ATLANTIC GRUPA d.d.
Annual Report 2012

INTRODUCTION

CORPORATE PROFILE

Atlantic Grupa is a Croatian multinational company whose business operations include production, development, sales and distribution of consumer goods with simultaneous market presence in over 30 countries around the world. The company has 4,247[*] employees and it is one of the leading food companies in the region[**] which, in addition to its own range of well-known brands, also distributes a range of products from external partners in all regional markets. Moreover, Atlantic Grupa's products have significant market presence in Russia, Commonwealth of Independent States and Western Europe, and with its sports food assortment Atlantic Grupa is the leading European manufacturer in this segment

Based on the company's business development, by mid-2010 Atlantic Grupa grew into the leading European manufacturer of sports food, the regional leader in the production of vitamin drinks and food supplements, a prominent regional manufacturer of cosmetics and personal care products, the leading consumer goods distributor in south-eastern Europe as well as the owner of the leading private pharmacy chain united under the name Farmacia. With the acquisition of Droga Kolinska – a company with a developed brand portfolio from its own production programme with leading positions in regional markets – executed in November 2010, Atlantic Grupa also became one of the leading regional food companies. The company's business operations in the post-acquisition period were marked by the processes of comprehensive integration of the company Droga Kolinska into the existing business operations of Atlantic Grupa, the most noticeable of which was certainly the process related to distribution and logistics. The executed process of merging the distribution business operations of Atlantic Grupa and Droga Kolinska into single distribution entities in each regional market resulted in the creation of a strong regional distribution network. In the production segment, focus was placed on integrating individual production activities and transferring outsourced production activities into own activities for the purpose of a more cost-efficient use of the existing production capacities. The supply segment saw the implementation of a centralised system with the introduction of a key client concept for basic raw materials. In 2012, IT consolidation at the Group's level was successfully completed by redefinition of the model of user support, redesign of a portion of the IT service and standardisation of the technological platform. The listed integration processes, which were successfully completed by the end of 2012, transformed Atlantic Grupa into a strong regional manufacturer and distributor, thus creating a strong foundation for its further business development and expansion.

OPERATING COMPANIES AND REPRESENTATIVE OFFICES

As a multinational company with companies and representative offices in 11 countries, Atlantic Grupa exports its products to over 30 markets around the world. After Croatia, the most important markets are Germany, the

[*] As at 31 December 2012
[**] The region includes: Croatia, Slovenia, Bosnia & Herzegovina, Serbia, Montenegro, Macedonia and Kosovo, unluess stated otherwise.

United Kingdom, 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 d.d.[1] includes the following companies in which it has over 50% shares and control (overview as at 31 December 2012):

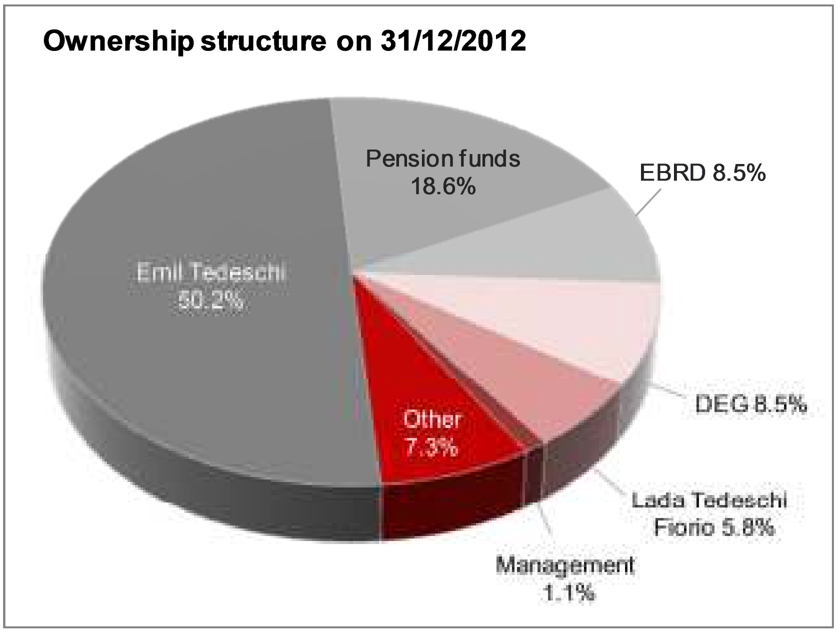
-Cedevita d.o.o.[2], Croatia				81%
	- Multivita d.o.o., Serbia			100%
-Atlantic Trade d.o.o., Croatia				100%
	- Bionatura Bidon Vode d.o.o., Croatia			100%
	-Lasago d.o.o. under bankruptcy, Croatia			100%
	- Droga Kolinska d.d., Slovenia			100%
		- Soko Nada štark a.d., Serbia		100%
			- Palanački kiseljak a.d., Serbia	100%
		- Argeta d.o.o. Sarajevo, Bosnia and Herzegovina		100%
		- o.o.o. Droga Kolinska, Russia		100%
	- Grand Prom d.o.o., Serbia			100%
		- Atlantic Brands d.o.o., Serbia		100%
		- Unikomerc d.o.o., Serbia		100%
		- Kofikom Produkt d.o.o., Bosnia and Herzegovina		100%
		- Droga Kolinska d.o.o.e.l., Macedonia		100%
	- Atlantic Trade d.o.o. Ljubljana, Slovenia			100%
	- Atlantic Trade Skopje d.o.o., Macedonia			75,1%
-Neva d.o.o., Croatia				100%
-Fidifarm d.o.o., Croatia				100%
	- Atlantic Pharmacentar d.o.o., Croatia			100%
	- Farmacia, health institution for pharmacy services, Croatia			100%
	- Bamapharm, health institution for pharmacy services, Croatia			100%
	- Pharmacies Dvoržak 2 health institution for pharmacy services, Croatia			100%
	- Pharmacies Marijam, Croatia			100%
	- Farmacia -specijalizirana prodavaonica (specialized store) d.o.o., Croatia			100%
-Montana Plus d.o.o., Croatia				100%
-Atlantic Italia S.r.l., Italy				100%
-Atlantic Trade Sofia e.o.o.d., Bulgaria (under liquidation)				100%
-Hopen Investments B.V., the Netherlands				100%
	- Aktivkost Handelsgesellschaft mbH, Germany			100%
	- Atlantic Management GmbH, Germany			100%
	- Atlantic Multipower GmbH & Co. OHG, Germany			99,73%
		- Atlantic Multipower UK Ltd, Great Britain		65%
			- Sports Direct Ltd, Great Britain	100%
		- Atlantic Multipower Italia S.r.l, Italy		100%
		- Atlantic Multipower Iberica S.L.U., Spain		100%

[1] d.d. - Croatian abbreviation for "joint-stock company" (Inc.)
[2] d.o.o. - Croatian abbreviation for "limited liability company" (Ltd)

OWNERSHIP STRUCTURE

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

Atlantic Grupa has a stable ownership structure with Emil Tedeschi holding 50.2% shares, the European Bank for Reconstruction and Development (EBRD) and the German Investment and Development Bank (DEG), each holding 8.5% shares, Lada Tedeschi Fiorio 5.8% shares, while 18.6% of the company is owned by pension funds (as at 31 Dec 2012).



Overview of top 15 shareholders of Atlantic Grupa d.d. on 31 Dec 2012

No	Shareholder	No of shares	% ownership
1.	Emil Tedeschi	1,673,819	50.2%
2.	Raiffeisen Mandatory Pension Fund	322.9,3	9.7%
3.	European Bank for Reconstruction and Development - EBRD	284,301	8.5%
4.	German Development Bank - DEG	283,209	8.5%
5.	Tedeschi Fiorio Lada	193,156	5.8%
6.	AZ Mandatory Pension Fund	45,436	1.4%
7.	Raiffeisen Voluntary Pension Fund	46,572	1.4%
8.	PBZ Croatia Osiguranje Mandatory Pension Fund	45,436	1.4%
9.	Erste Plavi Mandatory Pension Fund	38,304	1.1%
10.	Neven Vranković	20,600	0.6%
11.	PBZ d.d./The Bank of New York as custodian	14,551	0.4%
12.	OTP banka d.d./INS683	12,181	0.4%
13.	Mladen Veber	10,982	0.3%
14.	Croatia osiguranje d.d.	7,518	0.2%
15.	Srećko Nakić	6,201	0.2%

Atlantic Grupa shares had a turnover valued at HRK 49.2 million in 2012 as compared to HRK 137.8 million in 2011. The average daily turnover of Atlantic Grupa shares in 2012 was HRK 201.0 thousand as compared to the average daily turnover in 2011 that was HRK 551.2 thousand.

The average market capitalisation of Atlantic Grupa in 2011 was HRK 1,641.7 million, while the average market capitalisation of Atlantic Grupa in 2011 was HRK 2,235.0 million. The listed results in 2012 place Atlantic Grupa in fifth place regarding the average market capitalisation of the Crobex stock index components.

INVESTOR RELATIONS

The transparent presentation of the business model, key business events, long-term strategic development, financial results, as well as continually advancing communication with the financial community resulted in the recognition of Atlantic Grupa as a company that meets its forecasted expectations despite the challenging macroeconomic environment. As a result, since its quotation on the Zagreb Stock Exchange in 2007 until the end of 2012, the Atlantic Grupa share has surpassed the realisation of the official Crobex stock index. The transparency and stability of the company was noticed by the investment community, thus the ownership structure of Atlantic Grupa includes the European Bank for Reconstruction and Development, the German Investment and Development Bank – DEG and all four domestic mandatory pension funds.

In 2012 Atlantic Grupa shares, affected by unfavourable trends in the domestic capital market and uncertainty in regional and global capital markets, in comparison with 2011 posted a smaller overall turnover and average daily turnover. The average price of an Atlantic Grupa share in 2012 was HRK 492.4, while it ended 2012 with the average price of HRK 536.0. It was the 16th most traded share on the Zagreb Stock Exchange in 2012.

On 18 January 2012 the Atlantic Grupa bond, after receiving approval of the Prospectus by the competent regulator CFSSA, was included in the official market of the Zagreb Stock Exchange as ATGR-O-169A. The listed bond was issued in September 2011 for the purpose of refinancing the existing bond issued in December 2006.

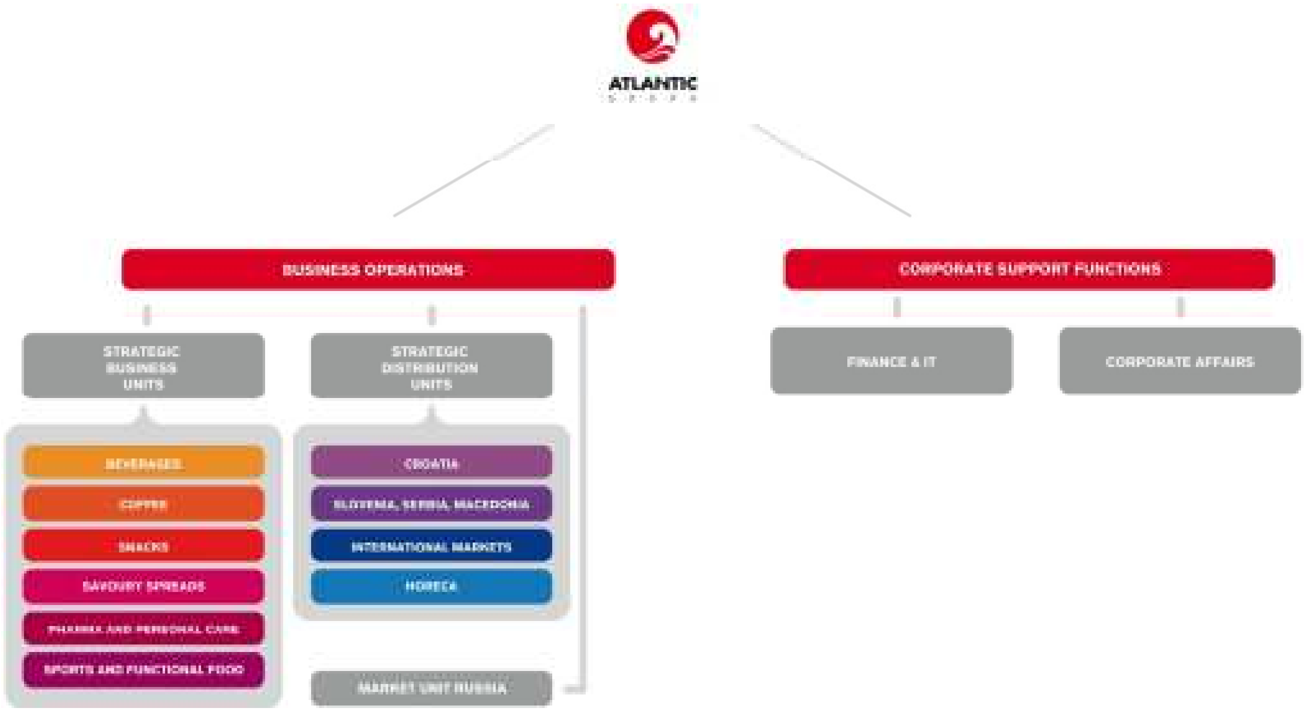
The Office for Investor Relations in 2012 continued to raise the standards of communication with the investment community by participating in domestic and foreign investor conferences organised by banks and regional stock exchanges, where individual meetings were held with current and potential investors. Special attention was given to getting investors acquainted with financial as well as operational aspects of Atlantic Grupa's business activities. In 2012, all relevant financial institutions with corporate analysis departments continued to monitor the business activities of Atlantic Grupa, which was also started by Unicredit Research analysts.

In order to maintain high standards of investor relations based on communication, transparency and direct contact, in 2013 the Office for Investor Relations plans to continue participating in conferences and road shows.

ORGANISATIONAL STRUCTURE

In 2012 Atlantic Grupa introduced a new organisational structure with the aim of achieving even more efficient management of business segments and distribution markets, thus abandoning the former divisional organisation.

The new business organisation comprises two basic segments - Business Operations and Corporate Support Functions:



Business Operations comprise:

a. Six Strategic Business Units (SBU):

- Coffee
- Snacks
- Savoury spreads
- Beverages
- Pharma and personal care
- Sports and functional food;

b. Four Strategic Distribution Units (SDU):

- Croatia
- Slovenia, Serbia and Macedonia
- HoReCa
- International markets;

c. Russian market.

The main feature of such an organisation of the Business Operations segment is the linking of tasks into special business units related to individual product type, and special sales units within which all important markets as well as strategic sales channels are covered. Each business unit has its own internal organisational structure which is, depending on its activity and business volume, composed of organisational areas: business units, organisational units and departments.
Along with Strategic Business Units and Strategic Distribution Units, the Business Operations segment also includes the following functions: Central Purchasing, Central Marketing and Corporate Quality Management, established in order to take advantage of all synergies within the system and to ensure efficient coordination of purchasing, marketing and quality assurance tasks as well as to establish uniform standards on the entire Group's level.

Corporate Support Functions are divided into:

a. Corporate Affairs
b. Finance and Information Technologies (IT)

The listed centrally organised strategic corporate support functions, depending on their respective functional area, have the responsibility for and support the development and management of the entire Atlantic Grupa. These corporate support functions ensure the introduction of uniform corporate standards and more transparent and efficient business operations at the company level.

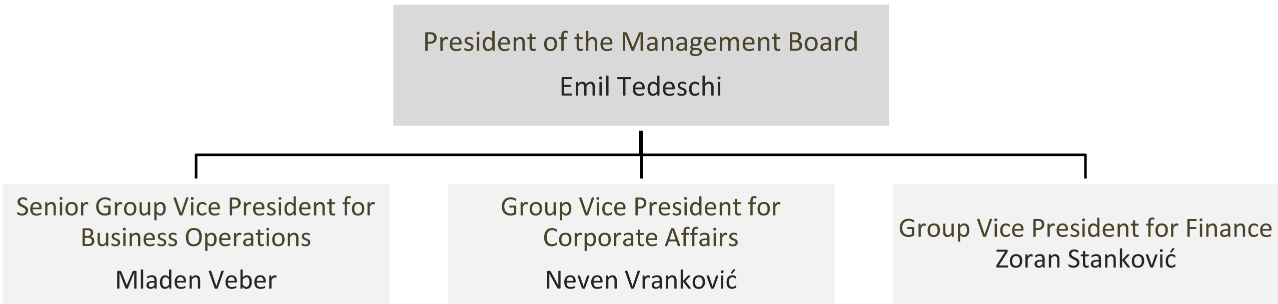
The strategic corporate function Finance and Information Technologies (IT) includes the following units: Business Development, Corporate Reporting and Consolidation, Corporate Controlling, Corporate Tax, Corporate Treasury and Strategic IT Management.

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

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

In line with the new business organisation, in order to make business management as efficient as possible, the Strategic Management Council was established at the beginning of 2012. It is a multifunctional body that discusses vital strategic and operational corporate issues and whose members are responsible for business and distribution units, central functions and corporate support functions.

Furthermore, in relation to its former composition, the Management Board of Atlantic Grupa was reduced to four members and since the beginning of 2012 operates in the following composition:



THE GENERAL ASSEMBLY OF ATLANTIC GRUPA

The General Assembly is a body in which shareholders accomplish their rights in Company matters.

In 2012, two sessions of the General Assembly of Atlantic Grupa were held: the first on 16 February 2012 to decide on the selection of a new member of the Supervisory Board, and the second on 20 June 2012 as a regular General Assembly convened once a year in order to decide on issues prescribed by law and the Company's Articles of Association. The decisions of the General Assembly are available on web pages of Atlantic Grupa and the Zagreb Stock Exchange.

THE SUPERVISORY BOARD OF ATLANTIC GRUPA

The joint stock company Atlantic Grupa has a Supervisory Board consisting of seven members. In 2012, the Supervisory Board held four meetings in accordance with the previously announced Schedule posted on the Company's and the Zagreb Stock Exchange's web pages.

The members of the Supervisory Board are:

Zdenko Adrović/President

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

Lada Tedeschi Fiorio/Vice President

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

Željko Perić/Member

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

Siniša Petrović/Member

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

Franz-Josef Flosbach/Member

Franz-Josef Flosbach is the Director for Europe, Middle East and Central Asia in the German development bank DEG. He has been working at DEG since 1975 on business development processes in transition countries of Europe, the Middle East and Central Asia, and previously he worked as a Senior Advisor at the Treuhand- Vereinigung AG / Coopers & Lybrand GmbH with a special focus on M&A. His business specialties relate mostly to financing, restructuring and privatization, joint ventures, and fields of processing industry and hotel and tourism industry. Franz-Josef Flosbach obtained his industrial engineer's degree at the Technical University Darmstadt in Germany.

Aleksandar Pekeč/Member

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

Vedrana Jelušić-Kašić/Member

Vedrana Jelušić-Kašić is a senior banker at EBRD responsible for Agribusiness banking operations in Croatia, Serbia, BiH, Macedonia, Albania and Montenegro. During her 15-year career at EBRD, she completed over 40 transactions exceeding EUR 1 billion in SEE, CIS and Russia. She has been leading projects with key regional and international companies and leading regional banks. Prior to her prosperous career at EBRD, she worked as an analyst in the Investment Banking Department at RBA. She received her bachelor's degree in economics at University of Zagreb, continued professional specialisation at the Institute for Economic Sciences in Vienna and received her master's degree at Brandeis University in Massachusetts. She is a member of the Croatian Business Leaders Forum and co-author of the book on international accounting.

The members of the Supervisory Board have been remunerated for their work and have the right to remuneration which is appropriate for the tasks performed as well as the Company's situation and business performance. In 2012, members of the Supervisory Board of Atlantic Grupa d.d. on the said grounds received compensation in the total gross amount of HRK 1,144,993.42.

SUPERVISORY BOARD COMMITTEES

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

The Corporate Governance Committee is chaired by Siniša Petrović, Vedrana Jelušić-Kašić was appointed as a member from the ranks of the Supervisory Board and Hrvoje Markovinović as a member from the ranks of external experts. The Nomination and Remuneration Committee is chaired by Željko Perić, Aleksandar Pekeč was appointed as a member from the ranks of the Supervisory Board and Goran Radman as a member from the ranks of external experts. The Audit Committee is chaired by Lada Tedeschi Fiorio, Franz-Josef Flosbach was appointed as a member from the ranks of the Supervisory Board and Marko Lesić as a member from the ranks of external experts.

The members of the said Committees who are not members of the Supervisory Board have received remuneration for their work and contribution to the functioning of the Supervisory Board of Atlantic Grupa in 2012 in the total gross amount of HRK 32,340.42.

THE MANAGEMENT BOARD OF ATLANTIC GRUPA

The Management Board of Atlantic Grupa consists of the President and Vice Presidents, who in 2012 held ten meetings of the Management Board.

The Management Board of the Company in the business year 2012 operated in the following composition:

Emil Tedeschi/President of the Management Board

Emil Tedeschi is the founder and majority owner of Atlantic Grupa. In his business career he received numerous professional and media awards and in 2010 received the state decoration of the President of the Republic of Croatia for his special contribution to Croatian economy. He was actively involved in the process of Croatia's accession to the EU, is a member of the Social and Economic Council and in the period 2005-2007 was the president of the Croatian Employers' Association (HUP). He is also a member of the INSEAD Alumni Association, the Programme Council of the Zagreb School of Economics and Management, the Business Council at the Faculty of Economics in Ljubljana and of the Council of Trustees at the American College of Management and Technology in Dubrovnik. Additionally, he is the President of the Supervisory Board of RTL Croatia and an Honorary Consul of the Republic of Ireland in the Republic of Croatia. Since 2010 he is a member of the Economic Council of the President of the Republic of Croatia.

Mladen Veber/Senior Vice President for Business Operations

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

Neven Vranković/Vice President for Corporate Affairs

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

Zoran Stanković/Vice President for Finance

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

REMUNERATION POLICY FOR MANAGEMENT BOARD MEMBERS

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

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

- right to use an official vehicle, right to compensation of all costs incurred by the Management Board member while performing his/her functions.

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

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

In 2012, members of the Management Board of Atlantic Grupa d.d., on the grounds of salary and remuneration for supervisory board membership, were paid a total gross amount of HRK 13,733,313.55. From that amount, on the basis of salary, remuneration for supervisory board membership in operating companies and annual bonus, President of the Management Board Emil Tedeschi in 2012 received a gross amount of HRK 3,409,111.22.

STRATEGIC MANAGEMENT COUNCIL

The Strategic Management Council was established at the beginning of 2012 as a multifunctional body that discusses vital strategic and operational corporate issues, business analysis, priority definition, supervision of strategic plans, coordination between organisational units and key decision making. The Council includes the following members; President of the Management Board, Senior Group Vice President for Business Operations, Group Vice President for Finance, Group Vice President for Corporate Affairs, and Vice Presidents i.e. Senior Executive Directors of all SBUs and SDUs, Senior Executive Director for Regional Key Accounts Management and Sales Croatia, Secretary General, Executive Directors of Central Purchasing, Human Resources and Corporate Controlling and the Head of the Investment Committee.

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BUSINESS COMMITTEES

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

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

BUSINESS OVERVIEW 2012

STRATEGIC BUSINESS UNITS

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

STRATEGIC BUSINESS UNIT BEVERAGES

Through the activities of the Strategic Business Unit Beverages (SBU Beverages), Atlantic Grupa is a prominent regional producer of instant vitamin drinks, food supplements, teas, refreshing drinks and mineral water. A large number of Atlantic's brands in the segment of instant vitamin drinks, soft drinks, sparkling and natural (spring) water, food supplements, teas and candies are market leaders in the Croatian as well as in the South-East European market. Considering that the manufacturing of these products is the principal activity of the SBU Beverages, this makes the Company a significant regional manufacturer of products intended for healthy nutrition and modern lifestyle.

The SBU Beverages' most prominent products are known on the market under the following brands; instant vitamin drinks Cedevita and Multivita, effervescent tablets Multivita, refreshing soft drinks Cockta and Jupi, consumer Cedevita teas, Naturavita medicinal teas and, in the segment of natural and sparkling mineral water, brands Donat, Tempel, Tiha, Karađorđe, Kala and Kalnička. Furthermore, the SBU Beverages is also manufacturing certain brands for the Strategic Business Unit Pharma and Personal Care (Dietpharm – nutritional supplements and medical purpose products) and for the Strategic Business Unit Sports and Functional Food (liquid forms of Multipower products).

Consumer demands, especially those related to product quality and innovation, are continually growing. Aware of that fact, the SBU Beverages introduces around twenty new products per year. As the quality and safety of products are key factors of acquiring and maintaining consumer trust, high product quality is ensured by systematic investments in knowledge, equipment, technical skills, marketing and consumer communication. The SBU Beverages' quality management systems comply with the strict international standards.

In 2012, business activities of the SBU Beverages were marked by integration processes implemented through the new organisational scheme with the purpose of taking maximum advantage of all synergic effects.

The SBU Beverages' quality management systems are in line with the strict international standards (ISO 9001, 14001, IFS, HACCP, GMP). The basis for the process management system consists of preconditioned programmes (Good Hygiene Practice, Good Manufacturing Practice, Good Laboratory Practice, Good Storage Practice), while a joint approach to education related to the integrated process management system is organised through the School of Quality.

In 2012, the SBU Beverages improved its sales results by 0.2% compared to 2011 and generated sales revenues in the amount of HRK 671.9 million.

Cedevita

According to the agency Valicon's survey, in 2012 Cedevita became No. 1 in the category of at-home consumption (granules) in Croatia and Slovenia. In its strongest market – Croatia – despite the aggressive entry of new competition, Cedevita in 2012 managed not only to preserve, but to raise its market share in sales volume.

The largest success was accomplished in the Slovenian market where Cedevita, according to Valicon's consumer survey, is the brand with the highest rise in popularity in the HoReCa channel. In its home HoReCa market of Croatia, Cedevita is by its power and image the second strongest brand, right after the global leader. In 2012 Cedevita expanded its HoReCa assortment with an exclusive product for children – orange flavoured Cedevita Kids.

In April 2012 regional markets saw the launching of a new grapefruit flavour. Furthermore, Cedevita for the first time realised more significant exports of products to Ireland under the brand name "Cedevita Twist2GO!" and to Australia and South Korea under the brand name "CedevitaGO!". What is more, Cedevita also exported its products to the markets of Germany, Sweden, USA, the Netherlands and Hungary.

In the Croatian market, Cedevita candies are ranked third in the candy category with a value share of 10.7%. The highest selling candy in 2012 was Rondo C Classic (28g) with a volume share of 5.8%, which by taking the first place left behind well-known global brands. Additionally, at the beginning of 2012 a new product Rondo C XXL Classic (61.5g) was launched.

Kalnik springs

The most significant activities in 2012 were related to the product portfolio of water. The former brands Unique (natural spring water) and Kapljice (sparkling mineral water) were closed and new brands Kala (natural spring water) and Kalnička (sparkling mineral water) from the springs of Kalnik were launched. The brands Kala and Kalnička were successfully launched in retail and HoReCa channels, while Kala is also offered by gallon. The stated rebranding in this production segment, followed by a successful advertising campaign, resulted in significantly higher sales of spring water from the Group's product portfolio in 2012.

Multivita

In the production segment Multivita, the improvement of formulation and redesign of the 200g packaging that were carried out in 2012, supported by adequate marketing activities, resulted in the total growth in sales of Multivita, with the highest growth recorded in the market of Bosnia and Herzegovina.

The effervescent product portfolio also underwent a packaging redesign followed by marketing activities, which resulted in maintaining the leading market position in Serbia, with a value share of 51% as well as a 9% value share in Croatia.

Carbonated soft drinks (Cockta, Jupi)

In the extremely competitive market of carbonated soft drinks, a category that in 2012 recorded a large decline in sales, the volume share of the brand Cockta has increased. Such results were facilitated by the performed product image redesign followed by marketing activities, as well as the launching of a product subgroup: Cockta Easy and Cockta Rossa. The biggest success between these new products is recorded by Cockta Rossa which, after its launch in May 2012, exceeded all expectations. Compared to 2011, Cockta recorded the highest growth in sales in Bosnia and Herzegovina and Croatia. Both volume and value market shares of Cockta achieved in 2011 were successfully maintained in 2012 in Slovenia and Bosnia and Herzegovina, while they recorded growth in Croatia and Serbia.

Donat Mg

Despite the large competition of OTC products, Donat Mg yet again remained the leading market brand in Slovenia in the functional product segment. Moreover, according to Valicon's survey, in 2012 Donat Mg considerably improved its brand power and reputation in all other regional markets in the listed product category.

Within the SBU Beverages, in 2012 Donat Mg set a new sales record. The highest double-digit growth in sales was recorded in Serbia, Bosnia and Herzegovina and Russia, while a growth of Donat Mg was also achieved in Austria and France. In 2012 Donat Mg also successfully entered the markets of Ukraine and Israel, after which it is present in 26 countries. The market success in Russia, which came as a result of distribution expansion, raising awareness about basic digestive indications and strong medical marketing, had the largest effect on the total value growth of Donat Mg.

Investments in process equipment continued at the production plant for instant vitamin drinks and pressed candies, which by increasing the process safety level improved the safety of workers, increased process automation and work productivity as well as standardised the quality of raw materials. In the segment of refreshing soft drinks and sparkling and natural mineral water, a production facility for soft drinks (Cockta) started operating within the bottling plant Apatovec, which also includes the production of primary syrup and alteration of filling and packaging lines. With the commissioning of this facility, overall production in BiH and Croatia was transferred to own production facilities. In addition to the soft drink bottling plant, a wastewater treatment facility was built and commissioned by applying the SRB technology. In 2012, the bottling plant Rogaški Vrelci introduced new technology for labelling and production of non-carbonated drinks Multipower for the SBU Sports and Functional Food.

From the research and development perspective, the SBU Beverages in 2012 has given most attention to researching the market, needs and wants of increasingly more aware and rational consumers. In line with that, the category of instant vitamin drinks of the brand Multivita was expended by six innovated products distinguished by improved organoleptic features, proven by consumer tests, and by improved formulations. The inclusion of new raw materials and the improved production process resulted in higher productivity and positive profitability of this product group. The assortment of the core brand of instant vitamin drinks Cedevita was in the course of 2012 broadened by one more flavour, while the assortment of Cedevita GO! products saw the successful completion of all development activities for the launching of a new flavour – grapefruit. Instead of purchasing ready-made tea mixtures from other manufacturers, own formulations were developed and production processes defined for the making of own fruit tea mixes for filter teas cranberry, pomegranate and forest fruits from the range of already well-known Cedevita teas.

For the product portfolio of the SBU Pharma and Personal Care, the SBU Beverages carried out a successful reformulation of Rehidromiks – a special medical-purpose product for the preparation of oral rehydration solution – in line with the latest guidelines of the World Health Organisation, for the purpose of achieving even more efficient effects in treating diarrhoea in children and adults.

At the beginning of 2012, the SBU Beverages started the production of nine Multipower drinks for athletes for the product portfolio of the SBU Sports and Functional Food. This own production was preceded by intensive development activities on improving the product composition according to the needs of athletes and recommendations of nutritionists, depending on the product’s purpose or physical activity for which it is used. The own production and option of using spring water in making Multipower drinks gave these products a special added value.

STRATEGIC BUSINESS UNIT COFFEE

Atlantic Grupa is a coffee manufacturer that is with its renowned brands Barcaffe and Grand Kafa present in the markets of Serbia, Slovenia, BiH, Croatia, Macedonia and Montenegro.

The Strategic Business Unit Coffee (SBU Coffee) has in 2012 generated HRK 1,090.7 million of sales revenues, which is a growth of 8.9% compared to 2011 when sales revenues amounted to HRK 1,001.7 million.

Good sales results of the SBU Coffee in 2012 indicate a continued increase in strength and reputation of brands Barcaffe and Grand on the markets in which they are present, thus providing a significant foundation for implementing further development projects and innovations in this product group in the upcoming period. In order to justify the role of a regional leader in coffee production and to meet new customer needs, in 2012 the SBU Coffee launched two new products: Barcaffe Selection in the premium segment and Barcaffe Bio intended for those consumers who follow global trends in health, nutrition and wellness.

In 2012 a large portion of the SBU Coffee's activities related to espresso products. The most important activity in this unit was the closing of the brand Grand and introducing the brand Barcaffe in Serbia and Bosnia and Herzegovina. Furthermore, the product packaging redesign was performed, which resulted in a unified visual packaging design of the entire product portfolio offered in regional markets, and two new espresso products were launched: Croatia saw the launch of Barcaffe Presige Crema, while Barcaffe for the first time offered its 1 kg Barcaffe Bar product in Macedonia.

STRATEGIC BUSINESS UNIT SNACKS

Atlantic Grupa is a manufacturer of a wide range of chocolate products with the well-known brands such as Smoki, Bananica, Najljepše Želje and others. These brands are present in the markets of Serbia, Slovenia, BiH, Croatia, Macedonia and Montenegro.

The Strategic Business Unit Snacks (SBU Snacks) is composed of one of the leading regional production companies in the area of candy products and salty snacks - Soko Nada Štark – which in 2012 celebrated 90 years of operation. The most significant product categories of the SBU Snacks are chocolates in different forms of that product: desserts, chocolate bars, etc., followed by tea biscuits, wafers, flips and sticks. The

SBU Snacks' production facilities are located in Serbia (Belgrade and Ljubovija) and have over 800 employees.

In 2012, the SBU Snacks realised a growth of 3.7% by generating sales revenues of HRK 600.5 million, of which the largest growth generator was the Croatian market, followed by Slovenia and Bosnia and Herzegovina. Moreover, exports to markets outside the region were increased by 40%.

Viewed by product category, the highest growth was recorded by product categories of biscuits, flips and salty sticks. The flips category with brands Smoki and Čoko Smoki recorded the highest growth in the Croatian and Slovenian markets, while the category of biscuits and salty snacks experienced the highest growth in the Serbian and Croatian markets. The SBU Snacks' strongest brand – Smoki – held its leading position in the markets of Serbia, Bosnia and Herzegovina, Montenegro and Slovenia, while the highest growth in sales was recorded in Croatia.

The year 2012 saw the launching of 24 new products – of which 11 in three new production categories: children's chocolates, children's biscuits and wellness food programme. As in the previous year, the brand Smoki in 2012 won the consumer-choice best snack award in the Serbian market. The Association for Market Communications of Serbia (UEPS) in December 2012 awarded the first and second prize to brands Bananica and Najlepše Željice in the category of advertising campaigns, while Najlepše Željice also won the second prize in the category of new brand creation.

The integrated quality and environmental management systems of the SBU Snacks are certified in accordance with international standards ISO 9001 and all business processes comply with HACCP requirements.

STRATEGIC BUSINESS UNIT SAVOURY SPREADS

The Strategic Business Unit Savoury Spreads (SBU Savoury Spreads) consists of Atlantic Grupa's production segment related to high-quality food product range under brands Argeta and Montana, present not only in Serbia, Slovenia, BiH, Croatia, Macedonia, Montenegro, but also in Western Europe.

The SBU Savoury Spreads in 2012 recorded a 7.6% growth in sales revenues compared to 2011, thus generating sales revenues in the amount of HRK 463.7 million.

Argeta

Argeta is the top product among savoury spreads which in 2012 celebrated 55 years of operation and yet again demonstrated its dominance in the listed product category in Slovenia, Bosnia and Herzegovina, Macedonia and Kosovo.

Business operations in 2012 were also marked by market share growth in comparison with the previous business year. According to Valicon's survey in 2012, Argeta holds a prestigious fourth place among all consumer goods brands in the region. Argeta in 2012 remained a convincing market leader in Slovenia with a value market share of 40.6%, Bosnia and Herzegovina 50.0%, Macedonia 41.3% and in Kosovo with a value market share of 40%. Its value market share ranks second in Croatia (14.1%), Serbia (20.5%), Austria (25.6%) and Switzerland (18.5%). The western European markets (Austria, Germany, Switzerland, Italy, Spain, Sweden, United Kingdom, Ireland) and other export markets (Russia, Kosovo, Bulgaria, Albania, Canada, Australia, USA) are becoming extremely important for Argeta, since its sales share in these markets is almost 40%.

The diverse portfolio of Argeta products consists of savoury spreads whose outstanding market success was the basis for creating sub-brands that follow nutritional habits and trends among consumers and represent an added value for selected target groups. Examples of such products include Argeta Junior, Argeta Exclusive, Argeta Delight – a light spread with less salt and fat, no additives, Argeta Snack – which combines Argeta and breadsticks in an appropriate snack packaging, Argeta Lenten tuna pâté for Orthodox consumers offered in Serbia, Bosnia and Herzegovina and Macedonia, as well as Argeta Exclusive San Rocco – an exclusive flavour of a savoury spread prepared in cooperation with the main kitchen chef of the renowned restaurant San Rocco.

Argeta spreads are manufactured in accordance with international hygiene standards and the international HACCP system which guarantee that the production of safe food products is at the highest level. Their recognisable excellence is additionally affirmed by an ISO 9001 certificate, impeccable production methods and the ISO 14001 environmental management certificate. Argeta products also have the Halal certificate. Business activities of the SBU Savoury Spreads in 2012 were also marked by receiving the FSSC 22000 certificate (Food Safety System Certification) – the highest international certificate for food safety, which was acquired by both production plants where the brand Argeta is manufactured (Izola and Hadžići).

The success of the brand Argeta is additionally confirmed by a whole series of awards, of which the most prominent is the award Euro Effie – a prestigious European award for communication effectiveness. In 2004 Argeta won a gold Effie for its campaign "Argeta – The Good Side of Bread", followed in 2008 by a silver Effie for the Argeta Tuna campaign and in 2010 by a bronze Euro Effie for the Argeta Junior campaign; that same year Argeta received a gold Effie for its Argeta Junior campaign and a special award for its use of market research. In 2012 Argeta received a gold Effie in the category of long-term effectiveness.

Montana

Montana is the first brand of sandwiches of prolonged freshness manufactured in Croatia. Its core assortment consists of triangle sandwiches of prolonged freshness, followed by classic bread roll sandwiches and sweets. In addition to its home market of Croatia, in which it is the market leader, the brand Montana is also present in the Serbian and Slovenian markets. The safety and quality of Montana products is guaranteed by production in line with HACCP standards and an ISO 9001:2000 certificate.

In the second half of the year Montana successfully entered the Slovenian market in which, based on the realised results and good consumer acceptance, further growth in sales is expected in the future despite the highly competitive market.

STRATEGIC BUSINESS UNIT PHARMA AND PERSONAL CARE

The Strategic Business Unit Pharma and Personal Care (SBU Pharma and Personal Care) includes the business activities of pharmacies and specialised stores for medicinal products joined in the chain Farmacia, the production of dietary supplements and over-the-counter medicines (OTC) as well as of cosmetics and personal care products. The SBU Pharma and Personal Care’s activities also include the wholesale pharmacy business organised under Atlantic Pharmacentar.

A large number of Atlantic’s brands in the segments of cosmetics, personal care products and dietary supplements are market leaders not only in Croatia but also in regional markets. Moreover, by acquiring and opening numerous pharmacies and specialised shops united under the name Farmacia, Atlantic Grupa entered and took over the leading position in the segment of pharmacy business in Croatia.

The most prominent products of the SBU Pharma and Personal Care are known under the following brands: Dietpharm dietary supplements and medicinal products, Plidenta toothpastes, face and body cosmetics Rosal, lip care sticks Lip Balm and universal protective cream Melem.

As the quality and safety of products are key factors of acquiring and maintaining consumer trust, high product quality is ensured by systematic investments in knowledge, equipment, technical skills, marketing and consumer communication. The SBU Pharma and Personal Care's quality management systems comply with the strict international standards (ISO 9001, ISO 14000, HACCP, GMP).

In 2012, the SBU Pharma and Personal Care generated sales revenues in the amount of HRK 481.3 million, thus recording a growth of 7.8% compared to the previous year when sales revenues amounted to HRK 446.3 million.

The SBU Pharma and Personal Care operates in the following segments: pharmacy business, dietary and medicinal products, wholesale pharmacy business, personal care products, and through the company Multivita in the part related to the listed business segments (sales of Vitamin C1000 and Vitamin C250 and high-quality effervescent mineral-vitamin products).

Pharmacy business

Farmacia pharmacies and specialised stores in 2012 posted a turnover of HRK 300.2 million and hold the leading position in the segment of pharmacy business in Croatia.

In line with its forecasts, in 2012 Atlantic Grupa realised further growth and concentration of the pharmacy chain through the opening of new pharmacies and specialised stores.

The total of four new business units were opened in 2012: a pharmacy in Vugrovec, Sesvete, and three specialised stores: two in Zagreb – in shopping centres City Center East and Arena Centar and in Rijeka within the shopping centre Zapadni Trgovački Centar (ZTC).

In 2012, the specialised store Farmacia Plus at the address Avenija Avenija Gojka Šuška 6 in Zagreb was closed, and in October 2012 the pharmacy unit Brezovica was consensually taken over by another pharmacy institution outside Atlantic Grupa, in line with previously contracted obligations.

The pharmacy chain Farmacia in 2012 continued its cooperation based on strategic partnership with Dvoržak Pharmacies and Pavlić Pharmacies as well as with a new partner Filipović Pharmacies. The partnership is realised through the joint coordination and management of purchasing, marketing, education and other professional activities.

As part of the efforts to integrate all business units into a single pharmacy system, the intensive work on developing an own recognisable visual identity and implementing a single standard for displaying and advertising products was continued. This is primarily reflected in the interior design of all new business units which complies with all professional standards and trends, thus facilitating the implementation of all elements of modern pharmacy services and the provision of top pharmacy services coupled with an individual approach to patients. The service in our pharmacy units as well as specialised stores is guided by a principal thought of providing patients with a complete professional service. This is reflected in the project of Personal Pharmacist directed at minimising harmful and maximising positive effects of patient therapy, the project of establishing a nutritional and aromatherapy counselling centre (Farmacia, Ilica 11) and the project of establishing a sports section within the specialised store that offers the entire line of Multipower sports foods supported by individual counselling and creation of menus for professional and amateur athletes (Farmacia, Arena Centar, Zagreb). Furthermore, there are numerous discount offers, promotional activities and benefits for our patients in Farmacia venues across the country.

The end of 2012 was marked not only by business success, but also by a successfully implemented humanitarian action in all Farmacia venues for the purpose of raising funds for activities of “Red Noses Clown Doctors” who bring smiles to faces of little patients in their hospital surroundings.

Moreover, the projects related to career and competence development in pharmacy as well as the professional training of employees were successfully continued during the whole year.

Dietary and medicinal products

Wholesale pharmacy business

The wholesale pharmacy Atlantic Pharmacentar in 2012 continued to realise its goal of strengthening the position of the brand Dietpharm in the Croatian market and it established itself as a reliable and quality distributor of other quality domestic and international brand names intended for pharmacy chains and specialised stores. In 2012 the wholesale pharmacy business continued to achieve 100% distribution goals and direct cooperation with all 1,200 delivery points.

In addition to the brand Dietpharm, the wholesale pharmacy’s assortment also includes a part of the distribution mix of Atlantic Trade (Wrigley, Johnson&Johnson, Durex, Scholl, Vivera, Cedevita, Neva products), the distribution portfolio of renowned OTC manufacturers SSL (Hungary) and Stad Hemofarm (Serbia), as well as well known cosmetics brands Maria Galland, Vichy and La Roche Posay. In 2012 the wholesale pharmacy’s assortment was additionally expanded by contracting distribution with the following larger principals: Formasana (12 cosmetics brands, of which most well-known are Uriage, Mustela, Phyto, Lierac, etc.), Mediacom with the new product Slimmies, Terralab (Metasys) and Prirodna kozmetika (Natural Cosmetics) (Topiccream, Delmerion).

Brand Dietpharm

The production programme of Fidifarm in 2012 included 90 products under the brand Dietpharm, of which 10 are market leaders in their respective segment (magnesium, calcium in the prevention and treatment of osteoporosis, menopause, eye vitamins, nutritional supplements for the easing of haemorrhoid pains, iron in nutritional supplements, coenzyme Q10 group, vitamin C in nutritional supplements, oral rehydration salts, and nutritional supplements for aiding the lowering of blood fats). The product Magnezij 375 effervescent tablets (placed on the market in 2012) managed to become the fifth most sold dietary supplement in the Republic of Croatia with a 2% market share and a 2% value share in the entire dietary supplement market. If we add the results of Mg 300 effervescent tablets to the success of this product, then in

2012 these two products had a 3% market share and a 4% value share in the entire market of dietary supplements (source: IMS Pharmis, Sales Vision).

The product offer was in 2012 expanded by a total of six new products launched in the category of functional dietary supplements: Magnezij 375 effervescent tablets for daily magnesium, vitamin C and B6 supplement, Nutrival triaktiv, Ferohel, Veneton Fresh spray, Hialuron Direct plus and Omega.

Fidifarm owes its leading market position in the segment of dietary products – nutritional supplements - to the high quality of its products, continuous introduction of new products and constant improvement of existing formulations, which are a result of long-term orientation towards research and development, compliance with all legislative requirements, building long-term relations and meeting the ever-growing consumer needs. As the long-standing leader in the Croatian market of dietary supplements, in 2012 Dietpharm realised a value market share of 23%.

The loyalty programme that joins the most loyal consumers of the brand Dietpharm – Health Club – remained active throughout 2012. The Health Club was in 2012 joined by 9,000 new members and now has a total of 52,000 members.

With its Dietpharm brand, Fidifarm is active in six regional markets: Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Hungary and Kosovo. The share of export markets in total sales of the brand Dietpharm in 2012 was 34%.

Medicines (prescription and non-prescription)

In 2012 Fidifarm launched a new product on the market of medicines – Sinalerg (desloratadine) and placed it on the B-list of the Croatian Health Insurance Institute (HZZO) where it is already present with one prescription medicine (Purisan granules). In 2012 Fidifarm was present on the market with 7 non-prescription medicines (C 1000 effervescent tablets, Ulcodyn effervescent tablets a 10 and a 20, Fibralgin 500 mg tablets, Fibralgin syrup, Fibralgin C effervescent tablets, Fidiketozol shampoo and Fidiprofen 200 mg effervescent tablets).

Other activities

The year 2012 was marked by full implementation of the new business information system (ERP Diglas) of the SBU Pharma and Personal Care under which the processes of demand planning, procurement of source materials, primary and secondary packaging, office supplies, small inventory, finished products and trade goods, as well as of shipping goods to distributors in foreign markets were integrated into a single organisational unit. In 2012 the wholesale pharmacy continued to provide its overall logistics support in the Croatian market in cooperation with its business partner Medika, rendering the Company more competitive in a timely response to the demands of pharmacies for frequent daily deliveries of products. Additionally, activities of the wholesale pharmacy and Fidifarm were enhanced by introducing the SalesPod mobile sales and sales improvement tool that enables simpler and more effective work of Fidifarm's field representatives.

The existing integrated quality management system, based on the internationally accepted standards ISO 9001:2000 and HACCP principles of food safety control, was additionally enhanced by introducing the rules of Good Manufacturing Practice (GMP) for pharmaceutical production. GMP rules are primarily implemented in the processes of storage, manufacturing and distribution of medicines, but also represent the foundation for continuous development and advancement of the integrated quality management system in all organisational units.

The future growth and development of Fidifarm is expected to be achieved by increasing sales shares in export markets and by expanding to new export markets like Russia, Azerbaijan and Slovakia with the brand Dietpharm.

Neva – personal care products

Although the Croatian market is still the most important one for Neva, one third of revenues in this segment were realised in foreign markets.

The product range of Plidenta toothpastes and toothbrushes is the strongest segment of Neva's assortment, which has a 32% share in the entire portfolio. After launching product novelties in the assortment of Plidenta toothpastes in 2011, the key activity in 2012 was the redesign of primary and secondary packaging. In addition to visual refreshment, Plidenta's new design emphasises the specific effects of each toothpaste and the characteristic differences in relation to the remaining assortment or competition. In the second half of the year Plidenta again assumed the role of the market leader by volume in front of its competition in the Croatian market.

By listening to the needs of its consumers and following the growing trend of men's cosmetics, the market was tested by a limited edition of Melem men stick. The rapid success of this limited edition showed the trust of consumers in the Melem brand in this new target group and the need for development and expansion of the portfolio in this product segment.

Key activities of the brand Rosal were related to lip care. In 2012 Rosal Lip Balm was extended with three new products, of which two are part of the core assortment, Magic Glow and Aloe Vera, while Oriental Beauty was offered as a limited edition. Following global trends and customer demands, in 2012 formulations of all Rosal Lip Balm products were changed and today we can declare these products as completely natural, without mineral oils and paraben. Rosal Lip Balm in 2012 held its position as the volume market leader in markets where it is present.

Multivita

In 2012 the brand Multivita included 12 different products of effervescent tablets. These products comprise multivitamin effervescent tablets, effervescent tablets with vitamin C, magnesium, calcium, iron and zinc. In the pharmacy channel the brand Multivita has market presence in Russia, Serbia and Montenegro. The Russian market recorded the highest sales, namely of Vitamin C1000 that has the highest share in the vitamin C market of Russia.

Education Centre

In 2012 the SBU Pharma and Personal Care's Education Centre continued its educational activities by organising professional courses, such as courses for masters of pharmacy and pharmacy technicians in the following areas: pharmacists' competences, time management, gynaecology, neurology, ophthalmology, phytopharmacy, dermatology, finance, drug interactions, The Centre also organised courses in sales and communication skills for partner pharmacy chains in Croatia and Bosnia and Herzegovina and courses in presentation skills for masters of pharmacy, brand managers, sales representatives, etc.

Likewise, as part of their student practice, more than 200 pharmacy students passed through the system of the SBU Pharma and Personal Care's Education Centre.

Finally, the intensive work of the SBU Pharma and Personal Care was presented in domestic and foreign professional conferences and at the World Congress of Pharmacy and Pharmaceutical Sciences in Amsterdam.

STRATEGIC BUSINESS UNIT SPORTS AND FUNCTIONAL FOOD

The Strategic Business Unit Sports and Functional Food (SBU Sports and Functional Food) specialises in the development, production and sales of sports and health food. Thirty years of tradition and a leading position in the sports food segment have resulted in leading brands Multipower Sportsfood, Multipower Professional, Body by Multipower, Champ Sportsline and Multaben. The headquarters of the SBU Sports and Functional Food is in Hamburg and products under the core brand Multipower are present, that is, leading in the sports food market in entire Europe.

Longstanding close cooperation with top athletes and nutritionists is the basis for recognising consumer needs and it includes constant development of new, innovative sports and health food products. The product range covers food for amateur and professional athletes and for specialised fitness, bodybuilding and wellness centres.

The SBU Sports and Functional Food's production processes are certified by ISO 9001:2000 and IFS. The production plant for powder products and supplements is located in Bleckede.

The strategy of the SBU Sports and Functional Food is based on the idea of continuous development of new innovative sports and health food products in line with keeping up with the needs of the modern market and the needs of end consumers, growth of sales shares in key markets, as well as initiatives related to increasing the share of consumers-users of sports food in general. Due to the specific consumer group for which the SBU's products are intended, special distribution channels have been developed through fitness centres and sports shops, while special care is given to continuous training of the Company's sales teams.

The SBU Sports and Functional Food in 2012 generated sales revenues in the amount of HRK 680.0 million, which is an increase of 4.9% compared to 2011 when they amounted to HRK 648.1 million. The SBU's main business focus in 2012 was its further development in all countries where it has a longstanding market presence as well as in new markets of which some have recorded excellent growth in sales compared to the previous year. In the following period, efforts will focus on expanding business operations in these markets as well as in the United Kingdom, Italy and France.

From the marketing aspect, as the leading sports food producer in Europe, the activities of the SBU Sports and Functional Food were directed not only at increasing the share of new users of sports foods among active and amateur athletes, but also at promoting the industry and benefits of using sports food products. The SBU Sports and Functional Food will continue these activities in the upcoming period, especially through the development of marketing activities, practical packaging and new concepts of product use.

STRATEGIC DISTRIBUTION UNITS

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

STRATEGIC DISTRIBUTION UNIT CROATIA

With its Strategic Distribution Unit Croatia (SDU Croatia), Atlantic Grupa is the leading distributor of high-quality consumer goods with leading regional and global brands. The primary activity is to distribute the entire product portfolio from own production and the product range of external principals in the Croatian market. This unit also includes operational brand management, logistics management as well as regional key client management.

The SDU Croatia is characterised by a diverse range of producers with predominantly leading market products, 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. Along with the SDU Croatia’s present distribution portfolio, in 2012 a new brand of the manufacturer Sofidel was added in the segment of tissue paper products. Through the business activities of the SDU Croatia, Atlantic Grupa is an authorised distributor of the following renowned international brands:

- Wrigley
- Ferrero
- Duyvis
- Johnson&Johnson
- Reckitt Benckiser (Durex/Scholl)
- PG (Duracell)
- Lorenz Snack World (Lorenz / Bobi)
- Manner
- Schwartau
- Emco
- Qimiq
- Sofidel (Regina)
- Vivera
- Rauch
- Nestle (Nescafe)
- Red Bull
- One2Play

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

- Argeta
- Barcaffe
- Bananica
- Cedevita
- Cockta
- Kalničke vode
- Donat Mg

- Multivita
- Melem
- Multipower
- Montana
- Plidenta
- Rosal
- Smoki
- Najlepše Želje

  etc.

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

The SDU Croatia's business activities in 2012 were marked by increasing distribution and market shares of product groups despite a significant decline in consumption volume in the majority of product categories, intense development of all distribution channels, particularly of the HoReCa channel, increasing the number of direct store delivery points, sales reorganisation during the summer season which resulted in improved supply of points-of-sale and growth in sales, reorganisation of the Department for Operational Brand Management and optimisation of the distribution portfolio.

The SDU Croatia in 2012 generated sales revenues in the amount of HRK 876.8 million. This result is 1.3% lower in comparison with 2011 when sales revenues amounted to HRK 888.1 million.

STRATEGIC DISTRIBUTION UNIT SLOVENIA, SERBIA, MACEDONIA

Through the operations of the Strategic Distribution Unit Slovenia, Serbia and Macedonia (SDU SSM), Atlantic Grupa operates as the leading distributor of high-quality consumer goods with leading regional and global brands. The primary activity of SDU SSM is to distribute the entire product portfolio from own production and the assortment of external principals in Slovenia, Serbia and Macedonia. In 2012, the SDU Slovenia, Serbia and Macedonia recorded sales revenues in the amount of HRK 1,930.4 million, which is a 2.9% increase compared to 2011.

SLOVENIAN MARKET

The SDU SSM has in the course of 2012 affirmed itself as the leading distributor of high-quality consumer goods in Slovenia. In order to facilitate business operations and adjustment to ever-growing market demands, the SDU in 2012 carried out the implementation of new information technologies - such as SAP and advanced distribution monitoring systems via mobile devices – into its system, which significantly contributed to the development of customer and supplier communications and relationships. The SDU SSM's distribution portfolio is continually expanded, so in 2012 it operated as an authorised distributor of the following international brands:

- Ferrero
- Hipp
- Zvečevo
- Italfood
- One2Play
- Rauch
- Orangina

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

- Argeta
- Barcaffe
- Cedevita
- Cockta
- Donat Mg
- Melem
- Multipower
- Plidenta
- Rosal
- Smoki

  etc.

The activities of the SDU SSM were in 2012 marked by strong presence and maximum exposure in all distribution channels and by the end of the business year the Company's distribution portfolio was present in more than 2,400 consumer goods retail stores, 5,000 vending machines and 500 post offices across Slovenia. In this market, the SDU's distribution network operates through the synergy of the Distribution Centre Ljubljana, two production locations in Izola and Rogaška Slatina and the sales team consisting of 95 employees.

SERBIAN MARKET

The SDU SSM in the course of its 2012 business operations grew into one of the three leading distributors of high-quality consumer goods in Serbia. Significant progress is visible in all operating segments, both in improving the internal organisation and in communication with external partners. In order to follow the needs of modern consumers, the SDU has also in the Serbian market carried out the implementation of new information technologies, such as WMS (Warehouse Management System), upgrading of IT systems and establishing a call centre, which significantly contributed to the improvement of communication with customers and suppliers.

The Company's distribution portfolio in Serbia is continually expanded, so in 2012 it acted as an authorised distributor of the following reputable international brands:

- Ferrero
- Zvečevo
- Gorki List
- One2Play

In addition to reputable international brands in its sales portfolio, it also distributes the following brands from its own production programme:

- Argeta
- Barcaffe
- Bananica
- Cedevita
- Cockta
- Donat Mg
- Melem
- Multipower
- Plidenta
- Rosal
- Smoki
- Najlepše Želje

  etc.

The activities of the SDU SSM in Serbia were in 2012 marked by strong presence and utmost exposure in all distribution channels and by the end of the business year the Company's distribution portfolio was present in more than 15,500 consumer goods retail stores in that market. The Company's distribution network in the Serbian market operates through the synergy of the central Distribution Centre Šimanovci, 4 production locations (Ljubovija, Smederevska Palanka, two in Belgrade) and the sales team consisting of 236 employees.

MACEDONIAN MARKET

The SDU SSM has in the course of 2012 established itself as the leading distributor of high-quality consumer goods in Macedonia. In order to follow the ever-growing market demands, the SDU in 2012 carried out the upgrade of its IT support systems as well as the reorganisation of its logistics, which significantly contributed to the improvement of customer and supplier communications and relations in that market. The SDU SSM's distribution portfolio is continually expanded, so in 2012 it operated in the Macedonian market as an authorised distributor of the following international brands:

- Ferrero
- Zvečevo
- One2Play

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

- Argeta
- Barcaffe
- Bananica
- Cedevita
- Cockta
- Donat Mg
- Melem
- Multipower
- Plidenta
- Rosal
- Smoki
- Najlepše Želje

  etc.

In the Macedonian market, the business activities of the SDU SSM were in 2012 marked by strong presence and maximum exposure in all distribution channels and by the end of the business year the Company's distribution portfolio was present in more than 3,000 consumer goods retail stores. The SDU's distribution network in this market operates through the synergy of the central Distribution Centre Skopje and the sales team consisting of 54 employees.

STRATEGIC DISTRIBUTION UNIT HORECA

Considering the specifity of this channel and its potential, Atlantic Grupa recognised the importance of the HoReCa channel – exposed to lower competition pressures in relation to the traditional retail channel, whose potential of further growth arises from the tourist potential of both Croatia and the region – for the placement of its products and brands primarily from Strategic Business Units related to beverages and food. The primary activity of the Strategic Distribution Unit HoReCa (SDU HoReCa) is to distribute the product portfolio of beverages from own production in cafes and restaurants across not only Croatia, Serbia, Macedonia and Slovenia, but also in BiH and Montenegro through its distribution partners.

In 2012, the activities of the SDU HoReCa – based on the diverse production and distribution offer of well-known brands such as Cedevita, Cockta, Barcaffe, Kala, Nescafe, Rauch, Orangina, etc. adjusted for this sales channel – strongly focused on establishing the internal organisation and unified operating procedures in all of its markets.

STRATEGIC DISTRIBUTION UNIT INTERNATIONAL MARKETS

Within the Strategic Distribution Unit International Markets (SDU International Markets), Atlantic Grupa, through cooperation with key clients and partners, ensures the placement of its own brands from all Strategic Business Units on international market both in the EU (excluding regional markets) and globally.

The Company's activities in this business segment in 2012 related to establishing the internal organisation, employee structure and unified operating procedures within the listed distribution unit. The aim of the listed activities implemented in 2012 was the consolidation and integration of the Company's business activities on the global market (excluding regional markets) under a common nomenclature.

RUSSIAN MARKET

The separate business operations of Atlantic Grupa in the Russian market include the responsibility for the sales of all products from the Company's portfolio in that specific CIS regional market as well as the management of the baby food brand.

Russia and neighbouring countries (CIS region) are becoming increasingly important for the business development of Atlantic Grupa. This market generated HRK 245.0 million of sales revenues in 2012, which represents a growth of 31.4% compared to 2011 when sales revenues amounted to HRK 186.4 million.

Atlantic Grupa in 2012 managed to complete the merging of its business processes in that region as well as to optimise the organisational structure. According to its market size and growth potential, this region is becoming more and more important for Atlantic Grupa, so the strong focus on this market will continue in the upcoming period in order to increase future business perspectives.

FINANCIAL OVERVIEW

Extract from the consolidated Profit and loss account for Atlantic Grupa for the year ended on 31 December 2012.

(in HRK millions)	**2012**	2011	% change
Revenues	**5,005.5**	4,774.4	4.8%
Sales	**4,930.4**	4,727.8	4.3%
EBITDA	**575.1**	500.7	14.9%
EBIT	**395.1**	334.8	18.0%
EBT	**73.6**	78.8	(6.7%)
Net profit	**66.1**	54.9	20.4%
Net profit after minorities	**55.2**	46.6	18.5%

In 2012 Atlantic Grupa realised organic growth in sales with an improvement in profitability, whereby the Company met the announced expectations. Compared to 2011, the Company delivered 4.3% higher sales, while revenues increased 4.8%. EBITDA is higher 14.9% when compared to 2011 and amounts to HRK 575.1 million. The Company also delivered 18.0% better EBIT compared to 2011. Net profit after minorities was HRK 55.2 million in 2012 which is 18.5% growth comparing to 2011.

KEY DEVELOPMENTS IN THE FY12

1. SECOND INTEGRATION PHASE OF DROGA KOLINSKA AND ATLANTIC GRUPA

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

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

In the first quarter, two major projects in the segment of consolidating IT solutions by markets were completed in the segment of integration of business IT solutions. In Slovenia, all companies are integrated in a single infrastructure and the same business solution – SAP. In Macedonia, all companies are integrated in a single infrastructure and the same business solution – MIS. Additionally, for the purpose of the central warehouse in Šimanovci, Serbia, automated warehouse management system has been implemented. The same system is used in warehouses in Zagreb and Split, and in this way warehouse operations in Croatia and Serbia have been standardised and unified. In the segment of consolidating licences for key business solutions and suppliers (SAP, Microsoft) during the third and fourth quarters all existing licence agreements were consolidated by regions and, under umbrella contracts, services are realised at more favourable conditions and with simpler control and planning. At the end of 2012, the project of implementing a regional data centre in Zagreb was initiated, where in the first and second quarters of 2013, all server and network infrastructure will be consolidated, which will support all IT services for the territories of Croatia and Slovenia. Thereby, through consolidation of infrastructure and support for IT services in one location, significant savings are achieved by a redefinition of the model of user support, redesign of a portion of the IT service and standardisation of the technological platform.

2. REFINANCING

Due to the successfully completed integration of Droga Kolinska, consolidation of operations during the last two years, meeting all commitments and implementation of prudent company strategy, Atlantic Grupa met the conditions for contracting a significantly better credit arrangement with a lower interest rate and longer maturity period compared to the loan obtained for the acquisition of Droga Kolinska.

Accordingly, as at 19 November 2012, Atlantic Grupa signed with the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC, a member of the World Bank Group) and four commercial banks the agreement on refinancing the existing loans that were used for financing the acquisition of Droga Kolinska and refinancing the loans that Droga Kolinska had. The amount of the loan package granted was EUR 307 million and was structured in the way that the EBRD arranged a syndicated loan in the amount of EUR 232 million, and participated in it with own funds of EUR 60 million, while the remaining EUR 172 million were syndicated to partner banks – Raiffeisen Bank, Unicredit Bank, Sberbank and Erste Bank. The IFC participated in the package with a loan of EUR 50 million, while the remaining 25 million were ensured by Raiffeisenbank Austria Zagreb and Zagrebačka banka. The funds from the contracted package were primarily used for restructuring of the company's balance sheet, in the amount of EUR 272 million, additional energy efficiency improvements in the amount of EUR 10 million and for financing of working capital in the amount of EUR 25 million.

3. OWN AND PRINCIPAL BRANDS IN 2012

In line with the Atlantic Grupa's focus on organic business growth through innovation in production categories, active brand management, strengthening of the regional character of distribution operations and further development of individual distribution channels such as the HoReCa segment, in 2012 new products were launched in regional markets, existing products were introduced to new markets, and the distribution portfolio was further extended.

The quality of Atlantic Grupa's brands was confirmed once again by a survey conducted by the agency Valicon that calculates the power of brands on the basis of their recognisability, experience and quality. According to the latest research conducted at the end of 2012, Argeta, Cockta and Cedevita brands are among top 10 brands in the territories of Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Macedonia, while the Smoki brand is in the 17th position.

The Strategic Business Unit Beverages launched two new products in the carbonated soft drinks segment, Cockta Rossa, which started to be distributed in the territories of Croatia, Slovenia, Serbia and Macedonia, and Cockta Easy lemon, which replaced the former brand Cockta light. In the water segment, natural spring water Kala has been launched, and sparkling natural mineral water Kalnička, which replaced former brands in the water segment, Unique and Kapljica.

The Strategic Business Unit Coffee additionally extended its product range with extensions of the brands Grand Kafa and Barcaffe to regional markets and it started to use the Barcaffe brand for the HoReCa segment in the whole region. The year 2012 was successful for the Barcaffe brand, which was, at the production location in Izola, awarded the highest international certificate for food safety: FSSC 22000 (Food Safety System Certification), and at the end of the year it participated in the fourth international contest in quality of coffee blends held in Brescia, Italy, where the Barcaffe Bar coffee blend entered the group of winning products.

The Strategic Business Unit Snacks also initiated a more active launching of products from own portfolio to the Croatian market, while on the regional markets new products from flips category and sweet assortment have been launched.

The Strategic Business Unit Savoury Spreads additionally extended its portfolio of savoury spreads by launching four new products on the regional markets. At the end of March, the Argeta brand at the production location in Izola was awarded the highest international certificate for food safety: FSSC 22000 (Food Safety System Certification). As of the end of July, the distribution of Montana sandwiches on the Petrol gas stations began in the Slovenian market.

The Strategic Business Unit Sports and Functional Food redesigned the Multipower Sportsfood line, intended for professional and amateur athletes. In addition, several new products were launched, which additionally supplemented the existing wide product range in the sports and functional food segment.

Within the Strategic Business Unit Pharma and Personal Care, Fidifarm launched in the Dietpharm line new products from the nutritional supplements category and the cosmetics with special medical purpose category, while in the Fidifarm line it launched a prescription medicine. Additionally, Atlantic Pharmacentar signed new agreements for exclusive distribution with seven new companies. At the beginning of 2012, the Croatian Chamber of Economy awarded Plidenta with the "Croatian Creation" emblem for Plidenta Herbal, Pro-t-action and Triple active and the "Croatian Quality" emblem for other Plidentas.

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

SALES DYNAMICS in the FY12

SALES PROFILE BY STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(in HRK thousands)	2012	2011	2012/2011
SBU Beverages	**671,934**	670,354	0.2%
SBU Coffee	**1,090,672**	1,001,659	8.9%
SBU (Sweet and Salted) Snacks	**600,473**	578,772	3.7%
SBU Savoury Spreads	**463,664**	430,952	7.6%
SBU Sports and Functional Food	**679,971**	648,140	4.9%
SBU Pharma and Personal Care	**481,328**	446,302	7.8%
SDU Croatia	**876,829**	888,080	(1.3%)
SDU Slovenia, Serbia, Macedonia	**1,930,387**	1,875,454	2.9%
Other segments*	**373,152**	327,634	13.9%
Reconciliation**	**(2,237,969)**	(2,139,581)	n/a
Sales	**4,930,441**	4,727,766	4.3%

In 2012, Atlantic Grupa recorded **sales of HRK 4,930.4 million**. The result is by 4.3% higher compared to 2011, when sales amounted to HRK 4,727.8 million. All Strategic Business Units reported growth in sales, headed by the Strategic Business Unit Coffee and the Strategic Business Unit Pharma and Personal Care.

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

*Other segments include SDU HoReCa, Russian market and non-allocable business activities (headquarters and support functions in Serbia, Slovenia and Macedonia) which are excluded from the reportable operating segments. For the time being, the SDU International Markets will not be separated, but its sales and profitability will be presented within the SBU to which they relate. For the time being, the Russian market will include only the baby food product range sales under the Bebi brand.

** Line item "Reconciliation" relates to the sale of own brands which is included in the appropriate SBU and in SDUs through which the products were distributed.

own products. This double representation of sales of own products is eliminated in the line item "Reconciliation".

- **The Strategic Business Unit Beverages** in 2012 had a 0.2% better result than in 2011, recording sales of HRK 671.9 million. Analysing by markets, a double-digit growth in sales of the SBU Beverages in the Russian market should be pointed out, realised by the growth in sales of the Donat Mg brand. Analysing by categories, the growth was achieved in: (i) the carbonated soft drinks category with the Cockta brand, which recorded double-digit growth rates in the territories of Croatia and Bosnia and Herzegovina, (ii) the functional waters category with the Donat Mg brand, which recorded double-digit growth rates in the territories of Serbia, Bosnia and Herzegovina, Austria and Russia, and (iii) the waters category with Kala and Kalnička brands.

- **The Strategic Business Unit Coffee** recorded sales of HRK 1,090.7 million in 2012, which is by 8.9% better result compared to 2011, when sales amounted to HRK 1,001.7 million. Analysing by markets, the SBU Coffee recorded double-digit growth rates in Croatia, Slovenia, Macedonia and Bosnia and Herzegovina, while in the Serbian market it recorded a single-digit sales growth rate. Analysing by categories, the growth was achieved in all coffee categories – Turkish, espresso and instant coffee. In the Turkish coffee category we should point out the double-digit sales growth of the Barcaffe brand in Croatia and Slovenia, and the Grand Kafa brand in Macedonia and Bosnia and Herzegovina. In the espresso coffee category, a significant growth was recorded by the Barcaffe brand in Croatia and Slovenia, and in the instant coffee category, the Grand Kafa brand in Serbia. It should be pointed out that, according to the amount of coffee sold in 2012, it was the second best year for the SBU Coffee after 2008, and in the market of Bosnia and Herzegovina, the largest coffee sales volume ever was realised.

- **The Strategic Business Unit Snacks** grew by 3.7% on an annual level in 2012, achieving sales of HRK 600.5 million. Analysing by markets, the most prominent growth of the SBU Snacks was recorded in Croatia, Slovenia and Bosnia and Herzegovina. The Croatian market achieved more than a double growth in sales as a result of the extension of the snacks product range distribution in 2012. Analysing by categories, the greatest contribution to the growth was made by biscuits, flips and salted sticks categories. The flips category with Smoki and Čoko Smoki brands recorded growth in all regional markets, with the most prominent growth in Croatia and Slovenia, while the biscuits and salted sticks categories recorded the most significant growth in Serbia and Croatia.

- **The Strategic Business Unit Savoury Spreads** in 2012 recorded a 7.6% growth in sales compared to 2011, recording sales of HRK 463.7 million. Analysing by markets, the most prominent growth of the SBU Savoury Spreads was achieved in Slovenia, Russia and Macedonia. In the markets of Switzerland and Sweden, Argeta records double-digit growth rates, while in the Russian market its sales were more than doubled. This indicates that Argeta is increasingly well received outside the region and gains new consumers, as shown by significant market shares in Austria and Switzerland. The growth was achieved in all categories – in the category of meat savoury spreads and the category of fish savoury spreads with the Argeta brand, and in the category of sandwiches of prolonged freshness with the Montana brand.

- **The Strategic Business Unit Sports and Functional Food** in 2012 recorded sales of HRK 680.0 million, which is a 4.9% higher result than in 2011, when they amounted to HRK 648.1 million. Analysing by markets, the SBU Sports and Functional Food recorded double-digit growth rates in the United Kingdom, Russia, Spain, Switzerland and Turkey. Analysing by brands, the Multipower brand recorded lower sales due to lower sales in the German market, which was mitigated by double-digit growth rates of Multipower in the territories of the United Kingdom, Russia, Spain and Turkey. The Multaben brand recorded a mild decrease in sales caused by lower sales in the Austrian market, while the Champ brand recorded lower sales due to a decrease in sales in the German and Austrian markets. The private labels category recorded growth in sales, primarily in the German market.

- **The Strategic Business Unit Pharma and Personal Care** in 2012, with sales of HRK 481.3 million, recorded a 7.8% growth compared to the previous year, when sales amounted to HRK 446.3 million. The factors that contributed most to the growth are as follows: (i) a 9.4% growth in sales of the pharmacy chain Farmacia, caused by the organic growth as well as the merger of 5 pharmacies acquired in May 2011 and (ii) significant growth rates of Multivita as a result of extending the product range distributed in the Russian market and solving problems that existed in 2011 in the operation of the relevant distributor.

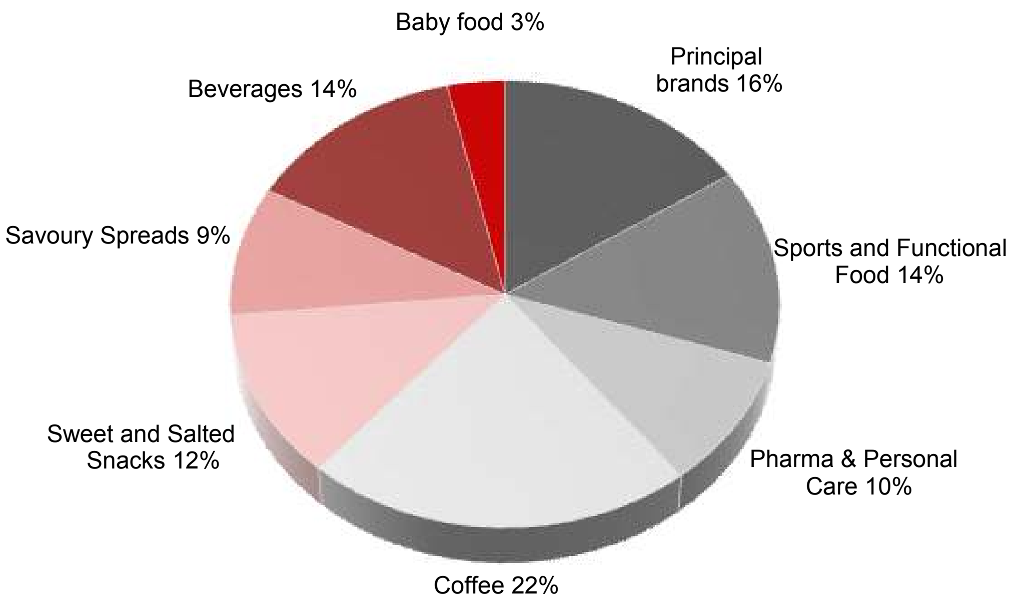
- **The Strategic Distribution Unit Croatia** in 2012 recorded sales of HRK 876.8 million. The result is by 1.3% lower compared to the previous year, when sales amounted to HRK 888.1 million. This result is a consequence of a drop in the principals' brands segment distribution, primarily caused by the termination of a portion of Karolina product range distribution. The drop in the principals' brands segment was mitigated by the growth in the own brands segment distribution, as follows: (i) the coffee segment, (ii) the savoury spreads segment and (iii) the snacks segment.

- **The Strategic Distribution Unit Slovenia, Serbia, Macedonia** in 2012 recorded sales of HRK 1,930.4 million, which is by 2.9% higher result compared to 2011, when they amounted to HRK 1,875.5 million. The greatest contribution to this result was made by the segments of coffee and savoury spreads distribution. The most prominent growth in sales in the markets of Slovenia and Macedonia comes from the distribution of the coffee segment, the savoury spreads segment and the snacks segment. In the Serbian market, the most significant growth is recorded by the distribution of the coffee segment and the savoury spreads segment.

- **Other segments** in 2012 record an increase in sales of 13.9% compared to the previous year, achieving sales of HRK 373.2 million. Other segments include the Russian market, the Strategic Distribution Unit HoReCa and business activities that are not allocated to the above mentioned Business and Distribution Units (administration offices and support services in Serbia, Slovenia and Macedonia) and are excluded from the reported operating segments. The Russian market is growing due to a double-digit growth rate of the baby food brand Bebi, while the Strategic Distribution Unit HoReCa records a growth in sales in the period under consideration due to the growth in the distribution of own brands segments, annulling the negative effect of the termination of the Tobacco Factory Rovinj product portfolio distribution.

SALES OVERVIEW BY CATEGORIES IN 2012 INDICATES THE FOLLOWING:

- The product category coffee with Grand Kafa and Barcaffe brands is the largest individual product category, with a share of 22%
- The product category Sports and Functional Food with key brands Multipower and Champ, and the product category Beverages with key brands Cedevita, Cockta and Donat Mg are the second and third largest product categories, with 14% shares, respectively
- Principal brands make 16% of the total sales



SALES PROFILE BY MARKETS

(in HRK millions)	2012	% of sales	2011***	% of sales	2012/2011
Croatia	**1,313.3**	26.6%	1,333.5	28.2%	(1.5%)
Serbia	**1,226.8**	24.9%	1,204.2	25.5%	1.9%
Slovenia	**648.7**	13.2%	598.4	12.7%	8.4%
Bosnia and Herzegovina	**377.0**	7.6%	357.9	7.6%	5.3%
Other regional markets*	**316.9**	6.4%	295.1	6.2%	7.4%
Western Europe**	**362.0**	7.3%	376.1	8.0%	(3.8%)
Russia and Commonwealth of Independent States	**245.0**	5.0%	186.4	3.9%	31.4%
Other markets	**440.8**	8.9%	376.2	8.0%	17.2%
Total sales	**4,930.4**	100.0%	4,727.8	100.0%	4.3%

- **The Croatian market** in 2012 recorded sales in the amount of HRK 1,313.3 million. The result is by 1.5% lower compared to 2011, when sales amounted to HRK 1,333.5 million. The result was impacted by lower sales in the vitamin instant drink category and principals' brands category as a consequence of the termination of the distribution of Tobacco Factory Rovinj product portfolio and a portion of products from Karolina product range. The decline in sales was mitigated by own brands that recorded growth in the Croatian market, which is the most prominent in: (i) the Turkish and espresso coffee category with the Barcaffe brand, which is strongly taking position in the Croatian market, (ii) the carbonated soft drinks category with the Cockta brand, (iii) the functional waters category with the Donat Mg brand, (iv) the savoury spreads category with the Argeta brand, and (v) the flips category with the Smoki brand. The pharmacy chain Farmacia also records a growth of 9.4%. An additional burden for the results of the Croatian market was the adverse macroeconomic situation with: (i) continued drop in GDP in the third quarter of 2012 of 1.9% on an annual level, (ii) negative trends in the labour market (increase in the number of the unemployed with a decrease in the number of the employed and active population, while the registered unemployment rate at the year-end was at a record high of 21.1%) and (iii) a decrease in real net salaries in the first eleven months of 2012 of 2.5% compared to the same period of 2011. In addition, the consumer confidence index dropped from -21.8 in January to -47.1 in December 2012. The Croatian market remains the largest sales market of Atlantic Grupa with a 26.6% share in the Atlantic Grupa's total sales.

- **The Serbian market** with sales of HRK 1,226.8 million in 2012 recorded a 1.9% growth compared to 2011. In the Serbian market, the most significant growth was recorded by: (i) the Turkish and instant coffee categories with Grand Kafa and Bonito brands, (ii) the vitamin instant drink category with the

* Other regional markets: Macedonia, Montenegro, Kosovo
** Western Europe: Germany, United Kingdom, Italy
*** The sales were restated compared to the report in 2011, since in 2011 the portion of sales related to brands of Droga Kolinska was not classified by all countries reported by Atlantic Grupa

Cedevita brand, (iii) the savoury spreads segment with the Argeta brand and (iv) the category of biscuits. In the local currency, the growth in sales was 11.7% on an annual level, which is a significant result, especially taking into account: (i) a GDP drop on the annual level in all four quarters of 2012, (ii) a decline in retail sales of 6.2% compared to the previous year, and (iii) negative trends in the labour market with an increase in the number of the unemployed, and a decrease in the number of the employed. The Serbian market is the second largest sales market of Atlantic Grupa with a 24.9% share in the company's total sales in 2012.

- **The Slovenian market** recorded sales of HRK 648.7 million in 2012, which is an 8.4% growth compared to 2011, when sales amounted to HRK 598.4 million. The most prominent sales growth in the Slovenian market was recorded in: (i) the coffee segment with the Barcaffe brand, (ii) the functional waters category with the Donat Mg brand and (iii) the savoury spreads segment with the Argeta brand. By the result achieved, the Slovenian market increased its share in the Atlantic Grupa's total sales to 13.2% in 2012 compared to 12.7% in 2011. The sales growth was achieved in the following conditions: (i) a GDP drop in the second and third quarters of 3.2% and 3.3% on an annual level, respectively, (ii) a decrease in the consumer purchasing power due to a weak situation in the labour market and a higher growth in prices than in net wages in 2012, and (iii) a decrease in retail sales, other than fuel, of 5.3% on an annual level.

- **The market of Bosnia and Herzegovina** in 2012 recorded sales of HRK 377.0 million, which is a 5.3% growth compared to 2011, when sales amounted to HRK 357.9 million. By the achieved result, the share of Bosnia and Herzegovina in the Atlantic Grupa's total sales remained unchanged compared to 2011 and amounts to 7.6%. The greatest contribution to the growth in sales was made by: (i) the Turkish coffee category with the Grand Kafa brand, (ii) the carbonated soft drinks category with the Cockta brand and (iii) the flips category with the Smoki brand. The growth in the market of Bosnia and Herzegovina was achieved despite: (i) an extremely unfavourable situation in the labour market (in the first eleven months of 2012, the average registered unemployment rate was 44.1% with an increase in the average registered number of the unemployed in the same period of 2.5% on an annual level) and (ii) a decrease in the consumer purchasing power (in 2012, the average monthly net salary was by 1.2% higher on an annual level, but in the same period consumer prices grew by 2.1% on an annual level).

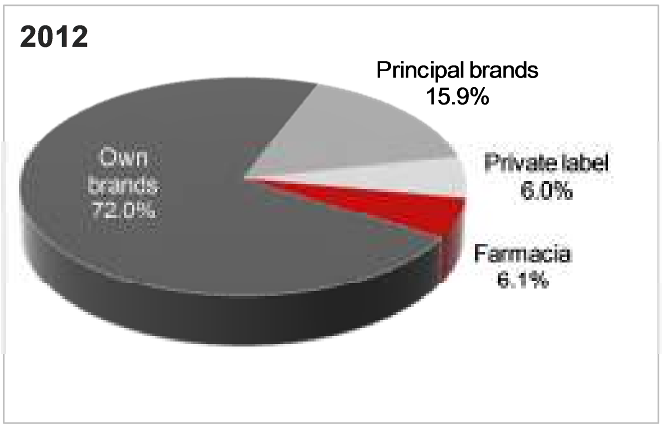
- **Other markets in the region** (Macedonia, Montenegro, Kosovo) recorded sales of HRK 316.9 million in 2012, which is a 7.4% growth compared to 2011, when sales amounted to HRK 295.1 million. The growth in these markets was achieved in certain categories of coffee, savoury spreads and snacks.

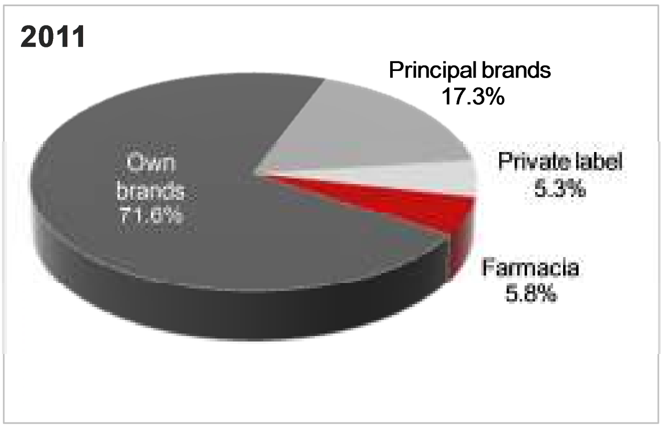
- **Western European markets** (Germany, Italy, the United Kingdom) in 2012 recorded sales of HRK 362.0 million, which is a 3.8% lower result compared to 2011. **The German market**, as the most significant Western European sales market of Atlantic Grupa, in 2012 recorded a 6.6% lower result compared to 2011. This result was impacted by a decrease in sales of the sports and functional food segment due to: (i) delisting of brands from the leading German fitness centre chain which introduced similar products under own brand and (ii) the bankruptcy of the significant retail chain Schlecker. A positive result within the sports and functional food segment was achieved by the Multaben brand and private labels. The German market is economically the most stable Western European market of Atlantic Grupa with positive macroeconomic indicators in 2012. **The market of the United Kingdom** in 2012 recorded a growth rate of 11.4% compared to 2011, due to a double-digit growth of the Multipower brand from the sports and functional food segment. This growth is significant, especially considering that the economic situation was not encouraging operations with: (i) a 0.3% drop in GDP in the last quarter on the quarterly level (preliminary data), (ii) a lack of recovery in the labour market (the average number of the unemployed in the first 11 months of 2012 is by 0.6% higher compared to the same period of 2011) and (iii) a decrease in the consumer purchasing power due to a higher growth in consumer prices than in weekly wages in the first 11 months of 2012 on an annual level. In addition, in November, VAT of 20% was introduced on a portion of the sports and functional food product range, which impacted the slower growth in the last quarter. **The Italian market** in the period under consideration recorded 4.5% lower sales compared to 2011. The result was impacted by lower sales of the sports and functional food segment, while growth was recorded in the segments of savoury spreads with the Argeta brand and in pharma and personal care with a growth in sales of private labels. In addition, the impact of the adverse economic situation must also be taken into account, with: (i) a drop in GDP in the first three quarters of 2012 on an annual level, (ii) an increase in the registered unemployment rate, which was 11.2% in December, and (iii) a stagnation of retail trade of food products in the first eleven months of 2012 on an annual level.

- **The markets of Russia and Commonwealth of Independent States** in 2012 recorded sales of HRK 245.0 million, which is a 31.4% growth compared to 2011, when sales amounted to HRK 186.4 million. Double-digit growth rates were recorded in: (i) the functional waters category with the Donat Mg brand, (ii) the savoury spreads segment with the Argeta brand, (iii) the baby food category with the Bebi brand and (iv) the sports and functional food segment with the Multipower brand. Also, the double-digit sales growth was achieved by Multivita products due to the product range extension and solving problems in the operation of the relevant distributor that occurred during 2011. By the result achieved, the markets of Russia and Commonwealth of Independent States increased their share in the Atlantic Grupa's total sales to 5.0% compared to 3.9% in the previous year.

- **Other markets**, with sales of HRK 440.8 million realised in 2012, make 8.9% of the Atlantic Grupa's total sales. This result is by 17.2% higher compared to 2011, when sales amounted to HRK 376.2 million. The growth was achieved in: (i) the savoury spreads segment with the Argeta brand and (ii) in the sports and functional foods segment with a growth of the Multipower brand and the product range of private labels.

SALES PROFILE BY PRODUCT CATEGORY





- **Own brands** in 2012 recorded a growth in sales of 5.1% compared to 2011, which resulted in sales of HRK 3,552.1 million. Also, the share of own brands in the Atlantic Grupa's total sales increased in 2012 and now amounts to 72.0% compared to 71.6% in 2011. The growth in sales of own brands is a result of the combination of activities aimed at more efficient management of the existing products and launching of new products from the Atlantic Grupa's current product range. The most prominent growth in sales was recorded by brands in the following segments: (i) coffee with the Grand Kafa, Barcaffe and Bonito brands, (ii) beverages with the Cockta and Donat Mg brands, (iii) savoury spreads with the Argeta brand, (iv) snacks with the Smoki brand, and (v) baby food with the Bebi brand.

- **Principal brands** in 2012 recorded sales of HRK 782.1 million. The result is by 5.1% lower compared to 2011 as a result of the termination of a portion of the Karolina product range distribution and the termination of the Tobacco Factory Rovinj product portfolio distribution. The negative impact of the termination of a portion of the product range distribution was mitigated by the increase in sales of other principals, mainly Ferrero and Rauch. As a consequence of the growth in sales of own brands and lower sales of external brands, the share of external brands in the Atlantic Grupa's total sales dropped to 15.9% compared to 17.3% in 2011.

- **Private labels** in 2012 achieved a double-digit growth in sales of 18.7%, resulting in HRK 296.0 million. The growth in private labels primarily relates to the product range of the Strategic Business Unit Sports and Functional Food. The share of private labels in the Atlantic Grupa's total sales in 2012 grew to 6.0% compared to 2011, when it was 5.3% of the total sales.

- In 2012, the pharmacy chain **Farmacia** recorded a 9.4% growth in sales compared to 2011. The share of the pharmacy chain Farmacia in the Atlantic Grupa's total sales in 2012 grew to 6.1% compared to 5.8% in 2011. The growth in the pharmacy chain was achieved at the organic level, as well as through the merger of 5 pharmacies acquired in May 2011. As at 31 December 2012, the pharmacy chain Farmacia consisted of 45 pharmacies and 13 specialised stores.

PROFITABILITY DYNAMICS IN THE FY12

ATLANTIC GRUPA'S PROFITABILITY

(in HRK millions)	2012	2011	2012/2011
Sales	**4,930.4**	4,727.8	4.3%
EBITDA	**575.1**	500.7	14.9%
Normalised EBITDA	**558.6**	517.3	8.0%
EBIT	**395.1**	334.8	18.0%
Normalised EBIT	**399.2**	351.5	13.6%
Net profit/loss	**66.1**	54.9	20.4%
Normalised Net profit/loss	**112.5**	70.3	60.1%
Profitability margins			
EBITDA margin	**11.7%**	10.6%	+107 bp
Normalised EBITDA margin	**11.3%**	10.9%	+39 bp
EBIT margin	**8.0%**	7.1%	+93 bp
Normalised EBIT margin	**8.1%**	7.4%	+66 bp
Net profit margin	**1.3%**	1.2%	+18 bp
Normalised Net profit margin	**2.3%**	1.5%	+79 bp

In 2012, Atlantic Grupa achieved a double-digit growth in profitability on the EBITDA (earnings before interest, taxes, depreciation and amortisation), EBIT (earnings before interest and taxes) and Net profit levels of 14.9%, 18.0% and 20.4%, respectively, compared to 2011.

The improved profitability is a result of a higher growth in sales than in expenses as a consequence of: (i) more efficient management of the existing products, (ii) launching new products, (iii) implementation of cost management through the CORE cost reduction programme and (iv) optimisation of business processes at the central level and lower levels, introduced in order to improve the operative efficiency. An additional impact on the profitability growth was made by: (i) synergy impacts that were not fully realised in 2011, (ii) the fact that the first half of 2011 was burdened by numerous integration activities and negotiations with key customers and (iii) a change in the sales mix with a larger share of own brands sales.

The growth in earnings before interest and taxes was additionally impacted by a lower depreciation and amortisation, resulting from more efficient management of the existing resources and accordingly a lower need for new investments.

Net profit grew despite net foreign exchange losses in the amount of HRK 64.0 million, which were primarily a result of a significant change in the exchange rate between RSD and EUR. The stated foreign exchange differences are solely a consequence of applying the accounting policy according to which non-financial assets are recorded at historical cost in the local currency, without revaluation, while financial liabilities are translated to their EUR value.

The growth in net profit was also influenced by a significant decrease in the effective tax rate due to recognising deferred tax assets on the basis of tax losses carried forward that will be used in the following periods.

At the normalised level, Atlantic Grupa recorded **normalised EBITDA of HRK 558.6 million** which is by 8.0% higher than the normalised EBITDA level in 2011. The normalised EBITDA margin in the period under consideration is by 39 basis points higher on an annual level and amounts to 11.3%.

Normalised EBIT of HRK 399.2 million is by 13.6% higher compared to the normalised EBIT in 2011 and the EBIT margin in the period under consideration increased by 66 basis points to 8.1%.

Normalised net profit of HRK 112.5 million in 2012 is by 60.1% higher compared to 2011.

One-off items that have been excluded in the normalisation process in 2011 include the following:

- Above the EBITDA level;

i. -12.0 million HRK of profit from the sale of a 13-percent share in the company RTL Hrvatska,
ii. +5.8 million HRK of transaction costs related to the acquisition of Droga Kolinska,
iii. +22.8 million HRK impact of the increase in the value of inventories arising from the purchase price allocation process

- Above the EBT level;

i. +16.6 million HRK related to one-off items with impact above the EBITDA level
ii. -1.2 million HRK of one-off impact of the increase in the value of financial liabilities arising from the purchase price allocation process.

One-off items that have been excluded in the normalisation process in 2012 include the following:

- Above the EBITDA level;

i. +1.1 million HRK of transaction costs related to the acquisition of Droga Kolinska and refinancing,
ii. +3.1 million HRK of restructuring costs in the SBU Sports and Functional Food,
iii. -20.7 million HRK of profit due to cancelation of liability under the option for sale of property in Ljubljana,

- Above the EBIT level;

i. -16.5 million HRK related to items with impact above the EBITDA level,
ii. +20.7 million HRK impact of impairment of property in Ljubljana.

- Above the EBT level;

i. +4.2 million HRK related to items with impact above the EBIT level,
ii. +42.2 million HRK impact of refinancing costs.

Operating cost structure excluding one-offs

(in HRK millions)	2012	% of sales	2011	% of sales	2012/2011
COGS	**1,155.4**	23.4%	1,164.9	24.6%	(0.8%)
Changes in inventory	**(3.7)**	(0.1%)	(5.8)	(0.1%)	(36.5%)
Production materials	**1,750.1**	35.5%	1,579.9	33.4%	10.8%
Energy	**64.8**	1.3%	61.2	1.3%	5.9%
Services	**314.9**	6.4%	304.1	6.4%	3.6%
Staff costs	**648.4**	13.2%	635.0	13.4%	2.1%
Marketing and promotion costs	**320.8**	6.5%	300.8	6.4%	6.6%
Other operating expenses	**184.6**	3.7%	224.0	4.7%	(17.6%)
Other (gains)/losses, net	**(9.1)**	(0.2%)	(7.1)	(0.2%)	28.3%
Depreciation and amortization	**159.4**	3.2%	165.8	3.5%	(3.9%)
Total operating expenses	**4,585.6**	**93.0%**	**4,422.9**	**93.6%**	**3.7%**

In 2012, total operating expenses, excluding one-off items, amounted to HRK 4,585.6 million, which is a 3.7% growth compared to 2011, when they amounted to HRK 4,422.9 million. Their share in the total sales mildly decreased in 2012 and amounts to 93.0% compared to 2011 when it was 93.6%.

- Following an increase in the share of own brands and a decrease in the share of external brands in the Atlantic Grupa's sales product range, items of operating expenses closely related to the stated brand groups also changed. This way, in 2012, the purchase cost of goods sold decreased by 0.8% compared to 2011, while the costs of production materials in the same period increased by 10.8%. The increase in the costs of production materials was additionally impacted by the increase in prices of raw materials, primarily coffee, poultry and fish.

- After the production material and the purchase cost of goods sold, staff costs, marketing and sale expenses and service expenses are the three largest items of operating expenses. Staff costs make 13.2% of the total sales in 2012 and record a 2.1% growth compared to 2011. At the end of 2012, Atlantic Grupa had 4,247 employees, of which 86.7% employees in Croatia, Slovenia and Serbia, while at the end of 2011 it had 4,198 employees. Marketing and sale expenses in 2012 recorded a growth of 6.6% on an annual level and now make 6.5% of the total sales. Service expenses in 2012 made 6.4% of the total sales and were by 3.6% higher compared to 2011.

- Of other operating expenses items, energy costs record a 5.9% growth in 2012 on the annual level, while other operating expenses were by 17.6% lower in the period under consideration.

OPERATING PROFITABILITY OF STRATEGIC BUSINESS UNITS AND STRATEGIC DISTRIBUTION UNITS

(in HRK millions)	2012
SBU Beverages	**106.1**
SBU Coffee	**141.2**
SBU (Sweet and Salted) Snacks	**96.3**
SBU Savoury Spreads	**110.0**
SBU Sports and Functional Food	**4.8**
SBU Pharma and Personal Care	**50.0**
SDU Croatia	**(4.7)**
SDU Slovenia, Serbia, Macedonia	**75.3**
Other segments*	**(183.9)**
Group EBIT	**395.1**

In 2012, Atlantic Grupa recorded EBIT of HRK 395.1 million. The most significant contribution to the Group EBIT was made by the SBU Coffee with EBIT of HRK 141.2 million, the SBU Savoury Spreads with EBIT of HRK 110.0 million and the SBU Beverages with EBIT of HRK 106.1 million. The management of Atlantic Grupa is focused on the growth of operating results of the SBU Sports and Functional Food and especially the SDU Croatia, which recorded a negative EBIT of HRK 4.7 million.

Since in 2012 the organisational structure, business model and manner of reporting significantly changed, it was not practical to restate the comparative results for 2011 by Strategic Business Units and Strategic Distribution Units.

*Other segments include SDU HoReCa, Russian market and non-allocable business activities (headquarters and support functions in Serbia, Slovenia and Macedonia) which are excluded from the reportable operating segments. For the time being, SDU International Markets will not be separated, but its sales and profitability will be presented within SBU to which they relate. For the time being, the Russian market will include only the baby food product range sales under the Bebi brand.

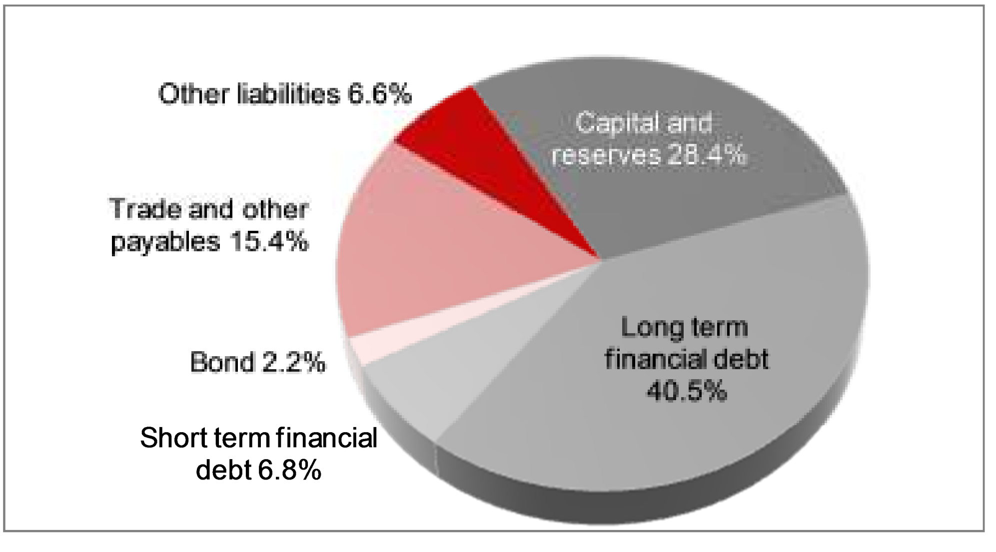
FINANCIAL INDICATORS IN THE FY12

(in HRK millions)	2012	2011
Net debt	**2,353.1**	2,494.0
Total assets	**5,149.5**	5,355.2
Equity	**1,461.4**	1,512.3
Current ratio	**1.8**	1.8
Gearing ratio	**61.7%**	62.3%
Net debt/EBITDA*	**4.2**	4.8
Interest coverage ratio*	**2.6**	2.3
Capex	**78.8**	96.5
Cash flow from operating activities	**296.0**	159.3

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

- Net debt of HRK 2,353.1 million was reduced by HRK 140.9 million and reflects the financial debt of HRK 2,553.0 million, net derivative liabilities of HRK 71.1 million and the amount of cash and cash equivalents and short-term deposits in the total amount of HRK 271.0 million. Consequently, the debt indicators are as follows: (i) ratio of net debt and capital increased by net debt of 61.7%, (ii) ratio of net debt and EBITDA of 4.2 and (iii) 2.6 times coverage of interest expense by normalised EBITDA.

- The Atlantic Grupa's equity and liabilities structure as at 31 December 2012 is as follows:



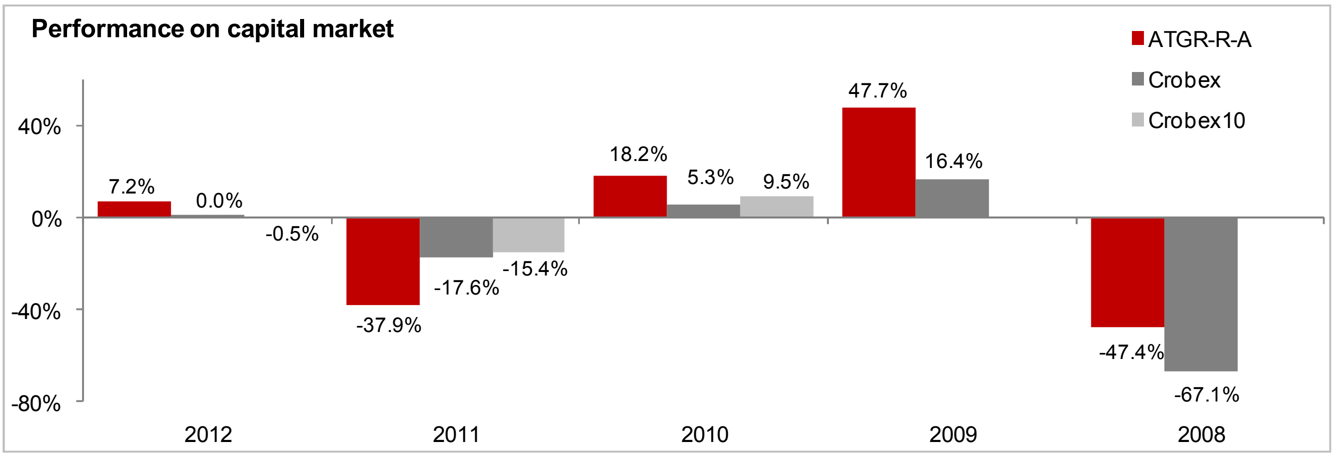
*Normalised

1. The most significant item of equity and liabilities are non-current financial liabilities without the bond which represent 40.6% of the total equity and liabilities,
2. The second most significant item is capital and reserves with a share of 28.4 percent,
3. Non-current and current financial liabilities with the bond make 49.7% of the Atlantic Grupa's total equity and liabilities.

- The company's capital expenditure in 2012 amounts to HRK 78.8 million, with the most significant investments related to the following: (i) the construction of the Cockta bottling plant in Apatovac, (ii) SAP licences for Slovenia, (iii) investments related to transferring the production of Multipower beverages to Rogaška Slatina, (iv) investment in the wafers packaging machine in Soko Štark, (v) equipping the bottling plant of Palanački Kiseljak, (vi) purchase of equipment for the production of coffee, (vii) automation of the Bosch line for coffee in Izola, (viii) purchase of espresso machines for the HoReCa channel, and (ix) purchase of the HRIS system (human resources information system).

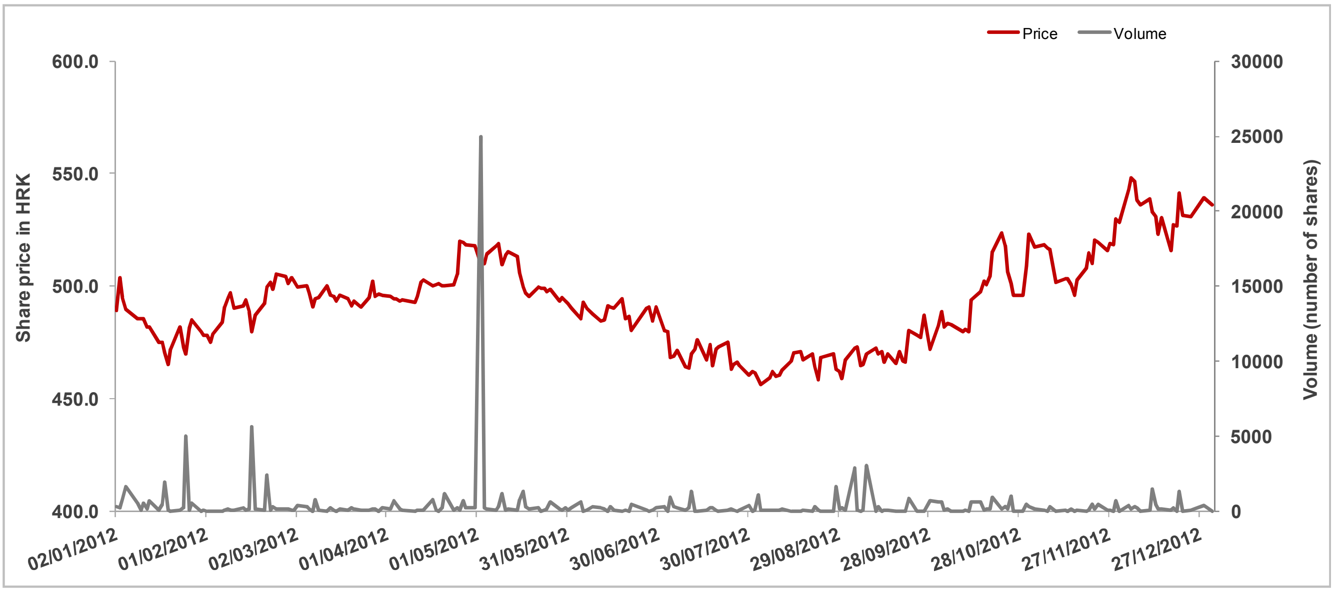
PERFORMANCE ON THE CROATIAN CAPITAL MARKET IN FY12

In 2012, the total turnover at the Zagreb Stock Exchange was 34.9% lower than in 2011, while the order-book turnover of stocks recorded a drop of 44.3%. The order-book volume of stocks increased by weak 2.9%, and the order-book volume of bonds increased significantly, by 183.3%. This indicates that in 2012 investors in the domestic market were unwilling to trade in shares. In such conditions, the Crobex stock index stagnated, while the Crobex10 stock index dropped by 0.5%. An Atlantic Grupa's share outperformed both indices with a price increase of 7.2%.



The average price of an Atlantic Grupa's share in 2012 amounted to HRK 492.4, while the average daily volume in the same period amounted to HRK 201,012.7. In the stated period, the highest average share price was HRK 548.0, and the lowest average price HRK 456.2. A share of Atlantic Grupa ended 2012 with the average price of HRK 536.0. It was the 16th most traded share on the Zagreb Stock Exchange in 2012.

➢ Movements in the average daily price of an Atlantic Grupa's share in 2012



The average market capitalisation* of Atlantic Grupa in 2012 amounted to HRK 1.6 billion, whereby it positioned fifth regarding the average market capitalisation of the Crobex stock index components.

The trend of the Atlantic Grupa's share price increase in the fourth quarter led to the closing price of HRK 536.0 and consequently to market capitalisation of HRK 1,787.2 million at the last trading date in 2012.

Valuation	2012	2011
Last price in reporting period	**536.0**	**500.0**
Market capitalisation (in HRK millions)**	**1,787.2**	**1,667.2**
Average daily turnover (in HRK)	**201,012.7**	**551,157.2**
EV (in HRK millions)	**4,187.5**	**4,229.1**
EV/EBITDA* **	**7.5**	**8.2**
EV/EBIT* **	**10.5**	**12.0**
EV/sales* **	**0.8**	**0.9**
EPS* (in HRK)**	**30.5**	**18.6**
P/E* **	**17.6**	**26.9**

*Calculated as the sum of average daily prices in 2012 and the number of issued shares
**Calculated as sum of the closing price in reporting period and number of issued shares
***Normalised

OUTLOOK FOR 2013

MANAGEMENT’S VIEW ON MACROECONOMIC EXPECTATIONS

Atlantic Grupa's management considers that the economic situation in the Croatian market in 2013 will remain challenging. Management does not expect significant changes in the labour market where it sees continuation of negative trends in terms of an increase in the number of the unemployed and a decrease in the number of employed persons. These negative trends in the labour market are followed by reduced personal consumption due to the pessimism of the population, decrease in available income and further deleveraging. On the other hand, the accession to the European Union might add a positive impetus to the economy that will depend on the implementation of structural reforms and the success in using opportunities offered by the accession, such as the European Union funds.

For regional markets, management expectations are conservative, due to problems in the labour market that is a common characteristic of the entire region and for which there are no signs of recovery. The economic situation in Slovenia will also depend on political stability, and solving problems of the banking sector vulnerability. If a need for an arrangement with the IMF arises, additional reforms will have to be implemented, that might have a negative effect on personal consumption. The situation in state finances and relations with neighbouring countries will largely influence the arrangement of Serbia and the IMF and negotiations on the accession to the European Union, which have a large impact on the economy. The economic situation in Bosnia and Herzegovina will be impacted by the situation of main trade partners, but also by austerity measures and reforms planned.
The economic situation in the eurozone will be impacted by the decisiveness of the economic policy makers in implementing the required reforms and establishing a stronger institutional framework of the monetary union. Recent statements by the IMF leaders that strict austerity measures might not be the best way to deal with the debt crisis could indicate a new direction and gradual loosening of the fiscal consolidation. The strongest economic stability is expected in the market of Germany.

ATLANTIC GRUPA’S STRATEGIC MANAGEMENT GUIDANCE FOR 2013

In order to achieve the planned business and profitability growth during 2013, management will be focused on the implementation of strategic business guidelines that include the following:

- Focus on organic business growth through active brand management with a special emphasis on strengthening the position of brands in international markets; strengthening the regional character of distribution business and further development of the HoReCa segment;
- Focus on further business rationalisation and cost management through the CORE program and optimisation of operating processes on all operating levels, aimed to improve operating efficiency;
- Regular settlement of existing financial liabilities with an active management of debt and finance costs; and

- Prudent liquidity management.

Management expectations for 2013 are as follows:

(in HRK millions)	**2013 Guidance (normalized)**	2012 Normalized	2013/2012
Sales	**5,130**	4,930	4.0%
EBITDA	**585**	559	4.7%
EBIT	**420**	399	5.3%
Interest expense	**185**	215	(14.1%)

OVERVIEW OF FINANCIAL INDICATORS

(In HRK000)	2010 reported*	2010 pro-forma**	2011	2012
Revenues	2.301.945	4.575.540	4.774.385	5.005.484
% yoy change	*3,6%*	*105,9%*	*4,3%*	*4,8%*
Sales	2.268.641	4.512.983	4.727.766	4.930.441
% yoy change	*3,1%*	*105,2%*	*4,8%*	*4,3%*
EBITDA	220.046	544.684	500.670	575.122
EBITDA margin	*9,7%*	*12,1%*	*10,6%*	*11,7%*
EBIT	164.985	294.252	334.843	395.058
EBIT margin	*7,3%*	*6,5%*	*7,1%*	*8,0%*
Net profit	106.797	146.426	54.892	66.112
Net debt	2.495.760	2.495.760	2.494.030	2.353.130
Total assets	5.259.324	5.259.324	5.355.245	5.149.512
Equity	1.456.256	1.456.256	1.512.324	1.461.368
Interest coverage ratio (EBITDA/Interest expense)	5,7	5,5	2,26	2,23
Current ratio	1,34	1,34	1,84	1,76
Gearing ratio	63,2%	63,2%	62,3%	61,7%
Capex net of receipts from sale	24.080	24.080	82.934	58.740
MCap (as of 31. December)	2.684.112	2.684.112	1.667.150	1.787.185
EV	5.243.503	5.243.503	4.229.100	4.187.451
EV/EBITDA (as of 31. December)	23,83	9,63	8,45	7,28
EV/EBIT (as of 31. December)	31,78	17,82	12,63	10,60
EV/Sales (as of 31. December)	2,31	1,16	0,89	0,85
EPS - in HRK	33,84	47,50	13,98	16,57
P/E	23,79	16,95	35,77	32,36
EUR/HRK rate as of 31. December	7,3852	7,3852	7,5304	7,5456
Average EUR/HRK rate	7,2857	7,2857	7,4338	7,5175

*2010 reported - Balance sheet as of 31 December 2010 reflects consolidation of Droga Kolinska, but Profit and loss statement does not reflect consolidation of Droga Kolinska
** 2010 pro-forma - Balance sheet as of 31 December 2010 reflects consolidation of Droga Kolinska and Profit and loss statement reflects pro-forma consolidation of Droga Kolinska

HUMAN RESOURCES IN 2012

After the merger of Droga Kolinska and Atlantic Grupa into a single system, for the purpose of realising mutual synergies and establishing an optimal organisational structure in the phase immediately after the acquisition, a new standard of the Group's business organisation and corporate functions was introduced at the Group's level.

The business activities of Atlantic Grupa are organised in six Strategic Business Units and four Strategic Distribution Units: SBU Beverages, SBU Coffee, SBU Snacks, SBU Savoury Spreads, SBU Sports and Functional Food, SBU Pharma and Personal Care and SDU Croatia, SDU Slovenia, Serbia, Macedonia, SDU International Markets, SDU HoReCa, and the Russian Market.

The Corporate Support Functions, divided into Corporate Affairs and Finance & IT, are centrally organised as strategic functions of corporate support to all business operations.

In 2011 the Human Resources Department coordinated and with the management's participation prepared a unique and comprehensive job systematisation or, more precisely, categorisation of all jobs within Atlantic Grupa. Its purpose was to categorise each job according to its complexity and specificity, and it was successfully implemented at the beginning of 2012. The established systematisation represents a referential basis for defining the required competencies, selection process, education programmes, career plans and succession plans according to jobs or job groups and for defining concrete compensation rules, etc.

The projects *Corporate Culture* and *Performance Management* (U3) were successfully continued in 2012 at the Group's level. Within the project *Corporate Culture*, a programme "Praise a Colleague" was implemented in which all employees could have nominated a colleague for whom they think that he/she best represents our corporate values. The programme proved to be very successful and will continue to be implemented on an annual basis.

We have also for the first time celebrated our *Value Day* on which more than a thousand Atlanticers in the United Kingdom, Italy, Germany, Spain, Russia, Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Macedonia participated in socially beneficial activities: visiting children with special needs, retirement homes, helping in the work of non-governmental organisations or institutions. This in the best possible way demonstrated our values – passion, responsibility and creativity, which are embodied in the symbols of the Sun, Mountain and Wave. On that day Atlanticers reminded themselves that their job is more than just a job – it is also the way they participate in the community.

Passion (Sun symbol), **Responsibility** (Mountain symbol), **Creativity** (Wave symbol).

In 2012 Atlantic Grupa also confirmed its high standards in human resources management and, by getting recertified through the Employer Partner Programme, reaffirmed its leadership position concerning HR processes. Despite evaluation changes and increased austerity in criteria setting, Atlantic Grupa once again scored an excellent 94% out of a possible 100% points and was assessed as above average in all graded categories.

HRIS - HRnet

The implementation of HRnet started near the end of 2012. HRnet is an information system under the competence of the Human Resources Department that integrates all information on Atlantic Grupa's employees. Between the many benefits included in this new HRnet system are reduced administration and increased engagement of employees in key HRM processes. The HRnet system essentially includes all personnel administration, annual leave and business travel management as well as all advanced processes like performance management, employee development management, recruitment and selection management, talent and career management, etc. The launching of this software solution will soon integrate in one place all important HR processes that will be available through a simple application to all 4,247 employees of Atlantic Grupa.

COMPETENCY MODEL - LEARN DEVELOPMENT@AG

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

In 2012 we defined the competency model L E A R N:

L - LEAD BY EXAMPLE – in all they do, employees demonstrate the values of Atlantic Grupa in a manner that is inspiring for colleagues, business partners and the entire business environment.

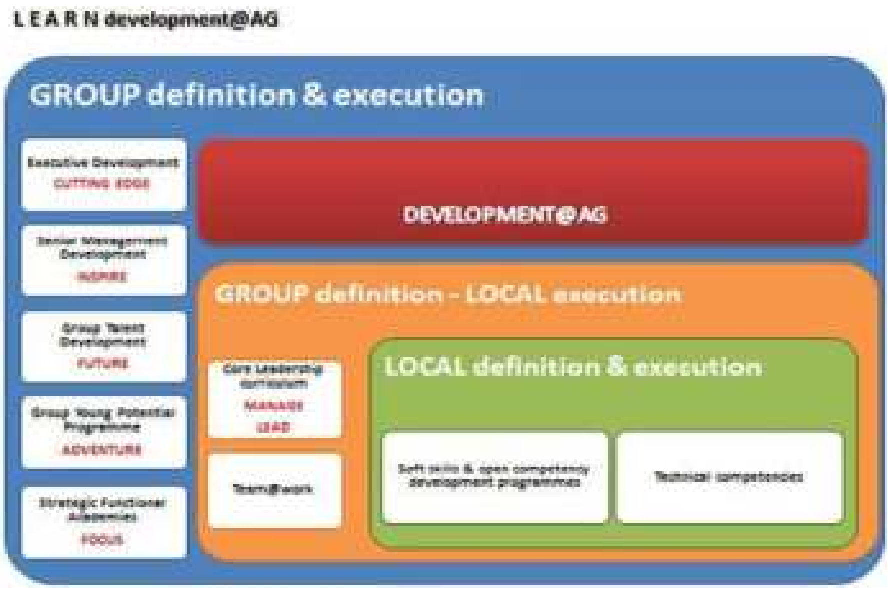
E - put EMOTION IN MOTION – they manage their thoughts, emotions and behaviour through an active effort to correctly recognise and understand own and others' emotions and personality.

A - always ACHIEVE GOALS – they use all available resources to consistently realise their own goals and/or goals set by others.

R - ROW IN THE SAME BOAT – they cooperate with others in order to achieve results. They respect their co-workers, build quality relationships, share knowledge and information.

N - are open for NEW PERSPECTIVE – they look at the big picture, move barriers, question the existing and encourage new, different solutions that oppose conventional work approaches, practices and methods in order to achieve the best and most long-term results as possible.

Management competencies developed through leadership competencies and shown in the “L E A R N” model represent the basis for all education/development programmes created for specific groups and/or specific learning needs. Considering the different programme user groups and their development needs, certain programmes are defined and executed at the group level, certain programmes are defined at the group level, but executed at the local level and certain programmes are defined and executed at the local level.



The leadership programmes are: “Manage“, “Lead“, “Inspire” and “Cutting edge“. At the level of the whole Atlantic Grupa, the Human Resources Department also carries out the programme “Adventure” aimed at recognising and developing young potentials.

TALENT MANAGEMENT

In November 2012 we started working on the Talent Management process by initiating a pilot project participated by employees within the job family “Customer Management”, level 3+, from all SBUs/SDUs, apart from the SBU SFF.

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

Fundamental benefits:

- Ensuring business continuity through succession management
- Recognition, motivation and retention of the best people
- Platform for strategic decision-making in human resource management

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

The project's central event - Organisation & People Panel – is designed to assess employees in view of the quality of performance and the level of potential for assuming positions with more complex responsibilities. Based on the received results and the quality of pilot project implementation – the process was evaluated as a highly useful tool for human resource management and it was confirmed that the process will be implemented on a wider corporate level in the second quarter of 2013.

EMPLOYEE ENGAGEMENT

We live at the time that demands constant changes and improvement efforts from us and our business. The number of challenges before us is constantly growing. We develop ways to deal with them in the same way. The experience, skills and knowledge of employees as well as their satisfaction and good feeling in the working environment belong to key factors of the long-term successfulness of our work.

By researching employee engagement in the end of 2012 we wanted to establish what is that at work that motivates us or demotivate us to achieve more and to feel better. The survey included all employees of Atlantic Grupa in all markets, while the analysis of results and reports were prepared by an external consulting firm. The research results (Engagement Index) also serve as an integral part of the annual performance evaluation for managers and as such serve as indicators of successful human resource management. In the future we plan to carry out such research once a year in order to be able to monitor the results of our targeted actions and to ensure that all employees give their opinion about working in the company.

CORPORATE AND SOCIAL RESPONSIBILITY

SPONSORSHIPS AND DONATIONS

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

SPORTS

- BC Cedevita
- Ljubljana Marathon
- Bridge Federation
- Fitness Academy
- Hockey club Hamburg Freezers
- Croatian Olympic Committee
- Croatian Sports Journalists' Association
- Planica ski jumping
- Croatian Basketball Federation
- Zagreb Marathon

Basketball

The basketball club Cedevita continues to be the forebearer of Atlantic's sponsorships. Atlantic Grupa is actively involved in the promotion of basketball as a sport of national importance by attracting increasingly better players and trainers as well as in the promotion of the brand Cedevita, to which the club was renamed. What is particularly important and upon which the success of this project lies is Atlantic Grupa's dedicated support in financing, organising, and managing the club's Basketball Academy with over 400 children. The Club and the Academy actively work in 11 basketball schools in Zagreb's elementary schools where training is now provided for approximately 200 children, thus ensuring both the future of this sport and the option of a healthy and useful free time activity. Owing to Atlantic Grupa's sponsorship, as well as the efforts put in getting additional sponsors for the BC Cedevita, the club is now one of the most promising teams in Croatia and regional leagues.

The company's involvement in encouraging the audience to support the players with the aim of achieving the best possible sport results resulted in the media's increased interest for basketball events, thus giving significant contribution to popularising this sport in the wider public. In that sense, in addition to its support of the Croatian Basketball Federation, Atlantic also sponsors the Croatian Women's Regional Basketball League in which the brand Multipower provides an additional impulse to its strengthening and recognisability.

Multipower (alpinist expedition, rugby and swimming)

Atlantic Grupa understands socially responsible action as a principle it applies in all the countries in which it is present with its business entities. To that end, Atlantic is a major sponsor through its sports food brand Multipower. Multipower provided its support to an alpinist expedition Kavkaz 2012, while rugby star Ben Foden signed a sponsorship agreement with Multipower, which will supply him with its products and help him in achieving the best possible sports results. In addition to the listed cooperation, the new Multipower's sports hope is Francesca Halsall, a champion swimmer, who prepared for the London Olympics with Multipower products.

Other sports: ski jumping, marathon, bridge

With the brand Cockta, Atlantic already for many years supports the Slovenian Nordic team which has excellent results and Cockta is supporting them in ski jumping competitions. In the end of February the Slovenian national team won first place in a competition in Oberstdorf. Moreover, Slovenian ski jumpers again achieved excellent results in the World Ski Championship in Norway; Robi Kranjc won the gold medal, while the national team won third place.

With the brand Smoki, Atlantic sponsored the 19^{th} Children's Marathon in Belgrade where 150 fastest kids from all Belgrade's municipalities participated in 12 qualifying races. Smoki also sponsored the *Serbian Triathlon Union 2012.* Together they supported the organisation of 10 races in Serbian cities as well as the organisation of an international youth sports camp.

Scholarships for persons with disabilities at the University College for Sports Management, beach volleyball, the Ljubljana Marathon and the Croatian Bridge Federation are also on the list of Atlantic's significant sponsorships, through which Atlantic supports the promotion of sports values.

CULTURE AND KNOWLEDGE

- Jewish Film Festival
- Sarajevo Film Festival
- Špancirfest
- Croatian Association of Dramatic Artists - Actors' Guild Award
- Terraneo

Atlantic Grupa has again this year supported the 18th Sarajevo Film Festival as a central cultural manifestation in the region, once more not only as a Festival sponsor, but also as the main partner of the special festival project Sarajevo grad filma ("Sarajevo Film City"). This year's competition of Sarajevo grad filma included two short films from Serbia and Hungary and, at the awards ceremony held in the open summer cinema Metalac, the Atlantic Grupa award went to the movie "Roundabout" of the Hungarian director Orsi Nagypal. It is a project that gives an opportunity to young film professionals from the region to shoot a short movie in professional conditions and then compete for the Atlantic Grupa award. This project is a kind of extension of the Sarajevo Talent Campus, at the opening of which Atlantic Grupa as the main partner greeted many festival faces for an afternoon cocktail party.

Besides the SFF, Atlantic Grupa in this context also sponsors the Jewish Film Festival, one of the most prominent film festivals held in Zagreb, whose goal is, other than promoting quality films, to promote multiculturalism, tolerance, and respect among nations.

With the brand Smoki, Atlantic also supported the TIBA Festival (Theatre International Belgrade Adventure) – an international theatre festival for young audiences that was in 2012 held for the 10th time.

SOCIALLY VULNERABLE GROUPS

- Centre for Education Dubrava
- Terry Fox Run

Atlantic Grupa continued its cooperation with the Centre for Education Dubrava in 2012. For four consecutive years Atlantic has been investing in the Centre's renovation and has until now reconstructed a number of sport facilities including the Centre's sport hall and swimming hall. With the purpose of making the everyday routine of children with developmental difficulties easier, Atlantic donated the funds for renovating the Centre's rehabilitation facilities and for necessary educational equipment.

Furthermore, Atlantic Grupa actively participated in supporting the Terry Fox Run, while with the brand Cockta Rossa and in cooperation with the Lions Club Forum it participated in a humanitarian action to raise funds for increasing the participation of blind and visually impaired persons in sports, recreational, cultural and art activities, development and education, and their improved inclusion in the community.

VALUE DAY

At the beginning of June we celebrated our *Value Day* when more than a thousand Atlanticers in the United Kingdom, Italy, Germany, Spain, Russia, Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Macedonia visited children with special social needs, retirement homes, helped in the work of non-governmental organisations or institutions. We cleared wild landfills in our local communities and internally helped each other in refreshing our offices – painting walls, fences, planting flowers... With this we demonstrated our values – the Sun, Mountain and Wave – that symbolise passion, responsibility and creativity, and we reminded ourselves that our job is not just a job, but also the way we participate in the community.

CORPORATE GOVERNANCE

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

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 in 2012 issued a Statement of Application of the Code of Corporate Governance, thereby confirming its actions and development in accordance with the good corporate governance practice in all business segments. The Statement of Application of the Code of Corporate Governance has been published on the Company's website, www.atlanticgrupa.com, as well as on the official website of the Zagreb Stock Exchange.

ECOLOGY AND SUSTAINABLE DEVELOPMENT

Atlantic Grupa continued the support and promotion of the principles of sustainable development in all its business activities in 2012. 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 aspects of its operations. The Atlantic Grupa's Social Responsibility Committee monitors and encourages the implementation of principles of sustainable development in the company's everyday business activities and starts initiatives for the improvement of socially responsible business conduct.

In 2007, Atlantic Grupa joined the United Nations global initiative for socially responsible business conduct entitled the Global Compact Initiative. Participation in this Initiative includes the alignment of all business activities with the requirements of socially responsible conduct which are based on the principles of the listed Initiative. Atlantic Grupa 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 or compulsory labour, effective abolition of all forms of child labour, environmental protection, encouraging the development and diffusion of environmentally friendly technologies and the fight against corruption in all its forms.

The environmental management policy is a part of the company's corporate management policy with which Atlantic Grupa is sending a message that we are naturally excellent and naturally different. Under this policy we are committed to selecting environmentally acceptable materials, recycling packaging and rational use of natural resources.

The main corporate goal in the field of environmental management in 2012 was to introduce a corporate environmental management system as a part of the Atlantic Grupa's overall management system with the purpose of minimising any potentially adverse effects of its business activities on the environment and efficient use of natural resources. In companies that are ISO 14001 certified we implemented process improvement activities and at the same time expanded the good practice to additional nine corporate production facilities. The next step is to expand the system to all AG's facilities by the end of 2013. The introduction of the corporate environmental management system means aligning the criteria for planning, implementing, verifying and reviewing all environmental impacts and environmental protection measures. Within this framework we have defined a corporate methodology for recognising environmental aspects and impacts. This methodology is then used to define goals and programmes, monitor measurable results of their implementation and periodically implement measures for improving the system. Additionally, the following corporate standards were defined:

- waste management system,
- energy and water consumption monitoring and analysis system,
- system for monitoring environmental protection regulations,

- management of dangerous substances,
- emergency response,
- training and
- communications related to the environment.

The efficiency of environmental management processes was assessed through the efficiency of energy and water consumption per kilogram of product, improvement of separate waste collection, observations relating to the environment and compliance with environmental protection regulations in 14 production facilities. In general, the targeted values were achieved. There are objective reasons for unachieved goals of separate waste collection in 4 production facilities.

Among the projects that facilitated the improvement of the environmental management system in 2012 we can list the start of a project related to the separation of process waste waters and a landfill reconstruction project in Štark, the introduction of steam heating in Palanački Kiseljak that reduced energy consumption, the use of ground waters in technological processes in Neva’s and Fidifarm’s production site for the purpose of reducing the consumption of municipal water supply, the improvement of the discharge system for precipitation and construction of the drainage system in Droga Kolinska’s warehouse for finished products in Skopje, the optimisation of compressed air consumption in Rogaški Vrelci, the replacement of asbestos roofing and heating system optimisation in Mirna and the reduction of light pollution in production facilities in Rogaški Vrelci, Mirna and Izola.

Besides the everyday focus on reducing the consumption of electricity, fuel and water, as part of the day for promoting corporate values called the Value Day, 2012 saw the implementation of a number of actions related to environmental protection, such as clearing of wild landfills in local communities, decorating and cleaning the workplace environment, collection of waste paper, etc.

Additional attention was given to the area of energy in the second part of the year. We started preparations for the project of introducing a corporate energy efficiency system with the aim of identifying untapped potentials for optimised use of natural resources.

QUALITY ASSURANCE

QUALITY CONTROL

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

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

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

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

Laboratory testing of input materials, semi-finished products and finished products are carried out in three central laboratories specialised for chemical, sensory and microbiological tests with state-of-the-art measurement equipment. The accuracy of measurement results is regularly verified by the method of international interlaboratory testing. The prevention programme for control of food hazards prescribes regular monitoring of the following natural and technological pollutants: pesticide residues, heavy metals, allergens, microtoxins, alkaloids, PAHs and dioxins, nitrates, pharmacologically active substances and contamination by migration of substances from primary packaging. Such tests are outsourced to accredited and specialised laboratories. Monitoring is focused on input materials and adjusted to the supplier's risk assessment. The 2012 results show that the control system is efficient and that all hazards are well under control.

In 2012, our experts shared their experiences in two professional conferences that covered the following topics:

- alignment of a single quality assurance process
- introduction of corporate rules for food control
- calibration of internal auditors
- detection of new hazards in the field of food pollutants
- optimisation of control plans.

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

The activities in the field of quality assurance are supported by advanced IT solutions: the SAP QM module was implemented in the Slovenian and Croatian market, while other locations use internal IT solutions on similar platforms according to the same model.

The efficiency of the quality assurance process is assessed on the basis of achieving target values for key indicators: the number of consumer complaints and the number of product recalls.

All marketed products that were involved in health safety testing by inspection services or internal control officers were identified as complying with the health safety requirements. In one case we decided to preventively recall a product from the market due to sensory changes of taste prior to the expiry of shelf-life. Compared to the previous year, in 2012 we recorded a reduced number of consumer complaints (in 2012 the average number of complaints concerning the products under key brands is 1.46 ppm (per kilogram or litre of sold products), while in 2011 it was 1.7 ppm). All complaints were handled to the satisfaction of customers, while effective corrective actions were defined in the production process in order to prevent reoccurrence of such issues.

INTEGRATED SYSTEM OF QUALITY, ENVIRONMENTAL AND FOOD SAFETY MANAGEMENT

The year 2012 was the first year of operation of the integrated process management system that was introduced at the corporate level of Atlantic Grupa i.e. in all operating companies within the Group.

The integrated quality management system joins three key quality management areas:

- process management,
- product safety and quality management, and
- environmental management.

The system approach is based on the global practice of the following standards:

- ISO 9001:2008 (Quality Management System)
- ISO 14001:2004 (Environmental Management System)
- ISO 22000: 2005 (Food Safety Management System)
- ISO / TS 22002-1:2009 (technical standard for manufacturing food products)
- HACCP – Codex alimentarius CAC/RCP 1-1969, Rev.4 – 2003 (Hazard Analysis and Critical Control Points for food)
- IFS - international food safety standard
- ISO 22716: 2007 Cosmetics – Good Manufacturing Practice (GMP)

The project of implementing the integrated system was initiated at the beginning of 2012, immediately after the new systematisation of the Quality Management Department as a strategic corporate function. It relies on the long-standing practice of implementing quality management systems within certain legal entities and it builds on this practice by introducing corporate key process management and implementing best practices.
As the first step we have defined and promoted a unique AG Quality Policy by directly linking it to the three core corporate culture values. The Quality Policy sends a clear message to all employees and this is that we want to be naturally excellent in all business segments.

In the second step we identified 14 significant processes and their holders. During the year we defined these processes, set key performance indicators (KPIs), organised the measuring and analysis of consolidated results. The management of these processes is based on the PDCA cycle principle, i.e. the principle of continuous improvement.

We have established a single structure for system documentation management that allows user access to corporate and local documentation in the form of clear and organised document structure in all local languages of the Group.

The following quality management systems were recertified in 2012 at the level of legal entities:

- Cedevita d.o.o.: ISO 9001, ISO 14001, IFS, HACCP
- Droga Kolinska d.d.: ISO 9001, ISO 14001, FSSC 22000
- Droga Kolinska Skopje: ISO 9001
- Argeta d.o.o.: ISO 9001, FSSC 22000
- AD Soko- Nada Štark: ISO 9001, HACCP
- Grand Prom a.d.: ISO 9001, HACCP
- Neva d.o.o.: ISO 9001, ISO 14001
- Montana Plus d.o.o.: ISO 9001, HACCP
- Atlantic Multipower GmbH: ISO 9001, IFS
- Fidifarm: ISO 9001, HACCP
- Hemofarm AD: ISO 9001
- Palanački kiseljak a.d.: ISO 9001, HACCP
- Atlantic Trade : HACCP

In the course of the year we have defined a single certification strategy in which the extension of ISO 9001 and ISO 14001 certification to all legal entities of Atlantic Grupa is planned in the next three years. The strategy also plans to promote the international scheme FSSC 22000 in the segment of food production and to upgrade environmental management by introducing basic elements of sustainable development and energy efficiency.

Atlantic Grupa continuously invests in the education of its employees in the field of quality management. To that end, the School of Quality was promoted and implemented in 2012, and over 30 workshops were held on the subject of integrated process management.

BUSINESS RISK FACTORS

BUSINESS ENVIRONMENT RISK

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

Taking into account that a part of Atlantic Grupa's business operations is conducted on the EU market, where the three key EU markets (Germany, Great Britain and Italy) in which Atlantic Grupa operates represent 7.3% of the company's sales revenues in 2012, Atlantic Grupa does not expect disturbances in its business performance resulting from Croatia's integration into the EU. In fact, the geographical profile of Atlantic Grupa indicates the international character of the company's business operations carried out through its operating companies in Belgrade (Serbia), Ljubljana (Slovenia), Sarajevo (Bosnia and Herzegovina), Skopje (Macedonia), Hamburg (Germany), London (Great Britain), Treviso (Italy), Barcelona (Spain) and Moscow (Russia). Furthermore, in view of harmonising its business operations with relevant EU legislation, Atlantic Grupa has in recent years focused its efforts on harmonising its activities and the integrated quality, environmental and food safety management system, so in this regard it already operates in accordance with international standards like ISO 9001, HACCP, ISO 14001, IFS, GMP.

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

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

Business transactions of any company are influenced by macroeconomic risks, but the extent of their impact depends primarily on the level of cyclicity of the industry in which a company operates. Despite its relatively diversified business model, Atlantic Grupa operates in a stable non-cyclical food industry. Considering that the sales of Atlantic Grupa's production and distribution portfolio are influenced by macroeconomic variables like personal consumption, the level of disposable personal income and trends in retail trade, the company continuously monitors the aforementioned macroeconomic factors while at the same time not underestimating the still unfavourable macroeconomic trends for 2013.

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INDUSTRY AND COMPETITION RISKS

CONSUMER GOODS INDUSTRY AND RETAIL (PHARMACIES)

Despite unfavourable macroeconomic trends in 2012, the consumer goods industry in the segment of food products in Croatia is considered interesting mostly due to inelastic product demand since such products are necessary to fulfil basic needs. When considering the development of the consumer goods industry, it is precisely the market liberalisation and globalisation which opened the gates to global producers and retail chains, which in the end resulted in a stronger market competition, more diverse product offer, increase of product quality, establishment of global manufacturing standards and opening of new distribution channels. In such conditions, domestic manufactures can only compete through continuous investment in research and development of new production lines, technological development, marketing in order to improve the brand recognition, and human resources.

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

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

Certain segments of the consumer goods industry, particularly the segment of food products, are influenced by the factors which companies cannot control, like volatile prices of commodities (coffee, sugar, cacao, etc.)

on global markets, weather conditions or the tourist season efficacy. In line with that, certain segments of this industry are of seasonal character, which makes quality management of working capital an extremely important component of ensuring regular business operations of companies. Additionally, a relatively low level of cyclicity of the consumer goods industry makes it attractive to a large number of companies, which in turn results in a larger number of competitors in the market. Furthermore, since there is no significant market leader, there is a risk of new competitors entering the market.

Atlantic Grupa operates in the consumer goods industry segment that includes food products with added value and, accordingly, it uses activities like investing in research and development, investing in technology and closely monitoring market trends and consumer preferences to maintain high market shares in the listed segment. The portfolio of Atlantic Grupa includes a wide range of brands with leading market positions in the region in the segments of coffee, savoury spreads, snacks and beverages. Considering that some of the listed segments are exposed to strong competitive pressures by local and multinational companies, Atlantic Grupa in 2012 continued to actively manage its own brands.

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

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

COMPETITION RISK

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

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

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

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

BUSINESS RISK

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

IMPACT OF INDIVIDUAL PRODUCTS AND BUSINESS PARTNERS ON BUSINESS PERFORMANCE

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

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

PRODUCT DEPENDENCE

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

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

BUSINESS PARTNERSHIP DEPENDENCE

In previous years Atlantic Grupa developed strong partnerships with both domestic and international producers of brands within the distribution portfolio of Atlantic Grupa and continues to realise good collaboration with principals of the new brands in the company's distribution portfolio. Although a loss of exclusive distribution rights to a particular product would have a certain impact on the business performance of Strategic Distribution Units, the risk of that has been greatly reduced in recent years due to the significant expansion of the distribution portfolio. Moreover, in 2012 Atlantic Grupa continued to expand its distribution portfolio by adding new categories and expanding the existing ones to new markets or new distribution channels.

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

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

FINANCIAL RISKS

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

CURRENCY RISK

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

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

EQUITY SECURITIES RISK

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

CASH FLOW AND FAIR VALUE INTEREST RATE RISK

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

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

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

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

CREDIT RISK

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

LIQUIDITY RISK

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

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

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

EQUITY RISKS

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