ATLANTIC GRUPA d.d.

2011 Annual Report

INTRODUCTION

CORPORATE PROFILE

Atlantic Grupa is a Croatian multinational company with integrated businesses in production, development, sales and distribution of consumer goods and is present on the markets of over 30 countries all over the world. Based on its business development, by middle of 2010 Atlantic Grupa grew into the leading European manufacturer of sports nutrients; the regional leader in the production of vitamin drinks and nutritional supplements; a prominent regional manufacturer of cosmetics and personal care products; the leading consumer goods distributor in southeastern Europe; as well as the owner of the leading private pharmacy chain united under the Farmacia name.

In November 2010 the completion of the acquisition of Droga Kolinska ï a food company with a developed brand portfolio with leading positions in regional markets ï rendered Atlantic Grupa, along with the aforementioned, one of the leading regional food companies.

Company business activities in 2011 featured the all encompassing integration process of Droga Kolinska into existing Atlantic Grupa business, the most noticeable of which was linked to distribution and logistics. Thus 2011 saw the completion of uniting the distribution businesses of Atlantic Grupa and Droga Kolinska into single distribution entities on each regional market, which were then united into an independent Atlantic Grupa Distribution Division resulting in the creation of a strong regional distribution network. The focus in the manufacturing segment was placed on the joining of certain production activities and the transfer of outside manufacturing into its own in order to better economically exploit existing manufacturing capacities, while the supply segment saw the implementation of a centralized system with the introduction of the key buyer concept for basic materials. The aforementioned integration process of the branched out and modern Droga Kolinska manufacturing facilities transformed Atlantic Grupa into a strong regional manufacturer with the support of an existing distribution network and infrastructure, thus facilitating a sound foundation for further business development and expansion of the company in the immediate future.

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 all over the world. After the Croatian market, the most important ones are in Germany, Great Britain, Italy, Slovenia, Bosnia & Herzegovina, Serbia, Montenegro and Macedonia. Atlantic Grupa has developed partner relations with regional and national distributors in markets without its own operating companies.

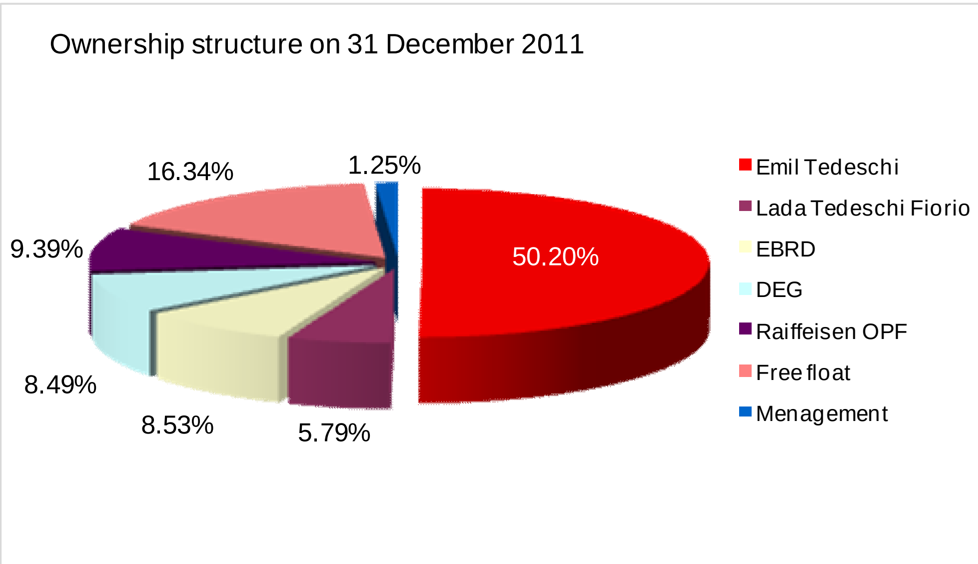
Atlantic Grupa, inc. includes the following companies that it has over 50% shares and control:

Cedevita d.o.o., Croatia				81%
- Multivita d.o.o., Serbia				100%
Neva d.o.o., Croatia				100%
- Atlantic Naloġbe d.o.o., Slovenia				100%
	- Droga Kolinska d.d., Slovenia			100%
		- Grand Kafa d.o.o., Serbia		100%
			- Palanaļ ki kiseljak a.d., Serbia	92.9%
			- Tobess d.o.o., Serbia	100%
			- Soko Nada Ġtark a.d., Serbia	94.1%
		- Droga d.o.o. Sarajevo, Bosnia & Herzegovina		100%
		- Argeta d.o.o. Sarajevo, Bosnia & Herzegovina		100%
		- Droga d.o.o.e.l. in bankruptcy, Macedonia		100%
		- o.o.o. Droga Kolinska, Russia		100%
Atlantic Trade d.o.o., Croatia				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 & Herzegovina		100%
		- DK Trade d.o.o., Bosnia & Herzegovina		100%
			- Kofikom d.o.o. Sarajevo, Bosnia & 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%
- Lasago d.o.o. in bankruptcy, Croatia				100%
- Bionatura bidon vode d.o.o., Croatia				100%
Atlantic Trade Sofia e.o.o.d., Bulgaria				100%
Atlantic Farmacia d.o.o., Croatia				95%
- Farmacia, health institution for pharmacy services, Croatia				100%
- Pharmaceutical health institution Farmacia Ljubuġki, Bosnia & Herzegovina				100%
- Bamapharm, health institution for pharmacy services, Croatia				75%
- Farmacia Plus d.o.o., Croatia				100%
Farmacia ï specijalizirana prodavaonica (specialized store) d.o.o., Croatia				100%
Montana Plus d.o.o., Croatia				100%
LIVIA 2 d.o.o., Croatia				100%
- Pharmacies Marijam, Croatia				100%
- Alpha-Medical 2 d.o.o., Croatia				100%
- Pharmacies Dvorġak 2 health institution for pharmacy services, Croatia				100%
Atlantic Ulaganja d.o.o., Croatia				100%
Atlantic Italia S.r.l., Italy				100%
Hopen Investments B.V., the Netherlands				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%
- AKTIVKOST Handelsgesellschaft mbH, Germany		100%
- Atlantic Management GmbH, Germany		100%
Fidifarm d.o.o., Croatia		100%
- Atlantic Pharmacentar d.o.o., Croatia		100%

OWNERSHIP STRUCTURE

In following the completed capital increase in 2010, the total number of Atlantic Grupa shares is 3,334,300, which were quoted on the official Zagreb Stock Exchange market (ZSE) as ATGR-R-A. At the end of 2011 the majority owner of Atlantic Grupa was Emil Tedeschi with 50.20% shares, while the second largest shareholder was Raiffeisen Mandatory Pension Fund with 9.39% shares. The European Bank for Reconstruction and Development entered the ownership structure during capital increase and has 8.53% shares as of the end of 2011 and is the third largest shareholder. The German Investment and Development Bank DEG increased its ownership share in Atlantic Grupa during capital increase to 8.49% by the end of 2011, becoming the fourth largest shareholder. The capital increase process also included the participation of all other domestic mandatory pension funds, one voluntary pension fund and one of the leading asset management companies in the region of Central and Eastern Europe, East Capital. Along with 5.79% shares owned by Lada Tedeschi Fiorio, 1.25% shares owned by Atlantic Grupa management and 473 individual shares, 16.34% Atlantic Grupa stocks were up for trading at the Zagreb Stock Exchange as of the end of 2011.



Overview of top 15 investors on 30/12/2011

1	Emil Tedeschi	1,673,819
2	Raiffeisen MPF	312,951
3	European Bank for Reconstruction and Development - EBRD	284,301
4	German development bank - DEG	283,209
5	Lada Tedeschi Fiorio	193,156
6	AZ MPF	132,934
7	Raiffeisen MPF	46,572
8	PBZ Croatia osiguranje MPF	45,436
9	Erste Plavi MPF	38,304
10	Zagrebaļ ka banka/joint custody account for UniCredit Bank Austria AG	23,129
11	PBZ d.d./state street client account	19,974
12	Neven Vrankoviĺ	18,927
13	PBZ d.d./The bank of New York as custodian	13,559
14	SG/Joint Scandinavian-swedish account (East Capital)	12,148
15	Mladen Veber	10,799

Atlantic Grupa stock had a turnover valued at 137.8 million HRK in 2011 as compared to 138.7 million HRK in 2010. The average daily turnover of Atlantic Grupa stocks in 2011 was 551.1 thousand HRK, which is in line with the level of average daily turnover in 2010 that was 554.8 thousand HRK.

The average market capitalization of Atlantic Grupa in 2011 was 2,229,454,488 HRK, while the average market capitalization of Atlantic Grupa in 2010 was 2,450,606,470 HRK. The aforementioned results put Atlantic Grupa in second place in 2011 as far as average market capitalization on the *blue-chip* index of the Zagreb Stock Exchange, Crobex 10.

RELATIONS WITH INVESTORS

In 2011 the Office for Investor Relations was the communication link between company management and the financial community. Transparent business model presentation, key business events, long-term strategic development, financial results, and continued improvements to 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 of the former, Atlantic Grupa stock has surpassed the realization of the official Crobex stock index since its inception on the Zagreb Stock Exchange at the end of 2007 through to the end of 2011. The transparency and stability of the company was noticed by the investment community, thus the Atlantic Grupa ownership structure also includes the European Bank for Reconstruction and Development, the German Investment and Development Bank ï DEG, all four domestic mandatory pension funds, as well as one of the leading asset management companies in the in the region of Central and Eastern Europe, East Capital.

In March 2011 Atlantic Grupa stock was added to the *blue-chip* index of the Zagreb Stock Exchange Crobex 10. With its average market capitalization in 2011 that amounted to 2.2 billion HRK, Atlantic Grupa ranked second according to the average market capitalization components of the Crobex 10 stock index. Furthermore, despite unfavorable trends on the domestic capital market and the uncertainty on regional and global capital markets, Atlantic Grupa stock successfully maintained its overall turnover and average daily turnover at the same levels as they were in 2010.

On September 20, 2011, Atlantic Grupa successfully issued bonds for the restructuring of its debt maturity structures, i.e. the refinancing of its obligations as per the bond issued on December 6, 2006, which became due on December 6, 2011, listed on the official market of the Zagreb Stock Exchange market as ATGR-O-11CA. Atlantic Grupa received Prospect Approval from the authorized regulator ï HANFA, thus the Atlantic Grupa bond was included on the official market of the Zagreb Stock Exchange on January 18, 2012 marked as ATGR-O-169A.

In 2011 the Office for Investor Relations continued raising the standards of communication with the investor community by participating at domastic and foreign investment conferences organized by banks, regional stock exchanges and asset management companies, where individual meetings were held with current and potential investors. Special attention was paid to getting investors acquainted with the financial aspects of Atlantic Grupaõs business, as well as the operative aspect of the business. The latter was reason for staging Atlantic Grupa *Brands Day* in Izola where investors from Croatia, Slovenia and Germany had the opportunity to visit the manufacturing facilities in Izola and learn about manufacturing processes, management and development strategies of key brands. The efforts made were noticed by the investor community and in 2011 Atlantic Grupa was awarded by Poslovni Dnevnik (Business Daily) at the Zagreb Stock Exchange Conference as one of three best companies on the Croatian capital market for investor relations. Moreover, also organized by the Zagreb Stock Exchange, the 2011 *Zlatna dionica godine* (Golden Share of the Year) for the second year in a row went to Atlantic Grupa for the best industrial share in the category of foods and medicines, thus additionally confirming its transparency and timely communication with the investor community. All relevant financial institutions with corporate analysis departments continued to monitor the business activities of Atlantic Grupa in 2011 and additional business activity monitoring was introduced by UniCredit Grupa at the beginning of 2012.

In the aim of maintaining high standards in investor relations based on communication, transparency and direct contact, the Office for Investor Relations has plans to continue attending various meetings, conferences and *road shows* in 2012.

ORGANIZATIONAL STRUCTURE

The organizational structure of Atlantic Grupa in 2011 was based on a divisional approach. The main characteristic of divisional organization is linking businesses into business units related to certain types of products and services from Atlantic Grupa:

- **Consumer Health Care Division**

- Unites brands in the segments of vitamin instant drinks (Cedevita and Multivita brands), effervescent tablets (Multivita brand), teas (consumer Cedevita teas and medicinal Naturavita teas), candies (Cedevita vitamin candies), sandwiches (Montana selection of extended freshness), as well as cosmetics and personal care products Rosal, Melem and Plidenta brands). The acquisition of Kalniļke Vode Bio Natura in 2010 expanded the Health Care portfolio with new brands of still and sparkling mineral water (Unique and Kapljica);

- **Sports and Functional Food Division**

- Includes business connected to beverage production, powder products, concentrates, nutritional supplements, energy bars for athletes and an assortment of weight control products, as well as establishing the leading brands on the international market today: Multipower, Multaben, Champ and Megaslim.

- **Distribution Division**

- Unites the distribution of own brands: Cedevita, Melem, Plidenta, Rosal, Dietpharm, Multivita, Grand Kafa, Argeta, Barcaffe, Cockta, Smoki, Donat Mg and others, along with the distribution of well known international brands for which it is the authorized distributor, including: Wrigley, Johnson & Johnson, Hipp, Vivera, Ferrero, Lorenz, Manner, Durex, Duracell, Duyvis, Scholl, Karolina, One2play and others. Together they comprise a powerful distribution portfolio of the company. The distributive assortment of the Group is continually expanding, as can be seen from the newly signed distribution agreements with Ferrero for the Macedonian and Serbian markets, as well as distribution agreements with Red Bull and Rauch for the Croatian market in 2010.

- **Pharma Division**

- Integrates the pharmacy segment of the business through the largest private chain of pharmacies in Croatia ï Farmacia ï along with the manufacturing of vitamins, minerals, nutritional supplements and over the counter medicines (OTC) through the brand names Dietpharm and Fidifarm.

- **Droga Kolinska Division**

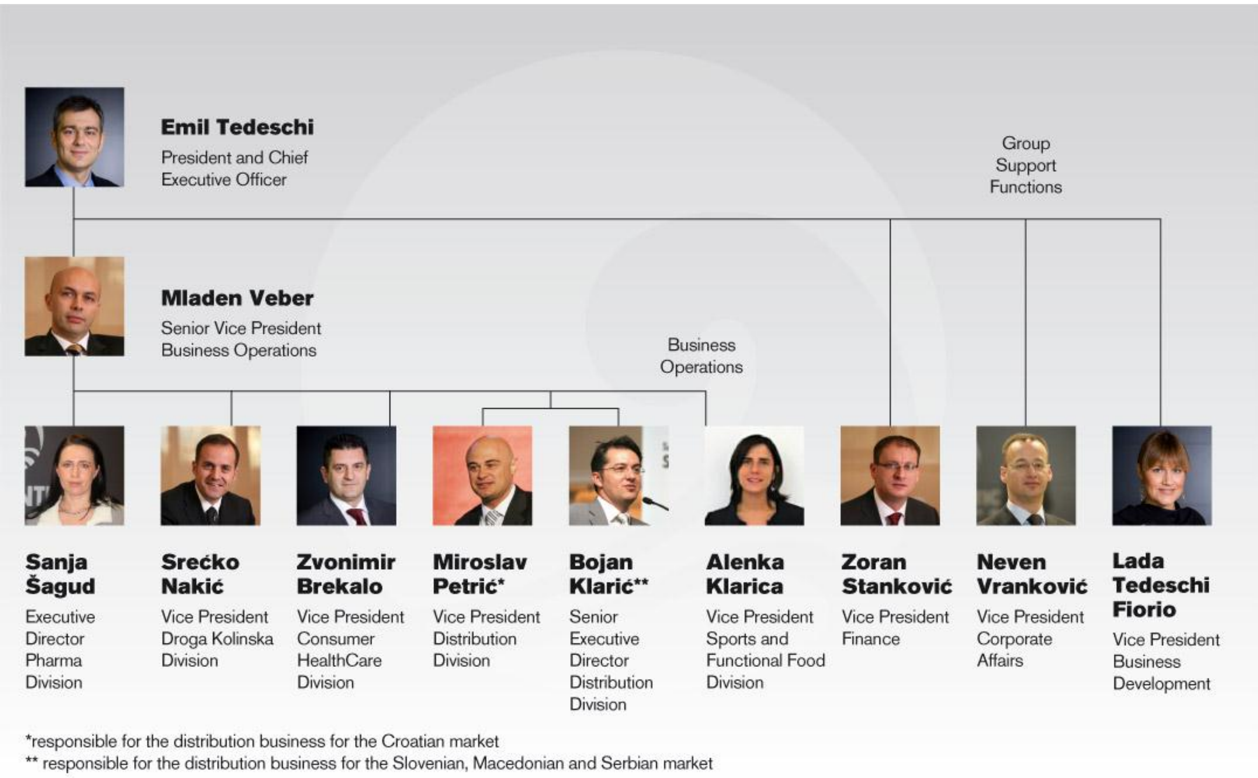
- Formed as the fifth division, it is divided into five business units: Coffee, Snacks, Savoury Spreads, Nonalcoholic Beverages and Childrenœ Food. The Droga Kolinska Division unites respected brand names with leading market positions on regional markets including Barcaffe and Grand Kafa in the coffee segment; Cockta and Donat Mg in the beverage segment; Smoki, Najlepġe ġelje and Bananica in the segment of snacks; Argeta in the savoury spreads segment; and Bebi in the childrenœ food segment with exclusive presence on the Russian market, thus also covering the Commonwealth of Independent States.

The operative business is divided into the aforementioned divisions in Atlantic Grupa and is linked to joint corporate support functions on the level of Atlantic Grupa including the areas of:

- **Finance,**
- **Corporate Affairs,**
- **Business Operations.**

The area of Finance includes the Finance, IT and Investor Relations departments, while the Corporate Affairs include the Human Resources, Corporate Communications, Legal Affairs, Corporate Investments and Investment Maintenance, and Corporate Security departments. The Business Development Office coordinates the development of strategic projects, identification of new potential business targets geared toward expansion through acquisitions, merging or strategic partnerships, and communication with consulting companies from this area and the investment community.

The aforementioned support functions contribute to the introduction of a unique corporate standard, as well as doing more transparent and effective business on the Group level, while the Business Development Office – communication with key financial and investment companies and participation at conferences – substantially contributes to acquainting the investment community with Atlantic's business and building the reputation of the company.



ATLANTIC GRUPA SUPERVISORY BOARD

Atlantic Grupa Incorporated has a Supervisory Board with seven members. In 2011 the Supervisory Board held four sessions in accordance to its published session calendar that can be found online on the webpage of the company and the webpage of the Zagreb Stock Exchange.

The members of the Supervisory Board are:

Zdenko Adrović/President

Zdenko AdroviÍ has been President of the Raiffeisenbank Austria d.d. Management Board since 1996. During his twelve-year mandate RBA has developed into one of the leading financial institutions and received a number of awards from the Croatian Chamber of Economy as the most successful bank in Croatia. Furthermore, the respected magazine The Banker awarded it ŕBest Bank in Croatiaò for 2006 and 2008. Prior to his current position, he was the Deputy General Manager of Privredna Banka Zagreb, where he also worked as the Investment Banking Sector Manager and the Executive Vice President responsible for the Treasury and Liquidity. He also held positions as a supervisory board member for Pliva, Croatian Employersô Association Executive Board, and Business Council for Competition. He graduated economy at the University of Zagreb, Faculty of Foreign Trade.

Lada Tedeschi Fiorio/Deputy President

Lada Tedeschi Fiorio began her career at Atlantic in 1997 as the Executive Director for Asset Management. During the acquisition of Cedevita in 2001 she participated as the head negotiator with potential investors. In 2004 she was named General Director for the Atlantic Italia company. Prior to her coming to Atlantic she earned her business experience at the multinational company Wrigley in Germany and Mars Masterfood in Poland and the United Arab Emirates. After the incorporation of Atlantic Grupa she was named Atlantic Grupa Supervisory Board Deputy President. She graduated economy at the UniversitaôCommerciale L. Bocconi in Milan and completed the Corporate Finance Programme at the London Business School.

Željko Perić/Member

Ģeljko PeriÍ is one of the leading Croatian experts for mergers and acquisitions with substantial experience with leading managerial positions. He is the general manager of the Caper consulting company, specialized for mergers and acquisitions, and strategic consulting. Prior to his career as a successful independent consultant, he was the general manager of Lura during the period that company turned toward domestic and regional expansion, before which he was Head Financial Director and Management Board member at Pliva. He worked at the Croatian Ministry of Foreign Affairs in the Foreign Economic Relations Department. He graduated from the University of Zagreb, Faculty of Foreign Trade, with additional professional training at Harvard University, Management Center Europe (Brussels) and IEDC (Bled).

Siniša Petrović/Member

Siniģa PetroviÍ is a tenured professor at the Faculty of Law of the University of Zagreb in the Trade Law and Company Law Department. In 1995 he was the legal advisor to the special envoy of the President of the Republic of Croatia for negotiations with the international community and a member of the delegation of the Republic of Croatia at the International Peace Conference on Bosnia & Herzegovina in Dayton. From 2000 to

2003 he was Deputy President of the Council for the Protection of Market Competition. He was the representative of the Republic of Croatia in the Arbitration Commission of the International Chamber of Commerce. He took part in the drafting of regulations for the areas of companies, market competition, real-estate mediation, privatization, sports, and the prevention of conflict of interests for those in public office. He is a member of the Negotiating Team for the Accession of the Republic of Croatia to the EU. He received his bachelor, master and doctor degrees at the Faculty of Law of the University of Zagreb.

Karl Weinfurtner/Member

Karl Weinfurtner is Vice President of DEG, the German Investment and Development Bank, that became a co-owner of Atlantic Grupa during the capital increase process in November 2006. He heads the structured finances for agriculture, forestry and food industry in DEG with over fifteen years of experience. He began his career as an expert for agricultural policy issues at the Bavarian Farmers Association in Munich, following which he was the representative of the German Farmers Association in Tanzania, where he planned and supervised education and training programs. DEG has been a member of the KfW Bankengruppe group since 2001, one of the largest German banks with an AAA credit rating. On 12.14.2011 Mr. Karl Weinfurtner's supervisory mandate in Atlantic came to an end.

Aleksandar Pekeč/Member

Aleksandar Pekeč is an associate professor at the Decision Sciences Department of the Fuqua School of Business at the respected Duke University in the United States of America. He is an internationally acclaimed expert in design and choice analysis, and mechanisms for the allocation and calculation of prices in complex competitive environments by combining methods from operations research, computer science and economy. He worked at the Aarhus University in Denmark up to 1998, prior to which he was at Rutgers University in New Jersey, where he received his doctorate. He is the leading Croatian economic scientist with a department at one of the most respected international academic institutions for business management. He is the recipient of a number of international professional awards and the author of numerous scientific papers. He graduated from Faculty of Science, University of Zagreb.

Vedrana Jelušić Kašić/Member

Vedrana Jelušić Kašić has been developing her career at the EBRD over the last 13 years and since the end of 2005 has been Senior Banker of the European Bank for Reconstruction and Development, heading operations of the agri-business sector for Croatia, Serbia, Bosnia & Herzegovina, Macedonia, Albania and Montenegro. Since joining EBRD, she has completed over 40 transactions worth over a billion euro in Southeastern Europe, CIS and Russia. She also led projects with crucial regional and multinational companies including Agrokor (Croatia), Bunge (USA), Viktorija (Serbia), and Droga Kolinska, as well as with the leading banks in the region. Prior to her illustrious career at EBRD, she worked at Raiffeisen Bank in the Investment Banking Department as an analyst. After graduating from the Faculty of Economy, she went for additional professional training in finances at the Institut für Wirtschaftwissenschaften in Vienna. She completed her postgraduate studies in international finance at Brandeis University in Massachusetts, where she worked as an assistant in accounting, banking and macroeconomics, while doing her practice at Merrill Lynch and in the Commonwealth of Massachusetts. She is an active member of the business community in Croatia and western Balkan countries. She is a member of the Croatian Business Leaders Forum and coauthor of a book on international accounting, as well as a speaker at numerous domestic and European conferences.

There are three commissions within the Supervisory Board that assist the said board in its tasks: Audit Commission, Appointment and Awards Commission and Corporate Management Commission. Each commission has three members, two of which are appointed from the ranks of the Supervisory Board and one appointed from the ranks of top professionals from the appropriate fields.

The Corporate Management Commission is presided over by Siniġa Petroviĺ, Vedrana Jeluġiĺ Kaġiĺ was appointed from the Supervisory Board as a member, while Hrvoje Markovinoviĺ is the outside professional. The Appointment and Awards Commission is presided over by Ģeljko Periĺ, Aleksandar Pekeļ was appointed from the Supervisory Board, while Goran Radman is the outside professional. The Audit Commission is presided over by Lada Tedeschi Fiorio, Karl Weinfurtner was appointed from the Supervosory Board, while Marko Lesiĺ was chosen as the outside professional. As of the day Mr. Karl Weinfurtnerǿs mandate ended in the Supervisory Board, i.e. 12.14.2011, his membership in the said commission also came to an end.

The members of the said commissions who are not members of the Supervisory Board have the right to be recompensed for their work and contributions to the functioning of the Atlantic Grupa Supervisory Board in the amount of 4,000.00 HRK net per held commission meeting.

Company Supervisory Board members are recompensed for their work and have the right to payment appropriate to their work and the state and business of the company. In 2011 Atlantic Grupa d.d. Supervisory Board members received compensation on said basis in the total gross amount of 1,930,309.48 HRK.

ATLANTIC GRUPA MANAGEMENT BOARD

The Atlantic Grupa Management Board is comprised of its president and vice presidents. There were six (6) Management Board meetings in 2011.

The Management Board of the company in 2011 included the following members:

Emil Tedeschi/Chief Executive Officer

Emil Tedeschi is the founder and majority shareholder of Atlantic Grupa. In his career, prior to establishing Atlantic Trade ï the foundation from which Atlantic Grupa grew to become one of the leading companies in Croatia ï was the general manager of the Milan branch of Meteor Holdings Ltd., London, one of the largest paper and cellulose trade companies in Europe at that time. He was named Manager of the Year for 2002 by the Croatian Managers and Entrepreneurs Association CROMA and in 2005 he received the same title from the business magazine Privredni Vjesnik. In 2006 and 2008 he was chosen by a professional panel at Kapital Network ï the first business television station in the region ï as businessman of the year. In 2010 Emil

Tedeschi was awarded the ñVeļ ernjakov peļ atò(Veļ ernji List Seal) for businessman of the year in the region of Southeastern Europe and was decorated with the Order of the Croatian Danica with the Face of Blaġ LorkoviĮ for special merits in business. His participation in the work of key bodies in the accession process of Croatia to the EU, Emil Tedeschi was actively involved in moving Croatia closer to the European Union and the standards accepted through membership therein. He is a member of the Parliamentary Committee for Monitoring Talks on the Accession of the Republic of Croatia to the European Union and the Economic and Social Council. He was the president of the Croatian Employers Association 2005-2007, an organization he has been active in since its inception. He is a member of the Forum Young of the Global Leaders at the World Economic Forum and is also a member of the INSEAD Alumni Association and the Program Council of the Zagreb School of Economy and Management. He is the vice president of the RTL Croatia Supervisory Board, the Honorary Consul of Ireland in the Republic of Croatia and has been a member of the Economic Council of the President of the Republic of Croatia. Based on results from the research project initiated by the European Forum for Business Research, in 2011 he received the prestigious New European Champion award that is given as a symbol of recognition to extraordinary business persons in central and eastern Europe.

Mladen Veber/Senior Vice President for Business Operations

Mladen Veber joined Atlantic in 1996 as the general manager of the Rijeka Distribution Center. As the general manager of Ataco (partner company in Bosnia & Herzegovina) made a significant contribution to its developing into one of the leading distributors in Bosnia & Herzegovina. In July 2001 he was named Vice President of Atlantic Trade responsible for managing brands and international markets. In 2006 he was chosen Senior Vice President responsible for the business of three Atlantic Grupa divisions. He has been a member of the Council of Trade Associations at the Croatian Chamber of Economy since 2001. He is the President of the Board of the Cedevita Basketball Club. He graduated from the Faculty of Mechanical Engineering and Naval Architecture, University of Zagreb, and took additional professional training at IEDC Bled.

Neven Vranković/Vice President for Corporate Affairs

Neven VrankoviĮ joined Atlantic Grupa in 1998 as Executive Director of Corporate Affairs. In 2001 he was given the authority for Atlantic Grupa merger and acquisition activities, and was named Vice President for Corporate Affairs in 2002. He got his business experience from working in the legal department of Bergen Bank in Norway and as a career diplomat at Croatian embassies in Washington and Belgrade. He is a member of the Work Group for Preparing Talks on Croatian Accession to the European Union for Chapter 6 ï Company Law. He gradualted from the Faculty of Law, University of Zagreb and received his masterôs degree from Washington College of Law in the USA. His additional professional training came from INSEAD in France, where he completed the course Strategic Issues in Mergers and Acquisitions.

Zoran Stanković/Vice President for Finance

Zoran StankoviĮ joined Atlantic Grupa in February 2007 as Vice President for Finance. Prior to that he spent four years as the general manager of controlling in the group, in Pliva, responsible for coordination and supervision of financial operations of Plivaôs network of companies in Croatia and abroad. Before coming to

Pliva, from 1995-2003, he worked at Arthur Andersen and Ernst & Young as a senior audit manager for large clients. He is a member of the Croatia Association of Authorized Auditors, as well as the international association - The Association of Chartered Certified Accountants. He graduated from the Faculty of Economy, University of Zagreb.

Srećko Nakić/Vice President for the Droga Kolinska Division

SreÍko NakiÍ has been building his career at Atlantic since 1994 and has participated in every development phase of the company. He began as a trade representative at Atlantic Trade and was named the general manager of distribution center in Split. Two years later his authority was extended to include the distribution center in Rijeka. In 2002 he became the Vice President of the company responsible for overall sales and distribution on the Croatian market. In April 2005 he was appointed Vice President of the Atlantic Grupa Distribution Division and after the completed acquisition of Droga Kolinska, the Vice President of the Droga Kolinska Division. He attended the Faculty of Maritime Studies in Split and completed the General Management Program at IEDC Bled School of Management.

Marko Smetiško/Vice President of the Pharma Division

Marko Smetiġko came to Atlantic Grupa in 2004 as Vice President of the Management Board authorized for the Consumer Health Care Division. Prior to his arrival at Atlantic Grupa he worked at Pliva as the general manager for the business program for pharmaceuticals. In 1999 he became the Executive Director of sales and marketing at Lura, while in 2002 he became a member of the management board for marketing and sales of Belupo d. d. His work experience up to now includes membership on the supervisory boards of Medikaĝs and Plivaĝs companies in Poland. He graduated from the Faculty of Medicine, University of Zagreb. Mr. Marko Smetiġkoĝs mandate on the Management Board of the company ended on 01.31.2011.

Zvonimir Brekalo/Vice President of the Consumer Health Care Division

Zvonimir Brekalo began developing his career at Atlantic in 2000, when he was responsible for the development of the distribution of Johnson & Johnson products on the Croatian market. In 2001 he became the general manager of the central service of Ataco, while in 2003 he became a member of the Neva Management Board. After the acquisition of Neva in 2003 and Haleko in 2005, he made a significant contribution to the integration of the new companies into Atlantic Grupa with direct authority over sales and marketing, as well as business development on export markets. In 2007 he was named Vice President of Atlantic Grupa for the Sports and Functional Food Division, after which he took over the leadership of the Consumer Health Care Division at the beginning of 2011. He graduated dentistry at the Faculty of Medicine, University of Zagreb, and took additional professional training at IEDC Management School of Business at Bled.

Alenka Klarica/Vice President of the Sports and Functional Food Division

Alenka Klarica joined Atlantic Grupa at the beginning of 2010 as General Manager for Business Development of the Sports and Functional Food Division and began heading the leadership of the entire division at the beginning of 2011 as the Vice President of the group. She began her business career in 1992 at Atlantic, acquiring a wealth of experience in sales, distribution channels, marketing and team management, from her days at Mars, which she joined in 1996, taking responsibility over sales of all snacks and ice creams in Croatia and Bosnia & Herzegovina, as well as in Slovenia from 1998. In 2001 she took over the position of the manager authorized for overall global processes connected to key international buyers. In 2004 she was named General Manager for the market in Great Britain. Alenka Klarica received her MBA at Thames Valley University.

Miroslav Petrić/Vice President of the Distribution Division

Miroslav Petriĺ joined Atlantic Grupa in 1996 and over the next three years he went through all positions in sales by directly working with buyers and at sales locations, holding jobs related to increasing sales, sales representation and was a wholesale commercialist. He took over the position of national manager for Duracell for the non-food channel on the Croatian market in 2000 and the following year he became the first Key Account Manager at Atlantic Trade in the area of business he would develop his career for a number of years to come. Up to 2008 he worked in positions connected to key accounts in Croatia and the region of Southeastern Europe as the Key Account Manager for Croatia and the Key Account Manager for the region of Southeastern Europe. Before taking over the position of Vice President of the Group for the Distribution Division in 2011, he worked as the Executive Director of sales for Southeastern Europe.

Remuneration Policy for Management Board Members

The contract for working as a member of the Management Board, i.e. the employment contract for Management Board members employed by Atlantic Grupa defines the rights and obligations of Management Board members based on the function held on the Management Board including::

- Monthly salary for members of the Management Board expressed as a gross amount;
- Annual bonus (bonus payment) for the term of the contract established as a certain percentage from the earned basic gross annual salary and remuneration based on the membership on supervisory boards of linked companies. Payment of annual bonuses are conditioned by the planned business results of no less than 90% of the EBT plan consolidated in Atlantic Grupa for the fiscal year, as well as the business results of no less than 95% of the EBT plan for the consolidated division for which the individual member of the Management Board is responsible for. Under the preposition that all contractual criteria are met, Management Board members are paid the amount of bonus payment through the Options Program by receiving their own shares of Atlantic Grupa. The Chief Executive Officer of the Management Board receives his/her bonus payment in money;

- The life insurance policy negotiated by Atlantic Grupa for Management Board members at respectable insurance companies in the Republic of Croatia with an annual premium of 2,200 EUR in the HRK equivalent;
- Accident insurance policy;
- Voluntary health insurance system that includes members of the Management Board, through which Atlantic Grupa, as the signatory of the insurance, at an annual premium of 7,500 HRK facilitates good quality healthcare treatment through an annual all encompassing medical examination, all necessary specialist and medical examinations with the use of modern and most effective medical tools and equipment, in specialized polyclinics with top level medical professionals;
- The right to use company cars, the right to remuneration of all expenses the member of the Management Board incurred while carrying out his/her professional function.

All Management Board members have manager contracts that include a series of binding provisions, as well as stimulus as follows:

- Business secret – members of the Management Board are obligated to protect business secrets of the company during and after the term of their employment, regardless of the reasons for the termination of their employment. The obligation to protect business secrets includes AG affiliates;
- Competition ban – is obligatory for a member of the Management Board for the period of one year as of the date of payment of severance pay, if it is paid;
- Contractual penalty – in case of a competition ban violation the member of the Management Board must pay a contractual penalty in the amount of twelve average monthly net salaries he/she had received in the three months prior to his/her contract termination;
- Members of the Management Board are prohibited to partake in the ownership or management structure, directly or indirectly, in any company in competition with Atlantic Grupa and its affiliated companies, i.e. in a company that Atlantic Grupa and its affiliated companies are in a cooperative business relationship with, or be advisors or consultants in such companies regardless if voluntary or remunerated;
- Carrying out other activities of a Management Board member, except for those carried out for Atlantic Grupa affiliates, regardless if being done voluntarily or for remuneration, including membership on supervisory boards, advisory boards, etc., may be done only with prior permission of the Atlantic Grupa Management Board;
- Employment, term of contract and termination periods – Management Board members are fulltime employees of Atlantic Grupa or in its affiliated companies and the contract for membership on the Management Board is signed for a term of 3 years with possible termination as per legally foreseen periods;
- Severance pay – the contractual severance pay amounts to six average gross monthly salaries for Management Board members and gross remuneration based on membership in supervisory boards of affiliated companies paid to a member of the Management Board in the three months prior to contract termination. The obligation to pay severance pay occurs in case a contract is terminated during its

validity period by Atlantic Grupa, except if the contract is terminated due to reasons defined as offensive behavior by a member of the Management Board.

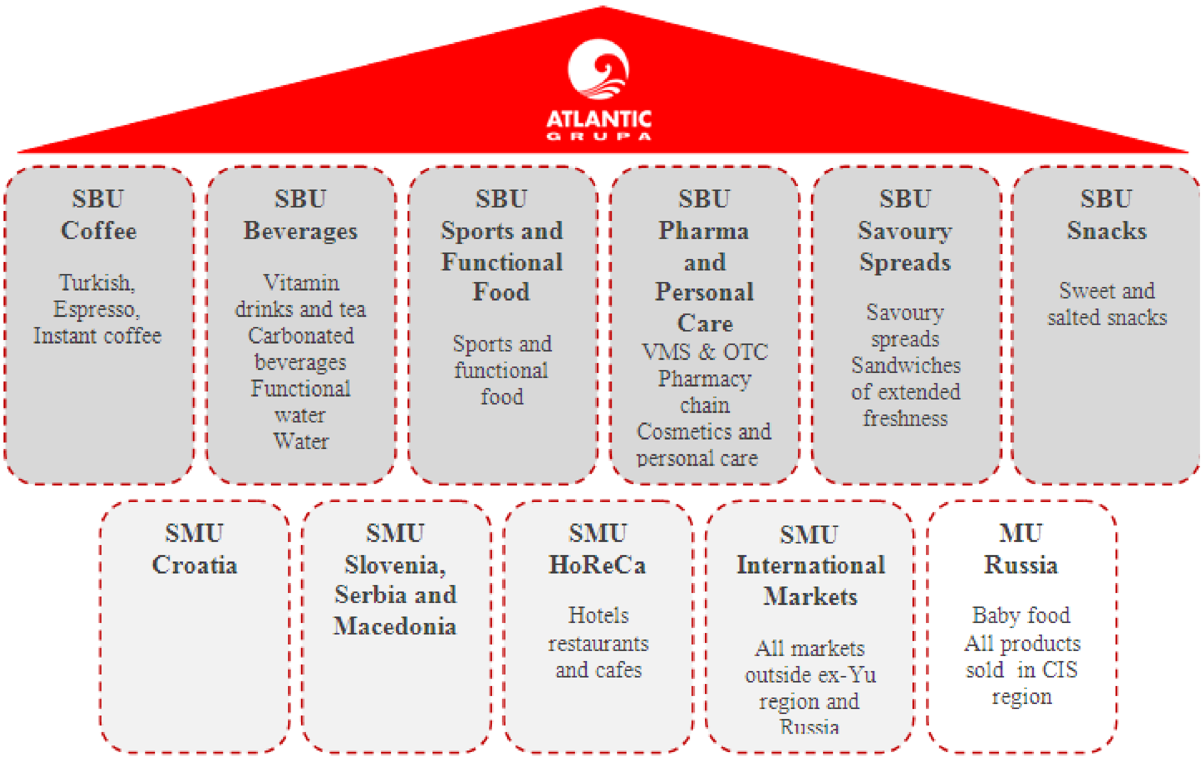
In 2011 Atlantic Grupa d.d. Management Board members, based on salaries and remuneration for supervisory board membership were paid a total gross amount of 20,467,327.16 HRK.

NEW ORGANIZATIONAL STRUCTURE AND MANAGEMENT BOARD OF THE COMPANY IN 2012

In 2012, Atlantic Grupa is implementing new organizational structure with the goal of more efficient management of business segments and distribution markets, thus abandoning the former divisional organization structure. Accordingly, the new business organizational structure includes:

1. Six Strategic Business Units (SBU) ï Coffee, Snacks, Savoury Spreads, Beverages, Pharma and Personal Care, and Sports and Functional Food,
2. Four Strategic Market Units (SMU) ï Croatia; Slovenia, Serbia and Macedonia; HoReCa; International Markets and
3. Market Unit (MU) Russia.

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



Alongside Strategic Business Units and Strategic Market Units, Operational Business also includes Central procurement function, Central marketing function and Corporative quality management function in order to achieve all synergies within the system and secure efficient coordination of business within procurement, marketing, quality assurance as well as to establish unified standards on the Group level.

In order to more efficiently Strategic Management Council is established as a multifunctional body that deals with key strategic and operational corporate issues with members in charge of business and distribution areas, central functions and corporation support functions.

As of beginning of 2012 new Management Board of Atlantic Grupa has four members:

BUSINESS OVERVIEW FOR 2011

DISTRIBUTION DIVISION

Atlantic Grupa has developed into the leading distributor of high quality consumer products that include a distribution portfolio of leading regional and global brands from the perspective of its distribution business on the market in Southeastern Europe. The division has a highly developed *know-how* in customer management, product category management, supply chain management and *trade marketing*, which is continuously being harmonized with market trends. The distributive assortment of the Group is continuously being expanded and in 2011 Atlantic Grupa was present on various markets in the region as an exclusive, i.e. authorized, distributor of the following respected international brands:

- William Wrigley Jr. Co.
- Ferrero
- Duyvis
- Johnson&Johnson
- Nestle Purina Pet Care
- Hipp
- Durex
- Duracell
- Scholl
- Lorenz Snack World
- Manner
- Vivera
- Rauch
- Zveļ evo
- Italfood
- Nestle
- Red Bull
- Karolina
- One2Play

As well as brands from its own manufacturing program:

- Cedevita
- Melem
- Plidenta
- Rosal
- Dietpharm

- Multivita
- Multipower
- Unique
- Argeta
- Smoki
- Donat Mg
- Barcaffe
- Cockta
- Grand Kafa

  and others

Out of the aforementioned brands there are a total of nine brands from the Atlantic Grupa distribution portfolio that have Superbrand status, three of which are our own brands (Cedevita, Plidenta, Melem), while six are principal brands (Wrigley, Ferrero, Nutella, Kinder, Johnson&Johnson, Duracell, Durex).

In 2011 the Division showed intensive distribution channel development and by the end of the fiscal year company products were present at over 60,000 retail locations including the Bosnia & Herzegovina market with 15,000 HORECA sales locations, 1,000 electronics and technical retail stores, 300 specialized sports facilities, 6,500 households and 3,500 business facilities (offices) through direct sales of gallon packages of Unique water and the rest of almost 34,000 general consumer goods retail facilities.

The strategic inception of direct sales to households and offices after the acquisition of Kalniļ ke Vode Bio Natura into Atlantic Grupa, which already did business with gallon bottles of Unique spring water, created the right conditions for initiating a new sales channel in the Distribution Division on the Croatian market. Considering the results in 2011 and the fact that the company market share in the gallon water business is over 40% and rendering the company the largest supplier of such products in Croatia, continued growth is expected, as well as expansion of the said business to new buyers. During 2011 Atlantic Grupa further strengthened its distribution portfolio with Droga Kolinska products after it joined the distribution portfolio through the acquisition of Droga Kolinska by Atlantic Grupa.

In 2011 the Division had an income of 2.8 billion HRK, which is 118% growth compared to 2010, mostly thanks to Droga Kolinska products.

The distribution network of Atlantic Grupa functions through 16 distribution centers: Zagreb, Osijek, Rijeka, Split, Ġiroki Brijeg, Sarajevo, Tuzla, Laktaği, Bihaĺ , Ljubljana, Belgrade, Novi Sad, Niġ, Ļ aļ ak, Podgorica and Skopje, thus covering the markets in Croatia, Bosnia & Herzegovina, Slovenia, Serbia, Macedonia and Montenegro, as well as facilitating the highest standards of distribution services to international suppliers on those same markets, with direct access to over 60,000 sales locations in Southeastern Europe.

SPORTS AND FUNCTIONAL FOOD DIVISION

The business activities of the Sports and Functional Food Division have rendered Atlantic Grupa the leading European manufacturer of food for athletes with the Multipower and Champ brands. Thirty five years of tradition and leadership status in the segment of food for athletes have resulted in a diverse assortment of products that include beverages, powder protein products, concentrates, supplements and energy bars with the establishment of the leading brand names on the international market today: Multipower, Multaben, Champ and Megaslim. Manufacturing processes are certified with the ISO 9001:2000 and IFS. The manufacturing facility for powder products and supplements is in Bleckede, while the headquarters of the Division is in Hamburg. The Division has offices in Russia and its own branches in Italy, Great Britain and Spain.

The Divisionôs strategy is based on the idea of continuous development of new innovative products for sports and healthy nutrition pursuant to keeping up with the needs of the contemporary market and the needs of the end consumer, growth of sales shares on key markets, as well as the increase of consumer-user share of sports nutrition in general. Due to the specific consumer group the Divisionôs products are meant for, special distribution channels have been developed through fitness clubs, sports equipment stores, pharmacies and drugstores, which include over 35,000 sales points throughout Europe and special care is taken to continuously educate sales teams and partners. A special focus in 2011, which will continue in 2012, has been placed on the fastest growing sales channels ï mass market and Internet sales. Multipower Endurance products were launched on the German Mass Market in April 2011, while Body products will be launched in the first quarter of 2012.

In 2011 the main focus and attribute of Division business was the change of design and packaging of its principal brand ï Multipower ï in the segment of Endurance and Professional. In accordance to daily market trends, the visual identity of the brand was changed with a more modern logo and packaging, as well as overall communication. In 2012 there will be design changes made to the Muscle and Body segments.

In the segment of *private label* products, sales were up 17% thanks to proactive searching for and growth of the number of new buyers, as well as the expansion of the assortment available to existing buyers. Continued focus will be placed on finding new buyers, especially outside of Germany, in 2012.

In 2011 gross sales were 647 million HRK, which is an increase of 16.3% in comparison to 2010.

The main business focus in the coming period for the Sports and Functional Food Division will be continued growth of sales share on the main markets, particularly in Great Britain, Spain, Russia and France, as well as the strengthening of the company position in new distribution channels (Mass Market, Internet sales).

From the aspect of marketing, as the top leader in sports nutrition in Europe, the goal of the Division is to increase the share of new users of sports nutrition among active athletes and recreational athletes. The consumersô search for a healthy lifestyle as far as nutrition is concerned, as well as a number of those participating in various sports throughout Europe, contributes to increased sales of sports nutrition products. Although the sports nutrition industry has a growth of 4-6% on developed markets and 10-15% on those less developed, the sports nutrition industry is still at a lower level with only 3% of the total population using sports nutrition products (on more developed markets). As the leading producer of sports nutrition products in Europe, the goal and responsibility of the Division is to promote the industry and the advantage of using sports nutrition products, thus increasing the number of users. Another just as important focus of the Division ï the development of marketing activities, practical packaging and new concepts for the uses of the products ï will continue in 2012. The Division will also put an emphasis on the increase of consumer-user share among the female population with its Body products.

CONSUMER HEALTH CARE DIVISION

The strategic direction of Atlantic Grupa is systematically increasing the production and sales of its own products and its own brands. Numerous Atlantic brands in the segments of vitamin instant beverages, nutritional supplements, teas, candies, sandwiches, cosmetics and personal care, are market leaders both in Croatia and Southeastern Europe. Considering the manufacturing of these products is the principal activity of the Consumer Health Care Division, the company has acquired the status of being a significant regional manufacturer of products meant for healthy nutrition, good looks and a contemporary lifestyle therein.

The most significant brand name products of the Consumer Health Care Division on the market are known as: vitamin instant drinks Cedevita and Multivita; consumer Cedevita teas; medicinal Naturavita teas; Dietpharm nutritional supplements and medicinal products; Montana sandwiches; Multivita effervescent tablets; Plidenta toothpastes; Rosal face and body cosmetics; Lip Balm lip care sticks; Melem universal protective cream; and Unique and Kapljica still and sparkling mineral waters.

Consumer demands, especially those related to quality and creativity of products, is continually growing. Aware of this fact, the Consumer Health Care Division annually introduces some thirty new products. Considering quality and safety of products are crucial to earning and maintaining the trust of consumers, systematic investments in knowledge, equipment, technical skills, marketing and communication with consumers are made to try and facilitate high quality products. Quality management systems of the Consumer Health Care Division are in line with strict international standards.

In 2011 the Consumer Health Care Division had 452 million HRK worth of sales, which represents a decrease of 6.1% compared to sales in 2010. Out of total sales, those on international markets were 215.8 million HRK, while exports accounted for 48% of total sales in 2011, i.e. the same level as in 2010.

The Consumer Health Care Division has two business segments: products for healthy nutrition and personal care products.

Healthy Nutrition Products

Out of the total nutrition products realized in 2011 (7,421 tons), instant vitamin beverages accounted for 96%, while compressed sweets placed second at 3%.

During 2011 the Division was focused on the intensified integration of Droga Kolinska into Atlantic Grupa. Based on results from the feasibility study on Cockta in service bottling plants and the inadequate utilization of production capacities of the company at the Apatovac bottling plant, it was decided that a manufacturing facility is built for the production of Cockta and the existing bottling facility is adapted for the bottling of this drink (PET and glass). Furthermore, substantial funds (22 million HRK) were invested in wastewater processing technology needed for the said bottling plant, so the most modern SBR technology wastewater purifier was built on site. The manufacturing facility at Apatovac also features continuous technological harmonization to the ATEX directive, thus significantly increasing the level of safety in technological processes. In 2011 the Apatovac bottling facility was successfully integrated into the standards of the Group in all of its segments.

After the completion of the investment cycle of increasing the capacities of granulation and the cap filling production line for Cedevita GO! products, 2011 saw the continued investment into processing equipment. The latter increased the labor safety level, increased automatization and labor productivity, as well as quality standardization of one raw material.

Investment into advancing technological lines gave positive results in productivity (by 10% or 20,170 less labor hours), and efficiency of material usage for production by 1.3%.

In keeping up with the desires of consumers, the assortment of vitamin instant beverages is continuously enhanced and refreshed with new flavors. Two new flavors were introduced to the market in 2011: peach for the Croatian and Slovenian markets; blueberry and black currant for the markets in Bosnia & Herzegovina, Montenegro, Serbia and Macedonia. Also in 2011, Cedevita GO! products were enhanced with two new flavors: lime and grape. Aside from new products, in 2011 the Division also concentrated on making its products more accessible to consumers, which resulted in two major media campaigns, the more significant of which was *image* campaign under the slogan "Cedevita ï your companion through lifeò as a reminder to its loyal consumers of the traditional family values nurtured by Cedevita since 1969.

Multivita vitamin instant beverages are orange, lemon, grape, wild strawberry and forest berry flavored, along with Multivita junior, and they continued to produce good sales results in 2011, especially on the Serbian market.

Cedevita teas are the second most sold consumer teas in Croatia and the portfolio for the fall of 2011 was enhanced by one new flavor ï winter tea ï while Naturavita teas in 2011 maintained their prior status ï the absolute leader in the category of functional teas with over 80% market share. Nearly 225.6 tons of herbal infusion teas were produced by the Division in 2011.

In the candy segment in 2011 Cedevita candy was redesigned. The new design dazzled store shelves in the spring and included a new pear flavor.

A member of the Division, Montana, in 2011 had a 19.881 million HRK income, of which 0.799 million HRK on foreign markets. There was a 7.5% decrease in sales, while the export share in comparison to the previous fiscal year showed a growth of 4%. In 2011 Montana sold 1.9 million pieces of its products and additionally opened exports to the Slovenian market. Last year Montana enhanced its triangle sandwich assortment with a new flavor for the Serbian market: pork neck and smoked pork neck. New recipes and the introduction of a new type of bread, *tramezzin,* for triangle sandwiches resulted in improved freshness and an extension of shelf life by 20%, as well as decreased expired sandwich returns. Furthermore, improved recipes and bun ingredients extended the shelf life of classic sandwiches by 2 days.

The Consumer Health Care Division will base its further development on perfecting vitamin instant beverages, nutritional supplements, teas, sandwiches and candies, i.e. products made for *on-the-go* consumer habits, in its healthy nutrition product segment.

Personal Care Products

In 2011 the Consumer Health Care Division in the personal care product segment had sales results amounting to 71.3 million HRK, i.e. a sales decrease of 6% in comparison to the previous year. One third of the income in that segment came from foreign markets, rendering its share identical to the share from last year.

In following and listening to the needs of our consumers, we introduced the long awaited for Melem in a tube ï lighter and more absorbable formula meant for larger body surfaces. In 2011 Melem was presented in its new packaging and redesigned in a major advertising campaign, as well as a redesigned webpage with a platform that shows the complete development of the brand, its history, current affairs, campaigns, and an application called Pharmaceutical Corner with details, expert information for pharmacists and their patients. Melem product sales in 2011 were up 22% in comparison with sales for 2010.

In 2011 the Division expanded its Rosal product assortment with two limited edition Rosal Lip Balm products: Block'n'Roll and Hot Chocolate, as well as new lines of Rosal hand care adapted for various skin types: normal skin ï olive extract; dry skin ï lavender extract; and for extra dry and sensitive skin ï SPA formula. The year was also marked with advertising campaigns aimed at consumers and an innovative approach to advertising on the Rosal Lip Balm Internet page. The production of Rosal Lip Balm after a successful redesign and secondary packaging technology change, in 2011 a substantial 31% increase in manufacturing occurred as compared to 2010. Furthermore, an improved visual identity of the Rosal facial care line was introduced with technology for cellophane wrapping of the basic packaging.

As far as Plidenta products are concerned, in 2011 the Division introduced the first toothpaste in the world with the probiotic bacteria Lactobacillus Paracasei ï Plidenta Pro-t-action ï which is proven to fight the most frequent causes of cavities, Streptococcus Mutans bacteria.

PHARMA DIVISION

Pharmacy Business

In 2011 Atlantic Grupa continued its work on consolidating the pharmacy business in Croatia and with its current turnover of over 275 million HRK it holds the leading position in the pharmacy business on the Croatian market.

As predicted, in 2011 Atlantic Grupa showed further growth and concentration of the pharmacy business by opening new pharmacies and specialized stores, as well as organic sales and profits growth. The Pharma Division in 2011 opened a total of three new commercial units: one pharmacy in Velika Trnovitica and two specialized stores in Osijek (Avenue Mall Shopping Center) and Zagreb (Ilica 11), conceived as modern all encompassing nutritional and aromatherapy counseling center that, among other things, offers food intolerance testing services, measuring of vitamin-mineral status, and other analysis of the body as requested by patients. In the pleasant atmosphere of the counseling center, nutritionists answer all questions about nutrition and create personal nutrition plans in accordance to the individual needs of each client with additional support from a pharmacist or doctor that participate in creating specific guidelines and recommendations on consuming nutritional supplements and pharmacotherapy. In combining their expertise, the professional team of the Farmacia Nutritional Counseling Center offers complete multidisciplinary care for their clients.

In 2011 the acquisition and integration process into the Farmacia system was completed for the pharmacies: Hanġiĺ , Zagreb, Trakoġĺ anska 30, as well as five Dvorġak pharmacies ï three units in Zagreb and two from Samobor. The pharmacy in Graļ ani, Isce 13, in 2011 was relocated to Markuġevaļ ka Trnava. On the other hand, in 2011 there were closures of unprofitable pharmacies like the one in MeĽugorje and specialized stores on Marshal Tito Square in Zagreb.

Atlanticĉs pharmacy chain Farmacia in 2011 continued to cooperate with Dvorġak Pharmacies and Pavliĺ Pharmacies based on a strategic partnership by joint coordination and management of supply, marketing, education and other professional activities.

The Division began the process of organizing a central procurement for large suppliers in 2008 and in 2011 it was expanded to include all Division suppliers, which contributed to obtaining more opportunities and space for more complete care and dedication to patients, optimizing stock inventory in pharmacies, as well as maximizing additional income as per contractual conditions with suppliers.

In efforts to integrate all business units of the Division into a singular pharmacy system, in 2011 the Pharma Division continued its intensive work on developing its own recognizable visual identity and the application of a uniform standard for exhibiting and advertising products. This was primarily reflected in the interior design of all new business facilities adhering to all professional standards and trends, thus facilitating the implementing of all elements of modern pharmaceutical services and offering top pharmaceutical services with an individual approach to patients. Furthermore, significant investments were made to renew and reconstruct some business facilities, which will continue in 2012 as circumstances permit. The career development and professional competency project in the pharmacy profession, as well as professional training for employees was successfully continued in 2011.

Education Center

In 2011 the Farmacia Education Center organized professional courses for those with masters degrees in pharmacy and pharmacy technicians in the areas of nutrition, patient adherence, gynecology, aromatherapy, pediatrics, interpretation of laboratory results, allergies, asthma and interaction of medicines, as well as implementing new services in pharmacies ï aroma-therapeutic laboratory, menu creation and analysis of the body through anthropometry and dermatological counseling for clients.

In working in the Groupœs pharmacy system, over 220 pharmacy students passed through the education system for their student practice. Work in oneœs own profession was presented at domestic and foreign professional meetings, while the American Journal of Pharmaceutical Education published two articles recognizing the intensive contribution of the company for the development of competence in the pharmacy business.

Fidifarm d.o.o. Natural Drugs and Dietetics Manufacture

Drug Wholesale Business

According to the defined development plan from 2008, in March 2009 Fidifarm expanded its business by starting up its own drug wholesale business and during 2010 its sales increases confirmed the planned business diversification strategy of Fidifarm. The set goal was to strengthen the position of its own brand, Dietpharm, on the Croatian market and to establish itself as a dependable and quality distributor of other quality domestic and international brand names meant for pharmacy chains and specialized stores.

In activating its drug wholesale business with the concept of exclusive distribution opened up new opportunities for distribution expansion and development to all pharmacies and specialized stores on the territory of the Republic of Croatia. In 2011 the drug wholesale segment of the business reached 100% of its distribution goals and direct cooperation with all 1200 delivery addresses.

The drug wholesale assortment, except for the Dietpharm brand, includes a portion of the Distribution Division products (Wrigley, Johnson&Johnson, Durex, Scholl, Vivera, Cedevita, Neva products), and 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 2011 the drug wholesale assortment was additionally expanded to include the distribution of Fizio belt products, electro-stimulators, Ellaone products ï registered for emergency contraception, as well as Amnisura brand products used for fast diagnostics of signs of fetal membrane ruptures. The aforementioned new products in 2011 accounted for 2.1 million HRK in sales with further growth expected in 2012.

Dietpharm Brand

The manufacturing program of Fidifarm in 2011 included 96 products under the Dietpharm brand, out of which 10 are market leaders in their respective groups (magnesium, calcium in the prevention and treatment of osteoporosis, menopause, eye vitamins, nutrition supplements for the easing of hemorrhoid pain, iron in nutritional supplements, coenzyme Q10 group, vitamin C in nutritional supplements, oral rehydration salts, and nutrition supplements used to aid lowering blood fats). The product Magnezij 300 effervescent tablets in 2011 was the second most sold nutritional supplement in the Republic of Croatia with a 47% market share and 56% value in its group (data from: IMS Pharmis, Sales Vision).

In 2011 the product base was expanded by a total of eight new products in the category of designated use nutritional supplements, special use cosmetics, and food for special medicinal use: Rehidromix powder for the preparation of oral rehydration solution, banana flavored and Rehidromix powder for the preparation of oral rehydration solution ï new formula, Lizzy Tusol lollypops, Lizzy Centravit lollypops, Osteopan plus tablets a 30 and a 60, Ten Plus capsules and Ten Plus cream, and Butirex capsules. Products with an emphasized market potential are Rehidromix and Lizzy Tusol & Centravit lollypops. Rehidromix powder for the preparation of oral rehydration solution (banana flavor and the basic formula without any flavor) represents a new and improved formula as per World Health Organization guidelines, thus a novelty on our market. Lizzy Tusol and Lizzy Centravit lollypops are completely innovative products and their formula specificity and shape have resulted in excellent sales results. The osteoporosis market is among the larger nutrition supplement markets (7 million HRK in 2011), thus a strategic direction was to refresh the long-time present and recognizable brand Osteopan with a new extension. Products in this segment (Osteopan, Osteopan plus and Kalcij citrat) accounted for Dietpharm reaching a market share of 46% (per piece) and 53% (in value) in 2011, while they were further recognized and confirmed in the professional community due to recommendation of the Croatian Osteoporosis Society. Ten Plus capsules and Ten plus cream represent a lunge onto a market that Dietpharm has never been on. Ten Plus capsules are for mild forms of impure skin and their specificity and clinically tested ingredients are a total novelty on the market. Along with the technological novelty, Sensi Accelerator, which increases the utilization of active ingredients, they include numerous other active ingredients with triple effects: anti-inflammatory, antibacterial and anti-occidental. Ten Plus cream helps impure skin, mild forms of acne and seborrheic changes to the skin. *Butirex capsules* are recommended for diets for patients with bowel disorders and are also a complete innovation on the Croatian market. They also represent the only product with its purpose and effect mechanism as an alternative to all existing probiotic products on the market.

Its leading market position in the dietary product segment ï nutrition supplements ï can be accounted for by Fidifarmõs high quality and continuous introduction of new products as a result of its long-term orientation toward research and development, meeting all legislative demands and meeting ever more demanding needs of consumers. In 2011, as a long-term leader on the Croatian nutrition supplement market, Dietpharm increased its market share value to 25%.

The loyalty program that gathers the most loyal consumers of the Dietpharm brand ï Health Club ï was very active in 2011. In 2011 the Health Club was joined by 15,000 new members and now has a total of 43,000 members.

Fidifarm is active on six regional markets with its Dietpharm brand (Bosnia & Herzegovina, Serbia, Montenegro, Macedonia, Hungary and Kosovo). The export market share in overall Dietpharm brand sales in 2011 was 31%.

Drugs (prescription and nonprescription)

In 2011 Fidifarm was present on the market with one prescription drug (Purisan granules that are on the positive list of the Croatian Institute for Health Insurance with an indication for the preparation and flushing of the intestines prior to radiologic or endoscopic surgery) and 7 nonprescription drugs (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). In 2011 the aforementioned drugs had a turnover worth 3.1 million HRK (growth of 19% in comparison to 2012), while the total nonprescription drug market in 2011 was worth 430 million HRK.

Himalaya Brand

In 2011 Fidifarm enhanced its manufacturing program with one more brand under the holding brand Himalaya. It is an internationally recognized nutrition supplement brand based on the principles of Ayurvedic medicine, for the first time in Croatia. In 2011 five products were introduced on the Croatian market: Rumalaya forte tablets in the segment of joint protection, Cystone tablets for the health of urinal tracts, Tentex Royal capsules for male vitality, Ayurslim capsules for emaciation aid, and Party Smart capsules. The total sales worth of these products in 2011 was 450,000 HRK.

Other Activities

Fidifarm began 2011 with a new business information system (ERP Diglas) that combined the processes of demand planning, procurement of startup materials, primary and secondary packaging, office materials, small inventory, finished products and trade goods, as well as shipping goods to distributors in foreign markets, into a single organizational whole. Furthermore, in the last quarter of 2011 a business decision was made to place the entire drug wholesale business on the Croatian market into the logistics support of its business partner, Medika, rendering the company more competitive in a timely response to the demands of pharmacies with deliveries made a number of times per day. The drug wholesale business also focused on additional computerization of its sales with two projects: B2B that allows partners to place simple orders over the Internet and SalesPod mobile sales and improved sales that facilitates simpler and more effective work for Fidifarm's field representatives.

The existing integrated quality management system, based on the internationally accepted norms ISO 9001:2000 and HACCP principles of supervising the safety of food, was additionally enhanced by introducing the rules of Good Manufacturing Practice (GMP) for pharmaceutical manufacturing. GMP rules are primarily applied to drug storage, manufacturing and distribution processes, but are also the foundation for continuous development and advancement of integrated quality management systems in all organizational units.

The future growth and development of Fidifarm, in the area of nonprescription drugs, continues to increasingly depend on the placement of all registered drugs with more intensive cooperation with doctors and pharmacists. Furthermore, in 2010 the Agency for Medicinal Products and Medical Devices (HALMED) received a registration request for Desloratadin (allergy medicine) and it is expected that in the coming period a decision should be rendered, after which the beginning of its production and distribution is expected. Primary growth in the nutrition supplement segment is expected in expansion to new markets like Russia and applying additional sales activities on the Slovenian market. The introduction of new and innovative herbal products, specific active substances, and advancing existing vitamin-mineral formulas give way to expectations for increased market share on the Croatian market. The strengthening and expansion of the *loyalty* program of the Health Club by adding new members and new partners to the existing network of pharmacy and medical institutions will be reflected by increased consumption from existing users, as well as the acquisition of new consumers. On markets with the highest potential, Serbia and Bosnia & Herzegovina, marketing adjustments to specific market demands therein will be made in order to develop the business in the direction of further establishing the Dietpharm brand. In the pharmacy business the Division plans to expand by opening new points of sale, thus there are preparations to open a specialized store at the City One East Shopping Center in Zagreb and a pharmacy in Vugrovec.

DROGA KOLINSKA DIVISION

The Droga Kolinska Division is the youngest among existing divisions, established after the acquisition of Droga Kolinska in November 2010 in order to ease the integration of the newly acquired company into the existing organizational system of Atlantic Grupa and meeting the planned synergy inside the new joint company.

The Division included the entire product line from the Droga Kolinska group, thus had five separate business units connected to certain products: coffee, snacks, natural mineral and spring water and nonalcoholic beverages, and savoury spreads and baby food including well known brands like:

- Barcaffe,
- Cockta,
- Smoki,
- Argeta,
- Bananica,
- Donat Mg and others.

Products from this Division have established a significant presence on markets in Serbia, Slovenia, Bosnia & Herzegovina, Croatia, Macedonia, Montenegro, Russia and the rest of the former Soviet Union, while their integration into the distribution assortment of the Distribution Division, implemented in 2011, they were given extra strength to expand further onto the markets in the coming period. High market shares, long tradition, recognized brands and high quality products of the Division, along with continuous investment into research, development and marketing, as well as taking constant care for consumers, offer an important competitive value to the aforementioned Atlantic Grupa product program.

The manufacturing network of the Division works through manufacturing facilities spanning the area of Croatia, Slovenia, Bosnia & Herzegovina, Serbia and Macedonia. The integrated quality and environmental protection management systems are certified in accordance to the international standards ISO 9001 and SIO 14001, while the business processes of the Division are completely harmonized with the demands of HACCP.

Financially speaking, in 2011 the Division saw a slight increase in gross sales income of 0.2% in comparison to 2010. On the other hand, in examining the production portfolio of sales of Droga Kolinska directly toward third parties (buyers), in 2011 the Division had a growth of 8%, out of which among production categories the three highest growth generators in 2011 were coffee products ï Grand Kafa and Barcaffe; sweet and salty snacks ï Najlepġe ģelje and Smoki; and baby food ï Bebi. Sweet and salty products made by Soko Ġtark (Smoki, Bananica, Najlepġe Ģelje and others) had record results in 2011 as far as production quantity and sales are concerned.

Recognized and strong brands of the Division are also confirmed by numerous awards including the prestigious European award Effie that was awarded to the Argeta Junior delicatessen spread in 2010, facilitating that this product achieved proven and measurable success on the demanding and competitive European market. In 2011 there was also a market study carried out by the Valicon agency that showed Argeta, Cedevita and Cockta are among the top 10 FMCG brands on the territory of the former Yugoslavia ï markets that cover 22 million people. The Ipsos Plus agency, also in 2011, carried out a survey on general consumer brand strength on the Bosnia & Herzegovina market that resulted in a BRANDscore top chart of brand names with Argeta getting the number one spot.

FINANCIAL OVERVIEW

Extract from the consolidated Profit and loss account for Atlantic Grupa for the year ended on 31 December 2011

In HRKm	2011	2010	% change
Revenues	**4,774**	2,302	107%
Sales	**4,728**	2,269	108%
EBITDA	**501**	220	128%
EBIT	**335**	165	103%
EBT	**79**	123	-36%
Net profit	**55**	107	-49%
Net profit after minorities	**47**	95	-51%

In FY11, Atlantic Grupa posted top-line growth in a challenging macroeconomic environment and thereby delivered on its guidance. Compared to the reported FY10 results, Atlantic Grupa doubled its sales in FY11, while when compared to the FY10 pro-forma consolidated sales, sales growth amounted to 5% in FY11. Excluding one-offs, in FY11 Atlantic Grupa posted 157% higher Earnings before interest, taxes and amortisation (EBITDA) compared to reported FY10 results, while compared to pro-forma consolidated FY10 results, EBITDA was 1.7% lower. Earnings before interests and taxes (EBIT) were 111% higher on the normalized level opposed to FY10 reported results, and 12% higher opposed to the pro-forma consolidated FY10 results. As a result of higher interest expense in FY11, net profit after minorities amounted to HRK20mil in FY11 once one-offs excluded.

KEY DEVELOPMENTS in FY11

1. Integration of Droga Kolinska and Atlantic Grupa

Initial integration activities

Following the acquisition of Droga Kolinska at the end of November 2010, Atlantic Grupa successfully executed the first phase of integration activities during the first half of 2011 based on:

- Merger of Droga Kolinska and Atlantic Grupaȏs distribution activities on all regional markets by setting up independent distribution companies consolidated in the Distribution division and therewith related implementation of new commercial terms and sales force optimization;
    - On Croatian market joined distribution started at the end of 2010,
    - On Slovenian and Macedonian market joined distribution started at the beginning of February 2011,

- On Serbian market joined distribution started at the beginning of March, at the same time outsourced distribution started on Bosnian and Herzegovinian market.

❖ Merger of logistics processes and distribution centres;
  - On Croatian market logistic operations were reorganized within Atlantic Grupa while prior to acquisition, Droga Kolinska operated with outsourced logistics,
  - The most complex joining of logistics processes was carried out on Serbian market where operations were reallocated from initial 11 logistics centres to 4 new central locations,
  - Negotiations of more favourable terms with outsourced logistics partner on Slovenian market were executed.

❖ Establishment of centralised procurement system and purchasing category management with lead buyers for key raw materials,

❖ Implementation of centralised marketing,

❖ Consolidation of office space on all regional markets, mostly emphasized on Serbian and Croatian market.

Second integration phase

Second and more complex phase of integration activities started in the second half of 2011 with the key focus on following:

❖ Consolidation of production facilities;
  - At the end of 2011, Atlantic Grupa finalized the process of transfer of Cockta bottling for markets of Croatia and Bosnia and Herzegovina from previously outsourced bottlers to Atlantic Grupaõs bottling facility in Apatovac (acquired last year within acquisition of Kalniļke vode Bio Natura),
  - Project for transfer of coffee roasting for Croatian market from previously outsourced producer to own production plant in Izola, Slovenia,
  - Currently, feasibility studies are being prepared for transfer of other production from outsourced producers to own production plants (e.g. beverages based on water within sports and functional food segment).

❖ Consolidation of information technology;
  - Consolidation of business IT solution is ongoing on several regional markets based on the assessment of business systems for operational support within Droga Kolinska and Atlantic Grupa and selection of best practice,
  - Redefining current IT contracts related to telecom services, licences and outsourced IT support.

Sale of non-core assets

Atlantic Grupa is engaged in the real estate and financial assets portfolio management with the goal to sell all assets not required for core business operations, including:

- In the third quarter of 2011, Atlantic Grupa reported one-off gain from sale of 13% ownership in Croatian broadcasting channel ï RTL Hrvatska ï to its major owner RTL Group. Atlantic Grupa kept symbolic 0.01% ownership share and the Supervisory Board position in RTL Hrvatska,

- Currently the company assesses sale of several real estate that are not in accordance with the company's core business operations.

Synergy effects

Following the execution of integration activities in 2011, the largest portion of savings in operations was achieved in the segment of distribution and logistics activities and investment management that altogether accounted for 46% of total synergy savings. In 2011, Atlantic Grupa delivered synergy savings in the amount of EUR 5.9m.

Furthermore, in November 2011, Atlantic Grupa launched cost reduction program – CORE program with the key goal to optimize the company's primarily external expenses in the period from 2011 to 2013 within the plan to generate expense synergies following the integration of Droga Kolinska and Atlantic Grupa. The emphasis is on the group of expenses that are encountered as result of purchase of goods and services from suppliers including expenses for production materials, contract manufacturing, overhead materials, marketing materials, procurement of capital equipment, technical material and spare parts, rent and leasing of space and equipment, vehicles, energy, logistic services, maintenance services and intellectual services.

2. Purchase Price Allocation for Droga Kolinska

Pursuant to the International Financial Reporting Standards (IFRS 3), Atlantic Grupa was obliged to allocate the purchase price of EUR 243,109 ths paid for Droga Kolinska's assets acquired, within a year from the transaction. For that purpose, Atlantic Grupa engaged an independent appraiser, whereas conclusions emerging from the process are in more detailed discussed in the section "Profitability dynamics in 2011".

SALES DYNAMICS IN FY11

Sales profile by division

in HRK thousands

FY11	Distribution	Consumer Health Care	Sports and Functional Food	Pharma	Droga Kolinska	Consolidated Group	Atlantic Grupa ex. Droga Kolinska
Gross sales	2,762,616	447,743	647,051	366,604	2,248,944	**6,472,958**	
Intersegment sales						1,745,192	
Consolidated sales						**4,727,766**	
Gross sales ex. DK	1,207,042	447,743	647,051	366,604			**2,668,440**
Intersegment sales							372,925
Consolidated sales ex. DK							**2,295,515**
FY10						**Pro-forma**	
Gross sales	1,289,331	478,194	556,182	326,011	2,244,342	4,894,061	2,649,719
Intersegment sales						381,297	381,078
Consolidated sales						4,512,764	2,268,641
Change 11/10							
Gross sales	**114.3%**	**-6.4%**	**16.3%**	**12.5%**	**0.2%**		
Intersegment sales							
Consolidated sales						**4.8%**	
Gross sales (organic)	**-6.4%**	**-6.4%**	**16.3%**	**12.5%**			
Intersegment sales							
Consolidated sales- organic growth							**1.2%**

In 2011, Atlantic Grupa posted **sales of HRK 4,727.8 million** that came in **4.8% yoy higher** compared to pro-forma consolidated sales in 2010. Without Droga Kolinska, Atlantic Grupa posted **1.2% organic growth** comparing to the same period last year. Double-digit growth rates of Sports and Functional Food division and Pharma division had positive impact on organic sales growth and have annulled negative impact on sales from divisions Distribution and Consumer HealthCare.

- **Distribution division** ï Integration activities, carried out in 2011, consolidated distribution of product portfolio of Atlantic Grupa and Droga Kolinska on Croatian, Serbian, Slovenian and Macedonian markets. Following integrated distribution, successfully closed negotiations with key customers and implementation of new commercial contracts, Distribution division reached sales of HRK 2,762.6 million. Integration of Droga Kolinskaôs product portfolio impacted growth of Distribution division and thus the share of Droga Kolinskaôs product portfolio reached 56.3% of divisionôs gross sales.
  Due to still unfavourable macroeconomic environment influenced by contracted spending on all regional markets, sales of Distribution division without Droga Kolinskaôs product portfolio fell by 6.4% yoy. Renewal of contracts with key customers in the first quarter of 2011 as well contributed to negative showing since lower sales in the first quarter have never been fully compensated in the rest of the year. Accordingly,

analysing regional distribution markets, Slovenian and Macedonian market posted organic growth in sales, while Croatian and Serbian market showed decline.

- **Consumer HealthCare division** delivered 6.4% yoy lower sales mainly hurt by: (i) gloomy macroeconomic environment pressuring sales of Cedevita and Nevaœs product assortments, (ii) consolidation of distribution activities of product portfolios of Atlantic Grupa and Droga Kolinska that especially impacted the Consumer HealthCare assortment and (iii) product assortment rationalization, particularly on Serbian and Macedonian markets, following in depth analysis of divisionœs product portfolio.

- With double-digit growth in 2011, **Sports and Functional Food division** stood out as one of the key drivers of Atlantic Grupaœs organic growth with 16.3% yoy sales advance. Product portfolio analysis reveals growth of Champ and Multaben brands, 17.7% and 11.7% respectively, as well as growth of private label sales. Geographic profile reveals growth of German market as the key market for the division as well as growth of UK market as the second largest market for branded products. In 2011, division ventured out to Spanish market with newly established company - Atlantic Multipower Iberica. Distribution channelsô analysis on the most important market - Germany - reveals continuation of upward trend in mass market and online sales that showed 9% and 25% yoy growth, respectively. Mass market and on-line sales have outgrown traditional specialized sports sales channel.

- **Pharma division** posted 12.5% yoy growth and thereby was the second largest organic growth generator after Sports and Functional Food division. Growth was spurred by 15.9% gross sales increase in pharmacy chain Farmacia and 2.8% higher sales of vitamin, mineral, supplement and OTC assortment producer and drug wholesaler ï Fidifarm. Opening of two new pharmacies and two new specialized stores during 2011 as well as finalized consolidation of five pharmacies from acquired pharmacy chain Dvorģak buoyed Farmaciaœs sales growth. Following opening of new sales locations, consolidation of Dvorģak pharmacies as well as closure of unprofitable sales location, at the end of 2011 division operated with 56 sales locations, out of which 45 pharmacies and 11 specialized stores. Stripping off sales from acquired pharmacy chain Dvorģak, division delivered 8.2% yoy organic growth**.**

- In 2011, **Droga Kolinska division** saw its gross sales growing only modestly at 0.2% compared to 2010. However, Droga Kolinskaœs sales directly to third parties showed 8% growth with following categories standing out as three key growth drivers in 2011: (i) coffee with brands Grand Kafa and Barcaffe, (ii) sweet and salted snack with brands Najlepģe ģelje and Smoki and (ii) baby food with brand Bebi. These product categories dwarfed lower sales of carbonated soft drinks with brand Cockta and savoury spreads with brand Argeta.

Multi-division summary by geographic zone

in HRKm	2011	% of sales	Pro-forma 2010	% of sales	Stand-alone 2010	% of sales	2011/ Pro-forma 2010	2011/ Stand-alone 2010
Croatia	**1,332.2**	28.2%	1,377.9	30.5%	1,250.6	55.1%	**-3.3%**	**6.5%**
Serbia	**1,204.2**	25.5%	1,068.6	23.7%	130.1	5.7%	**12.7%**	**825.6%**
Slovenia	**598.1**	12.7%	577.7	12.8%	172.5	7.6%	**3.5%**	**246.7%**
B&H	**359.2**	7.6%	395.9	8.8%	79.0	3.5%	**-9.3%**	**354.5%**
Other ex. Yu*	**294.7**	6.2%	261.1	5.8%	47.7	2.1%	**12.8%**	**517.4%**
Key WEU**	**355.9**	7.5%	351.9	7.8%	338.2	14.9%	**1.1%**	**5.2%**
Russia and EE	**144.0**	3.0%	180.0	4.0%	41.4	1.8%	**-20.0%**	**247.6%**
Other	**439.6**	9.3%	299.7	6.6%	209.1	9.2%	**46.7%**	**110.2%**
Total sales	**4,727.8**	100.0%	4,512.8	100.0%	2,269	100.0%	4.8%	108.4%

*Other ex. YU: Macedonia, Montenegro, Kosovo
**Key WEU: Germany, UK, Italy

- In 2011, **Croatia** posted sales (including Droga Kolinskaōs assortment) of HRK 1,332.2m compared to HRK 1,250.6m in 2010. Even though the acquisition of Droga Kolinska significantly reduced the Groupōs exposure to domestic market from 55.1% in 2010 to 28.2% in 2011, Croatia still remained the largest selling market for Atlantic Grupa. Sales decreased 3.9% yoy on the organic level, while decline was 3.3% on the pro-forma consolidated level. However, sales decline on the pro-forma consolidated level was partially cushioned by following: (i) increase in coffee and salted snacks category as well as mild increase in savoury spreads and beverages categories of Droga Kolinska, (ii) growth in some principal brands, and (iii) growth in Pharma division. Thereby, one should consider that two major factors affected sales on Croatian market: (i) renewal of contracts with key customers due to integration of Droga Kolinskaōs product portfolio during 2011 and (ii) continuation of negative trends in Croatian economy. The latter was mainly emphasized by: (i) GDP and household consumption stagnation in 9M11, (ii) negative dynamics in the labour market (evidenced by growth in average number of unemployed followed by an average unemployment rate of 18.0% in 2011, decline in real net wages in 11M11 and annual decline in working population), (iii) decline in real retail sales, ex. auto/motorcycle sales, during 2011 and (iv) average consumer confidence index at -37.0 points in 2011.

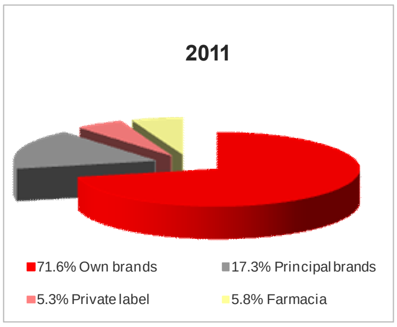
- **Regional markets** (excluding Croatia) delivered total sales of HRK 2,456.1m compared to HRK 429.4m in 2010. On the pro-forma consolidated level, regional markets posted 6.6% yoy sales growth, while on the organic level sales modestly decreased by 0.8% yoy. **Serbian market**, as the second largest market in Atlantic Grupa with 25.5% share of total sales, posted sales of HRK 1,204.2m, thus showing 12.7% growth compared to pro-forma consolidated sales in 2010. Excluding Droga Kolinskaô assortment, Serbian market saw 10.7% yoy lower sales on the organic level mainly due to: (i) economic slowdown in 2H11, (ii) high unemployment rate (23.7% in November according to manpower survey) and (iii) decline in retail sales (-16.7% yoy in 11M11). The third most important market, **Slovenia**, reached sales of HRK 598.1m in the observed period, accounting for 12.7% of Atlantic Grupa's total sales. In 2011, sales were up 3.5% yoy compared to pro-forma consolidated sales in 2010 and 2.5% yoy on organic level (excluding Droga Kolinska's assortment). In the environment characterized by stagnating household consumption and increasing number of unemployed (10.9% yoy in 11M11), growth was boosted by coffee assortment with key brand Barcaffe, salted snacks with brand Smoki, Cedevita vitamin drink in the retail segment and on-the-go channel as well as certain principal brands. With HRK 359.2 million in sales, **Bosnia and Herzegovina** is the fourth largest market in Atlantic Grupa accounting for 7.6% share of total sales. Compared to pro-forma consolidated sales showing in 2010, BiH market posted 9.3% yoy lower sales as a result of sales over outsourced distributer that bears all distribution costs, but simultaneously purchases products form Atlantic Grupa at lower prices compared to prices charged by Droga Kolinska during previous years. On the organic level, sales declined 2.5% yoy largely as a result of gloomy macroeconomic trends manifested in retail sales stagnation and registered unemployment rate at 43.6% in November 2011.

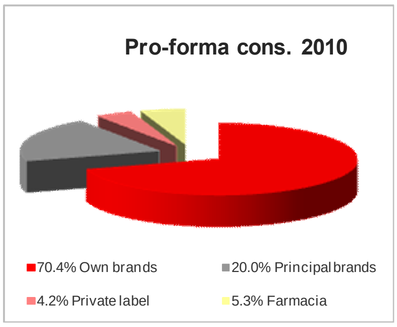
- **Key West European markets** (Germany, Italy and UK) delivered sales of HRK 355.9m with 1.1% yoy growth on the pro-forma consolidated level and 5.2% yoy growth on the organic level. The UK market posted the fastest organic growth with 13.0% in functional and 12.4% in local currency but also expanded on the pro-forma consolidated basis with 4.2% yoy to HRK 50.3m, thus becoming the second largest West European market in Atlantic Grupa. The best selling West European market – Germany – posted organic growth of 8.1% in functional and 5.9% in local currency as well as 7.2% yoy better showing compared to the pro-forma consolidated 2010 figure, boosted among others with solid macroeconomic indicators showing lower unemployment and increasing retail sales. Third key West European market – Italy – delivered 15.8% organic growth in functional and 17.5% in local currency.
  Three key factors buoyed sales growth in this geographic region: (i) double-digit growth in sports food brand Champ and functional food brand Multaben, (ii) double-digit growth in private label sales and (iii) further expansion of mass market outside the specialized sports channel.

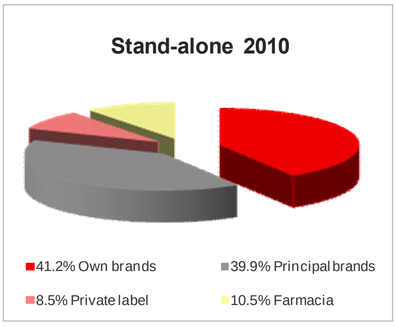
- In 2011, **Russian and East European markets** posted 20% yoy lower sales of HRK 144.0m compared to pro-forma consolidated showing in 2010. Decline mainly reflected lower sales of Multivita assortment, whereby growth in baby food assortment with brand Bebi was insufficient to annul decline in the former. Poor Multivita showing in 2011 largely reflected certain difficulties in products registration as well as difficulties in cooperation with the local distributer. Considering that these were largely removed by the end of 2011, in 2012 Atlantic Grupa expects more intensive swing in sales enhancement that should compensate for the fall in 2011.

- **Other markets** saw sales jumping 46.7% yoy compared to pro-forma consolidated sales in 2010, while growth on the organic level advanced as much as 34.6% yoy on wings of sports and functional food assortment.

Sales profile







- Share of **own brands** in Atlantic Grupaõs total sales reached 71.6% in 2011 compared to 41.2% in 2010. The shift in the structure of sales profile in favour of own brands came as the result of acquisition of Droga Kolinska whose assortment consists only of own brands. Own brands delivered 6.4% yoy growth on the pro-forma consolidated basis primarily driven by: (i) brands in the coffee segment ï Grand Kafa and Barcaffe that posted 12.3% and 9.7% sales growth, respectively, (ii) brands in the sweet and salted snack segment ï Najlepġe ġelje and Smoki, that posted 11.6% and 5.5% sales growth, apiece, (iii) 11.7% sales growth of brand Bebi in the baby food segment and (iv) double-digit sales growth of brands in the sports and functional food segment - Champ and Multaben. The growth of abovementioned segments cushioned sales decline in certain brands including Cedevita and Cockta in the beverages segment and Argeta in the savoury spreads segment.
  On the organic level (excluding Droga Kolinskaõs assortment), own brands rose by 1.8% yoy.

- With increasing share of own brands in 2011, share of **principal brands** dropped to 17.3% of total Atlantic Grupaõs sales compared to 39.9% share in 2010. On annual level, principal brands posted 9.7% lower sales following in-depth portfolio analysis that eventually led to its rationalization, even though some principal categories, as Ferrero, Rauch and One2play posted growth mainly spurred by regional distribution expansion.

- In 2011, share of **private label** in total sales dropped to 5.3%, compared to 8.5% in 2010, whereby the category posted yoy growth of 31.8% primarily driven by sports and functional food assortment.

- Share of pharmacy chain **Farmacia** nearly halved in 2011 to 5.8% from 10.5% in 2010. Pharmacy chain Farmacia posted 15.6% yoy higher sales buoyed by newly opened pharmacies/specialized stores as well as consolidation of acquired pharmacy chain Dvorġak, while on the organic level (without consolidation of acquired pharmacy chain Dvorġak) Farmacia delivered yoy growth of 9.8%.

PROFITABILITY DYNAMICS in FY11

in HRKm	2011	Pro-forma cons. 2010	Stand-alone 2010	2011/ Pro-forma 2010	2011/ Stand-alone 2010
Sales	**4,727.8**	**4,513.0**	2,268.6	4.8%	108.4%
EBITDA	**500.7**	**544.7**	220.0	-8.1%	127.5%
Normalized EBITDA	**517.3**	**526.3**	201.7	-1.7%	156.5%
EBIT	**334.8**	**294.3**	165.0	13.8%	103.0%
Normalized EBIT	**309.2**	**275.9**	146.6	12.1%	110.9%
Net profit/loss	**54.9**	**146.4**	106.8	-62.5%	-48.6%
Normalized Net profit/loss	**28.0**	**125.6**	86.0	-77.7%	-67.5%
Profitability margins					
EBITDA margin	**10.6%**	**12.1%**	9.7%		
Normalized EBITDA margin	**10.9%**	**11.7%**	8.9%		
EBIT margin	**7.1%**	**6.5%**	7.3%		
Normalized EBIT margin	**6.5%**	**6.1%**	6.5%		
Net profit margin	**1.2%**	**3.2%**	4.7%		
Normalized Net profit margin	**0.6%**	**2.8%**	3.8%		

Key highlights:

2011 vs. 2010 on a stand-alone basis (Atlantic Grupa without Droga Kolinska)

Two-fold higher profitability on EBITDA (earnings before interests, taxes and depreciation) and EBIT (earnings before interests and taxes) levels compared to 2010 primarily reflected consolidation of Droga Kolinska.

On normalized basis:

- ❖ Growth is even more pronounced with **normalised EBITDA** 2.6 times higher compared to showing in 2010 that led to 205bps higher EBITDA margin. Higher margin primarily reflected changes in the product mix with considerably higher share of own brands on consolidated level in 2011.
- ❖ **Normalised EBIT** came in 2.1 times higher compared to 2010 performance while retaining margins on the same level, reflecting thereby the impact of finalised purchase price allocation process for Droga Kolinska on tangible assets depreciation and intangible assets amortization in 2011 (explained further in the text).
- ❖ **Normalised net profit** amounted to HRK 28.0m in 2011 reflecting: (i) HRK 221.2m in interest expenses on the back of acquisition financing, refinanced financial borrowings of Droga Kolinska and financial borrowings of Atlantic Grupa as well as (ii) HRK 35.2m in FX losses following substantial EUR/HRK changes in 2011 with particular impact on financial liabilities.

- ❖ One-off items that have been excluded in the normalization in 2010 relate to:
  - ▪ To reach normalized EBIT level, HRK 18.4m in one-offs should be excluded:

i. -HRK 48.6m one-off gain from the sale of Nevaôs former location in Tuġkanova,

ii. +HRK 52.2m one-time transaction costs related to the acquisition of Droga Kolinska,

iii. -HRK 16.9m in positive financial impacts related to income on deposits from capital increase funds (approximately one-third of the amount) and positive exchange rate differences
iv. -HRK 5.1m in non-recurring gain on acquisition of the company Kalniļke vode Bio Natura (badwill).

- To reach normalized net profit, HRK 20.8m in one-offs should be extracted:

i. -HRK 18.4m in one-offs above EBIT
ii. -HRK 0.8m in FX gains
iii. -HRK 1.6m in tax impact related to abovementioned one-offs.

❖ One-off items that have been excluded in the normalization in 2011 relate to:

- To reach normalized EBITDA level, HRK 16.6m in one-offs should be added:

i. -HRK 12.0m one-off gain from the sale of 13% stake in the company RTL Hrvatska,
ii. +HRK 5.8m one-time transaction costs related to the acquisition of Droga Kolinska,
iii. +HRK 22.8m one-off impact of increase in inventories value emerging as a result of purchase price allocation.

- To reach normalized EBIT level, HRK 25.7 m in one-offs should be excluded:

i. +HRK 16.6m in one-offs above EBITDA
ii. -HRK 42.3m impact on depreciation of tangible assets and amortization of intangible assets emerging as a result of purchase price allocation. Certainly one should consider that this depreciation and amortization impact is classified as a one-off since otherwise depreciation and amortization amount is incomparable to 2010 results. Nevertheless, one should keep in mind that the effect of lower depreciation and amortization emerging as a result of purchase price allocation will be carried over in 2012 and years beyond and thus in the following results announcements will not be normalized.

- To reach normalized net profit, HRK 26.9m in one-offs should be extracted:

i. -HRK 25.7m in one-offs above EBIT
ii. -HRK 1.2m in one-off impact of increase in financial borrowings value emerging as a result of purchase price allocation.

❖ **Purchase Price Allocation**

Pursuant to the International Financial Reporting Standards (IFRS 3), Atlantic Grupa was obliged to allocate the purchase price of EUR 243,109 ths paid for Droga Kolinskaŝ assets acquired, within a year from the transaction. For that purpose, Atlantic Grupa engaged the independent appraiser and conclusions emerging form the process are as follows:

- Intangible assets:

i. Independent appraisers recognized and valued trademarks and software as intangible assets.
ii. Fair value of acquired trademarks (Grand Kafa, Barcaffe, Argeta, Najlepġe ġelje, Bananica, Smoki, Donat Mg, Cockta, Bebi) has been determined based on income approach, i.e. Relief-from-Royalty method that combines the use of comparative market transactions of licensing trademarks (adjusted for brand's specifics including market position, geographic presence, future

growth potential) as well as cash flow projections of hypothetical royalty income based on historical sales information of related products and estimated growth rates for subsequent periods. Additionally, an indefinite useful life for all of Droga Kolinska's brands has been assumed and consequently these will not be amortised but tested annually for impairment. Fair value of trademarks on 31 December 2010 is HRK 764.8m and has been increased by HRK 206.3m from their book value.

- Tangible assets

i. Independent appraisers have applied market-based approach and cost-based approaches to value tangible assets and concluded that fair value of tangible assets (property, plant and equipment, investment property and assets held for sale) is HRK 73.6m higher compared to their net book value.

ii. Looking more closely at individual categories of tangible assets, the largest increase in value has been determined on production equipment.

- Other assets and liabilities

i. On 31 December 2010, fair value of inventories has been estimated at HRK 22.6m above its book value.

ii. On 31 December 2010, fair value of financial borrowings has been estimated at HRK 1.2m above its book value.

- Residual goodwill

Goodwill of HRK 571.5m has been calculated as the excess of the acquisition cost over the fair value of the Groupœs share of the net identifiable assets of the acquired subsidiary. Goodwill has been allocated to those cash-generating units (CGUs) that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment. Thereby, to the following operating segments (CGUs) goodwill has been allocated: coffee, savoury spreads, snacks and confectionary, beverages, baby food and distribution.

2011 vs. Pro-forma consolidated 2010

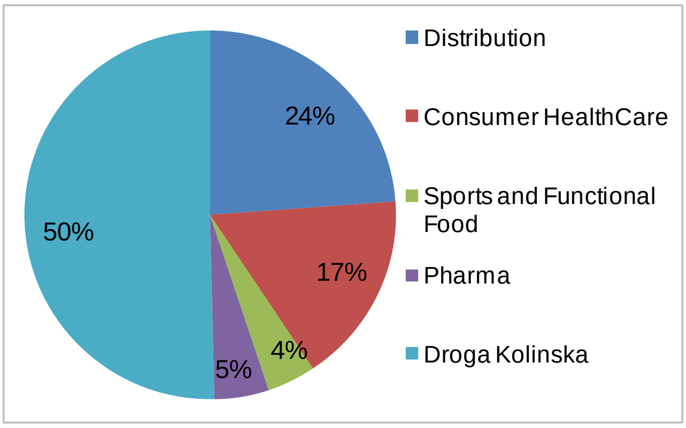
- **Normalised EBITDA** came in 1.7% yoy lower compared to pro-forma consolidated normalised EBITDA in FY10 largely reflecting 20.7% yoy higher production materials costs.
- **Normalised EBIT** was 12.1% yoy higher as opposed to pro-forma consolidated EBIT excluding one-offs largely on the back of substantially lower tangible and intangible assets-related impairment losses in 2011 vs. 2010. In 2010, Atlantic Grupa had impairment loss of HRK 5.1m related to pharma licences that were acquired, but subsequently not used. Furthermore, in 2010 Droga Kolinska had impairment loss of HRK 43.5m that in larger part related to intangible assets. In 2011, Atlantic Grupa had impairment loss of HRK 8.1m.

Divisional operating profitability

in HRKm	2011	Pro-forma cons. 2010	Stand-alone 2010	2011/Pro-forma 2010	2011/Stand-alone 2010
Distribution	**80.3**		37.4		114.3%
Consumer HealthCare	**56.6**		83.2		-32.0%
Sports and Functional Food	**14.4**		30.1		-52.3%
Pharma	**16.0**		16.9		-5.2%
Droga Kolinska	**169.8**		n/a		
EBIT	**337.0**	296.9	167.6	13.5%	101.0%
Reconciliation	**2.1**	2.6	2.6		
Group EBIT	**334.8**	294.3	165.0	13.8%	103.0%

Growth in Atlantic Grupa's operating profitability primarily reflected profitability enhancement in Distribution division as well as consolidation of operating result of Droga Kolinska Division, thus completely annulling deteriorating profitability in Consumer HealthCare, Sports and Functional Food as well as Pharma divisions. The comparison of 2011 and pro-forma consolidated 2010 results lacks sense on the division level due to significant changes in the business model with Droga Kolinska division becoming exclusively production division following the acquisition, while Distribution division took over distribution of Droga Kolinskaȇs products.

Analysing share of each division in the Groupȇs profitability, the following is evident:



- Division Droga Kolinska with HRK 169.8m in operating profit contributes the most to the Groupȇs profitability (50% of total profitability)
- With 24% share, Distribution division is the second highest contributor to the Groupȇs profitability
- Division consumer HealthCare accounts for 17% share in the Groupȇs profitability

- **Distribution division** posted 2.1 times higher EBIT in 2011, primarily due to distribution of Droga Kolinska portfolio.
- **Consumer HealthCare division** saw its operating profitability deteriorating due to lower sales and modest increase in production materials costs.
- Profitability in **Sports and Functional Food division** dropped due to front-loaded investments in new company on the Spanish market (Atlantic Multupower Iberica), surging production materials costs, as well as marketing and selling expenses with the latter largely driven by expansion of mass market i.e. retail market outside specialised sports channels as well as increasing service costs.
- **Pharma division** posted lower operating profitability largely amidst stronger growth in operating costs

base, primarily service costs, staff costs and costs of goods sold.

Operating costs structure excluding one-offs

In HRKm	2011	% of sales	Pro-forma 2010	% of sales	Stand-alone 2010	% of sales	2011/ Pro-forma 2010
COGS	**1,165**	24.6%	**1,202**	26.6%	1,086	47.9%	-3.1%
Changes in inventory	**- 6**	-0.1%	**6**	0.1%	- 9	-0.4%	n/a
Production materials	**1,580**	33.4%	**1,309**	29.0%	291	12.8%	20.7%
Energy	**61**	1.3%	**53**	1.2%	12	0.5%	14.8%
Services	**304**	6.4%	**308**	6.8%	144	6.3%	-1.3%
Staff costs	**635**	13.4%	**658**	14.6%	326	14.4%	-3.5%
Marketing and promotion costs	**313**	6.6%	**315**	7.0%	149	6.6%	-0.5%
Other operating expenses	**212**	4.5%	**198**	4.4%	95	4.2%	6.8%
Other (gains)/losses, net	**- 7**	-0.2%	**- 6**	-0.1%	1	0.0%	n/a
Total operating expenses	**4,257**	**90.0%**	**4,043**	**89.6%**	**2,094**	**92.3%**	**5.3%**

Share of operating costs in total sales increased only marginally to 90.0% in 2011 from 89.6% in 2010 on the pro-forma consolidated level. Nevertheless, analysing Atlantic Grupaôs showing on the stand-alone basis in 2010, the share of operating costs decreased from 92.3% in 2010.

- Thereby, the key change in the operating costs structure occurred in the relation COGS and production materials costs. Following substantial change in the product mix with 72% share in own brands in 2011 compared to 41% in 2010, the share of COGS in sales dropped to 24.6% in 2011 from 47.9% in 2010, whereby the share of production materials costs jumped to 33.4% from 12.8% in 2010.
- On the pro-forma consolidated level, production materials costs posted the highest increase inflated by raw materials costs including coffee, sugar, milk powder and others largely on the back of surging prices on the global commodity markets as well as packaging materials costs. Coffee as Atlantic Grupa's key raw material in total production materials costs with 36% share, rocketed 55% on average on global commodity markets (expressed through coffee ñCò futures contract as the world benchmark for Arabica coffee) compared to 2010[1]. Growth in coffee prices on global commodity markets has to large extent been neutralised by using hedging techniques.
- Among other operating costs categories, staff costs with 13.4% share and marketing and selling costs with 6.6% share are two second largest cost items following COGS and production materials costs. Thereby, staff costs declined 3.5% yoy compared to pro-forma consolidated levels in 2010 largely reflecting integration activities in 2011. At the end of 2011, Atlantic Grupa had 4,198 employees with the largest portion of employees in Croatia, Serbia and Slovenia (86% of the groupôs employees).

[1] Financial information provider Bloomberg

FINANCIAL INDICATORS in FY11

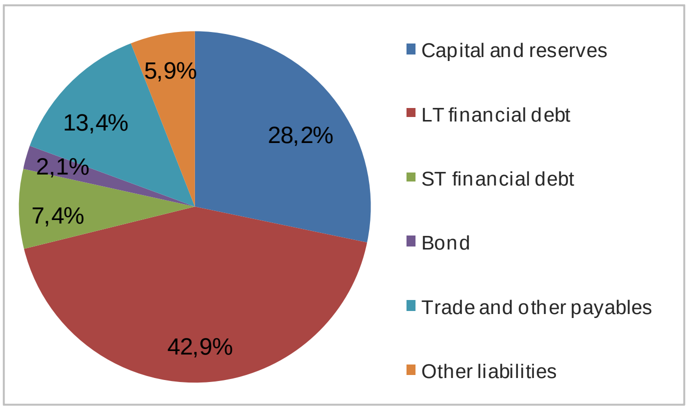
in HRKm	2011	2010*
Net debt	**2,494.0**	2,495.8
Total assets	**5,355.2**	5,259.3
Equity	**1,512.3**	1,456.3
Current ratio	**1.84**	1.31
Gearing ratio	**62.3%**	63.2%
Net debt/EBITDA**	**4.8**	4.7
Interest coverage ratio**	**2.3**	5.3
Capex	**96.5**	34.8
Cash flow from operating activities***	**165.1**	101.5

* P&L items on pro-forma consolidated basis **Normalized *** Excluding impact of transaction costs

Among key highlights in Atlantic Grupa's 2011 financial position, one should consider the following:

- Net debt at HRK 2,494.0m reflects financial debt of HRK 2,721.8m, net derivative liabilities of HRK 56.2m and cash and cash equivalents as well as short-term deposits of altogether HRK 283.9m.
  Consequently, leverage indicators are: (i) net debt-to-normalized EBITDA at 4.8 times, (ii) gearing ratio (net debt-to-net debt and total equity) at 62.3% and (iii) interest covered with normalized EBITDA at 2.3 times.
- At the end of 2010, acquired net assets has been restated to reflect purchase price allocation results. To be more precise, the following items have been restated: (i) non-current assets (primarily, property, plant and equipment as well as intangible assets), (ii) inventories in current assets, (iii) financial borrowings and (iv) deferred tax liability.

- Atlantic Grupa's financing structure at 31 December 2011 was as follows:

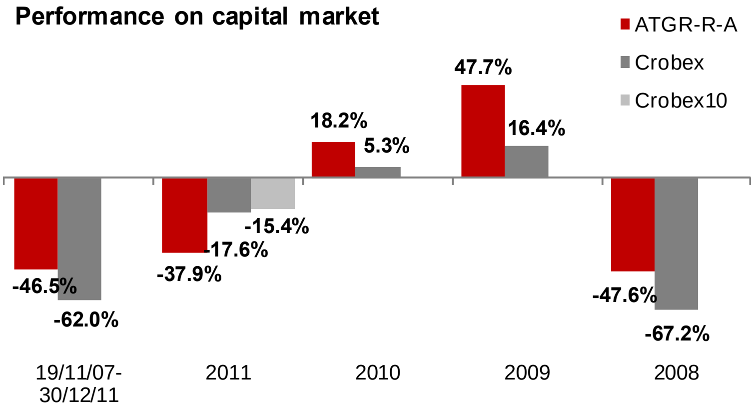


- The largest item in the financing structure is long-term financial debt (including derivative liabilities and bond) with 45.0% share.
- The second largest item is capital and reserves with 28.2% share.
- Long-term and short-term financial liabilities with derivative liabilities account for 50.3% of Atlantic Grupa's financing structure.

- Considering the amount of acquisition financing, Atlantic Grupa implemented the Policy of active financial debt management already at the beginning of 2011 requiring the company to have fixed interest rates on its financial liabilities in the range of 50%-100% every moment in the next three years. Consequently, Atlantic Grupa fixed substantial portion of its long-term financial liabilities with interest rate swaps.
- In 2011, Atlantic Grupa refinanced corporate bond in the nominal amount of HRK 115m maturing in 2016.
- Atlantic Grupa's capital investments amounted to HRK 91.4m in 2011 with key investments referring to the following: (i) investments in Cockta bottling in Apatovac plant, (ii) investments in production equipment and lines in the segments of sweet and salted snacks, coffee, savoury spreads and vitamin instant drinks and (iii) investments in distribution vehicle fleet expansion as well as logistics expansion.

PERFORMANCE ON THE CROATIAN CAPITAL MARKET in 2011

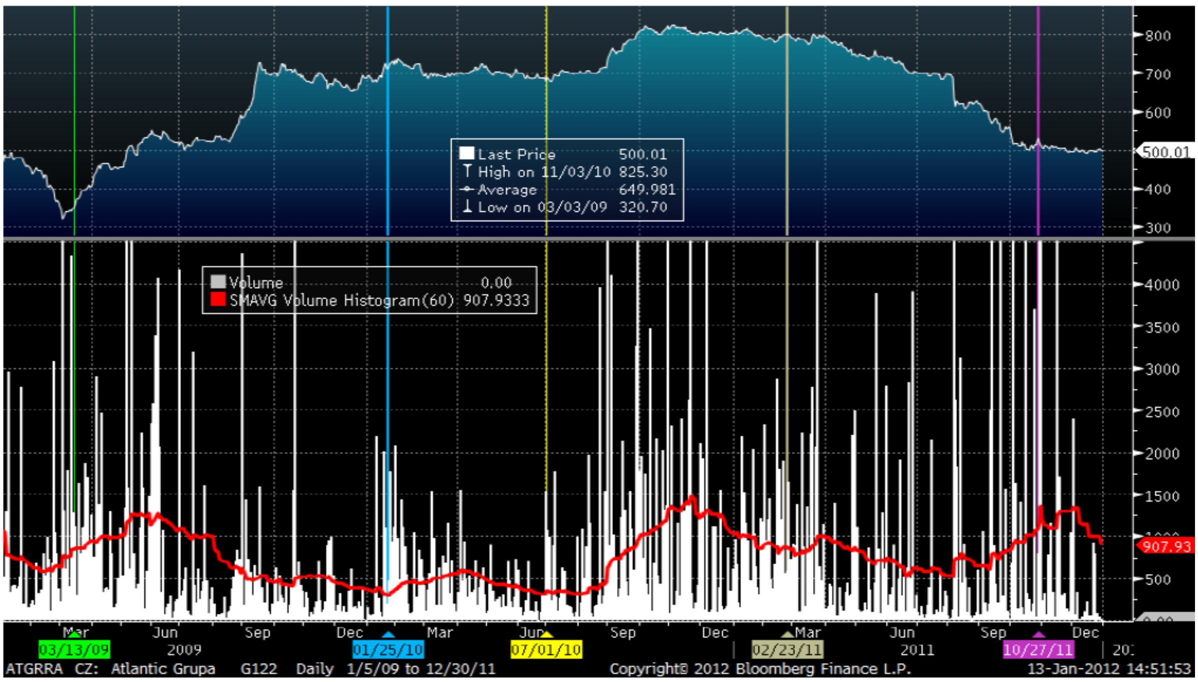
Global financial crisis followed by negative market sentiment and rising risk aversion resulted in drop of the majority of leading global stock indices in 2011 on annual basis and therewith failed to circumvent Croatian capital market. Consequently, all components of the local blue-chip index - Crobex10 ï recorded negative performance in 2011 resulting in 15.4% drop in the index itself. In these conditions, local and foreign investors present on the Croatian capital market cut their positions in more liquid issues as for example Atlantic Grupa. This led to underperformance of Atlantic Grupa’s share compared to official Zagreb Stock Exchange stock index ï Crobex ï for the first time since the company’s IPO. Nevertheless, since the IPO Atlantic Grupa’s share clearly outperformed Crobex. Additionally, despite unfavourable trends on the local capital market as well as regional and global uncertainties, Atlantic Grupa’s share successfully retained total turnover and average daily turnover on the 2010 levels.



Comment:

Emphasized dates on the chart indicate:

1. Publication of the FY08 financial results
2. Introduction of market maker
3. Announcement of signing a contract for the acquisition of Droga Kolinska
4. Publication of the FY10 financial results
5. Publication of the 9M11 financial results



With an average market capitalization of HRK 2.2bn in 2011, Atlantic Grupa positioned second among components of local blue-chip index ï Crobex 10.

On 20 September 2011, Atlantic Grupa issued Notes amidst restructuring of its maturity debt structure, i.e. refinancing of Notes issued 06 December 2006, maturing 06 December 2011, quoted on the Official market of the Zagreb Stock Exchange under ticker ATGR-O-11CA. According to the Capital Markets Act, the Notes are issued through a public offering addressed to investors who, for the subscribed securities, paid the amount of at least EUR 50,000 per investor, for each separate offer, in kuna counter value according to the mid exchange rate of the Croatian National Bank, valid on the date of issue, without prior publication of the Prospectus. Raiffeisenbank Austria d.d. and Zagrebaļ ka banka d.d. acted as joined agents for the Notes issue in the nominal amount of HRK115m and issue price of 99.375%. The Notes will be redeemed at their principal amount on 20 September 2016 and Atlantic Grupa will pay interest on the Notes semi-annually at the fixed rate of 6.75% per annum. Atlantic Grupa received Prospectus approval from the regulatory agency ï CFSSA and consequently the company listed Notes on the Official Market of the Zagreb Stock Exchange on 18 January 2012 under ticker ATGR-O-169A.

Valuation	2011	2010**
Last price in reporting period	500.0	805.0
Market capitalization (HRK 000)	1,667,150	2,684,112
Average daily turnover (HRK)	551,157	554,827
EV (HRK 000)	4,229,100	5,243,503
EV/EBITDA*	8.18	9.96
EV/EBIT*	13.68	19.01
EV/sales*	0.89	1.16
EPS* (HRK)	5.90	26.43
P/E*	84.71	30.46

*Normalized P&L figures **Pro-forma consolidated figures in 2010

OUTLOOK for FY12

Management's view on macroeconomic surrounding

Atlantic Grupa's management expects the corporate sector to face equally challenging 2012 as was 2011, mostly on regional markets. Consequently, Croatia will continue suffering from reduced purchasing power and negative trends on the local labour market, additionally augmented by fiscal consolidation and structural reforms that come as precondition for economic recovery in the years ahead. Croatia as others regional markets suffer from the spill-over effect of uncertainties and crisis in the euro zone. Moreover, looking closely at regional markets separately, it is expected that Serbian economic activity will stagnate in 2012 whereas Slovenian and BiH's economies are expected to decline. When it comes to West European markets, Germany particularly, key risks emerge from external factors including further economic deterioration in other euro zone members. While the German labour market and economy in general are relatively well structured and flexible and therewith can rather quickly adapt to deteriorated external factors, UK and Italy are not and consequently could face rising unemployment and thus negative impact on personal consumption in 2012. Russian economy is expected to easily slowdown in 2012 followed by stagnating personal consumption.

Atlantic Grupa's strategic management guidance for 2012

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

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

Following strategic management guidance, in FY12 the management expects the following:

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

*In 2011, EBIT was calculated on normalised EBITDA level, however depreciation and amortization expenses have not been normalized for the PPA impact in order to make it more comparable to 2012 guidance (as explained in the section ĂProfitability dynamics in FY11ŗ).

OVERVIEW OF FINANCIAL INDICATORS

(In HRK000)	2009	2010 reported*	2010 pro-forma**	2011
Revenues	2,221,815	2,301,945	4,575,540	4,774,385
% yoy change	*10.0%*	*3.6%*	*105.9%*	*4.3%*
Sales	2,199,413	2,268,641	4,512,983	4,727,766
% yoy change	*9.8%*	*3.1%*	*105.2%*	*4.8%*
EBITDA	197,029	220,046	544,684	500,670
EBITDA margin	*9.0%*	*9.7%*	*12.1%*	*10.6%*
EBIT	153,841	164,985	294,252	334,843
EBIT margin	*7.0%*	*7.3%*	*6.5%*	*7.1%*
Net profit	97,329	106,797	146,426	54,892
Net debt	272,489	2,495,760	2,495,760	2,494,030
Total assets	1,775,324	5,259,324	5,259,324	5,355,245
Equity	757,807	1,456,256	1,456,256	1,512,324
Interest coverage ratio (EBITDA/Interest expense)	7.1	5.7	5.5	2.26
Current ratio	1.66	1.34	1.34	1.84
Gearing ratio	26.4%	63.2%	63.2%	62.3%
Capex net of receipts from sale	43,978	24,080	24,080	82,934
MCap (as of 31. December)	1,682,091	2,684,112	2,684,112	1,667,150
EV	1,987,200	5,243,503	5,243,503	4,229,100
EV/EBITDA (as of 31. December)	10.09	23.83	9.63	8.45
EV/EBIT (as of 31. December)	12.92	31.78	17.82	12.63
EV/Sales (as of 31. December)	0.90	2.31	1.16	0.89
EPS - in HRK	34.50	33.84	47.50	13.98
P/E	19.74	23.79	16.95	35.77
EUR/HRK rate as of 31. December	7.3062	7.3852	7.3852	7.5304
Average EUR/HRK rate	7.3398	7.2857	7.2857	7.4338

*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 2011

The beginning of the year and the first quarter of 2011 were marked by activities in connection to the continued integration processes that began in 2010 after the acquisition of Droga Kolinska. In the aim of rendering the integration of the sales organizational structure as effective as possible, over 500 individual evaluation and motivational interviews were held, resulting in the successful reorganization and integration of all sales teams into existing or new distribution organizations on all Atlantic Grupa markets. During the integration activities linked to the acquisition of Droga Kolinska, the integration of the acquired company Kalniļ ke Vode Bio Natura was also carried out. Some employees of the said acquired company were integrated into the distribution business on the Croatian market, while others bound to the manufacturing process were added to the Consumer Health Care Division. The active role of the Human Resources Department was also noticed in other post-acquisition processes that had as their goal the maximum synergic effects in all business areas of Atlantic Grupa.

Atlantic Grupa entered the second quarter of 2011 with 4,300 employees, thus reorganizing the actual function of human resources was necessary in order to provide the most effective support for all business functions. The new organization required harmonization with existing teams and strengthening the presence of the Human Resources segment on all Atlantic Grupa markets in order to provide adequate support to management and respond to the challenges and specificities of individual markets. The HR team of Atlantic Grupa gathers 40 professionals from various backgrounds led by market managers and executive managers that strategically manage the function and the team as a whole.

The new HR mission and vision was promoted in 2011 and key success indicators were shown for the function, itself: strengthening the strategic influence of the function of human resources; proactive action and influence on changes; finding unique business solutions based on best HR practices; and orientation toward employees and users of HR services on all levels.

Key Human Resources strategic guidelines were also defined as: building a highly effective organization with a singular structure and corporate culture; including employees into a transparent system of managing performance and remuneration; and developing company leaders. Applying preconditions and implementing these strategic guidelines were, for the most part, the main human resource activities in 2011.

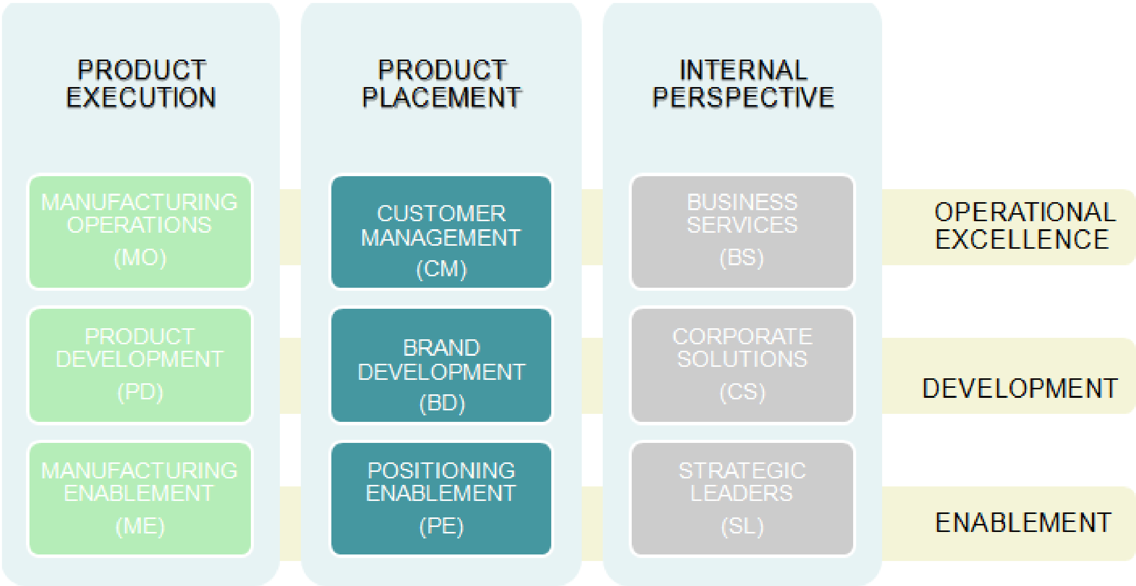
Harmonization and/or Unification of Existing HR Practices, Processes and Operative Models

On the level of Atlantic Grupa as a whole, the recruitment and selection process has been unified, as well as defined employment and work introduction procedures. Furthermore, a uniform reporting method has been defined for describing the situation and movement of employees in respect to business areas, markets and legal entities. A uniform monitoring method for departing employees was created with a common exit interview that measures fluctuation causes and ratios of desired and unwanted terminations. At the end of 2011 the fluctuation rate on the level of Atlantic Grupa was 14%. The average age of Atlantic Grupa employees was, in comparison to previous periods, unchanged (40 years-of-age), while the ratio of female and male employees was completely even, among whom 25% have university or college degrees, while 50% are secondary school graduates. In 2011 a uniform and unique method of personnel planning was created, along with budgeting and monitoring employee expenses.

Atlantic Grupa Job Systematization

The acquisition of Droga Kolinska and the integration of two business systems into one required in-depth knowledge of existing business areas, noticing possible synergies, and unification of same or similar business under a common business nomenclature, in areas where business logic allowed. In the second quarter of 2011 the job systematization process was initiated on the level of Atlantic Grupa as a whole by using the best global practices and internationally used methodologies, thus successfully evaluating over 1000 jobs. All jobs were categorized based on their complexity and specificity within individual families and sub-families of jobs.

For categorization of specific jobs within a job family we decided to use a multidimensional model with 9 job families monitored through 3 business processes/areas and 3 functional natures of jobs.



In order to further differentiate individual job groups, we defined 18 sub-groups of jobs that, in combination with job families, offer a complete picture of responsibilities and natures of each individual job within Atlantic Grupa. Considering a career direction, an individual position is characterized through a managerial, professional or general direction, which has, as a consequence, possible employee job changes by way of career direction. Job systematization, as a foundation for all HR processes, made it significantly easier to apply initiated activities and paved the way toward development and connecting with all other key HR processes.

Corporate Culture – *Naturally Different*

Midway through 2011 the Atlantic Grupa corporative culture project was inaugurated under the motto ñNaturally Different.ò Key corporate values were defined during the strategic workshop with the Atlantic Grupa Management Board: **Passion** (Sun symbol), **Responsibility** (Mountain symbol), **Creativity** (Wave symbol).

I lieu of the above, Human Resources organized and held 40 workshops with over 400 leaders from all levels in 7 countries with the goal of defining behavior and competences that foster corporate values. A whole series of activities were defined for fostering the development of corporate culture and company values that remind employees that their differences render them the same when reminded of the joint Atlantic Grupa values. The values are included in the performance management system and have been foreseen in the remuneration program and recognizing employees in the promotion of company culture, as well as defining a special company *Value Day* geared toward the active participation of all Atlantic Grupa employees in demonstrating company values. Furthermore, the said rudimentary values of Atlantic Grupa are the foundation for recruitment tools when taking on new employees who share and live our values.

Performance Management (U3)

The year 2011 was pivotal for another key HR process, i.e. the development and application of a new performance management system with a goal of unifying various approaches used in acquired companies ï primarily Droga Kolinska ï and has been in use in Atlantic Grupaôs current system since 2008. By the end of 2011 a new model based on the principle of combining individual performance and remuneration was in effect, as well as versions of the same model not connected with remuneration. In both cases the principle of setting goals and giving feedback was based on the categorization of 3 group goals: profit, process and goals linked to personnel management and company culture. The model additionally supports giving feedback based on daily performance assessments and is completely connected to the job family model and levels therein, as well as with career direction.

In 2011 Atlantic Grupa confirmed high standards in human resources management and getting recertified through the Employer Partner Program 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.

CORPORATE AND SOCIAL RESPONSIBILITY

SPONSORSHIPS AND DONATIONS

Atlantic Grupa, as part of a broader community in which it functions, is aware of the importance and necessity of its own influence on improving general social conditions, promoting true values and finally, investing part of its profit in the community. Besides its charitable contributions in a wide spectrum, its work as a sponsor is also notable, primarily concerning sports, where the most involvement and funds are invested to support projects such as KK Cedevita, Duje Draganja ï a noteworthy Croatian swimmer, the Croatian Olympic Committee, the German national (European) handball team, the Beach Volleyball Club, and the Bridge Federation. Atlantic Grupa is a participant and organizer of many charity events, and organizations and associations that work on protecting and helping endangered social groups are regularly helped.

SPORT

- KK Cedevita
- Duje Draganja ï swimmer
- Mario Todoroviĺ - swimmer
- Ljubljana Marathon
- DHB ï The German Handball Federation
- NK Hajduk
- NK Dinamo
- NK Bjelovar
- Beach Volleyball Club
- Bridge Federation
- Fitness Academy
- The Hamburg hockey club Freezers
- Croatian Olympic Committee
- Croatian Sports Journalists Association
- Planica-ski jumping (the most important sponsorship Atlantic Grupa gives via the Droga Kolinska division)
- Croatian Basketball Federation
- Zagreb Marathon

Basketball

The basketball club Cedevita continues to be the pearl of Atlanticõs sponsorships. Atlantic Grupa has become actively involved in promoting basketball as an important sport of national interest by bringing in an increasingly high quality of players and coaches, as well as promoting the brand name Cedevita, after which the club is named. The thing that is particularly important and upon which the success of this project is built is Atlantic Grupa's particular support in financing, organizing, and managing the club's Basketball Academy which gathers over 400 children. The Club and the Academy actively work in eleven basketball schools in Zagreb elementary schools, in which approximately 200 children currently train, ensuring the future of this sport as well as the possibility of a healthy and useful free time activity. Owing to Atlantic Grupa's sponsorship, as well as the effort put in getting additional sponsors for KK Cedevita, the club is now one of the most promising teams in Croatia and the regional leagues.

With the company's involvement in encouraging audiences to support the players, with an aim to getting the best possible sports results, along with which media coverage of basketball events rose, significant steps were made in popularizing the sport among the general public. It is in this sense that Atlantic, with its support of the Croatian Basketball Federation, is also a sponsor of the Croatian women's regional basketball league, where it provides an additional impulse to its strengthening and recognition with the Multipower brand.

Swimming

Duje Draganja and Mario Todorović are successful Croatian swimmers that Atlantic's Cedevita has followed for years, aware that through their achievements, these promising swimmers represent Atlantic as the leading European producer of instant vitamin drinks and sports food, and as a company that recognizes a healthy, sports way of life. In 2011, sponsor relations with Duje Draganja were continued, who justified the company's faith in his potential with his numerous medals since. Mario Todorović continues to tally achievements as Atlantic's sponsee, letting one to believe that in due time he will become Duje's worthy successor.

Germany (handball, hockey, fitness)

Atlantic Grupa holds socially responsible action as a principle it applies in all the countries in which it is present with its business subjects. Such is Atlantic's work as a sponsor in Germany, which is an important market in which the company acquires a significant part of its total income. This is why Atlantic Multipower has sponsored the German Handball National Team (DHB) for many years.

Atlantic also sponsors the German hockey team, Hamburg Freezers, with the Multipower brand name, in the city where the Atlantic Multipower headquarters are located. Atlantic helps in raising awareness of the importance of recreation and being active in one's free time with its sponsoring of the largest fitness chain in Germany and a broader area – Fitness First.

Other sports: football, tennis, marathons, ski jumping, beach volleyball, bridge

As a sport that maintains its global popularity even in Croatia, football is in constant focus of Atlantic Grupa through various club sponsorships and identification with Atlantic's well-known sports nutrition brand, Multipower. In 2011 we note sponsorships established with the football clubs Hajduk, Dinamo, and Bjelovar.

Furthermore, the ski jumping at the Slovenian Planica, where the World Cup is held annually, is the most important sponsorship that Atlantic Grupa gives via the Droga Kolinska division. 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.

ASSOCIATIONS

Recognizing the importance of sports as a whole, Atlantic sponsors various associations that promote sports or contribute to its development. In keeping with this, Atlantic is special partner to the Croatian Olympic Committee for the second year running, being its exclusive provider of sports nutrition goods and supplements used by all Croatian Olympic athletes in their training and Olympic appearances. It is essential to mention the traditional partnership between Multipower and the Rhein-Ruhr Olympic Center, which also represents an important status in the sporting world of Germany. Furthermore, recognizing the importance of promoting sports to the public, Atlantic has supported sports journalists by sponsoring the Sports Journalists Association award.

MEDICINE AND HEALTH

Atlantic Grupa, through the activities of its Pharma division, its leading subject on the pharmaceutical market in Croatia, is a significant sponsor of students at the Faculty of Pharmaceutical and Pharmacological Sciences at the University of Zagreb, as well as of the university itself, financially supporting the renovation of its infrastructure, thus confirming the Group’s commitment to the development of the pharmaceutical profession through multiple investments in the development of the new pharmaceutical workforce. Aware of the fact that the future of pharmacy lies primarily in the development and education of its workforce, as well as in ensuring an adequate number of pharmacists on the market, Atlantic Grupa, in collaboration with the Faculty, has developed a scholarship program for the best pharmacy students with a guarantee of employment within the company. Significant Atlantic Grupa funds have also been invested in the establishment and development of the Atlantic Farmacia Education Center, whose projects, developed in accordance with FIP, WHO, and UNESCO, provide pharmacists with necessary additional professional knowledge, along with communicational and presentational skills and knowledge of finance.

CULTURE AND KNOWLEDGE

- Jewish Film Festival
- Sarajevo Film Festival
- AIESC Maribor / IEDC Bled
- Effie Academy

- Diplomatic Bazaar
- Ġpancirfest
- Croatian Association of Dramatic Artists- Actorsô Guild Award
- Knights-Alkars Association of Sinj, The Sinjska alka
- International Childrenŏs Festival in Ġibenik
- Terraneo
- Science Festival Belgrade

Atlantic, as a sponsor of cultural events, traditionally takes part in the organization of the Sarajevo Film Festival, assisting in the maintenance of what is the most influential film event in the region. In previous years, Atlantic has, with one of the most prominent regional brands, Cedevita, supported the organization and activities of the SFF, one of them being the childrenŏs program during the festival. Atlantic Grupa along with its brand names is main partner to Sarajevo Grad Filma (ñSarajevo Film Cityò) in the scope of the SFF, and is sponsor for the Atlantic Talent award, given to the best movie released during the year, in the scope of Sarajevo Grad Filma. Atlantic thus demonstrates how in its work as a sponsor it chooses development projects that ensure the sustainability and long-term success of the cultural projects it supports, and through which the wider community in which the activities take place profits from. Besides the SFF, Atlantic Grupa is within that context a sponsor of the Jewish Film Festival, one of the most prominent film festivals held in Zagreb, whose goal is, other than promoting quality film work, to promote multiculturalism, tolerance, and respect among nations. Atlantic made further contributions in cultural promotion in 2011, supporting the 295th Sinjska Alka (Tilters Tournament of Sinj) and the Croatian Association of Dramatic Artists by supporting the Actorsô Guild Award.

SOCIALLY ENDANGERED GROUPS

- Center for education Dubrava
- Korak u ġivot (ñStep into Lifeò)
- Terry Fox Run
- Open Heart Square Belgrade
- Bezbedno preĽi ulicu uz Bananicu (ñSafely Cross the Street with Bananicaò)
- National Association of Parents of Children with Cancer (NURDOR)

Atlantic Grupa continued to cooperate with the Center for education Dubrava in 2011. For four consecutive years Atlantic has been investing in the Centerŏs renovation, and as of yet, a number of sports facilities including a gymnasium and the Centerŏs indoor pool area have been renovated. With a goal to making the everyday routine of children with developmental difficulties easier, Atlantic donated a renovation of the rehabilitation facility and necessary educational equipment.

Furthermore, Atlantic Grupa actively participated in the charity event “Korak u život”, whose goal is to help young adult wards from homes for abandoned children, who want to continue their education by going to college. Atlantic also traditionally participated in supporting the Terry Fox Run. Several programs were carried out in Belgrade, of which Atlantic's own project – “Sigurno prijeđi ulicu uz Bananicu” (“Safely Cross the Street with Bananica”) – is aimed at raising awareness concerning traffic safety and protection of children.

CORPORATE MANAGEMENT

Since its foundation and subsequent entry into the Zagreb Stock Exchange (ZSE), Atlantic Grupa has based its business activities on the Corporate Governance Code with which the standards of business transparency have significantly improved, in accordance with European Union directives and positive Croatian legislature. With the aforementioned Code, Atlantic Grupa has defined procedures for the actions of the Supervisory Board, Management Board, and other organs and structures in charge of decision making, and ensured the prevention of conflicts of interest, efficient internal supervision, and an efficient system of responsibility. This same Code regulates the mandatory publication of data concerning price information, all in an attempt to ensure equality in relations with stockholders and the transparency of information for current and future investors. In accordance with the consistent application of the Code's principals, Atlantic Grupa is developing and acting in accordance with good corporate management policy, and continues to contribute to the transparency and efficiency of its business and to the quality relations with its business environment with its business strategy, policy, crucial internal acts, and business practice.

Besides the aforementioned, Atlantic Grupa is a signatory of the Code of Business Ethics, initiated by the Croatian Chamber of Economy. These guidelines establish codes of ethical conduct concerning business subjects in the scope of the Croatian economy. Such definition of ethical criteria contributes to business transparency and efficiency, along with higher quality relations of the business subjects in Croatia with its business environment. Signatories of the Guidelines oblige to act responsibly and ethically with other companies on the market, and to develop quality relations and loyal competition.

In accordance with positive legislative regulations, Atlantic Grupa made a Statement on the Application of the Corporate Governance Code in 2011, thus confirming its actions and development in accordance with good corporate management policy in all aspects of its business. The Statement is published and available to the public on the company's official website, www.atlantic.hr, as well as on the website of the Zagreb Stock Exchange.

ECOLOGY AND SUSTAINABLE DEVELOPMENT

During the whole of 2011, Atlantic Grupa continued to promote and implement principals of sustainable development in its business. We did so primarily through economically successful, ecologically acceptable, and socially responsible business operations. As a member of the Croatian Business Advisory for Sustainable Development, Atlantic Grupa continues to place a large focus on employee relations, environmental protection, and social responsibility in all aspects of its operations. The Social Responsibility Board of Atlantic Grupa checks on the status and promotes the implementation of principals of sustainable development in the company's everyday operations, and initiates the promotion of socially responsible business operation.

In 2007, Atlantic Grupa joined the global initiative established by the United Nations for socially responsible business operation under the name of "Global Compact". Participation in this initiative implies adapting business operations to the requirements of socially responsible business, based on the requirements of the aforementioned initiative. It applied ten regulations for responsible business in its operations, such as freedom of association and recognition of the right to collective negotiations, rooting out all forms of forced or unfree labor, abolishing all forms of child labor, environmental protection, stimulating the development of environmentally acceptable technology, and fighting all forms of corruption.

During 2011, Atlantic Grupa continued to aspire towards a positive environmental impact and so positive trends continued:

- Decrease in gas usage in Neva
- Decrease in water usage in Cedevita
- Decrease in the relative amount of waste in Cedevita
- Work on the project of utilizing groundwater in technological processes (Neva)

Atlantic Grupa has an adopted Code of Business Ethics, as well as a Corporate Governance Code, which is in accordance with the latest European directives, and as such is one of the most developed Codes in Croatia.

The process of integrating Atlantic Grupa's new members into the common standards for sustainable development of the company is in progress.

RESEARCH AND DEVELOPMENT

The success of a company or part of a company that deals with production greatly depends on the development of new products. This is why research and development is a key function in the Consumer Health Care Division. The demands concerning research and development are constantly on the increase from year to year, be it due to satisfying customer wants and needs, competition, or maintaining and increasing sales. One of the greatest challenges is developing ideas for new products and their successful realization. Consumers, aware of health and nutrition, want new products designed for their diverse needs and ways of life in order to preserve their health, appearance, and physical fitness. The success of the development of a new product greatly depends on the battle with time ï how to create a product as quickly as possible, satisfy the consumer, and have this all done before your competitors. In regards to this, for the function of development, a timely analysis of the market and consumer spending trends is the foundation for the successful development of new products and improvement of existing ones.

During 2011, an extensive project was carried out in Serbia to register all the products in the company portfolio intended for sale on that market, pertaining to the supplement category: products from the line of Cedevita instant vitamin drinks, Multivita instant vitamin drinks, and Multivita effervescent tablets. The registration process was successfully completed, and the aforementioned products have acquired the necessary permits to be placed on the market.

In the segment of research and development of new products, the Consumer Health Care Division achieved the best results during 2011. The assortment of Cedevita instant vitamin drinks was enriched with two new flavors: peach ï for the Croatian and Slovenian markets, and blueberry and blackcurrant ï for foreign markets. Furthermore, the assortment of Cedevita GO! products was expanded in 2011 with two new flavors, grapefruit and lime ï which have been showing a constant increase in popularity among consumers since their placement on the market in 2009. With this expansion, the Cedevita GO! assortment available in beverage showcases to young, modern, urban consumers that ñlive on the goò has doubled in comparison to the previous season.

The Multivita assortment of instant vitamin drinks has been improved by introducing new ingredients that contribute to an additional increase in quality of the products, and the product line has become more fresh and attractive, which will be added to in the upcoming period with a new packaging.

The sweetest of the Divisionsô products ï the Cedevita multivitamin candy, has gotten a new look. The redesigned assortment shone in stores in the spring of 2011, and the product line has been additionally enhanced with the new peach flavor.

The Cedevita tea product line has expanded with the aromatic Winter Tea, meant specially for cold winter days. In the Naturavita tea segment, the new Naturavita Femina tea product line has been developed ï containing registered nutritional supplements that lessen the difficulties most women go through: Tea for lessening the difficulties of PMS and menstrual difficulties, and Tea for lessening the difficulties of menopause.

For our youngest consumers, the multivitamin and multimineral effervescent tablets Multivita Junior 4+, meant for children four years of age or older, have been introduced as part of the Multivita effervescent tablet product line.

For the requirements of Fidifarm, the Rehidromiks line of oral rehydration salt products was enhanced, reformulated in accordance with the latest guidelines of the WHO and placed in a packaging more practical for preparation and usage. Furthermore, besides the classic Rehidromiks (with no aroma), a line of banana flavored products has been developed.

Montana enhanced its product palette in 2011 by introducing new flavors in its triangle sandwich assortment: pork neck, and smoked pork neck for the Serbian market. A change in recipe and introduction of a new type of bread for the triangle sandwiches, *tramezzin*, resulted in increased freshness and prolonged shelf life. Furthermore, recipe enhancement and an improvement in bread ingredients for the classic sandwiches resulted in a shelf life two days longer than previously.

In the research and development of the cosmetics production segment in 2011, the innovation of the Rosal Lip balm assortment formulation was intensively worked on. Ingredients that did not satisfy the criteria of natural cosmetics ï mineral raw materials, synthetic raw materials obtained by environmentally unacceptable methods of production and processing, and ingredients with potential to irritate -- were substituted. The formulations were developed in accordance with the requirements of the ñOeko Testò criteria in an effort to give Rosal Lip balm a competitive advantage on the EU market. The requirements of ever more popular standards in natural and organic cosmetics are also being followed, in accordance with current market trends in lip care. Two new Lip balm products have been developed and placed on the market: Rosal Lip balm Block & Roll and Rosal Lip balm Hot Chocolate. For the service production of the *private label* products, four formulations for lip care sticks have been developed for the Swiss buyer Swissuncare.

In the category of oral hygiene, after extensive laboratory research conducted during 2011, the Plidenta Pro-t-action toothpaste has successfully been produced. This innovative toothpaste contains an active component of probiotic bacteria (Lactobacillus) which eliminate the cause of tooth cavities. The toothpaste was developed in cooperation with BASF Germany, a producer of probiotic bacteria.

In the Rosal body care segment, 2011 saw the development of three new product formulations whose development was based on a selection of technologically new, active, herbal components, which give the skin back its functionality : for normal skin ï olive extract, for dry skin ï lavender extract, and for extra dry skin and sensitive skin ï the SPA formulation.

Listening to the needs of its consumers, the long-awaited tube packaging of the Melem product was placed on the market in 2011 ï it is lighter, more spreadable and thus applicable to larger areas of the body, yet it retains all the characteristics of the original recipeõs effect.

QUALITY ASSURANCE

QUALITY CONTROL

From the very beginning of the development of a new product or during the improvement of an existing one, Atlantic Grupa endeavors to achieve a standard of high product quality, recognizable to the consumer.

Continuous monitoring of EU scientific research and legislature and their subsequent application from the very beginning of a new productôs existence ensure a quality product that meets health safety requirements for the consumer. To achieve such complex goals, the involvement of experts from the research and development and quality assurance segments is necessary. The following play important roles in the production of products that meet health safety requirements: the selection of starting materials (non-toxic and allergen-free, not GMO, in accordance with the REACH regulations, etc.), quality control of all raw materials and ingredients, monitoring all production phases, and analysis of all finished products.

The extensive activities in quality control are conducted by the Corporate Quality Management Department, responsible for: following legislative regulations, cooperation with state institutions, starting material and product control, product registration, inspection and correction of product declarations, and supporting all organizational units of the Group, among other matters. The Departmentôs work was additionally strengthened towards the end of 2011 by enhancing the functionality of the QM module via the SAP system, ensuring the transparency, trackability, and constantly updated status of all the materials in the scope of the system.

Quality of Starting Materials in the Consumer Health Care Division

The quality level of starting materials in 2011 is high, over 95% without deviation, and has maintained a uniform trend the last several years. In 2011, 41 series out of a total 3704 received starting material series were recalled. All product recalls were successfully solved with the suppliers.

Quality of Finished Products in the Consumer Health Care Division

Depending on category, 94-98% of finished product series were graded with the highest quality category, without deviation. In comparison with 2010, the Division saw a decrease in product recall in 2011. The number of justified product recalls for Cedevita products increased by 11%, the number of product recalls for Neva products is equal to that of 2010, while the Montana products have noted a decrease in justified recalls by 86%, mainly due to the change in the showcase coolers they are kept in.

INCONSISTENCIES

In 2011, the number of product inconsistencies, that is, deviations in products and processes which require corrective measures, decreased 22% in relation to the previous period, indicating the efficiency of the integral management system.

REGISTRATIONS

In accordance with positive legislative regulations, the registration of 49 products from the Group portfolio in the nutritional supplement category was executed for the Serbian and Slovenian markets during 2011; the registration of 19 products of the same category for the Macedonian market, as well as the notification of 32 products from the Multipower product assortment, was also executed. Furthermore, the registration of six products from the category of cosmetics with a specific purpose was conducted. Requests for the notification of cosmetic products from the Neva portfolio are being placed timely and continuously.

INTEGRAL SYSTEM OF QUALITY, ENVIRONMENT, AND FOOD SAFETY MANAGEMENT

2011 was the first year the whole integrated process management system was set in motion, introduced on the level of the Consumer Health Care Division and all the operating companies the Division encompasses (Cedevita, Neva, Montana Plus).
The integrated process management system includes:

- ISO 9001:2008 (Quality management system), implemented in Neva, Cedevita and Montana Plus (ISO 9001:2008);
- HACCP (Risk analysis and critical control points), implemented in the field of nutrition as specific requirements for assessing food safety (Cedevita and Montana Plus);
- ISO 14001:2004 (Environmental management system) (Neva and Cedevita);
- IFS (Cedevita ï production of instant vitamin drinks, instant ñready to useò drinks, and vitamin and peppermint candies);
- GMP (Good Manufacturing Practice ï ñDobra ProizvoĽaļka Praksaò (DPP)) (Cedevita and Neva).

The following prerequisite programs are the foundation of the process management system in the Consumer Health Care Division: Good hygiene practice, Good production practice, Good laboratory practice, and Good storage practice.

An HACCP certificate confirmation was carried out in February 2011 for the location of the Atlantic Trade Distribution Center in Zagreb, and ISO 9001:2008 and HACCP certificate confirmations were conducted in June 2011 for Fidifarm. Furthermore, Cedevita was once again certified in November 2011 according to IFS standards for the production of instant vitamin drinks and vitamin and peppermint candies, with a high percentage of success. Finally, an integrated inspection of the ISO 9001:2008, ISO 14001:2004 and HACCP certificates in Neva, Cedevita, and Montana Plus was conducted in 2011. All conducted supervision was for recertification purposes, with an aim to coordinating the cycles of all operating companies encompassed by the integrated control system.

Possession of the IFS certificate opens the way to the international market for Cedevita, being that Cedevita is now included in the list of certified producers on the IFS Audit-Portal (http://www.food-care.info/) and the official website of the German retail organization HDE (Hauptverband des Deutschen Einzelhandels).

Atlantic Grupa continuously invests in the education of its employees in the field of quality management. A school of quality was founded in 2011, and six workshops were held concerning the integral process management system, attended by over 80 Atlantic Grupa employees.

BUSINESS RISK FACTORS

BUSINESS ENVIRONMENT RISK

Business environment risk includes political, macroeconomic and social risks on all markets where a company trades which directly influence company's activities, while the company cannot individually influence such risks. Political risk refers to all risks which might potentially lead to political instability of a country, while in extremis they include risks to the very existence of a country. Considering actual internal, as well as external political relations, Croatia functions as a stable parliamentary democracy, and the accession to EU is considered the fundamental aim of its foreign policy. During 2011, Croatia has successfully closed accession negotiations with European Union, signed the Treaty of Accession and was granted with accession country status. Consequently, Croatia will become the member state of the European Union on 1^{st} July 2013. Considering that the political and general social risk is characteristic to all segments of a society, the latter cannot be influenced by any specific individual.

Taking into account that a part of Atlantic Grupa's business is conducted on the EU market, where the three key EU markets (Germany, Great Britain and Italy) in which Atlantic Grupa operates represent 8 % of company's total sales revenue in 2011, Atlantic Grupa does not expect its business will run into problems due to the integration of Croatia into EU. That is, a geographic profile of Atlantic Grupa indicates the international features of its operations carried out through its operating companies in Ljubljana (Slovenia), London (United Kingdom), Treviso (Italy), Hamburg (Germany), Barcelona (Spain) and Moscow (Russia). Furthermore, Atlantic Grupa has already focused its efforts on developing standards complying with EU legislation in order to adapt technically to doing business on EU markets, and consequently compete better with foreign competitors. Finally, it should be pointed out that Atlantic Grupa's Pan-European strategy shows in the combination of familiar European brands in the segment of sports and active food with the most prominent Multipower brand and regional brands in the segments of food & beverage, vitamin drinks, personal hygiene products and vitamins, minerals and food supplements from the product ranges offered by Droga Kolinska, Soko Štark, Grand Prom, Cedevita, Neva, Dietpharm, Multivita etc.

As previously said, political and general social risk is characteristic to all segments of a society, so the latter cannot be influenced by efforts of an individual company. International companies doing business in many different countries can diversify the above mentioned risk positively or negatively, which mostly depends on country risks in countries where such companies trade. As to companies doing business on the regional level, that is, on the markets of the former Yugoslavia, one should take into account their political and general social risk considering that those countries are still undergoing the political transition process. Consequently, each investor should be aware of the political and general social risk in the markets where a company does business.

Business transactions of each company are influenced by macroeconomic risks, although their force primarily depends on the cyclical character of an industry in which the company itself operates. Despite its relatively diversified business model, Atlantic Grupa generally operates in a stable, non-cyclical food industry. Taking into account that Atlantic Grupa's sales of its own products as well as distributed products are influenced by macroeconomic variables such as personal consumption, the level of disposable personal income and trends in retail sales, the company continuously monitors above mentioned macroeconomic factors, while never underestimating unfavourable macroeconomic trends for 2012.

INDUSTRY AND COMPETITION RISKS

Consumer goods industry

Despite unfavourable macroeconomic trends in 2011, consumer goods industry in the food product segment 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 consumer goods industry, it is precisely the industry liberalization and globalization which opened the gates to global producers and supermarket chains, which in the end had a two-sided effect. The arrival of global players with wide product-ranges and significant marketing budgets resulted, on one side, in a fiercer market competition, and, on the other side, in larger and more diverse offer, product quality improvement and introduction of global production standards. The arrival of foreign supermarket chains, on the other hand, opened new distribution channels which increased and facilitated the distribution of consumer goods. In such conditions, domestic manufactures can only compete through continuous investment in and development of new production lines, technology development, marketing in order to improve the brand recognition and human resources.

Macroeconomic environment, GNP dynamics, in particular its private consumption component, trends in disposable personal income and the development of consumers' standards of life in general considerably determine trends in consumer goods industry. In addition to that, the development of consumer goods industry is significantly influenced by company's capacity to adapt to consumers' needs and market trends, which requires investments in research and development, marketing and technology. In view of the above, industry's key risks are its modest growth rates consistent with macroeconomic conditions and the requirement for significant investments in order to achieve competitive advantages in relation to local and global competitors.

Consumer goods industry is strictly regulated and permanently monitored by regulatory bodies, mostly due to its direct influence on consumer health. At the same time, this industry is exposed to the risk caused by uncertainty as to the introduction of new, stricter standards which may also entail additional material expenses.

Certain segments of consumer goods industry, particularly those involving food products, are influenced by the factors that companies cannot control, like volatile prices of commodity (coffee, sugar, cacao, etc.) on world markets, the weather conditions/troubles and success of the touristic season. Following the above, certain industry branches are of seasonal character so sensible working capital management imposes itself as an extremely important component for providing steady company business. Also, a relatively low cyclicity level of consumer goods makes them appealing to many companies, resulting in a larger number of competitors on the market, and diversification of the industry. 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 segment covering food products with added value and accordingly applies activities including research and development investments, investments in technology and close observation of market trends and consumer preferences in order to maintain high market shares in the mentioned subsegment. With the acquisition of Droga Kolinska at the end of 2010, Atlantic Grupa widened its manufacturing portfolio with a wide array of brands with leading positions on regional markets in subsegments of coffee, deli spreads, sweet and salty snacks and soft drinks. Considering that some of the mentioned subsegments were exposed to heavy competitive pressure by local and multinational companies, in 2011 Atlantic Grupa put significant focus on brand management.

Subsegment of products dedicated to personal care primarily depends on consumersôpurchasing power, i.e. GDP trends. On the other hand, this subsegment is marked by heavy competitive pressure from multinational companies disposing with a range of resources, including modern technology, aggressive price policy, aggressive and frequent marketing campaigns, investments in research and development, and flexibility to quickly adapt to changeable market trends. All of the above presents great challenges before domestic producers in this subsegment, demanding important financial investments in keeping up with the competition.
Having entered the pharmaceutical segment in 2008 and further expanding the pharmaceutical chain Farmacia in following years, Atlantic Grupa today owns a pharmaceutical chain with pharmacies disseminated at national level. Among the main risks of this business, three stand out. The first refers to the risk of uncertainty regarding introduction of new and potentially more rigorous regulations that pharmacies are obliged to abide by, since pharmaceutical industry has strictly proscribed standards and is monitored by regulatory bodies. The second pertains to the fluctuations in price lists of basic and supplemental drug lists that pharmacies as subcontractors of the Croatian Health Insurance Institute (HZZO) must follow. Furthermore, apart from the inconstancy of price list, additional risk arises from delays in collection of debts from the HZZO, which puts additional strain on quality and sensible working capital management. Still, Atlantic Grupa implements certain activities trying to alleviate these risk, like focusing on increasing the share of non-prescription drugs and food supplements in the portfolio of pharmacies, by opening specialized shops (with non-prescription drugs and dietary supplements), which are regulated by the Agency for drugs and medical products, and by researching the synergy of the distribution and production portfolio of the company. And last, but not least, the company regards pharmacies as a new distribution channel for other products from the production and distribution portfolio of Atlantic Grupa.

Competition risk

Harmonization of legislation of countries candidates for ascension to the European Union with the acquis communautaire imposes new standards and norms, but also removes last obstacles to free competition as a result of gradual merger of markets on the internal market of the European Union. In accordance with these processes, local companies are being increasingly exposed to international competition, while on the other hand experiencing new business opportunities on foreign markets. In recent years local companies have been investing efforts to expand their businesses on regional markets that are generally characterized by the increasing demand for consumer goods and at the same time, the increasing recognizability of domestic brands. Acquisition of the regional food processing company Droga Kolinska in 2010 certainly marks the efforts of Atlantic Grupa to expand the scope of its business to regional markets.

Foreign food processing competition surpasses local companies as regards technical infrastructure, ability to invest in research and development, financial strength, size of marketing budgets, and global recognizability of their brands as result of long term business tradition. In addition to the above, fierce competition of established foreign brands is also a consequence of increased domestic demand, a result of scarce supply of foreign products in the past. Still, Croatian market and regional markets display a high level of loyalty to tradition as well as the previously acquired purchasing habits, prompting the demand for domestic products. Main competitive advantage of production/distribution portfolio of Atlantic Grupa is precisely this recognizability of brands whose products Atlantic Grupa produces and/or distributes in partnership with high market shares they cover. With strategic focus on development of strong, recognizable brands, Atlantic Grupa is attempting to reduce the risks that come with competition. Atlantic Grupa is also finding new distribution channels, like HoReCa channel, characterized by lesser competitive pressures in comparison to traditional retail channel whose potential arises from the touristic potential of Croatia and the region.

Atlantic Grupa is facing strong foreign competition in segments of personal hygiene products and cosmetics, however, expansion of the array of products, maintaining quality, marketing support, brand recognizability and distributive support provided by the Distribution division, back up this segment consumption with well known brands like Plidenta, Rosal and Melem.

Competition in the pharmaceutical segment primarily comes from city and county pharmacies, and private pharmacies owned by natural persons, and much less from wholesale pharmacy chains or generic pharmaceutical companies that also operate in the pharmaceutical segment. Atlantic Grupa is striving to ensure competitive advantage against the existing competition combining several key factors, including the following: continual expansion of the pharmaceutical chain, national dispersion of pharmacies, opening of specialized shops as upgrades and developments of the pharmaceutical activity, management of pharmaceutical segment with due medical practice with focus on education and development of pharmaceutical staff competencies in order to provide good quality pharmaceutical service.

BUSINESS RISK

Business risk refers to risks present in company day-to-day operation that directly influence maintaining of companyôs competitive position and stability of regular business activities. Following the above, business risk is determined by the business environment of the company, level of cyclicity of companyôs industry segment and ongoing business policies and decisions.

Influence of individual product and business cooperation on business

In past years, Atlantic Grupa gave much attention to diversification and expansion of the production and distribution portfolio with the strategic aim to reduce dependability on individual product sales results, and the fickleness in realization of sales results, especially during the changes of macroeconomic cycles. The largest diversification of the production portfolio the company is about to experience with the acquisition of Droga Kolinska finalized in 2010, i.e. through the already diverse portfolio of the acquired company ranging from the coffee segment, to sweet and salty snacks, deli spreads, drinks and childrenôs food.

Accordingly to the said diversification in production and distribution portfolio, changes in business environment linked to a particular production segment or business cooperation with a particular partner will not jeopardize the operation of Atlantic Grupa on the whole.

Product dependence

As a result of significant expansion and deepening of the production and distribution portfolio in past years, Atlantic Grupaôs day-to-day operation today does not significantly depend on any individual product, whereby the most important category being the food and beverages category and consumer goods for healthy diet.
During the past years, Atlantic Grupa combined acquisition activities, innovative approach to new product development and making new distribution agreements while diversifying both the production and distribution portfolio. Acquisition activities resulted in so far Atlantic Grupaôs biggest acquisition ï Droga Kolinska at the end of 2010, which will further reduce dependence of the company on one product.

Dependence on business cooperation

In recent years, Atlantic Grupa developed a firm cooperation with domestic and international producers of brands pertaining to Atlantic Grupa distribution portfolio, and continues to pursue good cooperation with principals of new brands in the companyôs distribution portfolio. Although the loss of exclusive distribution right of a particular product would influence the operation of the Distribution division, the risk has been significantly reduced over the past years due to important expansion of the distribution portfolio, resulting in low dependency on individual business partners. The above particularly stands out when we consider it in the light of the fact that income share of principal brands distribution sales in total sales amounts to 17 percent. In addition, in 2011, Atlantic Grupa pursued the expansion of the distribution portfolio by adding new categories and spreading from the existing to new markets, i.e. new distribution channels. It should also be said that in the case of termination of cooperation with one of the principals, the existing contractual relations with key partners allow for adequate “transition” periods so that the company would have enough time to adapt to new circumstances.

As new distributive categories introduced in former years indicate, Atlantic Grupa continually monitors brand market trends with the aim of initiating new business cooperation. Continual expansion of the distribution portfolio enables the company to adapt to new circumstances in a short period of time in case cooperation with any of present partners should be terminated.

Narrow business cooperation with leading domestic chain stores is at the very nature of distribution activities. At that, dependency of the distributer on large sales chains can incur additional costs for maintaining cooperation in the form of additional discounts, payment prolongation, and similar activities. Although Atlantic Grupa has good cooperation with most domestic chain stores, which in turn are company's main buyers, its dependency on individual buyers is of an appropriate level. In case of termination of cooperation or bankruptcy of one of major buyers, the impact on Distribution division business results would be significant. Still, with continual monitoring of buyers risk and payment process, and by limiting exposure to more risky buyers, the company aims to reduce the risk for its operation in case of termination or bankruptcy of one of major buyers. Also, Atlantic Grupa aims to reduce the dependency of distribution on sales chains by developing “alternative distribution channels” characterized by less pressure from the competition. The latter refers to HoReCa channel (hotel industry), sale points with technical merchandise and pharmaceutical channels.

FINANCIAL RISKS

The Group's business activities expose it to different kinds of financial risks which include: market risk (including currency risk, fair value interest rate risk, cash flow interest risk as well as risk of investing into securities), credit risk and liquidity risk. The Board monitors carefully the Group's business risks, including the introduction of the approval and responsibility level.

Currency risk

The Group acts at the international level and is exposed to currency risk that results from various changes of foreign currency exchange rate. In relation to financial activities, exposure to exchange rate change risk between EUR and HRK is increased since the majority of the financial debt is pegged to the Euro. Concerning operative activities, exposure to the risk of exchange rate between USD and HRK increased as the production assortment expanded since the materials' price is in USD and EUR. With the acquisition of Droga Kolinska, exposure to the risk of exchange rate of the Serbian currency Dinar increased since the Serbian market has become the second most important market.

An exchange rate change between EUR and HRK can influence future business results and future cash flows. Considering the fact that the Group has dependant companies outside Croatia, the value of shareholder's equity is exposed to exchange rate changes. Changes in shareholder's equity caused by exchange rate changes are expressed as exchange differences in consolidated statement of comprehensive income.

Risk of investing into securities

The Group is exposed to the risk of investing into securities by fair value risks and price change risks since the Group's investment is classified in consolidated balance sheet as available for sale. Investment into securities classified as available for sale are not listed at the stock exchange. In order to manage risks that result from their fair values and price changes, the Group monitors market transactions and the results of investment in entities.

Cash flow interest risk and fair value interest rate risk

Since the Group does not have significant assets which produce interest revenues, the Group's revenues and cash flow from business operations do not depend significantly on the changes of market interest rates.

The Group's interest rate risk results from long-term loan and bonds issued. Floating rate loans expose the Group to the cash flow risk. Fixed rate loans expose the Group to fair value interest rate risk.

The Group continuously monitors interest rate changes. Different situations are simulated taking into consideration refinancing, restoration of current state as well as alternative financing. Based on these situations, the Group calculates the influence of interest rate change on profit and loss statement.

The Group is managing interest rate risk of cash flow where interest rate swap from variable to fixed interest rate is applied. Such interest rate swap has economic effect of the loan conversion with variable interest rate into loans with fixed interest rates. The Group substituted arranged long term loans with variable interest rate with the loans with fixed interest rate that are lower than the ones that should have been available if the Group had acquired direct loans with fixed interest rates. Within interest rate swap the Group is arranging the difference swap with other parties, in precisely defined intervals (quarterly and semi-annual), between the amounts with fixed interest rates and the amounts with variable interest rates calculated on agreed amounts of the principal.

Loan risk

The property of the Group that bears the credit risk is made of mainly financial instruments, deposits, and customer's claims and other claims. Sales politics of the Group are ensuring that the sale is executed to the buyers who have relevant loan history within the framework of loan limitations that are predefined. The Group credit risk is lower because of the distribution of claims on larger buyersôgroups. Moreover, key buyers of the Group are big wholesale chain stores and the dependence on such buyers is decreased with the development of other distribution channels. The Group is decreasing the credit risk with the implementation of strict measures of collection control and goods delivery, as well as with the acquisition of the instruments for the insurance of the debtors (bonds and bills of exchange).

Solvency risk

Prudent managing of solvency risk implies the maintenance of necessary financial means, ensuring the availability of financial means with adequate amount of contracted credit lines and the possibility of closing all obligations. The goal of the Group is maintaining the flexibility of financing in a way where contracted credit lines are available. The cash flow projection is made on business segment level and is aggregated on the Group level. The Group is permanently covering the solvency, in order to ensure enough financial means for the business with maintaining enough space for using available credit lines when this is needed. Such projection takes into consideration Group's plans in relation to covering the debts, and harmonizing with the contractually defined relations and internal relations in balance sheet.

Cash surpluses beyond the limit that is needed for managing the working capital is deposited on interest rate bank accounts, active deposits or money funds, with the choice of instruments with appropriate due date or such instruments that ensure necessary solvency.

The risks connected to the shares

The share market value, as the riskiest asset category, could be of very volatile character under the influence of the volatility of complete capital market, macroeconomic trends on the markets where the company is doing business, the gap in financial analystsôexpectations in relation to achieved results, the change in dividend policy, the activity in the M&A segment, and in the segment of entering into strategic partnerships, potential shocks with connected parties (suppliers, buyers, strategic partners etc.), the instability of company business model and with the fluctuations in the financial results of the company operations. If above mentioned factors have negative connotation, there is significant risk of the decrease of the share market value. Moreover, each investor should be aware that there is market risk where the investor shall not be able to sell its shares for fair market price at any given time.