and Manner), the Croatian market recorded a 1.0% growth in sales.

- The lower sales in the **Serbian market** are a result of several factors, including: (i) the depreciation of the dinar, (ii) natural disasters in May, (iii) the decrease in sales of the coffee, carbonated soft drinks, vitamin instant drinks and flips segments and negative market volume and value movements in all these segments (excluding flips, which records only the value drop***), (iv) constantly strong price competition, resulting in redirection of marketing into price discounts, (v) low domestic demand and unfavourable developments in the labour market. On the positive side, Argeta and the chocolate bars category recorded a sales growth despite the volume and value drop in these categories on the market of Serbia.

- Significant growth in the **Slovenian market** is mainly a result of the beginning of the Unilever product range distribution. However, this growth is also a consequence of the growth in sales of own principals (functional waters with the Donat Mg brand, savoury spreads with the Argeta brand and coffee with the Barcaffe brand) and external principals, primarily Ferrero. If the effect of the Unilever distribution is excluded, the Slovenian market grew by 1.9%

* Other regional markets: Macedonia, Montenegro, Kosovo
** Key European markets: Germany, the United Kingdom, Italy, Switzerland, Austria, Sweden, Spain
*** AC Nielsen Retail Panel, January-November 2014 (percentage movements on an annual level)

- The **market of Bosnia and Herzegovina** recorded slightly lower sales primarily due to (i) adverse macroeconomic conditions characterised by high unemployment, (ii) natural disasters in May and adverse weather conditions during the summer tourist season, (iii) the decrease in sales of the coffee, carbonated soft drinks, vitamin instant drinks and snacks segments, and (iv) more aggressive price discounts by competitors. On the other hand, savoury spreads with the Argeta brand and functional waters with the Donat Mg brand recorded higher sales, whereas Argeta continued to increase its value market share to 50.1%* despite the drop in this category*.

- Slightly lower sales in **Other regional markets** are a consequence of lower sales in the markets of Montenegro and Macedonia, which was partially compensated by the growth in sales in Kosovo. Lower sales were recorded by the segments of coffee, carbonated soft drinks and pharma and personal care, while higher sales were recorded by functional waters with the Donat Mg brand and Ferrero and Nescafe in the principals' brands segment.

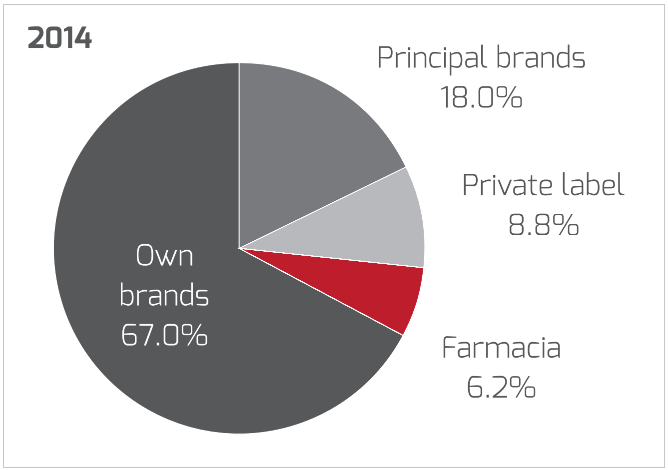
- A mild drop in sales on **Key European markets** is a consequence of lower sales in UK, Switzerland and Sweden, which was largely compensated by a 5.8% growth in sales in Germany. Analysed by segments, lower sales were recorded by private labels within the sports and functional food segment, while own brands Multipower and Champ in the same segment and Donat Mg in the functional waters category recorded higher sales.

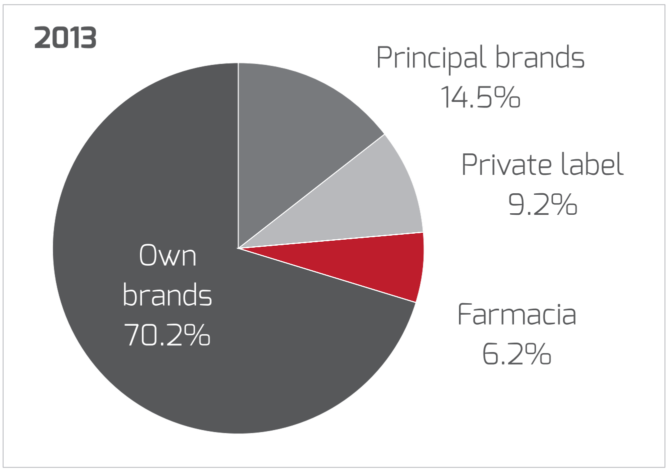
- A drop in sales on the **markets of Russia and the Commonwealth of Independent States** is primarily a consequence of the strong depreciation of the ruble (the effect of HRK 30m) and political instability in Ukraine, which resulted in lower sales of baby food under the brand Bebi and sports and functional food under the brand Multipower. The listed drop in sales was partially compensated by higher sales of savoury spreads with the Argeta brand and functional waters with the Donat Mg brand. As a consequence of the political situation in Ukraine, Atlantic Grupa's total sales in Ukraine dropped by 39% compared to the previous year, amounting to HRK 20.4 million in 2014.

- **Other markets** recorded a growth in sales primarily due to higher sales of sports and functional food (particularly private labels), which was partially annulled by lower sales in the beverages and savoury spreads segments.

*AC Nielsen Retail Panel, January-November 2014 (percentage movements on an annual level)

Sales profile by product category





- In 2014, **own brands** recorded sales of HRK 3,430.8 million, representing a decline of 2.2% compared to 2013 caused by the drop in sales of the following brands: (i) Grand Kafa in the coffee segment, (ii) Cockta and Cedevita in the beverages segment, (iii) Smoki in the snacks segment, and (iv) Bebi in the baby food segment. However, this drop was partly compensated by the growth in sales of the following brands: (i) Donat Mg in the functional waters segment and Kala in the waters segment, (ii) Argeta in the savoury spreads segment, (iii) Multipower and Champ in the sports and functional food segment, and (iv) Barcaffe in the coffee segment.

- **Principal brands** recorded sales of HRK 921.6 million, which represents a strong growth of 27.5% primarily driven by the beginning of the Unilever product range distribution. If we exclude the effect of Unilever distribution and the termination of distribution of particular principals (Red Bull, Bobi, Manner and Lorenz), principal brands recorded a 4.1% growth in sales spurred by higher sales of the existing principals Ferrero, Hipp, Johnson&Johnson, Rauch and Duracell.

- With sales of HRK 450.8 million, **private labels*** recorded a 2.0% drop compared to 2013 resulting from the drop in sales of private labels in the sports and functional food segment due to the termination of cooperation with one customer, which was partially compensated by the growth in sales of private labels in the pharma and personal care segment.

- The pharmacy chain **Farmacia** recorded sales of HRK 315.1 million, which represents a 2.2% growth compared to 2013, primarily due to the newly opened specialised stores. Seven new specialised stores were opened in 2014 and on 31 December 2014 the pharmacy chain Farmacia consisted of 48 pharmacies and 25 specialised stores. Owing primarily to the newly opened specialised stores, the share of OTC sales grew from 54% in 2013 to 58% of Farmacia's total sales, while the share of prescription drug sales dropped from 45% in 2013 to 41%. Excluding the effect of newly opened locations during 2014, the pharmacy chain Farmacia recorded a 3.4% decrease in sales, primarily due to a decrease in prices of prescription drugs by HZZO on four occasions during 2014 and the HZZO's instruction to issue the cheapest drugs whereby the producers decrease the prices themselves in order to be the most competitive in a group of drugs.

*Sales for 2014 were restated, following the new classification of some principals

PROFITABILITY DYNAMICS in 2014

Atlantic Grupa's profitability

(in HRK millions)	2014	2013	2014/2013
Sales	**5,118.4**	4,998.9	2.4%
EBITDA	**597.0**	590.8	1.1%
EBIT	**440.7**	424.6	3.8%
Net profit/loss	**213.4**	199.0	7.2%
Profitability margins			
EBITDA margin	**11.7%**	11.8%	-15 bp
EBIT margin	**8.6%**	8.5%	+12 bp
Net profit margin	**4.2%**	4.0%	+19 bp

In 2014, Atlantic Grupa recorded a 1.1% higher **EBITDA** as a result of (i) the growth in sales and (ii) improvement of business processes and active hedging of main raw materials*.

In 2014, Atlantic Grupa recorded a 3.8% higher **EBIT**, whereby the improved operating profitability was achieved due to the impacts above the EBITDA level and due to lower depreciation which is the result of a more efficient management of the existing resources, reducing the need for new investments.

Regardless of the net foreign exchange losses in the amount of HRK 62.2 million due to the strong depreciation of the Russian ruble and the Serbian dinar, Atlantic Grupa recorded a 7.2% higher **net profit** in 2014. The higher net profit, in addition to impacts above the EBIT level, is a consequence of a significant decrease in interest expense by 21% due to a successful refinancing of long-term borrowings completed at the end of 2012 and a decrease in the effective tax rate to 15% from the previous year's 21%.

In 2014, profit attributable to minority interests grew significantly due to the one-off profit earned by the company Cedevita d.o.o. Croatia as a consequence of the sale of the 100-percent share in the subsidiary Multivita d.o.o. Serbia to Soko Štark d.o.o. Serbia.

*Described in detail on page 77 of this document

Operating cost structure

(in HRK millions)	2014	% of sales	2013	% of sales	2014/2013
Cost of goods sold	**1,405.2**	27.5%	1,212.6	24.3%	15.9%
Change in inventory	**(30.0)**	(0.6%)	(4.6)	(0.1%)	n/p
Production materials	**1,559.7**	30.5%	1,652.2	33.1%	(5.6%)
Energy	**61.2**	1.2%	63.7	1.3%	(3.8%)
Services	**359.2**	7.0%	324.9	6.5%	10.6%
Staff costs	**704.4**	13.8%	672.1	13.4%	4.8%
Marketing and selling expenses	**331.6**	6.5%	310.4	6.2%	6.8%
Other operating expenses	**186.4**	3.6%	210.4	4.2%	(11.4%)
Other gains/(losses), net	**(6.3)**	(0.1%)	7.5	0.2%	n/p
Depreciation, amortisation and imparment	**156.3**	3.1%	166.2	3.3%	(5.9%)
Total operating expenses	**4,727.9**	92.4%	4,615.3	92.3%	2.4%

The growth in cost of goods sold is a result of the change in the sales mix caused by the beginning of the Unilever product range distribution and the resulting growth in the principal brands' share in overall sales from 14.5% in 2013 to 18.0%.

Production material expenses in 2014 decreased by 5.6% despite a significant growth in prices of raw coffee in the global commodity markets in 2014. In the first half of 2014, spot prices of raw coffee in the global commodity markets doubled in only four months due to a longer drought period in Brazil, resulting in significantly lower coffee yields than in previous years and a low level of raw coffee stocks transferred from 2013. At the end of 2014, spot prices of raw coffee in the global commodity markets stabilised, but the average price of raw coffee (Arabica) in the global commodity markets was 22% higher in 2014 compared to 2013. However, by using available hedging instruments Atlantic Grupa in 2014 reduced the effects of higher prices of raw coffee on its purchase price and in that way largely avoided the negative effect of higher prices of raw coffee in the global commodity markets on its results. The positive impact is also a result of lower prices of other raw materials, especially sugar, fat and oil, and lower packaging expenses, which compensated for higher prices of cocoa and powdered milk.

Costs of services grew by 10.6% as a consequence of (i) higher transportation and logistics costs following the beginning of the Unilever range distribution, growth in sales in Russia and outsourcing of transport in the United Kingdom, (ii) extension of the distribution companies' vehicle fleets and (iii) higher rent expenses following the opening of new specialised stores in the pharmacy chain Farmacia and relocation of the office in Russia.

Staff costs grew by 4.8% in 2014 primarily due to a higher number of employees as a result of increased business volume after: (i) taking over the Unilever distribution, (ii) strengthening the sales team in Russia, (iii) opening new specialised stores and (iv) forming an internal team of consultants for the development and implementation of the SAP system. As at 31 December 2014, Atlantic Grupa had 5,152 employees, 241 more compared to the previous year.

Higher marketing and sales expenses were primarily due to (i) more aggressive marketing activities in the coffee segment, (ii) more intensive activities in the drinks segment supporting the packaging redesign of Donat Mg, (iii) launching of chips in the snacks segments and (iv) in the pharma and personal care segment in line with the regional expansion strategy with the selected Neva product range. The increase of these expenses is a result of higher ATL and BTL marketing investments, and it is even higher when taking into account the significant growth in price discounts, which decrease sales.

Other operating expenses were reduced by 11.4% due to lower bad debt expenses following better receivables control.

Operating result of Strategic Business Units and Strategic Distribution Units

(in HRK millions)	2014	2013	2014/2013
SBU Beverages	128.1	118.4	8.1%
SBU Coffee	231.1	237.9	(2.9%)
SBU (Sweet and Salted) Snacks	98.1	110.4	(11.1%)
SBU Savoury Spreads	113.1	102.4	10.4%
SBU Sports and Functional Food	16.3	23.2	(29.9%)
SBU Pharma and Personal Care	49.9	47.5	5.0%
SDU Croatia	12.2	17.9	(31.6%)
SDU Serbia	28.5	38.3	(25.7%)
SDU International markets	14.8	15.8	(6.4%)
DU Slovenia	36.5	35.8	2.0%
Other segments*	(131.7)	(157.0)	16.2%
Group EBITDA	597.0	590.8	1.1%

SBU Beverages: The growth in profitability is a result of lower costs of production materials, primarily due to the price of sugar (the trend of declining sugar prices arises from increased global supply of sugar after high yields in the main production countries), better product mix and lower staff costs.

SBU Coffee: The mild decrease in profitability is a result of decreased sales of coffee and increased marketing costs, which annulled the positive effect of active hedging of raw coffee prices and the dollar exchange rate.

SBU Snacks: The decrease in profitability is a consequence of launching chips, depreciation of the dinar and increased investments in price discounts.

Profitability by segments was restated in 2013 in order to be comparable with the new organisational structure and, accordingly, the new model of segment reporting in 2014.
*Other segments include SDU HoReCa, SDU CIS, BU Baby Food, DU Macedonia and business activities not allocated to business and distribution units (headquarters and support functions in Serbia, Slovenia and Macedonia) which are excluded from the reportable operating segments.

SBU Savoury Spreads: Continued growth in profitability due to higher sales, improved gross profit margin and marketing savings.

SBU Sports and Functional Food: The decrease in profitability is a consequence of initial costs for the new plant and more intensive investments in the development of new products.

SBU Pharma and Personal Care: The growth in profitability is a result of an improvement in the gross profit margin, despite higher staff costs due to the opening of new specialised stores.

SDU Croatia: The decrease in profitability arises from higher staff and transport costs due to the beginning of the distribution of new principals Unilever and Ilirija and division of the sales organisation into food and non-food segments.

SDU Serbia: The decrease in profitability is a consequence of the drop in sales and depreciation of the dinar.

SDU International markets: The decrease in profitability due to the development of infrastructure, including new recruitments.

DU Slovenia: The growth in profitability due to higher sales following the beginning of the Unilever range distribution and lower marketing investments, despite higher staff and transport costs resulting from the beginning of the Unilever range distribution.

Other segments: The DU Macedonia recorded the decrease in profitability due to lower sales and higher transport and logistics costs. The growth in profitability of the SDU HoReCa is primarily due to the improved profitability in the Croatian market following the improvement of gross profitability resulting from a better product mix. The decrease in profitability of the BU Baby Food is a result of political instability in Ukraine and strong depreciation of the ruble. The costs attributable to support services are lower compared to the previous year.

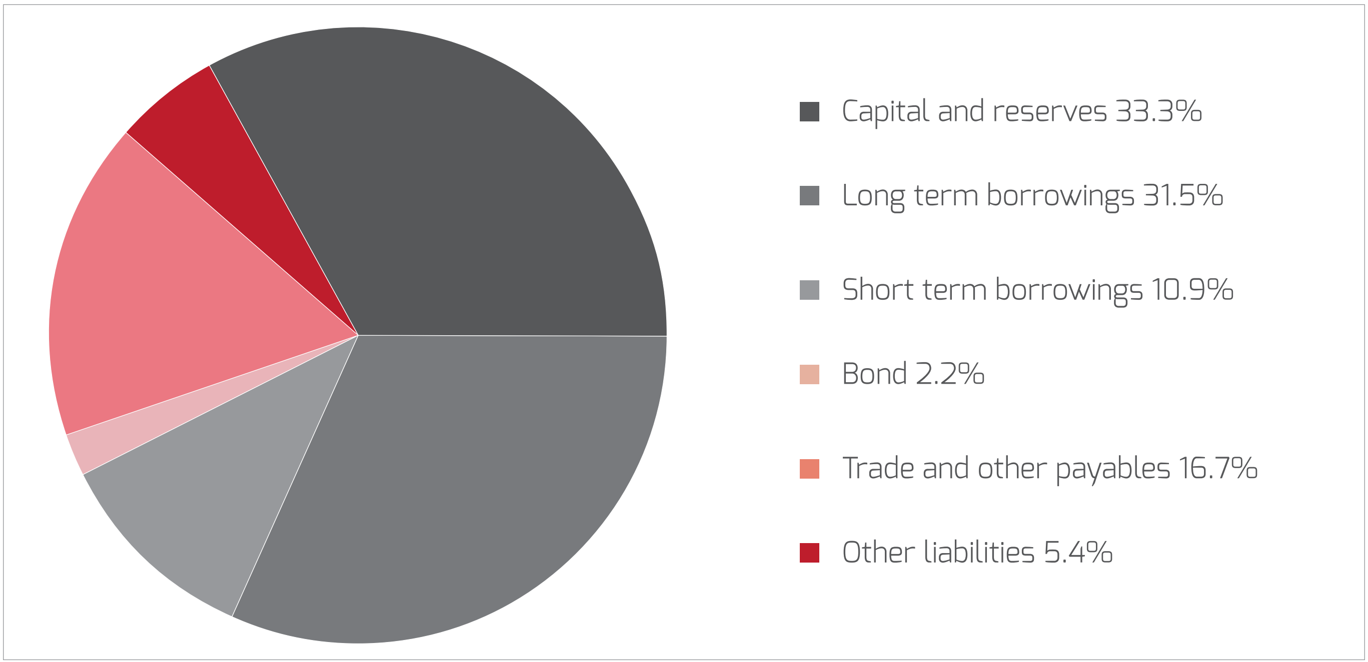
FINANCIAL INDICATORS in 2014

(in HRK millions)	2014	2013
Net debt	**1,927.7**	2,059.3
Total assets	**5,274.3**	5,082.8
Total Equity	**1,755.1**	1,674.5
Current ratio	**1.5**	1.8
Gearing ratio*	**52.3%**	55.2%
Net debt/EBITDA	**3.2**	3.5
Interest coverage ratio	**4.7**	3.7
Capital expenditure	**190.1**	100.0
Cash flow from operating activities	**445.7**	420.2

Among key determinants of the Atlantic Grupa's financial position in 2014, the following should be pointed out:

- Atlantic Grupa's continuous focus on deleveraging is reflected in (i) HRK 131.6 million lower net debt compared to 2013, to HRK 1,927.7 million, (ii) improved gearing ratio to 52.3% (iii) the decrease in the ratio of net debt and EBITDA to 3.2 times, and (iv) the increase in the coverage of interest expense by EBITDA to 4.7 times.

- The Atlantic Grupa's equity and liabilities structure as at 31 December 2014 is as follows:



* Gearing ratio = Net debt/(Total equity+Net debt)

Overview of key items in the consolidated cash flow statement

The company's capital expenditure in 2014 significantly increased compared to the same period of the previous year and amounted to HRK 190.1 million. The majority of capital expenditure, or 41% of the total amount, relates to the construction of the production plant for the production of energy bars in Nova Gradiška.

Of other significant investments, we should mention:

- SBU Beverages: automatic line for new HoReCa packaging, automatic line for Cedevita packaging, refrigerators, investment in the bottling plant Palanački Kiseljak.
- SBU Coffee: purchase of espresso machines and C2GO machines, transport system for ground coffee, automatic packaging line.
- SBU Snacks: purchase of the line for the production of fillings, purchase of production equipment including the cooling tunnel and the chocolate coating line for the production of Bananica.
- SBU Savoury Spreads: reconstruction of the premises and the line for savoury spreads in smaller packaging in Izola, upgrading the line for packaging in aluminium doses.
- SDU Croatia and DU Slovenia: investments related to the integration of Unilever (IT, warehouses, offices).
- Upgrade of SAP and development of the SALMEX project.

Within the cash flow statement under repayment of borrowings in the amount of HRK 293.1 million (which is a significant increase compared to 2013), 39% of that amount relates to long term loans approved by the European Bank for Reconstruction and Development (EBRD), including a credit line of EUR 10 million for investment in the construction and equipment of the modern plant for the production of protein bars in Nova Gradiška and a credit of EUR 5 million for improvement of energy and resource efficiency of business operations in Serbia. The remaining amount relates to the needs for short term financing of the Group's regular operations.

According to the decision of the Company's General Assembly held as at 30 June 2014, the dividend distribution was approved in the amount of HRK 10.50 per share, i.e. a total of HRK 35 million. The dividend was distributed in July 2014.

Acquisition of share in a minority interest subsidiary in the amount of HRK 93.3 million relates to the purchase of minority interests in companies Cedevita d.o.o. (19-percent minority interest) and Atlantic Multipower UK Ltd. (35-percent minority interest).

OUTLOOK for 2015

Management's view on macroeconomic expectations

In 2015, Atlantic Grupa's management expects stagnation of the Croatian economy. Macroeconomically, the year 2014 was characterised by high unemployment, low personal consumption and a low level of investments, and no significant change in trends is expected in 2015. Moreover, management expects that the economy will remain under pressure by weak domestic demand, while parliamentary elections at the end of the year may slow down the implementation of necessary reforms.

In other countries of the region, management expects a mild economic growth in 2015, except in Serbia. The restructuring of the banking sector contributed to the stabilisation of the Slovenian economy and, in addition to privatisation, the Government announced the implementation of other reforms that should improve the investment climate. Accordingly, coupled with the weakening of the euro and improved export competitiveness, management expects a mild recovery of the Slovenian economy in 2015. A mild recovery is also expected in Bosnia and Herzegovina, driven by the reconstruction of infrastructure damaged in the 2014 floods. However, it is expected that the recession in Serbia will continue in 2015 due to low domestic demand and fiscal consolidation.

After the disappointing stagnation of the Eurozone economies in 2014, Atlantic Grupa's management expects only a mild recovery in the Eurozone. Growing exports, improved consumer confidence and labour markets, growing domestic demand, weakening of the euro and lower oil prices are factors that should support the growth of the Eurozone. It may also be expected that the growth of the German economy, driven by record-low unemployment, growing private consumption and weakening of the euro, will surpass the growth in the Eurozone economy.

Management expects that the Russian economy could slip into recession in 2015. The year 2014 was characterised by introducing sanctions, which resulted in higher consumer prices and higher borrowing costs in foreign financial markets. Additionally, the continuous decline in oil prices weakened the ruble and caused inflation pressures. In 2015, the management expects increasing inflation pressures and ongoing volatility of the ruble.

Atlantic Grupa's management strategic guidance for 2015

In 2015, the management will continue its focus on organic business growth through active brand management with a special emphasis on (i) strengthening the position of regional brands (Cockta, Cedevita, Smoki, Grand Kafa, Barcaffe, Bananica, Štark) and (ii) brands with international potential (Multipower, Argeta, Donat Mg, Bebi, Cedevita GO!) as well as active development of the regional HoReCa segment.

In 2015, Atlantic Grupa's management expects increased pressures on the price of raw coffee in the global commodity markets (with an additional unfavourable impact of the EURUSD exchange rate) driven by fundamental factors, including: (i) downward trend in global supply due to draughts in Brazil, (ii) upward trend in global demand for coffee and (iii) low levels of global stocks.

Management plans to largely compensate the listed pressures by active hedging, continuous cost management and optimisation of business processes.

Additional business pressures are a consequence of the volatility of the Serbian dinar and the Russian ruble, especially since the current levels of the ruble are about 40% lower compared to the 2014 average.

The effects of higher coffee prices and unfavourable exchange rates between the Russian ruble and the US dollar will be stronger in the first two quarters of 2015.

Management's expectations for 2015 are as follows:

(in HRK millions)	2015 Guidance	2014	2015/2014
Sales	**5,300**	5,118	3.5%
EBITDA	**565**	597	(5.4%)
EBIT	**405**	441	(8.1%)
Interest expense	**125**	126	(0.7%)

In 2015, we expect capital expenditure in the amount of around HRK 150 million.

The expected effective tax rate in 2015 should be at the level of the statutory tax rate for Croatia.

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.

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 2015.

INDUSTRY AND COMPETITION RISKS

CONSUMER GOODS INDUSTRY AND RETAIL (PHARMACIES)

Despite unfavourable macroeconomic trends in 2014, 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. Despite significant growth of prices of raw coffee in the global commodity markets during 2014, Atlantic Grupa has successfully neutralised the effect of price volatility of raw materials on its operating results by using available protection instruments. In 2015, Atlantic Grupa's management expects increased pressures on the price of raw coffee in the global commodity markets driven by fundamental factors, including: downward trend in global supply due to draughts in Brazil, upward trend in global demand for coffee and low levels of global stocks. Management plans to largely compensate the listed pressures by active hedging, continuous cost management and optimisation of business processes. 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 2014 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 2014 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), American Dollar (USD) and the Russian Ruble (RUB). In 2015, particular pressures are expected from the volatility of the Serbian dinar and the Russian ruble, especially since the current levels of the ruble are about 40% lower compared to the 2014 average.

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.

ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

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 2014 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 2014, 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 2014 set out on pages 1 to 95. 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, 31 March 2015

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ATLANTIC GRUPA d.d.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	Note	2014	2013
Revenues	5	5,168,639	5,039,871
Cost of trade goods sold		(1,405,210)	(1,212,561)
Change in inventories of finished goods and work in progress		29,964	4,636
Material and energy costs		(1,620,958)	(1,715,825)
Staff costs	6	(704,437)	(672,118)
Marketing and promotion costs	7	(331,605)	(310,393)
Depreciation, amortisation and impairment	2.24, 13, 14	(156,330)	(166,158)
Other operating costs	8	(545,645)	(535,295)
Other gains/(losses) - net	9	6,284	(7,538)
Operating profit		**440,702**	**424,619**
Finance income	10	16,013	46,141
Finance costs	10	(204,025)	(217,607)
Finance costs - net	10	(188,012)	(171,466)
Profit before tax		**252,690**	**253,153**
Income tax expense	11	(39,289)	(54,159)
Profit for the year		**213,401**	**198,994**
Attributable to:			
Owners of the parent		200,012	194,872
Non-controlling interests		13,389	4,122
		213,401	198,994
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		59.99	58.46
- diluted		59.99	58.46

The consolidated financial statements set out on pages 97 to 158 were approved by the Management Board of Atlantic Grupa d.d. in Zagreb on 30 March 2015.

President of the Management Board

Emil Tedeschi

The accompanying notes on pages 102 to 158 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	**Note**	**2014**	**2013**
Profit for the year		**213,401**	**198,994**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gains from defined benefit plan		130	2,495
		130	**2,495**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences	22	(34,064)	9,707
Cash flow hedges	22	29,544	32,332
		(4,520)	**42,039**
Other comprehensive (loss)/ income for the year, net of tax		**(4,390)**	**44,534**
Total comprehensive income for the year		**209,011**	**243,528**
Attributable to:			
Owners of the parent		195,606	239,372
Non-controlling interests		13,405	4,156
Total comprehensive income for the year		209,011	243,528

The accompanying notes on pages 102 to 158 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2014**	**31 December 2013**
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,099,289	1,060,847
Investment property		1,363	1,672
Intangible assets	14	1,804,518	1,851,023
Deferred income tax assets	25	41,224	47,912
Available-for-sale financial assets	17	942	1,072
Trade and other receivables	18	22,657	9,054
		2,969,993	2,971,580
Current assets			
Inventories	19	582,247	537,232
Trade and other receivables	18	1,169,343	1,126,410
Prepaid income tax		12,249	22,820
Derivative financial instruments	15	22,687	-
Deposits	18	275	251
Cash and cash equivalents	20	417,588	325,334
		2,204,389	2,012,047
Non-current assets held for sale	13a	99,874	99,133
Total current assets		2,304,263	2,111,180
TOTAL ASSETS		**5,274,256**	**5,082,760**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	882,576	882,597
Treasury shares	21	(78)	(16)
Reserves	22	(19,635)	(15,363)
Retained earnings		756,497	622,613
		1,752,732	1,623,203
Non-controlling interests		2,332	51,292
Total equity		1,755,064	1,674,495
Non-current liabilities			
Borrowings	24	1,776,406	1,968,950
Deferred income tax liabilities	25	181,155	181,378
Derivative financial instruments	15	8,698	9,733
Other non-current liabilities		25	143
Provisions	26	51,936	59,723
		2,018,220	2,219,927
Current liabilities			
Trade and other payables	23	881,451	736,172
Borrowings	24	578,482	387,288
Derivative financial instruments	15	4,713	18,950
Current income tax liabilities		7,675	16,213
Provisions	26	28,651	29,715
		1,500,972	1,188,338
Total liabilities		3,519,192	3,408,265
TOTAL EQUITY AND LIABILITIES		**5,274,256**	**5,082,760**

The accompanying notes on pages 102 to 158 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2013	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**
Comprehensive income:						
Net profit for the year	-	-	200,012	200,012	13,389	213,401
Other comprehensive (loss)/income	-	(4,536)	130	(4,406)	16	(4,390)
Total comprehensive income	-	(4,536)	200,142	195,606	13,405	209,011
Transaction with owners:						
Acquisition of non-controlling interests (Note 28)	-	-	(30,984)	(30,984)	(62,365)	(93,349)
Share based payment (Note 21)	419	-	-	419	-	419
Purchase of treasury shares (Note 21)	(502)	-	-	(502)	-	(502)
Transfer	-	264	(264)	-	-	-
Dividends relating to 2013 (Note 21)	-	-	(35,010)	(35,010)	-	(35,010)
Balance at 31 December 2014	**1,015,870**	**(19,635)**	**756,497**	**1,752,732**	**2,332**	**1,755,064**

The accompanying notes on pages 102 to 158 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	Note	2014	2013
Cash flows from operating activities:			
Cash generated from operations	29	622,107	598,423
Interest paid		(123,509)	(146,761)
Income tax paid		(52,879)	(31,417)
		445,719	420,245
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13, 14	(190,100)	(99,994)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		6,481	21,360
Acquisition of available-for-sale financial assets		-	(58,005)
Proceeds from sale of available-for-sale financial assets		-	58,048
Advance for acquisition of subsidiary	28	-	(6,775)
Acquisition of subsidiary – net of cash acquired	28	(5,332)	-
Loans granted and deposits placed		(49,946)	(4,328)
Repayments of loan and deposits granted		45,460	23,161
Interest received		4,511	8,189
		(188,926)	(58,344)
Cash flows used in financing activities			
Purchase of treasury shares	21	(502)	(9,063)
Proceeds from borrowings, net of fees paid	24	293,101	85,111
Repayments of borrowings	24	(322,782)	(334,591)
Acquisition of interest in a subsidiary from non-controlling interests	28	(93,349)	-
Dividends paid to Company shareholders	21	(35,010)	(30,008)
		(158,542)	(288,551)
Net increase in cash and cash equivalents		**98,251**	**73,350**
Exchange (losses)/gains on cash and cash equivalents		(5,997)	1,119
Cash and cash equivalents at beginning of year		325,334	250,865
Cash and cash equivalents at end of year	20	**417,588**	**325,334**

The accompanying notes on pages 102 to 158 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. These standards and amendments did not have a significant impact on the Group's financial statements or performance. 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)

- *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 also 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.

- *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 will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

- *Amendments to IFRS 10, IFRS 12 and IAS 27 – on Consolidation for Investment entities (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 profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made to IFRS 12 to introduce disclosures that an investment entity needs to make.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendments to IAS 32 - Financial Instruments: Presentation on Financial Assets and Financial Liabilities offsetting (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 balance sheet.

- *Amendment to IAS 36 Impairment of Assets on Recoverable Amount Disclosures (effective for annual periods beginning on or after 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.

- *Amendment to IAS 39 Financial Instruments: Recognition and Measurement 'Novation of Derivatives' (effective for annual periods beginning on or after 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.

(b) Forthcoming requirements

A number of new standards and interpretations that have been issued are not effective for annual periods beginning on 1 January 2014, but will be effective for later periods. 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.

- *Annual Improvements to IFRSs 2012 (effective for annual periods beginning on or after 1 July 2014)* The improvements amend standards from 2010 – 2012 reporting cycle and include changes to:
    - IFRS 2 - 'Share based payments,' and clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition.'
    - IFRS 3, 'Business combinations,' and clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation.' It also clarifies that all non-equity contingent consideration is measured at fair value at each reporting date, with changes in value recognised in profit and loss.
    - IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in aggregating operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.
    - IFRS 13, 'Fair value' which amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short term receivables and payables at invoice amounts where the effect of discounting is immaterial.
    - IAS 16,'Property, plant and equipment' and IAS 38,'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
    - IAS 24 'Related party disclosures' is 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'). Disclosure of the amounts charged to the reporting entity is required.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Annual Improvements to IFRSs 2013 (effective for annual periods beginning on or after 1 July 2014)* The improvements amend standards from 2011 – 2013 reporting cycle and include changes to:
  - IFRS 1, First time adoptions of IFRSs, basis of conclusions is amended to clarify that, where a new standard is not 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, Business combinations is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11.
  - IFRS 13, Fair value measurement is amended to clarify that the portfolio exception in IFRS 13 applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.
  - IAS 40, Investment property is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. IAS 40 assists users to distinguish between investment property and owner-occupied property. Preparers also need to consider the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

- *Annual Improvements to IFRSs 2014 (effective for annual periods beginning on or after 1 July 2016)* The improvements amend standards from 2012 – 2014 reporting cycle and include changes to:
  - IFRS 5, Non-current assets held for sale and discontinued operations – The amendment clarifies that, when an asset (or disposal group) is reclassified from ‘held for sale’ to ‘held for distribution,’ or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as ‘held for sale’ or ‘held for distribution’ simply because the manner of disposal has changed. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as ‘held for sale’.
  - IFRS 7, Financial instruments: Disclosures – There are two amendments:
    - Servicing contracts – If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to IFRS 1 to give the same relief to first time adopters.
    - Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, Disclosure – Offsetting financial assets and financial liabilities is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective.
  - IAS 19, Employee benefits – The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.
  - IAS 34, Interim financial reporting – the amendment clarifies what is meant by the reference in the standard to ‘information disclosed elsewhere in the interim financial report.’ The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRS 9, Financial instruments (effective for annual periods beginning on or after 1 January 2018) Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception: Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.*
  The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.
  For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.
  IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

- *IFRS 14, Regulatory deferral accounts (effective for annual periods beginning on or after 1 January 2016)* This standard permits first-time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

- *IFRS 15, 'Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2017)* This is the converged standard on revenue recognition. It replaces IAS 11, Construction contracts, IAS 18, Revenue and related interpretations.
  Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.
  The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:
    - Step 1: Identify the contract(s) with a customer
    - Step 2: Identify the performance obligations in the contract
    - Step 3: Determine the transaction price
    - Step 4: Allocate the transaction price to the performance obligations in the contract
    - Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

  IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRIC 21 Levies (effective in EU for annual periods beginning on or after 17 June 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 addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised.

- *Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after 1 January 2016)* These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.

  A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

- *Amendment to IFRS 11, 'Joint arrangements' regarding acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016).* This amendment provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business.' The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

- *Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016).* This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances. These are where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

- *Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' regarding bearer plants (effective for annual periods beginning on or after 1 January 2016)* These amendments change the reporting for bearer plants, such as grape vines, rubber trees and oil palms. Bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. The amendments include them in the scope of IAS 16 rather than IAS 41. The produce on bearer plants will remain in the scope of IAS 41.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendment to IAS 19, 'Employee benefits' regarding employee or third party contributions to defined benefit plans (effective for annual periods beginning on or after 1 July 2014).* The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over the employee's working lives.

- *Amendment to IAS 27, 'Separate financial statements' regarding the equity method (effective for annual periods beginning on or after 1 January 2016)* The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

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 the 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 311 thousand in 2014 (2013: HRK 49 thousand).

2.25 Comparatives

In 2014 the classification of contracted marketing expenses has changed from “Marketing and selling expenses” to decrease in “Sales revenues”, and classification of support for contracted marketing expenses has changed from decrease in “Marketing and promotion costs” to decrease in “Cost of trade goods sold”. In accordance with these changes, sales revenue for segment information for the year ended 31 December 2013 has also been restated.

The effect of these changes on comparative figures for 2013 is as follows:

(in thousands of HRK)	2013
Decrease in sales revenues	(52,351)
Decrease in cost of trade goods sold	10,924
Decrease in marketing and promotion costs	41,427

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), Russian Ruble (RUB) and to a lesser extent the US dollar (USD). The depreciation of the Serbian dinar against EURO in 2014 resulted in HRK 32,538 thousand foreign currency losses from financing activities (2013: HRK 3,742 thousand) and depreciation of Russian ruble had a direct negative impact on the Group's 2014 results of HRK 26,741 thousand (2013: nil).

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

31 December 2014

(in thousands of HRK)	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	375,707	280,463	34	40,210
Cash and cash equivalents	235,693	48,215	502	6,724
Trade and other payables	(375,186)	(101,037)	(44,819)	(4,576)
Borrowings	(2,090,240)	-	(7,717)	-
Net balance sheet exposure	**(1,854,026)**	**227,641**	**(52,000)**	**42,358**

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**

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 8,510 thousand lower (2013: HRK 7,886 thousand lower), mainly due to the EUR denominated borrowings and other comprehensive income would be HRK 14,136 thousand higher (2013: HRK 10,803 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 110 thousand higher (2013: HRK 1,079 thousand higher) and other comprehensive income would be HRK 4,200 thousand higher (2013: HRK 3,484 thousand higher), assuming no change in other variables.

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 2014, 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 2014, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2013: 100 basis points), the profit after tax would have been lower/higher by HRK 7,921 thousand (2013: HRK 7,337 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 2014, the Group held cash and cash equivalents in the amount of HRK 417,588 thousand (2013: HRK 325,334 thousand) and short-term deposits in the amount of HRK 275 thousand (2013: HRK 251 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**	**Total**
31 December 2014			
Trade and other payables	821,890	-	821,890
Borrowings (excluding finance lease)	647,460	1,957,520	2,604,980
Finance lease liabilities	1,341	226	1,567
Derivative financial instruments	4,713	8,698	13,411

(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

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:

	2014	2013
	(in thousands of HRK)	
Total borrowings (Note 24)	2,354,888	2,356,238
Derivative financial instruments (Note 15)	(9,276)	28,683
Less: Short-term deposits and Cash and cash equivalents (Note 18 and 20)	(417,863)	(325,585)
Net debt	1,927,749	2,059,336
Total equity	1,755,064	1,674,495
Total capital	**3,682,813**	**3,733,831**
Gearing ratio	**52%**	**55%**

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 primarily as a result of 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	91,464	-	73,800
SBU Coffee	63,229	-	248,782
SBU (Sweet and Salted) Snacks	215,529	-	143,151
SBU Savoury Spreads	128,678	-	246,132
SBU Pharma and Personal Care	198,848	160,423	-
BU Baby food	22,231	-	29,013
SDU Croatia	35,830	-	-
SDU Serbia	51,356	-	-
DU Slovenia	26,275	-	-
DU Macedonia	5,972	-	-

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 2014**	**Pre-tax discount rate 2013**
SBU Beverages	8.2%	10.4%
SBU Coffee	8.6%	10.9%
SBU (Sweet and Salted) Snacks	9.4%	11.6%
SBU Savoury Spreads	8.6%	10.9%
SBU Pharma and Personal Care	9.1%	9.1%
Russian market	10.8%	11.4%
SDU Croatia	8.0%	9.6%
SDU Serbia	9.4%	9.6%
DU Slovenia	6.7%	9.6%
DU Macedonia	9.6%	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 individual asset impairment tests and it is based on management's expectations for market development. Compared to 2013, pre-tax discount rates in 2014 are lower across segments, based on changed market conditions - primarily lower risk-free rates based on reduced sovereign yields across markets.

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 18,278 thousand was recognised (2013: HRK 27,096 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 13.4% 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.

NOTE 5 – SEGMENT INFORMATION

As of 1 January 2014, the business model of the Group is organized through six strategic business units which have been joined by business unit Baby food and five strategic distribution units, which have been joined by distribution units Slovenia and Macedonia:

- 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 International,
- SDU Serbia,
- SDU HoReCa,
- SDU CIS,
- BU Baby food,
- DU Slovenia,
- DU Macedonia.

The Strategic Management Council is responsible for strategic and operational issues. For more efficient management of individual strategic business and strategic distribution units, the new organizational areas unite similar business activities or products, shared markets or channels.

Due to the fact that SDU HoReCa, SDU CIS, BU Baby food and DU Macedonia 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.

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

Sales revenues *(in thousands of HRK)*	**2014**	**2013**
SBU Beverages	638,817	644,137
SBU Coffee	1,026,680	1,091,348
SBU (Sweet and Salted) Snacks	614,426	616,517
SBU Savoury Spreads	471,385	457,035
SBU Sports and Functional Food	779,075	781,080
SBU Pharma and Personal Care	493,344	498,939
SDU Croatia	844,252	764,849
SDU International markets	582,426	555,632
SDU Serbia	1,083,149	1,145,258
DU Slovenia	725,487	615,014
Other segments	820,505	851,106
Reconciliation	(2,961,173)	(3,021,979)
Total	**5,118,373**	**4,998,936**

Operating results	**For the year ending 31 December 2014**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	128,081	41,615	86,466
SBU Coffee	231,108	19,370	211,738
SBU (Sweet and Salted) Snacks	98,136	19,062	79,074
SBU Savoury Spreads	113,074	14,088	98,986
SBU Sports and Functional Food	16,283	4,911	11,372
SBU Pharma and Personal Care	49,925	20,196	29,729
SDU Croatia	12,214	5,722	6,492
SDU International markets	14,836	598	14,238
SDU Serbia	28,505	3,390	25,115
DU Slovenia	36,524	3,314	33,210
Other segments	(131,654)	24,064	(155,718)
Total	**597,032**	**156,330**	**440,702**

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results	For the year ending 31 December 2013		
(in thousands of HRK)	EBITDA	Depreciation, Amortization and Impairment	EBIT
SBU Beverages	118,430	40,576	77,854
SBU Coffee	237,935	27,216	210,719
SBU (Sweet and Salted) Snacks	110,398	20,920	89,478
SBU Savoury Spreads	102,408	14,025	88,383
SBU Sports and Functional Food	23,240	4,730	18,510
SBU Pharma and Personal Care	47,548	25,083	22,465
SDU Croatia	17,851	5,788	12,063
SDU International markets	15,845	941	14,904
SDU Serbia	38,341	3,438	34,903
DU Slovenia	35,794	896	34,898
Other segments	(157,013)	22,545	(179,558)
Total	**590,777**	**166,158**	**424,619**

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:

	2014	2013
	(in thousands of HRK)	
Serbia	944,960	1,004,932
Slovenia	988,634	990,665
Croatia	769,174	704,384
Other	202,402	213,561
Total geographically allocated non-current assets	**2,905,170**	**2,913,542**

NOTE 5 – SEGMENT INFORMATION (continued)

	2014		2013	
Sales by markets	*(in thousands of HRK)*	%	*(in thousands of HRK)*	%
Croatia	1,285,068	25.1	1,209,212	24.2
Serbia	1,145,249	22.4	1,215,220	24.3
Slovenia	809,083	15.8	689,267	13.8
Bosnia and Herzegovina	357,305	7.0	364,199	7.3
Macedonia, Montenegro, Kosovo	312,745	6.1	317,072	6.3
Germany, Italy, United Kingdom	405,297	7.9	389,896	7.8
Russia and CIS countries	289,608	5.7	293,592	5.9
Other markets	514,018	10.0	520,478	10.4
Total sales by markets	**5,118,373**	**100.0**	**4,998,936**	**100.0**

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

	2014		2013	
Analysis of revenue by category	*(in thousands of HRK)*	%	*(in thousands of HRK)*	%
Sales by type of products				
Own brands	3,430,839	66.4	3,507,508	69.6
Principal brands	921,584	17.8	722,732	14.4
Pharmacy	315,150	6.1	308,508	6.1
Private label	450,800	8.7	460,188	9.1
Total sales by type of products	**5,118,373**	**99.0**	**4,998,936**	**99.2**
Other income /i/	50,266	1.0	40,935	0.8
Total revenues	**5,168,639**	**100.0**	**5,039,871**	**100.0**

/i/ Other income mainly comprise of interest and rental income.

NOTE 6 – STAFF COSTS

	2014	2013
	(in thousands of HRK)	
Gross salaries /i/	634,801	596,715
Public transport	15,975	15,357
Termination benefits	4,676	4,664
Share options granted (Note 21)	780	5,849
Other staff costs /ii/	48,205	49,533
	704,437	**672,118**

At 31 December 2014, the full time employees number was 5,152 (2013: 4,911).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2014 amounted to HRK 97,963 thousand (2013: HRK 92,287 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2014	2013
	(in thousands of HRK)	
Marketing and promotion costs - external	271,026	242,157
Marketing and promotion costs - related parties (Note 30)	13,456	20,662
Sponsorships and donations	47,123	47,574
	331,605	**310,393**

NOTE 8 – OTHER OPERATING COSTS

	2014	2013
	(in thousands of HRK)	
Transportation costs	133,641	109,044
Maintenance	95,341	97,575
Rentals (Note 27)	88,019	79,709
Non-production material	28,708	26,831
Fuel	20,635	21,311
Provision for impairment of inventories (Note 19)	22,007	18,060
Intellectual services	20,814	17,390
Taxes and contributions not related to operating results	19,210	15,100
Travel expense and daily allowances	16,142	16,554
Non-production services	12,624	14,169
Telecommunication services	13,962	13,009
Entertainment	15,042	13,859
Bank charges	9,441	9,133
Provision for impairment of trade receivables (Note 18)	11,156	15,388
Provision for impairment of other receivables (Note 18)	613	15,542
Production services	6,821	5,737
Supervisory Board fees	1,445	1,398
Royalties	1,408	1,464
Collection of receivables previously provided for (Note 18)	(3,336)	(3,739)
Other – related parties (Note 30)	2,854	2,689
Other	29,098	45,072
	545,645	**535,295**

NOTE 9 – OTHER GAINS/(LOSSES) – NET

	2014	2013
	(in thousands of HRK)	
Gain/(loss) on sale of property, plant and equipment	947	(250)
Gain on sale of available-for-sale financial assets	-	48
Fair value gains/(losses) on financial assets	2,423	(5,846)
Foreign exchange gains/(losses) – net	2,489	(2,757)
Other gains – net	425	1,267
	6,284	**(7,538)**

NOTE 10 – FINANCE COSTS – NET

	2014	2013
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	(16,013)	(46,141)
	(16,013)	(46,141)
Finance costs		
Foreign exchange loss on borrowings	78,164	58,342
Interest expense on bank borrowings	46,918	66,722
Interest expense on bonds	8,344	8,371
Interest expense on provisions for employee benefits	1,505	1,544
Interest expense on borrowings – related parties (Note 30)	69,094	82,628
	204,025	217,607
Finance costs - net	**188,012**	**171,466**

NOTE 11 – INCOME TAX

	2014	2013
	(in thousands of HRK)	
Current income tax	42,180	42,737
Deferred tax (Note 25)	(2,891)	11,422
	39,289	**54,159**

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:

	2014	2013
	(in thousands of HRK)	
Profit before taxation	**252,690**	**253,153**
Income tax calculated at domestic tax rates applicable to profits in the respective countries	46,339	51,580
Tax effects of: Adjustments in respect of prior years	(151)	(198)
Income not subject to tax	(11,867)	(24,751)
Expenses not deductible for tax purposes	24,219	26,451
Effect of utilized tax incentives	(3,843)	-
Utilisation of previously unrecognized tax losses	(17,452)	(21,339)
Tax losses for which no deferred tax assets were recognised	4,935	10,995
Effect of utilized tax losses	4,073	22,825
Effect of recognized tax losses	-	(2,799)
Origination and reversal of temporary tax differences	(6,964)	(8,605)
Tax expense	**39,289**	**54,159**

The weighted average effective tax rate was 15.5% (2013: 21.4%). The decrease compared to the previous year primarily arises from a different level of tax loss utilization.

During 2014, the Tax Authority performed two tax inspections in the Group's subsidiaries. In February 2015, the Ministry of Finance issued a tax resolution for one of the subsidiaries. Currently, a tax appeal has been submitted to the second-instance body of the Ministry of Finance. At this moment it is uncertain whether any liability will be imposed to the Group.

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.

	2014	2013
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	200,012	194,872
Weighted average number of ordinary shares in issue	3,334,239	3,333,240
Basic earnings per share *(in HRK)*	59.99	58.46

Diluted earnings per share

Diluted earnings per share are the same as basic earnings per share since 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 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 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**
At 1 January 2014					
Opening net book amount	92,682	426,813	512,839	28,513	1,060,847
Additions	-	-	-	181,167	181,167
Transfer	1,117	9,469	83,910	(94,496)	-
Disposals	-	(182)	(5,351)	-	(5,533)
Depreciation	-	(20,417)	(102,805)	-	(123,222)
Transfer to assets held for sale	-	(463)	-	-	(463)
Liquidation of subsidiary	(357)	(1,619)	(449)	-	(2,425)
Foreign exchange differences	6	(3,473)	(7,039)	(576)	(11,082)
Closing net book amount	**93,448**	**410,128**	**481,105**	**114,608**	**1,099,289**
At 31 December 2014					
Cost	93,448	790,011	1,700,614	114,608	2,698,681
Accumulated depreciation	-	(379,883)	(1,219,509)	-	(1,599,392)
Net book amount	**93,448**	**410,128**	**481,105**	**114,608**	**1,099,289**

Property, plant and equipment with a net book value of HRK 283,517 thousand as at 31 December 2014 (2013: HRK 307,146 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 23,496 thousand (2013: HRK 27,534 thousand).

NOTE 13a – NON-CURRENT ASSETS HELD FOR SALE

	2014	2013
	(in thousands of HRK)	
Opening net book amount	99,133	113,868
Classified as held for sale during the year	463	752
Disposals	-	(16,617)
Foreign exchange differences	278	1,130
Closing net book amount	**99,874**	**99,133**

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 is in place.

Assets in the amount of HRK 82,562 thousand (2013: HRK 82,306 thousand) have been pledged as collateral for borrowings (Note 24).

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brands	Rights	Software	Total
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**
At 1 January 2014						
Opening net book amount	868,162	170,211	788,985	-	23,665	1,851,023
Foreign exchange differences	(25,576)	-	(9,935)	56	(12)	(35,467)
Additions	-	-	-	-	8,933	8,933
Acquisition of subsidiary	-	-	-	16,000	-	16,000
Liquidation of subsidiary	(3,174)	-	-	-	-	(3,174)
Amortisation	-	-	(3,726)	(2,400)	(8,393)	(14,519)
Impairment charge /i/	-	(9,788)	(8,490)	-	-	(18,278)
Closing net book amount	**839,412**	**160,423**	**766,834**	**13,656**	**24,193**	**1,804,518**
At 31 December 2014						
Cost	839,412	204,437	812,466	16,066	134,848	2,007,229
Accumulated amortisation and impairment	-	(44,014)	(45,632)	(2,410)	(110,655)	(202,711)
Net book amount	**839,412**	**160,423**	**766,834**	**13,656**	**24,193**	**1,804,518**

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 b).

Intangible assets with a net book value of HRK 682,900 thousand as at 31 December 2014 (2013: HRK 703,618) 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	Derivatives used for hedging	Total
31 December 2014				
Financial assets				
Available-for-sale	-	942	-	**942**
Trade and other receivables	1,127,647	-	-	**1,127,647**
Short-term deposits	275	-	-	**275**
Derivative financial instruments	-	-	22,687	**22,687**
Cash and cash equivalents	417,588	-	-	**417,588**
Total	**1,545,510**	**942**	**22,687**	**1,569,139**

(in thousands of HRK)	Other financial liabilities	Finance leases	Derivatives used for hedging	Total
31 December 2014				
Financial liabilities				
Borrowings	2,353,321	-	-	**2,353,321**
Finance leases	-	1,567	-	**1,567**
Derivative financial instruments	-	-	13,411	**13,411**
Trade and other payables	821,890	-	-	**821,890**
Total	**3,175,211**	**1,567**	**13,411**	**3,190,189**

(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	-	-	28,683	**28,683**
Trade and other payables	691,397	-	-	**691,397**
Total	**3,042,881**	**4,754**	**28,683**	**3,076,318**

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 2014, financial assets classified as trade and other receivables and short-term deposits that are not past due amounted to HRK 929,267 thousand (2013: HRK 895,080 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	**2014**	**2013**
	(in thousands of HRK)	
A-1/Stable (Standard &Poor's)	5,499	2,196
A-1/Negative (Standard &Poor's)	1,707	1,406
A-2/Negative (Standard &Poor's)	110,659	115,182
A-3/Stable (Standard &Poor's)	238,282	134,716
B/Negative (Standard &Poor's)	38,227	40,993
BA2 /Negative (Moody's)	3,037	4,232
Petty cash and other banks	20,177	26,609
	417,588	**325,334**

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:

	2014	**2013**
	(in thousands of HRK)	
Trade receivables		
Counterparties without external credit rating		
Group 1	31,628	22,991
Group 2	624,816	617,977
Group 3	192,099	214,387
Total unimpaired trade receivables	**848,543**	**855,355**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2014	2013
	(in thousands of HRK)	
Other receivables		
Counterparties without external credit rating		
Group 2	21,360	21,830
Total unimpaired other receivables	**21,360**	**21,830**

	2014	2013
	(in thousands of HRK)	
Loans and long-term deposits		
Counterparties without external credit rating		
Group 2	49,586	10,763
Group 3	9,503	6,881
	59,089	**17,644**

	2014	2013
	(in thousands of HRK)	
Short-term deposits		
A-3/Stable	275	251
	275	**251**

- 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 a quoted market price and fair value cannot be reliably measured. During 2014 and 2013, there were no impairment provisions on available-for-sale financial assets.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2014	2013
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	22,378	8,777
Other non-current receivables	279	277
	22,657	9,054
Current receivables		
Trade receivables /ii/	1,047,198	1,050,563
Loans receivable and deposits /i/	36,711	8,867
Other receivables /iii/	85,434	66,980
	1,169,343	1,126,410
Short-term deposits /v/	275	251
	1,192,275	**1,135,715**

	2014	2013
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	59,089	17,644
Trade receivables	1,047,198	1,050,563
Other receivables	21,360	21,830
Short-term deposits	275	251
	1,127,922	**1,090,288**

/i/ Loans receivable and deposits are as follows:

	2014	2013
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	1,801	1,621
Loans	45,704	9,127
Current portion	(25,127)	(1,971)
	22,378	8,777
Current receivables		
Loans – related parties (Note 30)	7,651	5,764
Loans	3,933	1,132
Current portion of non-current receivables	25,127	1,971
	36,711	8,867
	59,089	**17,644**

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

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ Trade receivables are as follows:

	2014	2013
	(in thousands of HRK)	
Gross trade receivables	1,094,274	1,107,429
Trade receivables – related parties (Note 30)	93,396	87,442
Provision for trade receivables	(140,472)	(144,308)
	1,047,198	**1,050,563**

/iii/ Other receivables are as follows:

	2014	2013
	(in thousands of HRK)	
Receivables from government institutions	33,317	22,881
Outstanding advances	4,847	8,746
Factoring receivables	11,697	9,298
Prepaid expenses	6,363	5,673
Interest receivable	502	6
Other receivables – related parties (Note 30)	117	88
Other	28,591	20,288
	85,434	**66,980**

/iv/ Due to uncertainty in collection, other receivables of HRK 613 thousand were impaired (2013: HRK 15,542 thousand), (Note 8).

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

As of 31 December 2014, trade receivables in the amount of HRK 140,472 thousand (2013: HRK 144,308 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:

	2014	2013
	(in thousands of HRK)	
Up to 3 months	254	810
3 to 6 months	689	2,001
Over 6 months	139,529	141,497
	140,472	**144,308**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2014, trade receivables in the amount of HRK 198,655 thousand (2013: HRK 195,208 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2014	2013
	(in thousands of HRK)	
Up to 3 months	141,189	164,753
3 to 6 months	55,949	24,477
Over 6 months	1,517	5,978
	198,655	**195,208**

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

	2014	2013
	(in thousands of HRK)	
EUR	375,707	393,240
HRK	360,040	291,342
RSD	280,463	304,130
Other	111,712	101,576
	1,127,922	**1,090,288**

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

	2014	2013
	(in thousands of HRK)	
As at 1 January	144,308	138,730
Provision for receivables impairment (Note 8)	11,156	15,388
Collected amounts reversed (Note 8)	(3,336)	(3,739)
Receivables written off	(8,706)	(6,579)
Exchange differences	(2,950)	508
As at 31 December	**140,472**	**144,308**

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

	2014	2013
	(in thousands of HRK)	
Raw materials and supplies	169,275	175,428
Work in progress	16,734	13,783
Finished goods	223,909	181,181
Trade goods	172,329	166,840
	582,247	**537,232**

As of 31 December 2014, inventories of HRK 22,007 thousand (2013: HRK 18,060 thousand) were impaired and fully provided for, due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2014	2013
	(in thousands of HRK)	
Current account and cash on hand	107,403	94,249
Foreign currency account	113,274	111,490
Deposits up to three months /i/	196,911	119,595
	417,588	**325,334**

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

Cash and cash equivalents are denominated in the following currencies:

	2014	2013
	(in thousands of HRK)	
EUR	235,693	146,888
HRK	107,508	97,190
RSD	48,215	51,226
Other	26,172	30,030
	417,588	**325,334**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2013	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**
Purchase of treasury shares	(500)	-	-	(502)	(502)
Share based payments	445	-	(21)	440	419
31 December 2014	**3,334,223**	**133,372**	**882,576**	**(78)**	**1,015,870**

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 2014		31 December 2013	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	324,000	9.72	323,500	9.70
EBRD	284,301	8.53	284,301	8.53
DEG	76,036	2.28	283,209	8.49
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	37,624	1.13	38,386	1,15
Other shareholders	745,287	22.35	537,907	16.14
Treasury shares	77	-	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, 465 new shares have been granted in 2014 (2013: 6,254 shares).

The fair value of equity-settled share based payment transactions amounted to HRK 780 thousand (2013: HRK 6,182 thousand). The whole amount (2013: HRK 5,849 thousand) has been reported as staff costs (Note 6), relating to 465 shares for which vesting conditions were met in 2014 (2013: 5,887 shares). As at 31 December 2013 HRK 332 thousand was deferred, relating to shares for which vesting conditions will be met in 2015 (367 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 880 (2013: HRK 700).

Dividend distribution

According to the decision of the Company's General Assembly from 30 June 2014, the distribution of dividend in the amount of HRK 10.50 per share, or HRK 35,010 thousand in total was approved (2013: HRK 9.00 per share; HRK 30,008 thousand in total). Dividend was paid in July 2014.

NOTE 22 – RESERVES

(in thousands of HRK)	Reserves /i/	Translation reserves /ii/	Cash flow hedge reserve /ii/	Total
At 1 January 2013	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)**
Foreign exchange differences	-	(34,080)	-	(34,080)
Transfer from retained earnings	264	-	-	264
Cash flow hedge	-	-	29,544	29,544
At 31 December 2014	**5,971**	**(29,974)**	**4,368**	**(19,635)**

/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 owners of the Company only.

NOTE 23 – TRADE AND OTHER PAYABLES

	2014	2013
	(in thousands of HRK)	
Trade payables	719,901	595,226
Trade payables – related parties (Note 30)	808	1,416
Other payables	160,742	139,530
	881,451	**736,172**

Other payables recorded as at 31 December are as follows:

	2014	2013
	(in thousands of HRK)	
Gross salaries payable	45,490	32,766
Liabilities to state institutions	13,219	11,920
Liabilities to Kapitalni Fond d.d.	-	22,036
Accrued expenses	60,066	41,368
Vacation accrual	15,774	14,515
Termination benefits payable	852	89
Deferred income	8,787	1,361
Dividend payable (Note 30)	112	111
Other	16,442	15,364
	160,742	**139,530**

Financial liabilities are denominated in the following currencies:

	2014	2013
	(in thousands of HRK)	
EUR	375,186	287,061
HRK	288,879	270,970
RSD	101,037	89,362
Other	56,788	44,004
	821,890	**691,397**

NOTE 24 – BORROWINGS

	2014	2013
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /i/	305,129	373,807
Related parties /ii/ (Note 30)	1,356,457	1,479,720
Bonds /iii/	114,594	113,984
Finance lease	226	1,439
Long-term debt	**1,776,406**	**1,968,950**
Short-term borrowings:		
Financial institutions /i/	315,251	184,035
Related parties /ii/ (Note 30)	260,557	198,577
Bonds /iii/	1,333	1,361
Finance lease	1,341	3,315
	578,482	**387,288**
	2,354,888	**2,356,238**

/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, out of which EUR 5 million was used in 2014) and a working capital line (EUR 25 million). As at 31 December 2014, EUR 19.3 million of the committed line was unused (31 December 2013: EUR 20.7 million).

In September 2014, Atlantic Grupa signed a EUR 10 million loan agreement with EBRD to finance the construction of the energy bars production plant in Nova Gradiška. The loan will be repaid in equal semi-annual instalments with final maturity in April 2019.

/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. Zagreb, Droga Kolinska d.d., Grand Prom d.o.o. Serbia 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 or waiver from the banks were obtained.

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:

	2014	2013
	(in thousands of HRK)	
Fixed interest rate	156,352	171,461
Up to 3 months	1,284,026	1,668,810
3 to 6 months	914,510	515,967
	2,354,888	**2,356,238**

The maturity of long-term borrowings is as follows:

	2014	2013
	(in thousands of HRK)	
Between 1 and 2 years	551,989	292,769
Between 2 and 5 years	1,224,417	1,351,843
Over 5 years	-	324,338
	1,776,406	**1,968,950**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 3.80% (2013: 4.16%). The effective annual interest rate related to bonds at the balance sheet date was 7.26% (2013: 7.26%).

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

	Carrying amounts		**Fair value**	
	2014	**2013**	**2014**	**2013**
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Financial institutions	1,661,586	1,853,527	1,661,548	1,852,845
Bonds	114,594	113,984	122,579	119,703
Finance lease	226	1,439	226	1,439
	1,776,406	**1,968,950**	**1,784,353**	**1,973,987**

NOTE 24 – BORROWINGS (continued)

The fair values of borrowings from banks and financial institutions are based on cash flows discounted using a rate of 3.80% (2013: 4.16%).

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

Gross finance lease liabilities – minimum lease payments:

	2014	2013
	(in thousands of HRK)	
No later than 1 year	1,341	3,412
Later than 1 year and no later than 5 years	226	1,644
	1,567	5,056
Future finance charges on finance leases	-	(302)
Present value of finance lease liabilities	**1,567**	**4,754**

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

	2014	2013
	(in thousands of HRK)	
HRK	254,140	247,732
EUR	2,090,240	2,100,238
USD	7,717	6,510
Other	2,791	1,758
	2,354,888	**2,356,238**

NOTE 25 – DEFERRED INCOME TAX

	2014	2013
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	31,760	34,852
- Deferred tax assets to be recovered within 12 months	9,464	13,060
	41,224	47,912
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(176,067)	(179,792)
- Deferred tax liabilities to be recovered within 12 months	(5,088)	(1,586)
	(181,155)	(181,378)
Deferred tax liabilities - net	**(139,931)**	**(133,466)**

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 64,788 thousand (2013: HRK 74,000 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 337,080 thousand (2013: HRK 407,009 thousand) expire over the next five years, while the losses in the amount of HRK 13,619 thousand (2013: HRK 8,223 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	Tax losses	Provisions	Other	Total
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**
At 1 January 2014	9,744	6,874	31,294	47,912
(Charged)/credited to the income statement (Note 11)	(4,443)	(284)	2,197	(2,530)
(Charged)/credited to other comprehensive income	-	(4)	(2,330)	(2,334)
Exchange differences	46	(136)	(1,734)	(1,824)
At 31 December 2014	**5,347**	**6,450**	**29,427**	**41,224**

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 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**
At 1 January 2014	-	177,755	3,623	181,378
Charged/(credited) to the income statement (Note 11)	-	(4,283)	(1,138)	(5,421)
(Charged)/credited to other comprehensive income	3,897	-	-	3,897
Acquisition of subsidiary	-	2,327	-	2,327
Exchange differences	16	(825)	(217)	(1,026)
At 31 December 2014	**3,913**	**174,974**	**2,268**	**181,155**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal proceedings**	**Warranties**	**Other provisions**	**Total**
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
At 1 January 2014	**45,962**	**39,322**	**2,553**	**1,601**	**89,438**
Additions	17,065	823	2,684	283	20,855
Used during year	(8,741)	(3,302)	(2,550)	(151)	(14,744)
Liquidation of subsidiary	-	(6,272)	-	-	(6,272)
Unused amounts reversed	(8,149)	(1,274)	-	-	(9,423)
Interest expense	1,505	-	-	-	1,505
Exchange differences	(743)	33	6	(68)	(772)
At 31 December 2014	**46,899**	**29,330**	**2,693**	**1,665**	**80,587**
Analysis of total provisions:					
Non-current	31,622	18,802	-	1,512	51,936
Current	15,277	10,528	2,693	153	28,651

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 2014.

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 2015. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 2,711 thousand that will be paid out within the following year from the balance sheet date.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2014 but not yet incurred amounted to HRK 20,532 thousand (2013: HRK 20,697 thousand) for property, plant and equipment and HRK 1,456 thousand for intangible assets (2013: HRK 1,745 thousand).

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

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

The lease 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:

	2014	2013
	(in thousands of HRK)	
Not later than 1 year	47,205	47,611
Later than 1 year and not later than 5 years	85,997	79,162
Over 5 years	930	4,277
	134,132	**131,050**

NOTE 28 – BUSINESS COMBINATIONS

/i/ In December 2013, the Group signed an agreement to acquire Prodis d.o.o. in Slovenia. 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 in 2013, while the remaining amount was paid in 2014, upon finalization of the acquisition process. The finalization of the acquisition process was realized in March 2014, upon obtaining the approval from the Slovenian Competition Protection Agency.

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

(in thousands of HRK)	Carrying value	Fair value of identifiable assets acquired and liabilities assumed
Distribution rights (Note 14)	-	16,000
Trade and other receivables	31,109	31,109
Trade and other payables	(19,647)	(19,647)
Deferred tax liability (Note 25)	-	(2,327)
Total identifiable net assets	**11,462**	**25,135**
Purchase consideration paid in cash in 2013		6,775
Purchase consideration paid in cash in 2014		5,332
Purchase consideration offset with receivables from sellers *(a)*		13,028
Fair value of identifiable net assets acquired		(25,135)
Goodwill from acquisition		nil

(a) Based on the agreement on assumption of debt signed, part of purchase consideration was offset with the liability which the seller had toward Prodis d.o.o..

/ii/ During the year ended 31 December 2014, the Group acquired non-controlling interests and became the sole owner of the subsidiaries Cedevita d.o.o. and Atlantic Multipower UK Ltd.

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	62,365
Consideration in kind, net of tax	(93,349)
Excess of consideration paid recognized in equity	**(30,984)**

/iii/ In December 2014, the Group signed an agreement for the acquisition of the company Foodland d.o.o. from Serbia, whose main activity is the production of healthy food from selected ingredients with the recognizable brand “Bakina tajna”. In January 2015, the Commission for Protection of Competition in Republic of Serbia approved the takeover of Foodland d.o.o.

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2014	2013
Net profit		**213,401**	**198,994**
Income tax	11	39,289	54,159
Depreciation, amortisation and impairment	13, 14, 2.24	156,330	166,158
(Gain)/loss on sale of property, plant and equipment	9	(947)	250
Gain on sale of available-for-sale financial assets	9	-	(48)
Provision for current assets		33,777	48,990
Foreign exchange differences - net		26,091	19,349
(Decrease) / increase in provision for risks and charges - net	26	(8,851)	9,747
Fair value (gains)/losses on financial assets	9	(2,423)	5,846
Share based payment		419	8,672
Interest income		(4,511)	(8,189)
Interest expense	10	125,861	159,265
Other non-cash items, net		4,532	(3,213)
Changes in working capital:			
Increase in inventories		(67,025)	(11,979)
Increase in current receivables		(15,553)	(1,845)
Increase/ (decrease) in current payables		121,717	(47,733)
Cash generated from operations		**622,107**	**598,423**

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 2014 and as at 31 December 2013 and transactions recognised for years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2014	2013
RECEIVABLES			
Current receivables			
Other entities	18	101,164	93,294
LIABILITIES			
Borrowings			
Shareholders	24	1,617,014	1,678,297
Trade payables			
Shareholders	23	112	111
Other entities	23	808	1,416
		920	1,527
REVENUES			
Sales revenues			
Other entities		443,032	455,364
Other revenues			
Other entities		1,285	1,379
EXPENSES			
Marketing and promotion costs	7		
Other entities		13,456	20,662
Other operating costs	8		
Other entities		2,854	2,689
Finance cost - net	10		
Shareholder		69,094	82,628

Management board compensation

In 2014 members of the Management Board received total gross amount of HRK 10,379 thousand relating to salaries, bonuses and supervisory board compensation in respect of operating companies (2013: HRK 13,758 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 2,606 thousand (2013: 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:

	2014.	**2013.**
Cedevita d.o.o., Croatia	100%	81%
- Multivita d.o.o., Serbia (merged to Soko Štark in 2014)	-	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%
- Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- o.o.o. Atlantic Brands, Russia (in 2013 o.o.o. Droga Kolinska)	100%	100%
- Grand Prom d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Grand Prom d.o.o., Bosnia and Herzegovina (in 2013 Kofikom Produkt)	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 (liquidated in 2014)	-	100%
- Bionatura bidon vode d.o.o., Croatia	100%	100%
- Atlantic Multipower d.o.o., Croatia	100%	100%
Fidifarm d.o.o., Croatia	100%	100%
- Atlantic Pharmacentar d.o.o., Croatia	100%	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	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	100%	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%

ABBREVIATIONS

Abbreviation	Meaning
CEFTA	Central European Free Trade Agreement
CIS	Commonwealth of Independent States (former member states of the Soviet Union)
DDD	Disinfection, Disinsection, Deratization
EMS	Environmental Management System
ERP	Enterprise Resource Planning
FSSC	Food Safety System Certification
GDP	Gross Domestic Product
GHP	Good Hygienic Practices
GMO	Genetically Modified Organism
GMP	Good Manufacturing Practice
GRI	Global Reporting Initiative
HACCP	Hazard Analysis and Critical Control Point
HoReCa	Hotel, Restaurant, Caffe – sales channel
HRIS	Human Resources Inofrmation System
HANFA	Croatian Financial Services Supervisory Agency
HZZO	Croatian Institute for Health Insurance
IPO	Initial Public Offering
IT	Information Technologies
KAM	Key Account Management
KPI	Key Performance Indicators
OTC	Over-The-Counter
PAH	Polycyclic Aromatic Hydrocarbons
SBU	Strategic Business Unit
SDU	Strategic Distribution Unit
UEPS	Serbian Marketing Communications Association
ZSE	Zagreb Stock Exchange

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