



ATLANTIC GRUPA

Annual Report 2008

INTRODUCTION

CORPORATE PROFILE

Atlantic Grupa is a Croatian multinational company which in its business operations combines the production, development, sales and distribution of fast moving consumer goods with market presence in over 30 countries around the world. Based on the business results achieved so far, Atlantic Grupa developed into the leading European producer of sports food, the regional leader in the production of vitamin drinks and food supplements, a prominent producer of cosmetics and personal care products as well as the leading distributor of consumer goods in South-Eastern Europe. In addition to further development of the listed activities, a significant step forward in the current business operations was made through acquisitions of Health Institutions, a process that started at the end of 2007 and continued throughout 2008, thus making Atlantic Grupa the leading national private chain of pharmacies united under the name Farmacia.

Atlantic Grupa's business operations may be divided into two key components - Consumer Health Care and Distribution.

The Consumer Healthcare segment incorporates the following areas: *Health Food* - which is dominated by products under the brand Cedevita (instant vitamin drinks, tea, vitamin candies), Multivita (vitamin drinks) and Montana (sandwiches and ready-to-eat products), *Nutraceuticals and VMS* (vitamins, minerals, supplements) - whose principal brands are Multipower (functional food for athletes), Multaben (assortment of weight control products) and Dietpharm (vitamin products, food supplements containing herbal extracts and medicinal substances of natural origin), *Over-the-Counter Medicines (OTC)* - Purisan and Uvin H Forte and *Personal Care* - in this segment the leading brands are Plidenta (dental care), Melem (universal cream), Rosal (lip, face and body care). Since 2008, this segment also includes the pharmacy chain Farmacia.

Distribution, as the second key component of Atlantic Grupa's business operations, works in close correlation with the first and merges the distribution of brands from own production with the distribution of well-known international brands, for which it is an authorised distributor, such as: Wrigley, Johnson's Baby, Ferrero, Durex, Scholl, etc., which together form the Company's strong distribution portfolio.

OPERATING COMPANIES AND REPRESENTATIVE OFFICES

In 2008, Atlantic Grupa had 1,672 employees, which is a 22% increase of employees in comparison with the previous year. The listed number of employees was hired in the course of 2008 largely because of the acquisitions of health institutions in the Pharma Division and due to the need for recruiting appropriate personnel as well as the consequence of acquisitions carried out during the upgrade of the Distribution Division's portfolio.

As a multinational company with firms and representative offices in 10 countries, Atlantic Grupa exports its products to more than 30 markets worldwide. After Croatia, the most important markets are Germany, Great Britain, Italy, Slovenia, Bosnia and Herzegovina, Serbia, Montenegro and Macedonia. In those markets where it is not present with its own operating companies, Atlantic Grupa has developed partnerships with regional and national distributors.



Atlantic Grupa includes the following operating companies:

ATLANTIC GRUPA d. d.¹, Zagreb

Atlantic Trade d.o.o.², Zagreb

- Atlantic BG d.o.o., Belgrade
- Atlantic Trade d.o.o., Ljubljana
- Atlantic Trade d.o.o., Skopje

Farmako Pharmacy, health institution for pharmacy services

Coner Pharmacy, health institution for pharmacy services

Farmacia, health institution for pharmacy services

Kuna Pharmacy, health institution for pharmacy services

Melissa Pharmacy, health institution for pharmacy services

Baričević II Pharmacy, health institution for pharmacy services

Bamapharm, health institution for pharmacy services

Ljubuški Pharmacy, health institution for pharmacy services

Cedevita d.o.o., Zagreb

¹ d.d. - Croatian abbreviation for "joint-stock company"

² d.o.o. - Croatian abbreviation for "limited liability company"

Multivita d.o.o., Vršac

Cedevita d.o.o. Zagreb - representative office Sarajevo

Cedevita Belgrade - representative office

Cedevita d.o.o. – representative office in the Republic of Macedonia

Neva d.o.o., Zagreb

Montana d.o.o., Zagreb

Atlantic Srl, Milan, Italy

Hopen Investments BV, the Netherlands

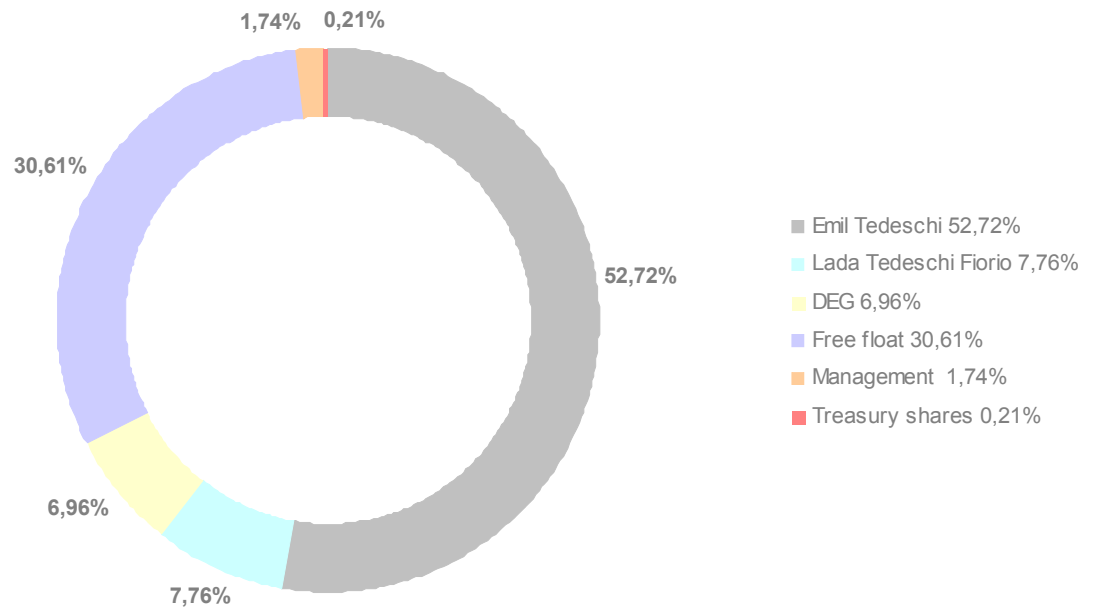
- Atlantic Multipower GmbH & CO OHG, Germany
- Atlantic Multipower UK Ltd, Great Britain
- Sport Direct Ltd, Great Britain
- Atlantic Multipower Srl, Italy
- AKTIVKOST Handelsgesellschaft mbH, Germany
- Atlantic Management GmbH, Germany

Fidifarm d.o.o., Zagreb

OWNERSHIP STRUCTURE

After completing the procedure of initial public offer (IPO) - on the day of 19 November 2007 when the Atlantic Grupa share was listed in the first quotation of the Zagreb Stock Exchange (ZSE) under the code ATGR-R-A, which included 31.01 percent of Company's shares, the year 2008 will be remembered as the first whole year in which the share was quoted at the Stock Exchange. The good liquidity of the share influenced the inclusion of the Atlantic Grupa share into the calculation of CROBEX index.

The majority share package of Atlantic Grupa is owned by Emil Tedeschi while the second largest shareholder is Lada Tedeschi Fiorio. With the recapitalisation contract in 2006, a portion of the company's ownership capital was acquired by DEG, one of the largest European developmental financial institutions. For the purpose of additional stimulation and closer integration with the development of Atlantic Grupa, in 2006 members of the Management Board were allowed to purchase the company's shares. Following the recapitalisation and public offer of Atlantic Grupa's shares, about a third of the total number of shares is currently in circulation on the free market of the Zagreb Stock Exchange.



Top 15 shareholders in Atlantic Grupa Plc. at December 31, 2008

1	TEDESCHI EMIL	1.302.304
2	Hypo Alpe-Adria-Bank d.d./Raiff. mirov. društvo za upravljanje/OMF d.o.o. za Raiffeisen OMF	196.118
3	TEDESCHI LADA	191.589
4	DEG	171.971
5	Soc. gen.-Split. banka/Allianz ZB d.o.o. za AZ OMF	79.331
6	Hypo-Alpe-Adria bank/PBZ/Croatia osiguranje OMF	33.658
7	Hypo Alpe-Adria-Bank d.d./Raiffeisen mirovinsko društvo za upravljanje DMF d.o.o. za Raiffeisen DMF	29.892
8	Societe gen.-Spl. banka-Erste Plavi OMF	26.375
9	Raiffeisenbank Austria d.d.	21.452
10	Erste Steiermar. ban. /CSC	15.364
11	Zagrebačka banka	13.926
12	Vranković Neven	13.618
13	Veber Mladen	12.441
14	PBZ d.d./ I -zbirni skrbnički račun	12.308
15	PBZ d.d.	10.695

Since the quotation of Atlantic Grupa at the Zagreb Stock Exchange, until 31 December 2008 the shares of Atlantic Grupa realised the turnover in the value of HRK 388.1 million. The average trading price was HRK 703.38, and the final price on 31 December 2008 was HRK 461.00.

Market capitalisation of Atlantic Grupa on 1 January 2008 amounted to HRK 1,975,996,000 while, under the impact of negative trends in the national and international capital market, on 31 December 2008 it amounted to HRK 1,138,667,695.

In the course of 2008, Atlantic Grupa d.d. acquired the total of 1,922 own shares at the Zagreb Stock Exchange. The cited own shares have been acquired for the purpose of their allotment to the employees of Atlantic Grupa d.d. within the framework of internal remuneration rules.

INVESTOR RELATIONS

With the successful public offer of Atlantic Grupa's shares in November 2007, the Investor Relations Department, operating within the Office for Business Development, received a significant responsibility in communication between the company's management and the financial community with the key strategic goal to build the investment community's trust in the company. In the course of 2008, efforts of the Investor Relations Department were primarily focused on in-depth introduction of investors with the company's business operations, mission and long-term strategy and resulted in an exceptionally stable ownership structure that includes domestic and foreign investors with a long-term investment horizon and those who primarily perceived the future development potentials of Atlantic Grupa. In addition to numerous meetings with existing and potential domestic and foreign investors at the company's offices, in presentations of financial results and in organised investor conferences, the Investor Relations Department invested its efforts in diversifying and globalising the investor base through a successful road show in the United States held in 2008. The contacts that were established then are still very actively maintained by the company.

The current business activities of Atlantic Grupa are in Croatia followed by all relevant financial institutions with formally established analysis departments that had particularly positive comments regarding the company's business results and further business model expansion and diversification in 2008 as well as positive expectations for the macroeconomically unpredictable 2009.

The continuous efforts of the Investor Relations Department also manifested at the end of 2008 when Atlantic Grupa won a prestigious annual award in the category of Discovery of the Year among many stock-listed companies in Central and South-Eastern Europe, which is awarded by the largest independent investment firm specializing in Eastern European financial markets – East Capital.

Finally, it should be pointed out that it is exactly the transparent and timely communication with the investment community under the circumstances when financial markets are experiencing negative trends that resulted in only a temperate decline of the Atlantic Grupa share in relation to the referent domestic share index Crobex.

ORGANISATIONAL STRUCTURE

The organisational structure of Atlantic Grupa is based on a divisional principle. In order to facilitate system management, entire business operations of all operating companies within the Grupa are divided into divisions - Consumer Health Care, Sports and Functional Food and Distribution to which a new division was added in the beginning of 2008 - Pharma. The principal feature of divisional organisation is the linking of business activities into special business units associated with specific types of products and services in Atlantic Grupa's operations.

The Business Operations, divided according to the listed divisions within Atlantic Grupa, is linked by the collective management of corporate support functions at the level of Atlantic Grupa, namely in the Finance Area and the Corporate Affairs Area. The Finance Area includes Finances, Information Technologies and Investor Relations, while the Corporate Affairs Area includes Human Resources, Corporate Communications, Legal Affairs, Investment Maintenance and Corporate Security. Through those support functions the procedures for performing the listed tasks contribute to the introduction of a single corporate standard and to a more transparent and efficient business performance at the level of Atlantic Grupa.

In addition to the above, the dynamic development and growth of Atlantic Grupa created the need to organisationally integrate all activities related to the business development of the Company, primarily those related to the business strategy and new projects. This consequently resulted in the Decision of the President of the Management Board concerning the establishment of a new Office for Business Development managed by Lada Tedeschi Fiorio.

The Office coordinates the development of strategic projects, identification of new potential business targets in the business expansion through acquisitions, mergers or strategic partnerships, communication with consulting firms and the investment community and preparation of the Company's strategic documents.

The functioning of this Office is significant for the business development as well as the development of investor relations, presentation of Atlantic Grupa through communication with key financial and investment firms and by participating in conferences that contribute to introducing the investment community to Atlantic's business activities and building the company's reputation.



THE SUPERVISORY BOARD OF ATLANTIC GRUPA

The joint stock company Atlantic Grupa has the Supervisory Board consisting of seven members. In 2008 the Supervisory Board held four meetings in accordance with the previously announced schedule posted under Business Calendar on the webpages of the Company and the Zagreb Stock Exchange.

The members of the Supervisory Board are:

Zdenko Adrović/President

Since 1996, Zdenko Adrović has been the Chief Executive Officer at Raiffeisenbank Austria d.d. During his twelve-year mandate, RBA 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. Furthermore, in 2006, a respectable magazine, The Banker, awarded the bank with the "The Best Bank in Croatia Award". Previously, he had been the Deputy General Manager of Privredna Banka Zagreb, where he also worked as the Manager of the Investment Banking Sector and the Executive Vice President in charge of treasury and liquidity. He is a member of the Supervisory Board in Pliva, Management Board of the Croatian Chamber of Economy and the Croatian Council for Competitiveness. He graduated in Foreign Trade at the Faculty of Economics and Business at the University of Zagreb.

Lada Tedeschi Fiorio/Vice-President

Lada Tedeschi Fiorio began her career in Atlantic in 1997 as the Executive Director for Property Management. During the acquisition of Cedevita in 2001, she acted as the leading negotiator with potential investors. In 2004, she was appointed Managing Director of Atlantic Italy. Before joining Atlantic, she acquired business experience

working in multinational companies, Wrigley in Germany and Mars Masterfood in Poland and the United Arab Emirates. As Atlantic Grupa transformed into a joint stock company, she was appointed Vice President of the Supervisory Board of Atlantic Grupa. She graduated from the Università commerciale L. Bocconi in Milan, specializing in economics and she completed the Corporate Finance Programme at the London Business School.

Željko Perić/Member

Željko Perić is one of the leading Croatian experts for mergers and acquisitions with extensive experience at leading management positions. He is the Director of the consulting company Caper which specialises in mergers and acquisitions and strategic consulting. Before his successful career as an independent consultant, he was the President of the Management Board of Lura in the period during which the company was geared towards the national and regional expansion. Previously he has been a member of the Management Board of Pliva and participated in Pliva's acquisition of the American company Sidmak. He worked at the Ministry of Foreign Affairs of the Republic of Croatia in the Department for Foreign Economic Affairs. He graduated in Foreign Trade at the Faculty of Economics and Business at the University of Zagreb, and gained additional professional education at the Harvard University and management schools such as Management Center Europe (Brussels) and IEDC (Bled).

Siniša Petrović/Member

Siniša Petrović is an associate professor at the Commercial and Company Law Department at the Faculty of Law in Zagreb. In 1995 he was a legal advisor of the special envoy of the President 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 and Herzegovina in Dayton. From 2000 to 2003, he was the Vice President of the Council for the Protection of Market Competition. He was also the Croatian representative in the Arbitration Committee of the International Chamber of Commerce. He participated in the drafting of regulations concerning companies, market competition, real estate, privatisation, sports and prevention of conflicts of interest in performance of public functions. He is a member of the Croatian Negotiating Team for the accession negotiations with the European Union. He graduated from the Faculty of Law at the University of Zagreb, where he also earned his master's and doctorate degree.

Karl Weinfurtner/Member

Karl Weinfurtner is the Vice President of DEG Invest, a German development bank which, through the recapitalisation process, became Atlantic Grupa's shareholder in November 2006. He is the Manager of Structural Finances for Agriculture, Forestry and Food Industry at DEG, where he is working for more than fifteen years. He started his career as an expert for agricultural policies at the Bavarian Farmers Association in Munich, and afterwards he was the German Farmers Association representative in Tanzania, where he planned and supervised educational and training programmes. Since 2001, DEG has been a member of KfW Bankengruppe, one of the largest German banks with AAA credit rating.

Aleksandar Pekeč/Member

Aleksandar Saša Pekeč is an associate professor in the Decision Sciences Area at the Fuqua School of Business of Duke University in the United States of America. He is an internationally acclaimed expert in design and analysis of choice, allocation and pricing mechanisms in complex competitive environments by combining methods from operations research, computer science and economics. Until 1998, he worked at the Danish University of Aarhus and, prior to that, at the Rutgers University in New Jersey where he also earned his Ph.D. degree. He is a leading Croatian economic scientist with tenure in one of the most renowned international academic institutions in the area of business management. He is also a holder of several professional awards and the author of numerous scientific papers. He graduated from the Faculty of Science at the University of Zagreb.

Eduardo Alberto Schindler/Member

Eduardo Schindler is the founder and President of the Management Board of the consulting firm 2thePoint with headquarters in Zurich that deals in consulting on strategies, finances and mergers and acquisitions. He is a co-founder of the Alpinium Bank from Liechtenstein and founder and president of the Chilean Chapter of the Swiss-Latin American Chamber of Commerce. He was the Vice President of the acclaimed investment bank UBS Warburg in Zurich, where he also previously worked at one of the leading international consulting firms McKinsey&Co. The Swiss Stock Exchange officially recognised him as a referent expert in clients' representation for the issuing of securities. He is an associate member of the Swiss Financial Institute and the Executive School of Management in St. Gallen where he regularly teaches the subject of corporate finances. He earned his doctorate degree in International Economics at the Graduate Institute of International Studies in Geneva.

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

The Audit Committee is chaired by Lada Tedeschi Fiorio, Karl Weinfurtner was appointed from the ranks of Supervisory Board members, while Marko Lesić was appointed as the external expert. The Corporate Governance Committee is chaired by Siniša Petrović, Eduardo Schindler was appointed from the ranks of Supervisory Board members and Hrvoje Markovinović was appointed as the external expert. The Nomination and Remuneration Committee is chaired by Željko Perić, Aleksandar Pekeč was appointed from the ranks of Supervisory Board members and Goran Radman was appointed from the ranks of external experts.

The members of the said Committees, who at the same time are not members of the Supervisory Board, have the right to remuneration for their work and contribution to the functioning of the Supervisory Board of Atlantic Grupa in the net value of HRK 4,000.00 per held committee session.

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. All members of the Supervisory Board receive a gross monthly remuneration, which for the President of the Supervisory Board amounts to HRK 32,358.16, for the Vice President of the Supervisory Board amounts to HRK 26,702.13 while all other members of the Supervisory Board receive a gross monthly remuneration in the amount of HRK 13,351.06.

In 2008, the members of the Supervisory Board have received from Atlantic Grupa d.d. on all grounds a gross total value of HRK 1,413,329.00. From the above figure, individual members of the Supervisory Board have received remunerations in the following amounts:

Zdenko Adrović - HRK 388,297.92

Lada Tedeschi Fiorio – HRK 327,517.76

Karl Weinfurtner - HRK 125,813.33

Siniša Petrović - HRK 167,304.92

Željko Perić - HRK 167,304.92

Eduardo Schindler – HRK 120,961.59

Saša Pekeč – HRK 116,128.56

THE MANAGEMENT BOARD OF ATLANTIC GRUPA

The Management Board of Atlantic Grupa consists of the President and all Vice Presidents of the Company. During 2008, 16 Management Board meetings were held. Apart from the members of the Management Board, meetings are also attended by Tomislav Matusinović, who formally is not a member of the Management Board, but is holding a leading executive function as the Director of Consumer Health Care Division.

Emil Tedeschi/President of the Management Board

Emil Tedeschi is the founder and majority owner of Atlantic Grupa. In his business career, before founding Atlantic Trade, on the grounds of which the Company developed, he was, *inter alia*, the director of the Milan subsidiary of Meteor Holdings Ltd. London, one of the largest European paper and cellulose trading companies. In 2002 he was named Manager of the Year by CROMA, in 2005 he was selected the CEO of the Year by the Croatian business magazine Privredni Vjesnik, and in 2006 he was named Businessman of the Year by the expert jury of Kapital Network.

He is a member of the National Committee for Monitoring Negotiations for the Accession of the Republic of

Croatia to the European Union and a member of the Social and Economic Council. For the last two years he was the president of the Croatian Employers' Association (HUP), where he has been an active member from its establishment. He is also a member of the INSEAD Alumni Association and a member of the Program Council of the Zagreb School of Economics and Management. Additionally, he is the Vice President of the Supervisory Board of RTL Croatia and a member of the Management Council of the MedILS Institute. He is also an Honorary Consul of the Republic of Ireland in the Republic of Croatia.

Mladen Veber/ Senior Vice President of Business Operations

Mladen Veber joined Atlantic in 1996 as the Director of the Rijeka Distribution Center, 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 for Business Operations for all three divisions 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 Vice 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 IEDC in Bled.

Neven Vranković/ Vice President of Corporate Affairs

Neven Vranković joined Atlantic Grupa in 1998 as the Executive Director of Corporate Affairs. In 2001 he was responsible for Atlantic Grupa's merger and acquisition activities, while in 2002 he was appointed Vice President of Corporate Affairs. His extensive business experience includes working in the legal department of Bergen Bank in Norway and as a career diplomat at Croatian embassies in Washington and Belgrade. He is 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 in the USA. Furthermore, he completed Strategic Issues in Mergers and Acquisitions at INSEAD in France.

Zoran Stanković/ Vice President of Finance

Zoran Stanković joined Atlantic Grupa in February 2007 at the position of Vice President of Finance. For the previous four years, he had been working at Pliva as the Director of Controlling responsible for the coordination and supervision of financial activities of the Pliva's network of companies, domestic and abroad. Before his arrival to Pliva, from 1995 to 2003, he worked at Arthur Andersen and Ernst&Young as Senior Audit Manager responsible for key accounts. He is a member of the Croatian Association of Certified Auditors 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.

Srećko Nakić/ Vice President of Distribution Division

Srećko Nakić has been building his career at Atlantic from 1994, and he participated in all phases of the

Company's development. He began as sales representative in Atlantic Trade and in 1995 was already appointed Director of the Distribution Centre in Split and, two years later, the Distribution Centre in Rijeka was also added to his list of responsibilities. In 2002 he became the Vice President of the company responsible for overall sales and distribution in the Croatian market. In April 2005 he was appointed Vice President of the Distribution Division. He is responsible for managing the distribution system of Atlantic Grupa for the entire region of South Eastern Europe. He attended the Faculty of Maritime Studies in Split and completed the General Management Program at the IEDC Bled School of Management.

Marko Smetiško/ Vice President of Pharma Division

Marko Smetiško joined Atlantic Grupa in 2004 at the position of Vice President responsible for the Customer Health Care Division. Before coming to Atlantic Grupa, he worked in Pliva as the Director of the Business Program of Pharmaceuticals. In 1999, he joined Lura as the Executive Director of Sales and Marketing, while in 2002 he became a member of the Management Board for Sales and Marketing at Belupo d.d. Throughout his business career he was a member of supervisory boards of Medika and Pliva's company in Poland. He graduated from the Faculty of Medicine at the University of Zagreb.

Zvonimir Brekalo/ Vice President of Sports and Functional Food Division

Zvonimir Brekalo started his career in Atlantic Grupa in 2000, where he was responsible for distribution development of the Johnson&Johnson brand selection in the Croatian market. In 2001 he became Director of Central Services in Ataco, and in 2003 a member of Neva's Management Board. After Neva's acquisition in 2003 and Haleko in 2005, his key contribution was integrating the new companies within Atlantic Grupa, with direct responsibilities for sales and marketing, as well as business development activities in export markets. In 2007 he was appointed Vice President of Atlantic Grupa responsible for the Sports and Functional Food Division. He graduated dental medicine at the Medical Faculty at the University of Zagreb, and continued his education at the IEDC Management School of Business in Bled.

Tomislav Matusinović*/Executive Director of Consumer Health Care Division

Tomislav Matusinović came to Atlantic Grupa in 2002 to the position of Vice President of the Management Board of Cedevida in charge of sales and marketing, and later held positions of Atlantic Grupa's Executive Director for External Markets and Executive Director for Brand Management. In February 2008 he was appointed Executive Director for the Consumer Health Care Division. He came to Atlantic Grupa from the company Agrokor where he worked as the Corporate Projects Director. Previous to that, for nine years (1992-2001) he was developing his career in the company Coca-Cola Adriatic where he was the Regional Technical Operations Manager in charge of markets of Slovenia, Croatia and BiH. He graduated from the Faculty of Chemical Engineering and Technology, where he also earned his master's degree.

* Tomislav Matusinović is formally not a member of the Management Board, but is holding a leading executive function as the Director of Consumer Health Care Division

Remuneration Policy for Management Board Members

The contract on carrying out activities of a member of the Management Board i.e. the employment contract for board members which are employed at AG lays down the rights and responsibilities of board members based on their function as board members, as follows:

- monthly salary for board members, set in the gross amount
- annual bonus (bonus remuneration) per year of contract duration in the set 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 on the realisation of planned business results in the ratio of at least 95% of the EBT plan for the consolidated AG's business year. For the members of the Management Board, bonus coefficient is calculated from the EBT coefficient and the performance evaluation by the President of the Management Board, while for the President of the Management Board that is performed by the Supervisory Board. The payment of bonus remunerations, under provision that all contractual criteria were satisfied, is performed in a way that 55% of the realised bonus amount is paid in cash, while the remaining percentage of the realised bonus is paid under the Share 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 EUR 2,200 in kuna countervalue.
- personal accident insurance policy.
- voluntary health insurance policy system which includes the members of the Management Board, 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 through the application of modern and most efficient medical tools and equipment in specialized polyclinics with the best health experts.
- right to use an official vehicle, right to compensation of all costs incurred by a board member while performing his/her function.

All board members have manager contracts which include a whole set of binding provisions as well as stimulative ones, as follows:

- confidentiality clause – board members are obliged to keep business secrets confidential 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 after employment termination.
- 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 gross monthly salaries paid to the 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, 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 AG's associated companies, regardless of being paid or not for such activities, including also 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 as a rule 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 terms prescribed by law.
- severance pay – severance pay is contracted in the amount of six average monthly gross board member salaries and gross remunerations based on membership in supervisory boards of associated companies paid to the board member in the period of three months before 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 2008, the board members received from Atlantic Grupa d.d. on all grounds a gross total value of HRK 19,863,835.69. From the above figure, individual board members received remunerations in the following amounts:

Emil Tedeschi

- salary and SB remuneration in the amount of HRK 2,324,348.77 paid in equal monthly instalments and annual bonus in the amount of HRK 1,352,294.66.

Mladen Veber

- salary and SB remuneration in the amount of HRK 1,791,027.32 paid in equal monthly instalments and annual bonus, paid in cash and in shares of Atlantic Grupa, in the amount of HRK 1,291,112,96.

Neven Vranković

- salary and SB remuneration in the amount of HRK 1,607,025.31 paid in equal monthly instalments and annual bonus, paid in cash and in shares of Atlantic Grupa, in the amount of HRK 1,199,995.34.

Marko Smetiško

- salary and SB remuneration in the amount of HRK 1,450,119.32 paid in equal monthly instalments and annual bonus, paid in cash and in shares of Atlantic Grupa, in the amount of HRK 1,031,945.40.

Srećko Nakić:

- salary and SB remuneration in the amount of HRK 1,355,188.98 paid in equal monthly instalments and annual bonus, paid in cash and in shares of Atlantic Grupa, in the amount of HRK 802,783.85.

Zoran Stanković:

- salary and SB remuneration in the amount of HRK 1,194,241.12 paid in equal monthly instalments and annual bonus, paid in cash and in shares of Atlantic Grupa, in the amount of HRK 885,455.67.

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Zvonimir Brekalo:

- salary and SB remuneration in the amount of HRK 1,339,824.00 paid in equal monthly instalments and annual bonus, paid in cash and in shares of Atlantic Grupa, in the amount of HRK 993,518.59.

BUSINESS SUMMARY FOR 2008

DISTRIBUTION DIVISION

With its business activities related to distribution and the turnover realised in the market of South-Eastern Europe so far, Atlantic Grupa developed into a leading distributor of high-quality consumer goods whose distribution portfolio includes brands of regional and global production leaders. This Division is characterised by a highly developed know-how in the fields of customer management, product category management, supply chain management and trade marketing, which is continuously adapted to market trends.

The distribution portfolio is continually expanded so at present Atlantic Grupa is an exclusive or authorised distributor of the following renowned international brands:

- William Wrigley Jr. Co.
- Ferrero
- Duyvis
- Johnson&Johnson
- Nestle Purina Pet Care
- Hipp
- Durex
- Duracell
- Scholl

- Lorenz Snack World
- Manner
- Vivera
- Imperial Tobacco
- Rauch
- Zvečevo

as well as the following brands from its own production programme:

- Cedevita
- Melem
- Plidenta
- Rosal
- Dietpharm
- Multivita

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

In the course of 2008 the Division focused on the intensive development of new distribution channels and, by the end of the business year, the company's distribution was present in more than 12,600 HoReCa (hotels, restaurants, cafes) sales outlets, 600 pet stores, 2,000 pharmacies, 900 electronic and technical goods stores, 220 sports shops and fitness centres throughout the region.

During 2008 Atlantic Grupa additionally strengthened its distribution portfolio with new distribution programmes of world-known brands thus confirming its strategic focus on developing the distribution segment of business operations as an important lever in the overall operations of Atlantic Grupa.

To that end, in the beginning of April, Atlantic Grupa and Tobacco Factory Rovinj signed a contract on the distribution of TDR's products in the HoReCa channel (hotels, restaurants, cafes) with which the companies entered into a long-lasting distribution partnership with annual turnover value in excess of HRK 200 million.

Furthermore, since June Atlantic Grupa entered the Serbian market with a new assortment of salty snacks prepared according to Italian recipes – Maretti and Kubeti – of the Italian manufacturer Ital Food Industry that already in the first month of distribution successfully established itself on that market.

In August 2008 Atlantic expanded its distribution portfolio for the HoReCa channel with the assortment of fruit juices manufactured by Rauch, this cooperation resulting in linking two companies that have a mission to provide products which offer consumers the opportunity for more quality and healthier way of life.

A significant contribution to the Atlantic Grupa's distribution assortment was made in September with the acquisition of the company ZIP Distribucija d.o.o. and by taking over its high-quality product distribution portfolio of well-known brands: Schwartau and Corny manufactured by Schwartau Werke GmbH & Co. KgaA, Winsenia and Niki manufactured by Wilhelm Reuss GmbH & Co. KG, and Emco manufactured by Emco spol s.r.o. The acquisition was carried out after the company ZIP Distribucija separated from the business system ZIP trgovina d.o.o., in which it operated until the acquisition. In the end of September the acquired company was incorporated into the Distribution Division whereupon the sales of the brands from its distribution portfolio continued as an integral part of operations of this Division.

Finally, in mid-December Atlantic Grupa and Nestle Adriatic signed a contract on direct sales and distribution of Nestlé's product portfolio in the HoReCa channel for the Croatian market, based on which Atlantic Grupa will start the distribution of their products in the beginning of 2009. With this contract and the assortment of Nestle products (Nescafe Cappuccinos, Nesquik drinks, Aero Bubbly Chocolate Drink), as well as with the already mentioned collaboration with TDR and Rauch, in 2008 Atlantic Grupa considerably strengthened its distribution business in the HoReCa channel where it is already present with Cedevita vitamin drinks and teas.

The entry into 2009 for Atlantic Grupa signified a significant expansion of its distribution assortment realised with an agreement signed with Karolina d.o.o. - a well-known Croatian manufacturer of biscuits and salty snacks, and by adding in the distribution portfolio Karolina's well-known brands: Jadro, Bobi and Moto, which have an important position in the overall sales assortment in this segment, both in Croatia and the region.

In 2008, the Distribution Division realised sales in the value of HRK 1,155.5 million, a 10% increase in comparison with 2007. The Division's continued turnover growth is driven by organic sales growth as well as inclusion of new brands in its distribution portfolio.

The distribution network of Atlantic Grupa has 16 distribution centres: Zagreb, Osijek, Rijeka, Split, Široki Brijeg, Sarajevo, Tuzla, Laktaši, Bihać, Ljubljana, Beograd, Novi Sad, Niš, Čačak, Podgorica and Skopje, covering the markets of, Croatia, BiH, Slovenia, Serbia, Macedonia and Montenegro and provides its international principals with distribution services of the highest standard in all those markets, with direct access to more than 46,000 sales outlets in the area of South-Eastern Europe.

In June 2008, Atlantic Grupa relocated its Central Storage-Logistics Distribution Centre in Zagreb from its former location in Rakitnica to a new and significantly larger location in Lončareva Street in Zagreb's Jankomir, thus securing the preconditions for long-term growth of the distribution business.

The new storage-logistics facilities are located on a lot of 22,000 square metres in size along with the complete infrastructural equipment. The new location has 24 entry-exit gateways and it is outstandingly well-linked with Zagreb as well as with the other distribution centres. The warehouse complex consists of two large warehouse halls with the total surface area of over 10 000 square metres which form a single structure designed with the purpose to allow the complete functioning of each hall as a separate unit. Within the single structure there is a high-rise rack warehouse of the capacity of 12,000 pallet racks, including the conditioned zone of the ADR warehouse for highly-flammable goods.

CONSUMER HEALTH CARE DIVISION

With business activities of the Consumer Health Care Division, Atlantic Grupa is present on the market as a prominent regional producer of instant vitamin drinks, food supplements, tea, sweets, cosmetics and personal care products. The significant number of own registered brands in the said business segment with leading market positions in Croatia and the broader regional market of South Eastern Europe is the result of continuous investments in new product development, constant consumer needs research, consistent marketing strategies and permanent development of new and innovations of existing products.

This Division's most prominent brands are Cedevita vitamin drink, Multivita, Naturavita herbal tea, Dietpharm products, Plidenta toothpaste, Rosal Lip Balm and Melem universal protective cream. The Consumer Health Care Division annually introduces around thirty new and innovated products and continually improves their quality by complying with HACCP, ISO, GMP and IFS standards.

In 2008, the Consumer Health Care Division realised sales in the amount of HRK 448.2 million, of which HRK 173.1 million was realised in foreign markets.

The Consumer Health Care Division is structured in two segments: health food products and personal care products.

Segment of Health Food Products

The core of the production programme for health food products consists of vitamin drinks under the Cedevita brand which hold the leading market position in Croatia, Slovenia, BiH, Serbia, Montenegro and Macedonia as well as the brand Multivita which is the market leader in the segment of effervescent vitamin tablets in Serbia. In addition to effervescent vitamin tablets, Multivita brand also includes vitamin instant drinks.

Cedevita and Multivita vitamin drinks are manufactured in a wide range of flavours and contain 9 vitamins. The assortment of Cedevita drinks consists of packaging intended for retail sales: 200 g bottles, 0.5 and 1 kg-sized bags and numerous promotion packaging, while for the HoReCa channel a special 15 g stick-pack packaging was developed. The assortment, along with the standard flavours (orange, lemon, grape, mandarin, red orange), was in 2008 additionally enhanced with a new cranberry flavour (in 200 g and 15 g packaging). Same as other Cedevita products, Cedevita cranberry flavour is enriched with 9 most important vitamins essential for the organism's health and even one glass satisfies 50% of the daily vitamin requirements. The admirable market positions held by Cedevita and Multivita instant vitamin drinks are the reflection of their excellent taste and the refreshment they provide, together with their economic and practical features since, for instance, 1 kg of Cedevita can provide for as much as 13 litres of this superbly refreshing beverage. In autumn 2008 Cedevita introduced its new visual outlook and reasserted itself with its refreshing and modernised design in sales outlets and earned the approval of its consumers.

Atlantic Grupa is also one of the leading tea producers in the region. The product range includes the so called consuming teas – herbal and fruit teas under the brand Cedevita Tea and the therapy functional teas under the brand Naturavita. The most prominent representative of this brand is Uvin H Tea which holds the leading position (80% of the Croatian market) in the category of medicinal teas. In 2008 a new Cedevita tea was launched – cranberry and pomegranate, in attractive packaging with 20 filter bags which are individually packed into practical sachets, which allows them to maintain a consistent aroma, fragrance and freshness.

The long cooperation between Cedevita Ltd. and Jan Spider Ltd. from Pitomaca in the tea production segment eventually resulted in the 3-year agreement with Jan Spider to produce Cedevita's teas in various packaging ranging from filter, sachette, maxi and bulk within the Jan Spider's facilities. In accordance with the signed agreement, teas will be produced under the Cedevita tea and Naturavita tea brand in accordance with the Cedevita Ltd. production specifications. The project has been completed with the sale of Cedevita Ltd.'s equipment, including filter teas' packaging equipment and classic teas' packaging equipment, to Jan Spider.

In the candy programme, Atlantic Grupa offers a range of multivitamin candies as well as breath refreshers and candies for children under the well-known brands Cedevita, Pepermint, Rondo C and Vau-Vau. After the launch of innovated packaging in boxes, Cedevita vitamin candies have taken the leading market position in Croatia. In total sales within this product segment, the Cedevita assortment of small candies in 2008 achieved a market share of 22%.

The leading position in the Croatian market within the segment of sandwiches with prolonged duration is still firmly in hands of Montana plus d.o.o. Moreover, the last year was marked by increased marketing activity in the sense of redesigning existing packaging through revitalizing the visual identity of triangle and Classic sandwiches, expanding the offer in the segment of Classic sandwiches as well as increased activity in the

segment of new distribution channels and private label programmes. All of the above resulted in total revenue growth of 13% in 2008 thus strengthening the leading position of Montana plus d.o.o. in front of its competitors.

In 2008, the Consumer Health Care Division of Atlantic Grupa realised sales revenues of HRK 369.9 million in the segment of health food products, of which HRK 150.1 million was realised in foreign markets.

The future development of the Division's offer of health food products will be primarily focused on the segment of instant vitamin drinks and effervescent tablets for the purpose of their further improvement.

Segment of Personal Care Products

With the Division's assortment of personal care products – “dental care”, “lip care” and “facial care”, Atlantic Grupa successfully shares the leading position in the domestic market with other multinational companies with similar product offer. In the given business segment of this Division, special position is given to the brands which are very successful in the domestic and regional markets such as Plidenta, Melem and Rosal Lip Balm. With its own brands Atlantic Grupa managed to keep a leading or second market position within highly competitive categories like toothpaste, lip care or universal care.

The research laboratory of the Consumer Health Care Division is developing lasting, safe and dermatologically tested formulations of cosmetic products while using only top-quality ingredients and, despite the excellent success of the existing brands in this production segment of the Division, by engaging experts in the field of marketing, chemical sciences and technology, this business segment is permanently focused on further product development and improvement with the goal of fulfilling the ever-growing consumer needs as well as regulations in accordance with EU guidelines.

Apart from the focus on building its own product assortment, part of the Division's activities in this segment also relates to manufacturing personal care products under other private label brands for leading domestic and international clients.

The quality and environment management system has been integrated into all the processes and functions in the segment of personal care products of the Atlantic Grupa's Consumer Health Care Division, starting from market research and new product development, over production and control to the monitoring of product application in end use. The present Integrated Process Management System has been designed in accordance with internationally recognised standards ISO 9001:2000 and ISO 14001:2004 which affirms the strategic direction of Atlantic Grupa in this field. The production of Atlantic Grupa is ecologically clean with installed devices for environmental protection. The system is constantly being developed and improved through the prevention of potential errors and continuous quality innovation based on scientific and market research.

In 2008, the Consumer Health Care Division realised sales revenues of HRK 78.3 million in the segment of personal care products. International sales of the Consumer Health Care Division in this segment amounted to HRK 22.9 million. The most significant product line of Atlantic Grupa in the segment of personal care products is Plidenta which in 2008 experienced a sales growth of 3% in relation to 2007.

The main export markets are the ex-Yugoslavian countries, of which the largest export market is Bosnia and Herzegovina where 16% of total turnover in the segment of personal care products was realised, as well as the market of Central Europe.

Future development and growth of the Consumer Health Care Division in the segment of personal care products will be directed at further development of the product offer in the segment of health protection and dental care, universal creams and lip care.

SPORTS AND FUNCTIONAL FOOD DIVISION

According to the Sports and Functional Food Division's business results, Atlantic Grupa is the leading European producer of sports food under the brand Multipower. Thirty years of tradition and a leading position in the sports food segment have resulted in a diverse production programme that includes drinks, powder products, concentrates, supplements and energy bars and the establishment of the currently leading brands on the international market in this product segment: Multipower, Powergym, Multaben and Champ. Production processes are certified by ISO 9001:2000 with a plant in Blekede, while the Division is based in Hamburg.

The Division's production is based on the idea of continuous development of new innovative sports and health food products in line with following the trends in modern markets and needs of end consumers. Due to the specific consumer group to which the products of this Division are intended, special distribution channels have been developed in fitness centres, sports shops, pharmacies and drugstores covering over 35,000 outlets across Europe and constant care is given to continuous training of sales teams, partners and end consumers.

In the course of 2008, the principal focus and feature of the Division's business activities was on changing the design and packaging of the Division's main brand – Multipower. In line with current market trends, the visual identity of the brand was altered with emphasis on more distinct accentuation of the product name while the powder-based products also experienced a change in packaging – former tin can doses were replaced by very modern, semi-transparent PET doses.

Furthermore, in 2008 the recent trend of launching new products was continued with two innovations on the market: X-Plode and D-Fine, specially defined products which confirm our leading position on the sports food market. In addition, at the end of 2008 a new product line – Active, was released on the market. The products

are intended for the endurance segment and their characteristics incorporate all the needs of any modern athlete.

A considerable novelty in the Division's distribution activities is the exclusive distribution agreement signed with the leading global manufacturer of bicycle parts Shimano. In the business segment of exports, 2008 was marked by changing distributors on the markets of Russia, Scandinavia and Spain thus creating the basis for next year's healthy growth.

In the segment of private label products, the Division, in addition to protein bars manufactured for the client "Herbalife", managed to expand cooperation into the segment of powder products, thus fulfilling one of the important strategic goals – stronger affiliation with the Division's listed strategic buyer.

In 2008 sales in the amount of HRK 478.8 million were realised, which is a 2% increase in relation to 2007.

In the following period, the Sports and Functional Food Division's business efforts will be focused on penetrating new distribution channels (specialised stores for endurance sports, running, bicycling, triathlon), followed by further strengthening of the Division's assortment on export markets and introducing new principals on the markets of Germany, Great Britain and Italy, in which the Division partakes with its own distribution.

From the marketing aspect, which efforts in 2008 manifested in establishing excellent sponsorship cooperation with the German Handball Association, sponsoring the bicycling team Milram and realising sponsorship cooperation with the Croatian Olympic Committee, in the following period the Division also intends to turn its communication strategy more towards the end consumer and in that way create demand for its products. The market launch of the Active product line created the preconditions for such an approach and opened the Division's way to a significantly larger consumer group.

Additionally, by the end of the current year the IFS certification process should be finalised which will enable more quality positioning of the products for new potential buyers and allow placing additional emphasis on the high quality standard offered by the Division's products to its buyers and end consumers. Furthermore, the process of redesigning and changing the packaging of targeted products should be finalised in the current year, thus providing the foundation for future product assortment upgrade. In addition to all of the above, the Division's main focus will still be on the production of new and innovative products, whereby more emphasis will be placed on making quality improvements and less on the number of such innovations.

PHARMA DIVISION

Health Institutions

In the course of 2008 Atlantic Grupa carried out intensive activities associated with the establishment of its own pharmacy chain which is one of the company's key strategic focuses.

The forming of the Atlantic Grupa's pharmacy chain was initiated in December 2007 when a contract on strategic partnership was concluded with the Health Institution (HI) Coner Pharmacy, the leading private pharmacy chain in Croatia which owns seven pharmacies in Bjelovar, Vrbovec and in the territories of Bjelovar-Bilogora County and Koprivnica-Križevac County, according to which Atlantic Grupa took over 51 percent of ownership of the institution. At the same time, a 100% ownership of HI Farmako Pharmacy was acquired which has two pharmacies in the area of Velika Gorica. With these acquisitions, Atlantic Grupa started the process of consolidation and concentration of private pharmacy business in Croatia.

With its further acquisition activities in January 2008, during which agreements were signed with the Health Institution (HI) Baričević, HI Mandić on acquiring whole institutions, and with HI Bamapharm on acquiring the majority package, Atlantic Grupa has successfully established itself as the leading national private pharmacy chain, with a total of 28 pharmacy units in seven counties and the City of Zagreb.

Considering the complex nature of pharmacy itself, Atlantic Grupa's ambitions of further expansion into the pharmacy business, both in Croatia and in the region, and the strategic importance of the new segment in the company's overall business operations, the decision was made to organise this business segment in a separate division. As a result, in February a fourth division has been formed within the core organizational structure of the Atlantic Grupa - Pharma Division. The new division structurally integrated the business activities of Fidifarm/Dietpharm i.e. the production of functional food supplements, whose sales are focused exclusively on the pharmacy channel and the production of over-the-counter medicines (OTC), which were consequently separated from the Consumer Health Care Division, as well as the business activities of pharmacies gathered in the new operating company Atlantic Farmacia d.o.o.

The Management Board member Marko Smetiško was appointed as the head of the new division.

In the end of March 2008, Atlantic Grupa continued its expansion strategy in the pharmacy business by acquiring a 100% ownership of the Health Institution Pharmacy Kuna and the contract on the purchase of the Health Institution Melisa was signed and its acquisition finalised in the beginning of June 2008.

With the new acquisitions, Atlantic Grupa reinforced its pharmacy business segment with five additional pharmacies with a total turnover of around HRK 30 million.

With all these new acquisitions, the pharmacy chain Farmacia joined together 33 pharmacies within Atlantic Grupa with a total turnover exceeding HRK 220 million. Today, Farmacia is by turnover the largest private pharmacy chain in Croatia present in seven counties and with intentions to achieve additional expansion of its regional presence.

In October 2008 Atlantic Grupa and Agrokor signed an agreement on strategic cooperation providing Atlantic Grupa with the possibility of leasing the locations planned for opening pharmacies or specialised stores for retail sale of OTCs and food supplements within the business system Konzum. In its practical application, the cooperation started by taking over five leases in which specialised stores for retail sale of OTCs and food supplements were organised and which operate within Agrokor's retail chain.

With the opening of specialised stores for retail sale of OTCs and food supplements, Atlantic Grupa moved closer towards a specific user group in one important segment of health services which is regulated by the Agency for Medicinal Products and Medical Devices.

In 2008 Atlantic Grupa successfully implemented the transition from different software systems to an integrated IT platform, both in pharmacy and accounting business segments.

The centralisation of all business partner codes i.e. buyer and supplier codes was performed as well as the centralisation of all article codes which presented a great challenge since our pharmacy chain currently sells approximately 23,000 articles.

The implementation of these centralisations provided Atlantic Grupa with an opportunity for faster data processing and, subsequently, improved information flow resulting in a faster and more thorough business decision-making.

Furthermore, in 2008 a new career development project was initiated as well as a new competence development model in pharmacy. This project was created in cooperation of experts from health institutions and Human Resources of Atlantic Grupa. It represents a professional innovation and holds great significance for the pharmacy segment within Atlantic Grupa. This encouraged the progress and realisation of a company's vital interest in competence development of its employees in a manner that contributes to their career development and meets the business development requirements as well resulting in increasing the level of motivation, professionalism and performance of every employee.

As the first in Croatia, in 2008 Atlantic Grupa established the Education Centre Farmacia based on global standards (supporting Fip/WHO/UNESCO), which operates within the Atlantic Academy, and whose main goals are education, mutual introduction of employees, exchange of experiences and transfer of new knowledge in pharmacy.

Projects are designed to offer employees professional knowledge, communication, sales and presentation skills, financial understanding, specialisations, post-graduate studies in-country and abroad, organised trainee period and exchange of experiences. The competence development in pharmacy is also tested and monitored through the Education Centre and all lectures are evaluated by the Croatian Chamber of Pharmacists. In addition to this Chamber, in 2008 Atlantic Grupa developed close cooperation with the Pharmaceutical Biochemistry Faculty and other professional organisations.

In the forthcoming period further acquisitions are expected in the Pharma Division as well as an organic growth of current business operations. In the course of 2009, Atlantic Grupa plans to open 9 new business units, of which 5 pharmacies and 4 specialised stores.

Additionally, the process of organising the central supply system has begun that first and foremost means freeing pharmacists from the technical part of the job and creating the opportunity and time for improved care and patient visits, but it also means optimising the stock status in pharmacies as well as maximum creation of additional revenues through rebate payments contracted with the suppliers.

Fidifarm d.o.o. production of medicinal and dietary products

Fidifarm is a manufacturer of herbal products, dietary products and functional cosmetics. In its long-standing operations, continuously investing in knowledge and development, Fidifarm developed into the significant regional manufacturer and Croatian market leader. Fidifarm preserves its high quality of products and manufacturing process through cooperation with renowned European partners. With its entry into the business system of Atlantic Grupa in spring 2007, Fidifarm's business objectives were focused on one additional area – the production of over-the-counter medicines (OTC).

Since the beginning of 2008, Fidifarm operates within the fourth division of Atlantic Grupa, Pharma Division. The principal production segment is dietary products – food supplements. For several consecutive years, Fidifarm holds the leading position in the Croatian market of food supplements with 20% in unit volume share and 24% in revenue market share. Fidifarm completed 2008 with a 2% unit volume growth and 3% sales growth (on the market that at the same time lost 2% in unit volume and gained 1% in market value). In 2008, the first competitor on the market experienced a decline of 14% in unit volume and 10% in value). In recent years the market of food supplements has been stagnant, regardless of the rising number of competitors and different products.

The production programme at the end of 2008 consists of 88 products under the brand Dietpharm, of which four are market leaders in their respective group. The product Magnezij 300, effervescent tablets, is one of highest-selling food supplements with 51% of market share and 60% of market value in its group (data by IMS Pharmis). In 2008 the assortment was expanded with eight new products that contain a wide range of specific ingredients used to complement individual segments of present Dietpharm brands, herbal products, vitamins and minerals, fatty acids, essential oils, etc. Those products were used to enter into new market niches intended for targeted populations (pregnant women, children) or they marked new uses. At the same time innovations were carried out in selected products within the present assortment, which were improved in line with the latest developments in scientific knowledge.

A product with exceptional market potential is Tusol pastilles, designed to relieve discomforts associated with the irritated throat and coarseness. This product is expected to make a significant step forward since it concerns a large market segment in which Fidifarm was not significantly present with its products so far. The product was created as a result of cooperation within Atlantic Grupa, between Cedevida and Fidifarm.

Fitosterol capsules are also a product with great prospects containing optimal levels of plant phytosterols that naturally decrease the blood cholesterol level and it is the only such product for peroral use. Phytosterols are contained in VegaGels capsules, first soft capsules of 100% plant origin, and as such suitable for vegetarians as well.

In the segment of products for relieving urinary discomforts caused by prostate growth, the market in Croatia shows continuous growth. Until now, Fidifarm did not have a more significant market share with its products. Uroprostal is the first product in Croatia which contains a combination of sabal palm fruit and nettle root extracts with exceptional efficiency based on clinical tests, so it is expected it will be welcomed both by professionals and consumers.

Centravit prenatal, intended for pregnant, nursing and pregnancy planning women, consists of two products: a vitamin-mineral supplement and omega-3 fatty acids in specially balanced quantities that stimulates the development of brain functions and eyesight and as such represents a unique product on the market. Brusnicin syrup is primarily intended for children with frequent urinary tract infections as well as adult population. LactoBiotic is a top-quality product with special technologically prepared probiotics guaranteeing high product efficiency throughout its validity period.

At the same time, selected products were improved in accordance with new professional and scientific knowledge. The product Makulin with lutein, which is the market leader in the field of eye and eyesight protection, was enriched with specially formulated omega-3 fatty acids resulting in Makulin plus, a product with added value. The other example is Sinusan inhalator – lavender, an extension of the existing product with added lavender scent intended for a wide circle of consumers.

Fidifarm owes its market position in the segment of dietary products to the high quality and constant introduction of new products as the result of long-term orientation towards research and development, compliance with all legislative requirements and meeting the ever-growing consumer needs. As such, it was recognized by relevant authorities as well and in 2008 the cover brand Dietpharm has been awarded the Superbrands status.

Concurrently, the existing loyalty programme that joins the most loyal consumers of the brand Dietpharm – Health Club – was also enhanced. In fact, the brand Dietpharm is present on the Croatian market for nearly 25 years and its success is the result of long-lasting dedicated and diligent work of a large number of experts as

well as good cooperation with pharmacies, doctors and numerous professional and citizen associations. From the very beginning special attention was given to end consumers. With a wish to make knowledge, experience and the latest expert information available to everyone who recognised the value of personal health and the care required to preserve it, Health Club was established 5 years ago. Its activities include receiving educational materials and newsletters with novelties, participation in health and educational workshops, discount purchase options, partaking in prize contests and numerous other privileges.

The concept of quality in Fidifarm means implementing the quality management system in all business activities and in all organisational units. The present integrated quality management system is based on internationally recognized standards ISO 9001:2000 and the HACCP principles of food safety monitoring and it is integrated into all processes and functions during product development, manufacture and distribution. The system is constantly developed and improved according to contemporary requirements and rules of the profession. Production growth, new technological process and use of new materials require Fidifarm to take constant care of the environment and waste treatment. The production method and product types do not pose a threat to the environment and all types of waste are disposed in the manner prescribed.

In the course of 2008, Fidifarm primarily focused its activities on the production of food supplements and functional cosmetics as well as preliminary activities associated with its entry into the market of over-the-counter medicines (OTC) and its wholesale drugstore business. After the successfully realised projects of renovating business premises and introducing the requirements of Good Manufacturing Practice (GMP), Fidifarm received its licence to manufacture medicinal products and perform the wholesale drugstore activity. This investment project was carried out in line with technological requirements and the implemented technical solutions were selected in accordance with the relevant regulations. The project included the renovation of premises, putting control laboratories into function, definition of processes and education of personnel.

The marketing authorisation for 14 medicines from the production agreement with Hemofarm was initiated at the Agency for Medicinal Products and Medical Devices, of which one was completed by the end of 2008. The authorisation for two non-prescription medicines, Purisan granules and Uvin H forte granules, was transferred from Cedevida to Fidifarm.

Fidifarm's markets, in addition to Croatia, include BiH, Serbia, Montenegro, Macedonia, Hungary and Kosovo. In 2008, Fidifarm realised sales in the value of HRK 63 million, of which HRK 19.0 million was realised in foreign markets and exports grew from 25% of total revenues in 2007 to 30% in 2008.

In addition to turnover growth in all foreign markets, a more significant step forward was made on the market of Kosovo, where sales increased by 151%. The contracting of one more market distributor in Montenegro resulted

in a 55% sales growth. This also resulted in improved distribution and presence of the brand Dietpharm in the largest national pharmacy chain – Montepfarm.

The future development and growth of Fidifarm in the segment of food supplements will be primarily accomplished in herbal products and vitamin-mineral formulations through the introduction of new, innovative products. The strengthening and expansion of the Health Club programme, which includes increasing the number of members, seeking new partners in pharmacies and health institutions and increasing the number of promotions in pharmacies, will be reflected in increasing user consumption as well as the creation of new consumers.

In the markets with greatest potential, those of Serbia and Bosnia and Herzegovina, development will be focused on strengthening Fidifarm's market positions through new distributors and the support of expert associates. The adaptation of the marketing approach to specific market requirements is expected to result in improved establishment of the brand Dietpharm.

In the segment of over-the-counter medicines, growth is planned in the area of well-known generic substances presented in new, innovative forms and in close cooperation with doctors and pharmacists. Marketing activities will also be focused on end consumers by carrying out ATL and BTL activities. The production programme is planned to be increased through cooperation with new contracted manufacturers.

The establishment of Fidifarm's own wholesale drugstore opens up new opportunities for developing distribution in pharmacies and specialised stores. The aim is to reinforce the position of our own brand Dietpharm in Croatia and to establish ourselves as a trusted and quality distributor of other quality national and international brands intended for pharmacy chains and specialised stores. Through key client management and diversified marketing activities, it is expected to strengthen the position and market share of all products in the assortment of the wholesale drugstore.

Financial Summary

Excerpt from the consolidated income statement of Atlantic Grupa for the year ended 31 December 2008.

In millions of HRK	2008	2007	% growth
Revenues	2,024.5	1,699.1	19%
Sales	2,002.9	1,670.1	20%
EBITDA	169.3	132.3	28%
EBIT	129.4	95.1	36%
Profit before tax	100.8	71.5	41%
Net profit	78.4	54.4	44%
Net profit after minorities	68.6	46.4	48%

Atlantic Grupa concluded the year 2008 with outstanding business results, increasing its net profit in relation to the previous year by 44% to HRK 78.4 million. The Company's overall income amounts to HRK 2.0 billion, which is 19.1 percent more than in the same period last year. Operating profit has reached the total of HRK 129.4 million, which represents a 36 percent growth, whereas the operating profit before depreciation and amortisation has jumped by 28 percent in comparison to 2007 and amounts to HRK 169.3 million. The Company achieved growth of all key financial indicators in line with pre-IPO announcements in November 2007 and the Management Board's plans at the beginning of 2008.

Business model developments in 2008 and 1Q09

1. Pharmacy business

In 2008, Atlantic Grupa extended its business model by acquiring **on a debt-free basis 7 healthcare institutions** (operating altogether 32 pharmacies and 1 specialised store with the national coverage) and accompanied licenses for opening new pharmacies. Penetration to the pharmacy business under Farmacia brand marked the transition of Atlantic Grupa into a vertically-integrated organization, while securing a **new distribution channel** for the Group and substantial synergies across the Group's distribution portfolio. Organizationally, the Group placed pharmacy business into the new Division Pharma under its Consumer Healthcare segment along with the vitamins, minerals and supplements producer Fidifarm. The consolidation within the Group's business model has been completed following the centralisation of the accounting system and information technology system on the division level.

In November 2008, Atlantic Grupa entered the strategic cooperation with Agrokor, enabling Atlantic to lease 5 locations within Agrokor's retail chain to launch specialised stores offering **better-margin** over-the-counter

medicines and food supplements. The cooperation started by launching 5 specialised stores, with plans to launch additional stores in the medium term.

The company's medium term strategy is to **further strengthen the pharmacy/specialised stores business** by enlarging the retail network via combination of acquisitions, previously acquired licenses and organic growth. The management believes this strategy to be beneficiary for the company's further development given the pharmacy business' EBIT margin above the Group level. Additionally, these developments should be further supported with strategic focus on increasing participation of non-prescription drugs in the pharmacy product portfolio in the medium term.

2. Continuous distribution portfolio expansion

Considering size, variety and strength of Atlantic Grupa's distribution business and therewith related lower marginal costs in products' distribution as well as better bargaining power, Atlantic Grupa successfully continued to provide distribution support to producers region-wise. With further expansion of the company's distribution portfolio, Atlantic Grupa **aims to lower sales volatility risk** as well as **further diversify its distribution sales mix**, particularly important in the challenging macroeconomic environment.

➤ **Focus on the HoReCa channel expansion:** Following the successful launch of Cedevida vitamin instant drinks in the HoReCa channel, the company continuously expands this alternative distribution channel **characterized by much lower competitive pressures** and with substantial **growth potential given Croatia's tourism development**. In the mid of 2008, the company signed a 3-year distribution contract with the largest national tobacco producer Tobacco Factory Rovinj (TDR) to distribute TDR's cigarettes in the HoReCa channel with the expected annual turnover of approximately HRK 85 million. In the beginning of 2009, the company further expanded its existing HoReCa distribution portfolio (Cedevida vitamin instant drink, Cedevida tea, Rauch juices, TDR cigarettes, Red Bull energy drink) with Nestlé's NESCAFE brands with the expected annual turnover of approximately HRK 15 million. Considering the new contracts in the HoReCa channel, the company expects to further lift proportion of the sales from the HoReCa channel in the company's total sales in the medium term. The management as well sees substantial opportunities for the HoReCa channel in the regional context.

➤ **Acquisition of the distribution company ZIP Distribucija**

Acquiring ZIP Distribucija at very attractive IRR, Atlantic Grupa added new products in its distribution mix including brands Schwartau and Corny manufactured by Schwartauer Werke GmbH, brands Winsenia and Niki manufactured by Wilhelm Reuss GmbH and Emco manufactured by Emco spol with annual turnover of approximately HRK 25 million. The key benefit of this acquisition is that the company added new products in the assortment with the maximum synergies achievement, but without additional costs in the distribution and marketing investments.

Atlantic Grupa further plans to target firms that bring a twofold positive impact: to **achieve distribution synergies** and to **add critical mass to distribution sales mix**.

➤ **Diversification of distributive sales mix**

In the beginning of 2009, Atlantic Grupa commenced with the distribution of biscuits and salted snacks under domestic Karolina brands including Jadro, Bobi and Moto with an annual turnover of HRK 125 million. Atlantic Grupa also integrated Karolina's sales force including 37 salesmen into Atlantic Trade's sales force. The Karolina deal will attribute to the balancing of the company's distribution sales mix

between the premium brands and brands from the lower priced segments, particularly favourable in the milieu of lower consumer purchasing power. The management finds this deal rather important since Karolina's owner - the leading European snack producer Lorenz Bahlsen Snack World – gave up its own distribution on the Croatian market and thus entrusted and transferred distribution activities to Atlantic Grupa. This only proves the strength of Atlantic Grupa's distribution infrastructure.

➤ **New regional distribution contracts**

The evidence that international partners find Atlantic Grupa to be their strong distribution partner has been yet again confirmed by the latest distribution deal with one of the world largest confectionary producer Ferrero on the Slovenian market. Atlantic Grupa will distribute Ferrero brands ranging from Nutella, Kinder, Ferrero Rocher, Raffaello and Mon Cheri with an annual turnover of 16 million euro.

3. Launch of Cedevita GO!

Atlantic Grupa introduces this number one vitamin instant drink also in the *almost-ready-to-drink* category. Additionally, it opens up entirely new distribution channel for Cedevita – *consumption on the go* and therewith enables Cedevita to cover three key pillars of consumption – households, HoReCa and on the go consumption without any cannibalization threat. Cedevita GO! is the prime example of synergies exploration among the company's divisions as well as vertical integration with the R&D, production and packaging integrated in the Consumer and Healthcare Division and with its own distribution infrastructure. The entire project value amounts to HRK 75 million, of which approximately HRK 45 million has been invested in the 2002-2009 period in: (i) R&D segment including development of the cap containing granules, (ii) development of new technology with pertaining packaging and production equipment, (iii) branded cooling units on the points-of-sale and (iv) smaller amounts in the third party's bottling facilities. In the medium-term, the company plans to invest the rest of the planned amount into production, packaging and distribution capacities with the largest investment outlay in 2011. Taking into consideration the capex invested so far as well as planned capex in the medium-term, the project's payback period is 5-6 years with the value creating IRR.

4. Profitability enhancements and innovations in the Sports and Functional Food Division

In 2008, Atlantic Grupa successfully completed restructuring efforts in the Sports and Functional Food Division that commenced following the acquisition of German-based Haleko in 2005. Following the turnaround to operating profit in 2007, the Sports and Functional Food Division had the most pronounced enhancements on the EBIT level (among other divisions) by delivering 81.0% yoy growth. Additionally, the company managed to generate stable growth with substantially lower investments in marketing and employees compared to previous year.

In addition, the company successfully tapped higher-margin protein ingredients market by launching X-PLODE and D-FINE products and thus proved its innovations skills in the sports and functional food area. The management sees these activities of paramount importance for the market share augmentation.

SALES DYNAMICS IN 2008

1. Sales profile by division

in HRKm	2008	% of total sales	2007	% of total sales	Change FY08/FY07
Distribution	752,8	37,6%	672,5	40,3%	11,9%
Consumer Health Care	487,5	24,3%	467,5	28,0%	4,3%
Sports and Functional Food	480,4	24,0%	471,7	28,2%	1,8%
Pharma*	282,2	14,1%	58,4	3,5%	383,6%
Total sales	2.002,9	100,0%	1.670,0	100,0%	19,9%
Other income	21,5		29,1		
Total turnover	2.024,5		1.699,1		19,1%

*Pharma division in FY07 accounted sales of the vitamins, minerals and supplements producer Fidifarm

*Sales of each division have been allocated to the division of producer

Atlantic Grupa delivered 19.9% yoy higher sales of HRK 2.0 billion in FY08 with Distribution Division, Consumer Health Care Division and Pharma Division as the key growth drivers. Organically, the company posted 6.7% yoy growth.

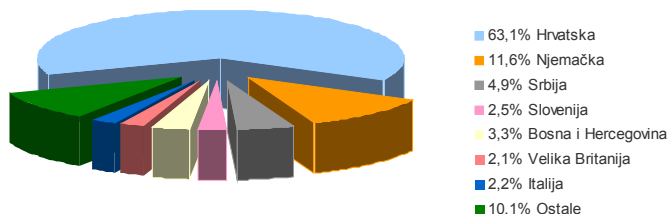
- **Distribution Division** gathered momentum from (i) strong growth of Atlantic's own assortment on the SEE markets, (ii) new distribution agreements including distribution of TDR's cigarettes in the HoReCa channel and acquisition of the distribution company ZIP Distribucija with the accompanying brands as well as (ii) further focus on development of the HoReCa channel with new principals including Rauch juices and Red Bull energy drinks.
- **Consumer Health Care Division's** sales benefited from the sales growth of Cedevita vitamin instant drinks across both distribution channels (retail and HoReCa) as well as of the leading Serbian vitamin instant drink producer Multivita.
- Following the acquisition spree on the local pharmacy market in the 1H08, **Pharma Division** ended FY08 with HRK 282 million in sales, o/w HRK 221 million attributed to the pharmacy business alone on the back of 32 pharmacies and 2 specialised stores (o/w one was opened at the end of 2008). Cash (non-prescription) sales thereby prevailed in the pharmacies' top-line.

- **Sports and Functional Food Division** delivered stable growth despite negative exchange rate impacts, in particularly on the second largest West European market – the UK market. The company as well decided to give up certain private label production agreements for the benefit of operating profitability enhancement.

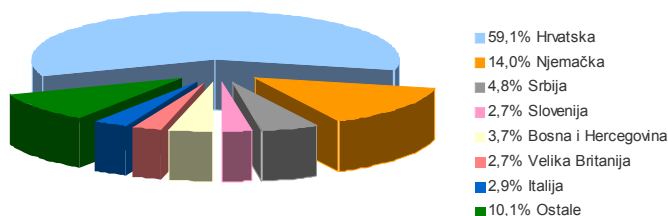
2. Multi-division summary by geographic zone

in HRK	2008	% of total sales	2007	% of total sales	Change FY08/FY07	in CER terms
Croatia	1.264,7	63,1%	987,4	59,1%	28,1%	
Germany	233,3	11,6%	234,1	14,0%	-0,4%	1,3%
Serbia	98,5	4,9%	80,9	4,8%	21,7%	25,9%
Slovenia	49,6	2,5%	45,1	2,7%	10,0%	11,8%
Bosna and Herzegovina	66,9	3,3%	61,3	3,7%	9,1%	10,8%
UK	43,0	2,1%	45,1	2,7%	-4,8%	10,4%
Italy	44,8	2,2%	48,2	2,9%	-6,9%	-5,4%
Other	202,2	10,1%	168,0	10,1%	20,4%	
Total sales	2.002,9	100,0%	1.670,0	100,0%	19,9%	

Geografski profil prihoda u 2008.



Geografski profil prihoda u 2007.



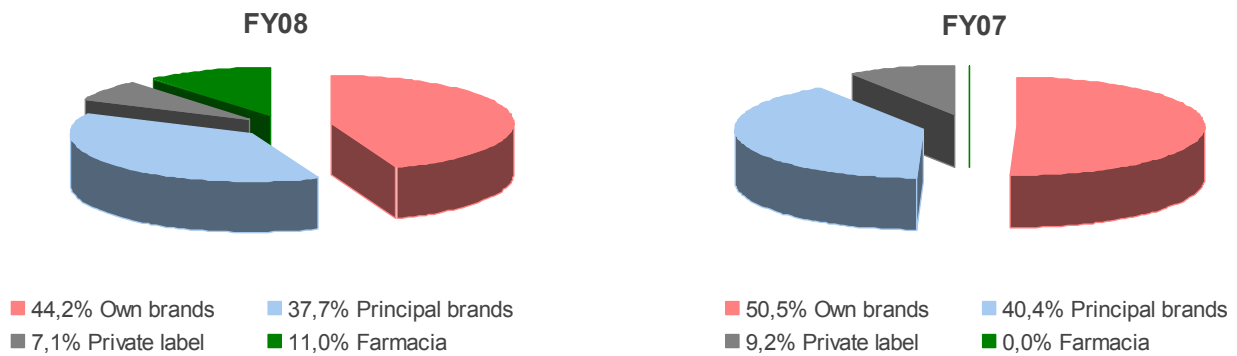
- **Croatia** as the largest sales growth driver delivered 28.1% yoy higher sales largely thanks to acquisition of pharmacies, whereby organically domestic sales exhibited 5.7% yoy growth to HRK 1.04 billion.
- **Serbia** as the largest organic growth driver delivered 21.7% higher sales. Thereby, the key contributor has been further sales growth of both Atlantic Grupa's own assortment (including Multivita) as well as principals' brands. The stronger foray has also been made with Cedevida into HoReCa channel. The

management sees further top-line enhancing opportunities on the Serbian market emerging from (i) lower per capita consumption of Cedevita compared to the Croatian market, with rising brand recognition and (ii) new distribution agreements with principals.

- Growth on the **key West European markets** (Germany and UK) in CER terms has largely reflected strength of Multipower's assortment as well as sales growth in other sports food brands including Multaben and Champ. Thereby, the company has continued to benefit from still growing interest and demand for healthy living and consumer orientation toward functional food products.
- Strong growth on **other markets** has been largely driven by sports and function food sales growth on other WEU markets as well as Multivita's (Vitamin C) stronger foray onto Russian market.

3. Sales profile

Pharmacies' acquisition changed the sales profile with Farmacia accounting for 11% of total sales in FY08.



PROFITABILITY DYNAMICS IN 2008

1. Group operating expenses

Operating costs structure	FY08	% of FY08 sales	FY07	% of FY07 sales	Change FY08/FY07
COGS	931,5	46,5%	713,5	42,7%	30,5%
Change in inventories	2,4	0,1%	9,4	0,6%	-74,2%
Production materials and energy	261,9	13,1%	250,3	15,0%	4,6%
Services	127,7	6,4%	121,5	7,3%	5,1%
Staff costs	302,9	15,1%	252,9	15,1%	19,7%
Marketing and promotion costs	140,9	7,0%	138,9	8,3%	1,4%
Other operating expenses	87,6	4,4%	82,2	4,9%	6,6%
Other (gains)/losses, net	0,3	0,0%	- 2,1	-0,1%	-113,9%
Total operating expenses	1.855,2	92,6%	1.566,8	93,8%	18,4%

Slower growth of operating costs compared to the top-line growth in FY08 certainly proves the company's **strong cost optimisation commitment**. Aiming to optimize business processes with a variety of activities, among others the company as well undertook the following activities:

- Establishing the central supply department whose activities have already resulted in more favourable terms for procurement of raw materials and services (e.g. maintenance, telecommunications, etc.)
- Substantial improvements in the distribution-logistics activities by signing the 5-year agreement to lease central warehouse under area of 10,000 square meters in Jankomir. The warehouse completely satisfies the company's capacity requirements, while eliminating need for a number of smaller-size warehouses used previously. Additionally, the warehouse simplifies the product manipulation and improves efficiency as well as flexibility of warehouse operations and thus distribution activities.
- Reorganisation within the Sports and Functional Food Division that resulted in lower personnel costs as well as various savings that should be evident going forth.
- More optimised investments in the marketing activities as evidenced by 130 bps lower portion of marketing and selling costs in total sales to 7.0% in FY08 compared to 8.3% in FY07.
- Transfer of pressed candies' production from Germany to the company's own Cedevida production facility.

All aforementioned activities led to lower portion in total sales of: production materials and energy costs, services costs, marketing and promotion costs as well as other operating expenses.

Increased portion of COGS in sales is primarily result of changes in the sales mix driven by inclusion of pharmacy business in the Group's business model. Thereby, one should keep in mind that COGS is the key cost item in the pharmacy business alongside personnel costs. Nevertheless, The Group personnel costs as percentage of total sales remained contained in FY08 even though the Group increased the number of employees to 1,672 from 1,452 at YE07 largely due to adding staff from the acquired pharmacies throughout 2008.

2. Group profitability

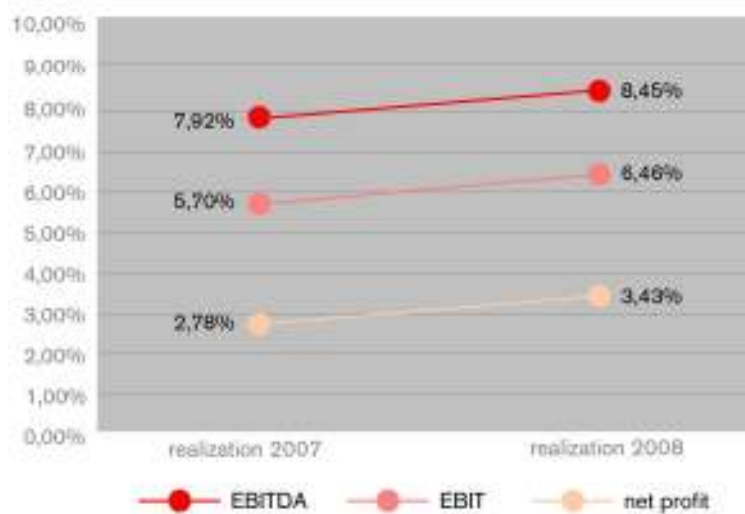
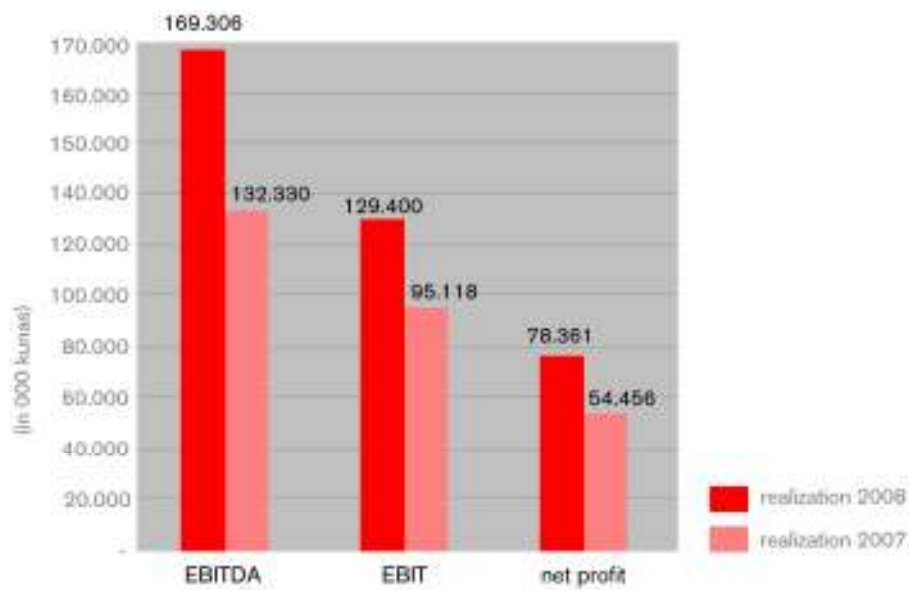
in HRKm	FY08	FY07	Change FY08/FY07
Sales	2.003	1.670	19,9%
EBITDA	169	132	27,9%
EBIT	129	95	36,0%
Net profit after minorities	69	46	47,9%
<i>Profitability margins</i>			
EBITDA margin	8,5%	7,9%	+53 bps
EBIT margin	6,5%	5,7%	+77 bps
Net profit margin	3,4%	2,8%	+65 bps

Atlantic Grupa delivered **profitability improvements** with profitability margins shooting up thanks to the company's strong focus on:

- (i) cost management
- (ii) business process improvements
- (iii) exploring synergies among divisions

The aforementioned activities have been particularly emphasized on the organic level with:

- EBIT up 18.5% yoy to HRK 112.8 million
- EBITDA up 14.2% yoy to HRK 151.2 million
- Net profit after minorities up 23.7% yoy to HRK 57.4 million



3. Division operating profitability

in HRKm	FY08	FY07	Change FY08/FY07
Distribution	23,7	21,2	12,0%
Consumer Health Care	63,2	55,2	14,5%
Sports and Functional Food	18,4	10,1	81,0%
Pharma	23,4	9,2	154,9%
EBIT	128,7	95,7	34,5%
Intragroup eliminations	0,7	-0,6	
Group EBIT	129,4	95,1	36,0%

*Pharma division in FY07 accounted sales of the vitamins, minerals and supplements producer Fidifarm

All divisions delivered operating profitability improvements with substantial enhancements mostly pronounced in the Sports and Function Food Division on the back of significant restructuring efforts as well as the company's decision to give up certain private label production agreements for the benefit of operating profitability improvement.

The balance sheet changes are predominantly caused by continuing the acquisitions of Health Institutions. Considering that the accounting value of net assets of the acquired institutions was lower than the purchase price, the difference has been recorded as the increase in intangible assets.

These acquisitions have been primarily financed from own funds, which is also visible in changes of the relevant balance sheet positions in relation to 31 December 2007.

The increase of accounts receivable and payable is primarily the result of consolidating the balance sheet positions of Health Institutions in the balance sheet of Atlantic Grupa.

In December 2008, Atlantic Grupa agreed a special line of credit in the value of EUR 20 million from the German development bank DEG and kept the listed funds within its balance position. The funds are intended for financing investments into the production capacities of Consumer Health Care Division and, in larger extent, for further acquisitions of Health Institutions.

Summary of Financial Indicators

(amounts in thousands of HRK)	2006	2007	2008
Total revenues	1,413,466	1,699,103	2,024,459
<i>Total revenue growth compared to prior year (%)</i>	33.03%	20.21%	19.15%
Sales revenue	1,394,415	1,670,045	2,002,926
<i>Sales growth compared to prior year (%)</i>	34.00%	19.77%	19.93%
Operating profit before interest, taxes, depreciation and amortisation (EBITDA)	98,102	132,330	169,306
<i>EBITDA margin (%)</i>	7.04%	7.92%	8.45%
Operating profit (EBIT)	53,573	95,118	129,400
<i>EBIT margin (%)</i>	3.84%	5.70%	6.46%
Net profit	26,492	54,456	78,361
Net debt	272,356	90,492	291,192
Total assets	846,154	1,464,426	1,655,766
Ownership equity	280,689	651,529	710,976
Interest expense cover (EBITDA/interest expense)	4.30	5.59	6.69
Current liquidity indicator	1.63	1.83	1.76
Debt indicator	97.03%	13.89%	40.96%
Investment in long-term tangible and intangible assets	27,893	54,349	58,700
Market capitalisation (on 31 Dec)	n/a	2,166,210	1,138,668

EV/EBITDA (on 31 Dec)	n/a	17.40	8.74
EV/EBIT (on 31 Dec)	n/a	24.21	11.43
EV/sales (on 31 Dec)	n/a	1.38	0.74
EPS (Earnings Per Share) - in HRK	9.86	21.96	27.84
P/E - in HRK	n/a	39.94	16.56
Kuna/Euro exchange rate on 31 Dec	7.345081	7.325131	7.324425
Kuna/Euro exchange rate – annual average	7.317112	7.336019	7.218006

OUTLOOK FOR 2009

Even though Atlantic Grupa's management is well aware of challenges created by the difficult economic and financing environment, the Group enters 2009 with various new programs set to create opportunities even in challenging economic times.

Sales

The management expects mid-to-high single digit growth rate in FY09 sales on the back of following activities:

- **Launch of Cedevita GO!** – The management believes that these brand-building efforts coupled with penetration to new distribution channel represent both top-line and bottom-line enhancing opportunity for the company going forth. Alongside Croatia as the key growth driver, the company will distribute Cedevita GO! region-wise, in Serbia, Slovenia, BiH and Macedonia. The management sees substantial opportunities for substantial synergies exploration within its product portfolio, particularly in the Sports and Functional Food Division. In addition, the patent of 'twisting the cap and releasing granules into water' creates opportunities for wider application in the food and beverages industry and thereby cooperation with other companies in the sector.
- **Distribution portfolio expansion** – Throughout 2008, the company expanded distribution portfolio by signing new distribution deals including distribution of TDR's cigarettes, Rauch juices and Red Bull energy drinks in the HoReCa channel as well as acquiring ZIP Distribucija with the accompanying brands. Given that distribution activities commenced in either the mid 2008 or at the end of 2008, their full annual impact will be felt in 2009. At the end of 2008 and in the beginning of 2009, the company as well signed new distribution deals including Karolina biscuits and salted snacks, Ferrero products on the Slovenian market and Nestle products in the HoReCa channel.
- **Pharma Division** - Throughout 2009, the company plans to open 5 new pharmacies nation-wide from acquired licenses as well as four specialized stores within the scope of strategic cooperation with Agrokor to open 5 specialised stores in Agrokor's retail chain.
- In the **Sports and Functional Food Division** the company sees opportunities from the (i) redesign and re-launch of the Multipower assortment, (ii) regulatory approvals for the Multipower product line in Russia as well as (iii) launching of new endurance line.
- The company also sees opportunities for the organic growth especially in the regional context given e.g. lower per capita consumption of the company's best-selling Cedevita brand compared to Croatian market, while rising brand recognition.

Operating profitability

The management remains strongly committed to **the cost optimisation and business process improvements** and considers taking **additional rationalisation steps**. Consequently, on top of activities already implemented in 2008, at the beginning of 2009 the company outsourced Cedevida tea production to contracted producer as well as took required steps to relocate Neva production facility to its Fidifarm facility in Rakitje.

The long cooperation between Cedevida Ltd. and Jan Spider Ltd. from Pitomaca in the tea production segment eventually resulted in the 3-year agreement with Jan Spider to produce Cedevida's teas in various packaging ranging from filter, sachette, maxi and bulk within the Jan Spider's facilities.

No refinancing worries

Given the company's favourable debt structure, with only minor portion maturing in 2009 (majority maturing in 2011), the company has no refinancing worries. In addition, the company has favourable gearing ratio of 29.1% as well as interest coverage at 6.7x in FY08. The 20 million euro worth loan agreement with the German development bank DEG is aimed at financing portion of capex requirements and further acquisitions.

Screening potential acquisition targets

The company continuously screens potential acquisition targets that would secure value-creative IRR particularly in the favourable environment of lower firms' valuations. While keeping focus on the existing activities, the company hopes to execute given its substantial know-how and experience in due diligence activities and acquisitions.

HUMAN RESOURCES

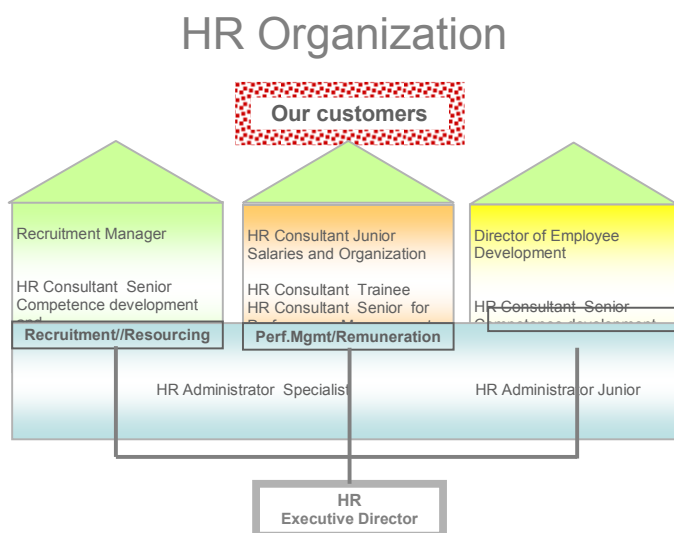
The business system of Atlantic Grupa encourages the high professional standard values and expects from its employees professionalism, openness, responsibility and efficient team work.

Atlantic Grupa's Human Resources are focused on realising the corporate strategy, business problem-solving, quality, overall organisational efficacy and individual development.

In order to fully realise the quality partnership with and support to all the divisions of Atlantic Grupa, in 2008 the function of Human Resources was restructured and organized according to the following operation model:

- **Service provision** – refers to administrative support, expert cooperation, delivery of HR information, HR advices
- **Functional expertise** – refers to the definition and professional management of key processes in the company's human resource management: selection and recruitment, reward and performance management system and employee career development system
- **Business cooperation** – refers to HR business partnership at all company levels and business segments

Organisational scheme of Atlantic Grupa's Human Resources



Based on the defined work plan, Human Resources in 2008 realised numerous objectives in several key focus areas guided by the principle that the way we manage human potentials directly affects and contributes to the company's competitive ability and business excellence.

PERFORMANCE MANAGEMENT AND CAREER DEVELOPMENT

Atlantic Grupa's vital interest lies in continuous competence development that contributes to individual career development and fulfills business development requirements.

Last year was principally marked by introducing and implementing the performance management system. The system is based on realising the company's strategic goals through monitoring the performance of interconnected individual objectives, the demonstrated level of expressed company values and behaviour and the identification of an actual and desired level of development of professional, social and business competences.

Being in constant interaction, managers and employees received a strong tool whose systematic application from year to year may significantly contribute to increasing the company efficiency level.

During the project implementation, our own knowledge and internal resources were used to design, organise and implement 10 workshops including 115 managers. This resulted in direct and indirect involvement of around 50% of employees for whom individual performance planning and performance evaluation will be carried out in 2009. We actively encourage and follow managers in implementing this process and we assist them in gaining the experience required for successful monitoring and development of the people they manage. The collection of annual performance reviews for 2008 and definition of new goals for 2009 is in progress.

In the course of 2008 we started with methodical management development. In addition to realising the education plan in the field of professional, social and business competences, in cooperation with a licensed educator we also defined a programme of development modules for leadership, coaching and change management. Until now around forty managers participated in the first leadership module and workshops for other modules will be implemented in the course of 2009.

One of the more important goals of our company is to have satisfied, highly motivated employees with a high responsibility level. In order to accomplish this goal in its entirety, in 2008 we started building an attractive career development path, confident that our employees, having in mind the existence of such a model, will increase their motivation, professionalism and performance.

We also started the activities on preparing a new systematization, the foundation for reward and promotion systems. The career levels for pharmacists were defined based on the competence development level and we also set foundations for the career development system at the level of the whole company.

The process of managing corporate management candidates was also defined and accepted with the purpose of developing high-potential candidates in the direction of future senior managers or specialists that will be able to meet company's future requirements and support organisational changes.

We are aware of the fact that it is exactly the prospect of career development, and not the prospect of a job, that brings Atlantic Grupa more quality individuals with much larger and broader knowledge and skills. We can say that the career concept is the one we wish to nurture further and that most powerfully connects and unifies individual and organisational interests and needs.

EMPLOYMENT

In 2008 Atlantic Grupa continued its intensive and dynamic business growth and development, which was reflected in the number and structure of our employees. Atlantic Grupa, as a stable working environment, entered into 2009 with 1,670 employees, of which 60% is under 40 years of age and with almost equal share of female and male employees. More than 30% of employees have college or university degrees and the management structure includes 30% of women.

In 2008, 327 candidates were employed and, subsequent to the acquisitions of private pharmacies, we successfully integrated 200 employees and delivered a 22% growth in relation to the previous year.

Keeping in mind that employees are investments with long-term effects that significantly surpass the investment value, we specially focused on activities associated with improving working conditions. To that end we secured manager training, included the exit interview as an integral part of employee monitoring, conducted salary analyses, carried out market comparisons and, in line with the analyses, implemented specific measures.

The values of material rights at the level of all company members have been harmonised; jubilee awards, paid annual leave, Christmas bonus, Easter bonus, recourse, gift for children.

We attach great significance to recruitment of people and apply "best practice" models of selection procedures in order to secure employment of the candidates with abilities, skills and features required for successful job performance.

For the purpose of maintaining high standards established in the selection process and quality selection of candidates, Human Resources in 2008 improved the selection procedure and also organised and

implemented special manager workshops on the topic of “Selection Interview Skills”, which will continue to be implemented in the future.

The increased number of employees and integration of new health institutions into AG’s business system required a revision of existing HR procedures, primarily related to the employment process, monitoring of changes during employment and the trainee programme.

In a wish to carry out the process of integrating the newly acquired HI’s with as much quality as possible, we conducted attitude and satisfaction level surveys, using a sample of HI directors and pharmacy managers. The resulting data confirmed the positive aspects of working in AG and suggested activities and specific proposals for further improvement of working conditions.

During the year the system of trainee recruitment, payment, monitoring and development was revised as well resulting in clearer roles and tasks of both trainees and their mentors. The level of trainee salary was equalised at the Group’s level.

Through the harmonisation of key HR processes, Human Resources additionally reinforced and strengthened its role of providing support to all members of Atlantic Grupa.

POSITIONING OF ATLANTIC GRUPA IN THE LABOUR MARKET

Atlantic Grupa clearly and distinctively participates in creating the image of a desirable employer. We nurture long-term and stable cooperation with state institutions in employment stimulation and we are recognised as a serious and reliable business partner. We actively cooperate with the academic community in which we organise trainee programmes for graduates, create volunteering options and hire trainees. We participate in career days and are opened for any quality forms of cooperation. As a result of Atlantic Grupa’s entry into the pharmacy segment and future strong development in that direction, the need for additional investments in the development of new pharmacy personnel was created and, consequently, Human Resources and their colleagues from Pharma Division established an active cooperation with the Pharmaceutical Biochemistry Faculty and defined the scholarship model for students in their final year of studies.

We continuously maintain high standards in human resources management and we are, marketing-wise, supported by all media as the certified employer - Employer Partner.

CORPORATE AND SOCIAL RESPONSIBILITY

Sponsorships and donations

As a part of wider society in which it functions, Atlantic Grupa is aware of the importance and need for making its own impact on improving social conditions in general, promoting the right values and ultimately the need to invest a part of its own profits back into the community. Apart from a wide range of donation projects, sponsorship activities are also significant, primarily focusing on the promotion of sports where the largest funds and efforts are invested in supporting projects such as the basketball club Cedevita, Duje Draganja – a proven Croatian swimmer, Croatian Olympic Committee, German national handball team and the bicycling team Milram. 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 dealing in protection and assistance to vulnerable social groups.

SPORTS

The basketball club Cedevita is still the forebearer of all Atlantic's sponsorships. Atlantic Grupa is actively involved in the promotion of basketball as an important sport of national interest through the hiring of increasingly better players and trainers as well as through the promotion of the Cedevita brand which is also the current name of the club. What is especially important and represents the foundation this project's success is based on is the special support of Atlantic Grupa in financing, organisation and management of the Club's basketball academy with over 400 children. The Club and the Academy actively function in 11 basketball schools organised in Zagreb's elementary schools in which training is currently provided for approximately 200 children thus equally ensuring the future of this sport and the option of healthy and useful leisure activity.

Owing to the sponsorship of Atlantic Grupa as well as efforts made in gathering other sponsors around BC Cedevita, the club is presently one of the most prospective teams in the Croatian A1 league with good prospects of qualifying for the regional NLB league.

Duje Draganja and Mario Todorović are successful Croatian swimmers whose swimming careers are already for years sponsored by Atlantic's Cedevita which is aware that these perspective athletes will, through their sporting achievements, admirably represent Atlantic as the leading European producer of instant vitamin drinks and sports food which promotes a healthy and sportive lifestyle. In 2008 a sponsorship contract was renewed with Duje Draganja who, by winning numerous medals, first and foremost the title of a freestyle world champion in 25 m pools, warranted the company's trust in his sport potential. In 2009 new victories are expected as well as Duje Draganja's participation in promoting the project Cedevita GO!. Mario Todorović continues his successes as the Atlantic's scholar showing his readiness to eventually become Duje's worthy successor.

For a second year in a row, Atlantic Multipower continues its cooperation with a German professional bicycling team **Milram** consisting of great German bicyclists such as Zabel, Petacchi and others.

From all the sport sponsorships, it is also important to mention the sponsorship of the **German national handball team**, the **Croatian women's regional basketball league**, where Atlantic Grupa with its brand Multipower continues to provide an additional impulse for its strengthening and recognisability, and certainly the new contract on special partnership with the Croatian Olympic Committee with which Atlantic Grupa became the exclusive supplier of sports food and food supplements used by all Croatian Olympic athletes in their competitions and training. The traditional partnership of Multipower with the Olympic Centre Rhein-Ruhr must also be mentioned as an important partnership and reputation capital in the sporting life of Germany.

PHARMACEUTICS

Through the activities of Pharma Division, Atlantic Grupa, as the leading subject on the pharmacy market in Croatia, is an important sponsor of **students of the Pharmaceutical Biochemistry Faculty at the University of Zagreb**, as well as of the Faculty itself through financial support to the renovation of faculty infrastructure, thus confirming its dedication to development of the pharmacy profession through multiple investments into the development of future pharmacy staff. Aware of the fact that the future of pharmacy lies primarily in professional development and education of personnel and ensuring a sufficient number of pharmacists on the market, Atlantic Grupa in cooperation with the Faculty developed a sponsorship programme for best pharmacy students with guaranteed employment within the company. In addition, Atlantic Grupa invested considerable funds into the establishment and development of the **Education Centre Atlantic Farmacia** with programmes developed in cooperation with FIP, WHO and UNESCO in which pharmacists will acquire not only the required further professional knowledge, but also communication and presentation skills and knowledge in the field of finances.

CULTURE

In its capacity as the sponsor of culture, Atlantic traditionally supports the organisation of the **Sarajevo Film Festival** by sponsoring this most influential regional film manifestation. In recent years Atlantic and one of its strongest regional brands, Cedevisa, supported the organisation and activities of SFF including, among others, childrens' programme held during the festival. Since this year, Atlantic Grupa with its brands and first time with the support of the corporate brand, participated as the main partner of the **Sarajevo City of Film** manifestation happening within the framework of SFF and as the sponsor of the award Atlantic Talent given to the best movie made in this year within SFF. With this expanded engagement, Atlantic yet again exhibited how in its sponsor activities it selects development projects that ensure sustainability and long-term success of cultural projects it supports and also benefit the wider community in which the activities are carried out. Apart from SFF, in this context Atlantic Grupa also sponsors the **Zagreb Youth Theatre** as one of the most prominent city theatres giving special attention to working with children and young people and it an already traditional sponsor of the annual **Croatian Actors' Association awards**. With its sponsor activities, Atlantic also supports musical culture, which in

2008 was manifested by supporting the organisation of **the Croatian Jazz Assembly**, a club festival joining and introducing Croatian jazz musicians.

SOCIALLY VULNERABLE GROUPS

In 2008 as well, Atlantic Grupa continued its cooperation with the **Centre for Education Dubrava**. Already for three years, Atlantic invests in the reconstruction of the Centre and has until now reconstructed a number of sport facilities including the Centre's sport hall and swimming hall. In 2008, with the purpose of facilitating the everyday life of children with developmental problems, Atlantic donated the funds for reconstructing the Centre's rehabilitation facilities.

Furthermore, Atlantic Grupa actively participated in the humanitarian action **Step in Life**, whose goal is to help the young protégés of homes for abandoned children who turned 18 and wish to continue their education by entering a university, and it is the traditional sponsor of the **Terry Fox Run**. Continuing its already well-known tradition of sponsoring humanitarian concerts, in November 2008 Atlantic Grupa was one of the sponsors of the humanitarian concert "**All for Her**" ending the four-week campaign entitled "Let's cross over uterine cervix and breast cancer".

CORPORATE GOVERNANCE

Since its foundation as well as quotation on the Zagreb Stock Exchange, Atlantic Grupa based its business activities on the Code of Corporate Governance with which the standards of business transparency in line with EU directives and relevant Croatian legislation have been significantly advanced. 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, avoiding conflicts of interest, efficient internal control and effective responsibility system. The Code also establishes regulatory announcements 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 d.d. 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.

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 subjects 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.

In accordance with relevant regulations, Atlantic Grupa issued the 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 webpage www.atlantic.hr as well as on the official webpage of the Zagreb Stock Exchange.

ECOLOGY AND SUSTAINABLE DEVELOPMENT

Atlantic Grupa continued to support and promote the principles of sustainable development in all its business activities throughout 2008. This was primarily achieved by economically successful, environmentally acceptable and socially responsible business conduct. As a member of the Croatian Business Council for Sustainable Development, Atlantic Grupa pays great attention to employee relations, environmental protection and social responsibility in all its business operations. The Atlantic Grupa's Social Responsibility Committee monitors and encourages the implementation of principles of sustainable development in company's everyday business activities and starts initiatives for the improvement of socially responsible business conduct.

In 2007, Atlantic Grupa joined the global initiative for socially responsible business conduct under the patronage of the United Nations entitled the Global Compact Initiative. Participation in this Initiative includes adjustment of all business activities to the requirements of socially responsible conduct which are based on the principles of the listed Initiative. All members of the Initiative are obliged to prepare an annual report describing the adjustment and status of compliance with the obligations to which Atlantic Grupa committed itself by signing the Global Compact contract and particularly the method in which it integrated the 10 prescribed principles of responsible conduct, such as: the freedom of association and the effective recognition of the right to collective bargaining, elimination of all forms of forced and compulsory labour, effective abolition of child labour, environmental protection, encouraging the development and diffusion of environmentally friendly technologies and the fight against corruption in all its forms.

Integrated system of quality, environmental and food safety management

After the successful line of certifications of Cedevita and recertification of Neva and Montana plus in the Consumer Health Care Division according to ISO 9001:2000 and HACCP standards (Cedevita, Montana plus) in 2005, ISO 14001:2004 standard in 2006 and IFS (Version 4) standard in 2007, an equally thriving continuance followed in 2008 as well. Cedevita renewed its International Food Standard Certificate (Version 5 this time) for the production of instant vitamin drinks and vitamin and peppermint candies. At the same time, both Neva and Cedevita underwent recertification in accordance with ISO 9001:2000 and HACCP (Cedevita) standards while Neva started its already fourth three-year certification cycle and Cedevita its' second. Montana plus also successfully passed its periodic audits according to ISO 9001:2000 and HACCP standards.

The basis for the process management system in Consumer Health Care Division consists of preconditioned programmes (Good Hygiene Practice, Good Manufacturing Practice, Good Laboratory Practice, Good Storage Practice). At the beginning of 2009 Cedevita renewed its Licence for manufacturing medicines according to the GMP requirements (Good Manufacturing Practice).

The International Food Standard (IFS) ensures safety and health propriety of foodstuffs through the whole supply chain from “the fields” to stores.

The new version of the standard (Version 5) made its requirements stricter since it, along with the existing 4 so called “knock-out” requirements, added 6 more additional ones. However, this did not prevent Cedevita to meet nearly 100% of the total of 250 requirements.

The holding of the IFS certificate paves the way to international markets for Cedevita, since Cedevita was placed on the list of certified producers in the IFS Audit portal (<http://www.food-care.info/>), the official page of the HDE (Hauptverband des Deutschen Einzelhandels). For instance, retail and wholesale chains that require the IFS certificate from its suppliers are: Metro Group, Edeka, Rewe Group, Aldi, Lidl, Auchan, Carrefour Group, EMC – Casino Group, Leclerc, Monoprix, Picard Surgelés, Provera (Cora and Supermarchés Match), Système U, COOP, CONAD, Unes...

In November 2008 Cedevita and Neva successfully completed their periodic audits of the environmental management system in accordance with the standard ISO 14001.

During 2008 Cedevita installed one more explosion proof mill thus decreasing the possibility of adverse emission into the environment and Neva decreased its waste packaging by 50% as non-hazardous packaging waste.

Through team work of all employees of Atlantic Grupa, an integrated process management system was created and includes the following:

- ISO 9001:2000 (Quality Management System) jointly implemented in Neva and Cedevita and separately in Montana plus
- HACCP (Hazard Analysis and Critical Control Point) implemented in the food section as specific requirements for ensuring food safety
- ISO 14001:2004 (Environmental Management System) implemented in Neva and Cedevita
- IFS (Cedevita – production of instant vitamin drinks and vitamin and peppermint candies)

- GMP (Good Manufacturing Practice) – requirements implemented in Neva and Cedevida

RESEARCH AND DEVELOPMENT

Quality Assurance

A multidisciplinary team of experts in the fields of marketing, food and chemical technology and pharmacy is focused on product development and improvement with the role of maintaining the existing and/or improving the diminished quality of life of different consumer groups and categories. Consumers increasingly take care of their health, looks and physical condition. From day to day they are better educated thus making their demands even more complex. Consequently, timely analyses of the market and consumption trends constitute the grounds for successful development of new and improvement of existing products.

Since the beginning of developing a new or in the course of improving an existing product, efforts are made to achieve the standard high quality level of Atlantic's products recognisable to consumers. An important feature of our products is modernity – “to keep up with the times”. In the last year several new products were created: the assortment of vitamin drinks, compressed candies and teas was expanded by introducing new flavours and new food supplements were launched. The product offer of Montana sandwiches was expanded. New products were developed that are adapted to specific needs of athletes. New forms of packaging were introduced and a considerable group of products experienced changes in design.

As an answer to the ever-increasing pace of life, the development of the most significant project of Atlantic Grupa was completed – Cedevida GO! and all prerequisites for its realisation in regular production were fulfilled. A very important task of the development team is also to constantly improve technological capabilities, optimise formulations and processes.

In 2008, a significant part of the activities of Research and Development focused on reformulating and innovating products in order to achieve increased product competitiveness. New products were launched on the market in product categories of toothpastes and lip balms. The development of cosmetic products is primarily regulated by the requirements of the EU Cosmetics Directive (76/768/EC) and associated amendments to this Directive, placing special emphasis on product safety and thus also consumer protection. In Research and Development's laboratories, product safety is ensured by testing the stability of cosmetic products, with which we demonstrate that products will preserve their standard physical, chemical and microbiological properties as well as their functionality and aesthetic appearance. The production business processes in Neva are harmonised with guidelines for good manufacturing practice under the standard HRN EN ISO 22716 (2008).

The continuous following of scientific research, EU legislation and Croatian regulations as well as their implementation from the initial stage of product-making ensure the health safety of products for the consumer. To accomplish such complex goals it is necessary to involve not only experts from Research and Development, but also from Quality Assurance. In the production of health safety products, an important role is given to the selection of input materials without toxic or allergenic effects, without GMO, in compliance with

the REACH regulation, etc., followed by the control of quality of all input ingredients and materials, the monitoring of all phases of production and the analysis of all finalized products.

From the aspect of raw materials, product safety is determined by the selection of raw materials and suppliers that are in compliance with the REACH regulation (Reg.1907/2006 - Registration, Evaluation, Authorisation and Restrictions of Chemicals). This Regulation introduces a new legal framework for chemicals in the EU and it entered into force on 1 June 2007. The Regulation's requirement is that all raw materials placed on the EU market have to be pre-registered by 1 December 2008 with the European Chemical Agency in Helsinki and that it is ensured that any raw materials used in cosmetic products comply with this requirement. Thus, compliance with the REACH regulation ensures a high level of human health and environmental protection. The safety of a product for human health is certified by issuing the so called "Assessment of Safety for Human Health", a report identifying all ingredients and assessing the safety based on toxicological data for each individual substance. Such a safety assessment document represents the key document for placing cosmetic products on the EU market.

Although the largest part of development activities is realised within the company, services of domestic and foreign institutions are used to solve more complex issues.

Business Risk Factors

Business Environment Risk

The business environment risk is determined by political, macroeconomic and social circumstances in the country, as well as the regions in which the company operates, that influence business activities and business performance of the Croatian companies. A political risk of any individual state includes all the risks associated with a possible political instability, and in its extreme it also involves the integrity and continuation of the state. Taking into consideration the current internal and external political affairs, Croatia is a stable parliamentary democracy whose main foreign policy goal is successful accession to the European Union.

In line with the goal of successful accession to the European Union, Croatia dedicated a considerable part of its activities to the reforms necessary for successful harmonisation with the EU legislation (*acquis communautaire*), as well as to developing and maintaining partner relations with Member States of the European Union. Any open issues which Croatia has with its neighbours do not affect the political stability of the state, but constitute a legitimate representation of strategic and economic interests of the state in international affairs, as do the other developed countries as well. Political and general social risk is inherent to all parts of one society and, from the individual perspective, as a rule it cannot be individually influenced.

Atlantic Grupa does not expect disturbances in its business performance resulting from Croatia's integration into the EU, considering that a part of business activities of Atlantic Grupa already takes place in the EU and operating companies in Croatia export to EU markets without any obstacles.

Simultaneously, Atlantic Grupa develops standards in accordance with European legislation thus adjusting to technical and technological requirements of EU markets with the purpose of successful market competition. Furthermore, the international feature of Atlantic Grupa is reflected in the fact that the company, apart from Croatia, has operating companies in Ljubljana (Slovenia), London (Great Britain), Treviso (Italy) and Hamburg (Germany). The combination of developed and quality European brands such as Multipower, which is a part of the production portfolio of Atlantic Grupa and regional brands from the selection of products of Cedevita, Neva, Dietpharm or Multivita is a part of Atlantic's pan European strategy and it additionally increases the company's status in the European market.

Political and general social risk is inherent to all components of one society and, from the perspective of an individual company, as a rule it cannot be individually influenced or reduced. In the case of international companies which operate in more countries, such a risk is positively or negatively diversified, depending on individual risks of the states in which they operate. Business risks of companies which operate in the regional market (the area of former Yugoslavia), which is still in the process of political transition, should be particularly emphasised. Therefore, each investor should, according to the significance of an individual market for the company, carefully study the said markets and, *inter alia*, make a decision based on information on risks inherent to particular states or markets.

Macroeconomic risk is inherent to all business subjects, but the extent of its impact on an individual company predominantly depends on the level of cyclicity of the industry in which that individual company operates. Even though Atlantic Grupa operates in a stable non-cyclic industry, the company does not underestimate the impacts of a more volatile macroeconomic environment and prepares for them through new projects, diversification of its production and distribution portfolio, focus on cost management and its liquidity.

Industry and Competition Risks

Fast Moving Consumer Goods Industry

The industry of consumer goods in the segment of food products in Croatia is an attractive area for activities of economic subjects from the point of small variations in market movements such as purchase power of the population, and relatively small changes in the demand for products to meet basic living requirements. The development of the industry of consumer goods and the presence of global producers and retail chains with consumer products in Croatia resulted in stronger competition in the domestic market, but also in an increase of product quality and the establishment of global production standards. Concurrently, the strengthening of foreign retail chains also creates a critical mass of distribution channels for the distribution of consumer goods. Survival in current market conditions, characterised by market liberalisation and globalisation as well as strong competitive environment, is possible only by constant investments in research and development of new product lines, technology and human resources.

Since the industry of consumer goods in the segment of food products is an important component of the Croatian economy, it is as such protected by the Government with various duties on imported products

and direct subsidies. At the same time, the opening of the chapter of harmonisation with policies and legislation of the European Union may require additional material investments in order to achieve competitiveness with foreign companies.

The development of the industry of consumer goods is harmonised with GDP fluctuation dynamics and macroeconomic conditions in countries where the company operates and it is directly linked to the development of the living standard. The industry of consumer goods is also characterised by constant adjusting to consumer wishes and needs as well as market trends, which requires significant investments in the development of new products and implementation of new technologies. Thus, the risk of the consumer goods industry includes, on one hand, limited growth rates in line with GDP fluctuations as well as macroeconomic conditions and, on the other hand, the imperative of major material investments in order to ensure and retain competitiveness of companies in relation to global producers.

Considering that the industry of consumer goods has a direct impact on health, it is strongly standardised by regulations and supervised by the regulatory authorities. This exposes this industry to the risk of uncertainty from the introduction of new, more stringent standards which may also cause additional material costs.

Certain sections of the consumer goods industry in the segment of food products are under direct impact of uncontrollable factors like climate conditions or the tourist season efficacy. In addition, since the industry is often characterised by seasonal operations, this makes quality management of working capital imperative for successful business operations. Considering the attractiveness of this industry with relatively low-cycle times, the increasing number of market competitors with more or less equal positions is not surprising. In line with the above, it can be concluded that the industry is diversified. At the same time, taking into account the non-existence of a more significant market leader, the risk of entry of new competitors is always present.

Atlantic Grupa operates in the sub-segment of the consumer goods industry in the segment of food products i.e. the segment of food products with added value, which takes about 8% of the total market of the consumer goods industry. Considering it is a market niche, the segment's profitability is higher than the industry average. In the segment of instant vitamin drinks production Atlantic Grupa, with a market share of 94%, has no significant competitors in the domestic market apart from private label products, whose level of quality of products as well as production and packaging are far behind from the quality standards implemented in Atlantic Grupa. Furthermore, Atlantic Grupa successfully overcomes the listed risks by continuously investing in research and development, following market trends as well as consumer preferences. One of the fundamental comparative advantages of Atlantic Grupa is that it operates in the health food segment whose full development potential has not yet been fully tapped and therefore, considering the change of consumer habits towards a healthier lifestyle and health food, its further growth is expected.

The industry of consumer goods in the segment of personal care products depends in large measure on the purchase power and living standard of the population and, consequently, on GDP fluctuations.

The domestic industry of consumer goods in the segment of personal care products operates in a highly competitive environment consisting of multinational companies with modern technologies and aggressive pricing policies, making success possible only with continuous investment in research and development, fast adjustment to market conditions and strong marketing. Aggressive and frequent marketing campaigns, high investments into development and different price ranges of products present a special challenge for domestic producers and require significant financial funds in order to preserve market competitiveness.

Pharmacy Business

During 2008 Atlantic Grupa expanded its business model by entering the segment of pharmacy business and establishing the leading private pharmacy chain with a 5.5% market share and national distribution of its pharmacy units. Since pharmacies are subjects contracted by the Croatian Institute for Health Insurance (HZZO), they are obliged to follow the HZZO's decisions, including the decisions on price changes on the principal and supplemental list of medicines. Along with the listed risk, pharmacy is subjected to the risk of delayed payment of receivables by HZZO thus aggravating adequate working capital management. Since pharmacy is supervised by regulatory bodies and bounded by strict regulations, it is at the same time exposed to the risk of uncertainty from the introduction of new and potentially stricter standards for the entire pharmacy sector. With its strategic focus on increasing the share of over-the-counter medicines and food supplements in the product portfolio of the pharmacy network, opening specialised stores offering over-the-counter medicines and food supplements regulated by the Agency for Medicinal Products and Medical Devices and exploring synergies across the company's distribution and production portfolio, Atlantic Grupa aims to decrease the listed risks. Concurrently, pharmacy units, as the new distribution channel for other products from the Group's distribution and production portfolio, represent a significant development potential for the company.

Competition Risk

Through harmonisation of legislations of candidate countries for accession to the European Union with the *acquis communautaire*, new standards and norms are gradually established and final obstacles for the completely free competition are removed as a consequence of the gradual accession of these markets to the internal market of the European Union. The result of the mentioned processes is high exposure of local companies to the European, but also global competition with simultaneous opening of new business opportunities for local companies by fast opening of foreign markets. Through the following of global trends, the Croatian companies have focused their business activities to market expansion by entry into new regional markets, especially the markets of former Yugoslavia with increasing demands for consumer goods, escalating purchase power and increasing recognisability of domestic products in those markets.

International food companies have the advantage over domestic companies with regard to the long standing business tradition, financial power, technological equipment level and the possibility of investing in research and development. The poor offer of foreign products in the past additionally increased domestic demand for established global brands thus leading to constant presence of strong competition in the market. However, the Croatian market as well as regional markets are also characterised by adherence to tradition and devotion to acquired consumer habits, which is proved by large demand for well-known domestic products. Strong brands which are produced or/and distributed by Atlantic Grupa and their differentiation in relation to competitive products as a result of long term investments are the fundamental comparative advantage with regard to the current and future competitors. The strategy of Atlantic Grupa, considering the reduction of risks which the competition represents, is focused on the development of strong recognisable brands on the market. An example of implementing such a strategy is the success of Cedevida instant vitamin drink which is the market leader not only in Croatia, but also in the region and which is used by Atlantic Grupa to methodically build the brand as with a recent launch of Cedevida GO! – a Cedevida intended for consumption on the go. Atlantic Grupa also places more focus on the development of the HoReCa channel characterised by significantly lower competition pressures and considerable growth potential, particularly considering the tourist potential of Croatia. Atlantic Grupa developed strong domestic brands in the personal care and cosmetics industry such as Plidenta and Rosal and, despite the strong market competition in this segment, marketing activities, distribution support by the Distribution Division and the constant quality retention and development of new products facilitate the consumption growth of Atlantic Grupa's products.

In the pharmacy business segment there is strong competition primarily from town and county pharmacies and small private pharmacies owned by natural persons. Competition pressures are potentially also created by larger wholesale drugstore chains and generic pharmaceutical companies trying to achieve stronger penetration into the pharmacy business segment. The principal comparative advantage of Atlantic Grupa in relation to other competitors lies in the national distribution of its pharmacy units and the strategic goal of Atlantic Grupa to manage pharmacy business operations in line with the best pharmacy practice according to the highest professional standards and always for the benefit of patients and end users. To that end Atlantic Grupa is extremely focused on education and competence development of pharmacy personnel with the goal of achieving the highest quality of pharmacy service. Simultaneously, Atlantic Grupa is also focused on diversifying the pharmacy business itself by opening specialised stores which represent a system for upgrading and developing its pharmacy business.

Business Risk

Business risk includes the risks of everyday activities related to the future survival of the company, retaining and improving market positions and the company's business stability. Business risk is

determined by the company's business environment, characteristics of the industry in which the company operates as well as its own business policies and decisions.

Impact of individual products and business partners on business performance

With the strategic focus on further diversification of its production and distribution portfolio, Atlantic Grupa considerably reduces the business risk associated with the business and macroeconomic environment and lessens risks of sales volatility.

Considering that Atlantic Grupa in recent years extensively expanded its production and distribution portfolio and consequently operates without any significant dependence on any one product type, the changes in business environment in one of its business activities will not directly affect the overall business performance of Atlantic Grupa.

Product dependence

The Distribution Division, as the largest revenue generator in Atlantic Grupa, developed a diversified portfolio of distributed products without major dependence on any one product. At the same time, the most prominent product group consists of the Atlantic Grupa's products in the segment of consumer goods intended for healthy nutrition.

With its acquisition activities and new distribution contract in Croatia as well as in the region, Atlantic Grupa additionally contributes to the production and distribution portfolio diversification. The Atlantic Grupa's strategy in divisions of Consumer Health Care, Sports and Functional Food and Pharma includes significant investments in research and development of new products in the area of existing product groups as well as in new business areas, precisely for the purpose of achieving further diversification and stronger market competitiveness.

Dependence on business partners

Atlantic Grupa developed collaboration in the field of product distribution with the leading international brands. A loss of exclusive distribution rights to a particular product would affect the business performance of the Distribution Division of Atlantic Grupa, but in recent years the risk has been significantly reduced by relatively low dependence on an individual business partner. This is especially evident when taking into account that none of the product lines holds more than 18% of total sales of Atlantic Grupa. The risk of terminating the business collaboration with one of the partners is relatively low considering the successful, long-standing business partnerships as well as the strong development of the Distribution Division i.e. the strong development in distribution of other product lines. In the case of terminating collaboration, the existing contractual relations with key partners allow for appropriate "transitional" periods so the company would have enough time to adjust to new circumstances.

Atlantic Grupa is continually monitoring fluctuations in the brand market, both existing and growing ones, for the purpose of achieving new business relations. Therefore, negotiations with owners of quality brands

are permanently opened which enables Atlantic Grupa to quickly adjust to new conditions in the case of termination of partnership with any of its present partners and opens opportunities for additional diversification of the production portfolio.

The nature of distribution activities requires close business collaboration with the leading domestic retail chains. Termination of collaboration, or bankruptcy of an important client, could have a significant impact on the business results of the Distribution Division of Atlantic Grupa. Dependence of distributors on retail chains may result in additional costs of retaining the partnership (in the meaning of additional discounts, longer payment terms, etc.). Atlantic Grupa has developed business cooperation with a majority of domestic retail chains which are also major clients of the company, and dependence on an individual client is at the appropriate level. In order to reduce its dependence on retail chains, Atlantic Grupa developed the so called "alternative distribution channels" which will be used to achieve extra revenues and allow suppliers access to channels where distribution competition is not present, such as the specialised channels of pet food and equipment, catering industry, outlets for sales of technical goods and pharmacy channels. Likewise, their importance is additionally emphasised when considering that alternative distribution channels are characterised by lower competition pressures and, subsequently, even more significant development potential.

Financial risks

Atlantic Grupa is exposed to financial risks such as price risks, currency risks, interest risks, loan risks and liquidity and solvency risks. The listed risks are described in more detail in the consolidated financial statements of Atlantic Grupa which form a constituent part of this report.

Share related risks

The market price of shares is volatile. The share price volatility may be caused by volatility of the whole capital market, significant changes in macroeconomic conditions of the regions in which the company operates, differences between the company's realised results and analysts' prognosis, contracts of major value, mergers and acquisitions, acquisition activities, strategic partnerships involving Atlantic Grupa or its competitors, fluctuations in financial status and business results. Since shares are considered to be one of the property types with the highest default risk, there is always the risk of a significant fall of the market price of shares.

In September 2008, Atlantic Grupa received an important recognition at the annual award ceremony of the independent investment fund specializing in Eastern European financial markets- East Capital, in Stockholm where it received the annual award in the category Discovery of the Year. As the winner of the award Discovery of the Year, Atlantic Grupa yet again confirmed its business excellence and leadership status in the region. East Capital, the largest independent investment firm specializing in Eastern European financial markets, each year presents the award in the category Discovery of the Year to the company that demonstrates exceptional results and is deemed to have an excellent perspective.

In the award competition, East Capital each year considers several hundred stock-listed companies across the wide area of Eastern Europe spreading from Russia, Ukraine and Baltic countries, over Poland, Czech and Hungary to South East Europe and Turkey, while the selection process and screening of candidates is kept confidential until the moment of final selection. The selection is not opened for company applications. The fund's experts carry out a thorough analysis and selection of companies in the award competition and, among numerous candidates, Atlantic Grupa earned its laureate status with its successful development of portfolio of activities, continuous growth and the assessment of excellent development perspective.

IMPORTANT CORPORATE EVENTS WHICH OCCURRED AFTER THE END OF 2008 BUSINESS YEAR

In addition to new distribution agreements described in more detail in the "Financial Summary" section, from other events it is important to mention the purchase of a minority share in Cedevita d.o.o. In January 2009, Atlantic Grupa purchased 30% of minority share thus increasing its ownership stake in Cedevita d.o.o. to 81%.