# 1Q11 Financial results

Zagreb – April 28th, 2011

## First quarter in light of successful execution of integration processes

- **Sales at 976.2 million kuna**
  + 93.6% yoy based on reported figures
  +1.3% yoy organic growth

- **Earnings before interests, taxes and depreciation (EBITDA) at 92.9 million kuna**
  + 116.1% yoy based on reported figures

- **Net loss after minorities at 11.0 million kuna**
  *Linear allocation of financial expenses on a quarterly basis while seasonal impact on operations is historically the least favourable in the first quarter

## Chairman's comment

Having commented financial performance and key business developments in 1Q11, the CEO of Atlantic Grupa, Emil Tedeschi pointed out:

"In 1Q11, Atlantic Grupa's management and employees from consolidated companies placed considerable efforts and attention to the integration of Droga Kolinska into Atlantic Grupa's business model that resulted in successful consolidation of distribution activities on all regional markets. This eventually led to nearly twofold higher sales on a yoy basis and two times higher operating profitability (before depreciation) compared to profitability excluding one-offs in 2010.
Atlantic Grupa's management finds the rest of 2011 to be challenging considering current macroeconomic and global commodity market trends and consequently puts considerable attention on delivery of synergy potentials, meeting financial obligations and further development of risk management techniques. "

## 1Q11 financial highlights

| Key figures | 1Q11 | 1Q10 | Change 11/10 |
|---|---|---|---|
| **Sales (HRKm)** | **976** | 504 | 93.6% |
| **Revenues (HRKm)** | **983** | 513 | 91.8% |
| **EBITDA margin*** | **9.5%** | 8.5% | +99 bps |
| **Net income/(loss) after minorities (HRKm)*** | **-11** | 16 | n/a |
| **Gearing ratio**** | **63.2%** | 62.9% | |

*Ex. one-offs in 1Q10 ** Gearing ratio of 62.9% at YE10

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## KEY DEVELOPMENTS in 1Q11

### Integration activities

In 1Q11, Atlantic Grupa's management and operating functions placed sizeable attention to execute fast and efficient integration with the key emphasis on distribution-logistic activities. Consequently, throughout 1Q11 the company merged distribution businesses of Atlantic Grupa and Droga Kolinska in independent distribution companies on each regional market and hence consolidated them in standalone Distribution division. Moreover, integration activities as well included implementation of new commercial terms, merger of logistics activities and processes (of which certainly the most complex one referred to the Serbian market where out of 11 distribution centres the entire distribution-logistics process was consolidated to 4 distribution centres) as well as sales force optimisation. Aforementioned business model enables high-quality distribution service of both Atlantic Grupa's own brands and principal brands, particularly bearing in mind that size eventually implies economy of scale. Following distribution business consolidation on regional markets with particular emphasis on strengthening Serbian and Slovenian markets, Atlantic Grupa operates as a strong distribution network with prominent regional character.

Furthermore, the Procurement department implemented centralised procurement system while developing purchasing category management concept and introducing lead buyers for key raw materials. In the Production department, considerable focus has been placed on developing feasibility studies for consolidation of production activities and transfer of currently outsourced production in-house, all in order to further improve utilisation of existing production capacities.

### Activities on domestic capital market

Following revision of the Zagreb Stock Exchange index – Crobex10 – based on trading data in the period from 1 September 2010 to 28 February 2011, Atlantic Grupa's shares met all necessary criteria for inclusion in domestic blue-chip index. Consequently, Atlantic Grupa is active component of the index since end of March 2011. This will definitively increase indirect exposure of Atlantic Grupa to both domestic and foreign investors.

## SALES DYNAMICS IN 1Q11

### Sales profile by division

*in HRK thousands*

| 1Q11 | Distribution | Consumer Health Care | Sports and Functional Food | Pharma | Droga Kolinska | Consolidated Group | Atlantic Grupa ex. Droga Kolinska |
|---|---|---|---|---|---|---|---|
| **Gross sales** | 401,773 | 95,191 | 163,792 | 86,499 | 475,455 | **1,222,710** | |
| Intersegment sales | | | | | | 246,505 | |
| **Consolidated sales** | | | | | | **976,206** | |
| **Gross sales ex. DK** | 249,716 | 95,191 | 163,792 | 86,499 | | | **595,199** |
| Intersegment sales | | | | | | | 84,652 |
| **Consolidated sales ex. DK** | | | | | | | **510,547** |
| **1Q10** | | | | | | **Pro-forma** | |
| Gross sales | 278,236 | 115,460 | 129,804 | 75,436 | 491,443 | 1,090,378 | 598,936 |
| Intersegment sales | | | | | | 94,700 | 94,700 |
| Consolidated sales | | | | | | 995,679 | 504,236 |
| **Change 11/10** | | | | | | | |
| **Gross sales** | **44.4%** | **-17.6%** | **26.2%** | **14.7%** | **-3.3%** | | |
| Intersegment sales | | | | | | | |
| **Consolidated sales** | | | | | | **-2.0%** | |
| **Gross sales (organic)** | **-10.3%** | **-17.6%** | **26.2%** | **14.7%** | | | |
| Intersegment sales | | | | | | | |
| **Consolidated sales- organic growth** | | | | | | | **1.3%** |

In 1Q11, that simultaneously corresponds to the first quarter in which Atlantic Grupa reports consolidated sales including Droga Kolinska, Atlantic Grupa posted **HRK976.2m in sales**. Reported showing is 2.0% yoy lower compared to the 1Q10 pro-forma consolidated sales, while excluding Droga Kolinska's sales, Atlantic Grupa delivered **1.3% yoy organic growth**.

- **Distribution division** – Considering that Atlantic Grupa's existing business model with consolidation of all distribution activities (for both own and principal brands) in standalone Distribution division proved to be efficient in providing high-level distribution service, Droga Kolinska's integration was largely focused on implementing the same business model in the acquired company. This eventually resulted in division's gross sales (including sales of Droga Kolinska's assortment on Croatian, Serbian, Slovenian and Macedonian markets) of HRK401.8m in 1Q11. On the other hand, division's sales excluding Droga Kolinska's assortment amounted to HRK249.7m, thereby declining 10.3% yoy.
  The latter largely reflected drop in Croatian sales with three key impacts behind decline: (i) this year's Easter holidays came in at the end of April and thus will impact 2Q11, while last year's holidays came

in early April and therewith “higher sales amidst Eastern holidays effect” was already evidenced in 1Q10, (ii) unfavourable macroeconomic environment mirrored in anaemic domestic demand, consumer pessimism and elevated unemployment rate as well as (iii) renewal of key customers’ contracts amidst expansion of Atlantic Grupa’s distribution assortment with Droga Kolinska’s product portfolio. Among regional markets, Slovenian and Macedonian markets saw higher sales, while Serbian market suffered sales decline for the same reasons as Croatian market but as well due to 5.5% yoy average Serbian Dinar depreciation in 1Q11.

- **Consumer HealthCare division** delivered 17.6% yoy lower top-line largely pressured by: (i) absence of “higher sales amidst Eastern holidays effect” that largely impacted Cedevita assortment, (ii) grim macroeconomic trends, (iii) consolidation of distribution activities affecting existing Atlantic Grupa’s assortment, and therewith Consumer HealthCare’s assortment as well and (iv) change in Multivita’s export partner for the Russian market.

- **Sports and Functional Food division** posted 26.2% yoy sales surge driven by dynamic growth rates in (i) sports and functional food brands available also in retail channels – Champ and Multaben – that soared 41% yoy and 38% yoy, respectively and (ii) private label sales. Geographically, the strongest top-line growth, both in functional and local currency, came in on the German market partially reflecting further rebound in German economy.

- **Pharma division** saw its top-line advancing by 14.7% yoy reflecting 5% yoy and 18% yoy higher sales of Fidifarm and Farmacia pharmacy chain, apiece. Thereby, sales advance in Farmacia pharmacy chain partially reflected opening of new pharmacies/specialised stores throughout 2010 as well as partial consolidation of pharmacies and specialised stores from the acquired Dvoržak pharmacy chain.

- **Droga Kolinska division** delivered 3.3% yoy lower gross sales largely impacted by transfer of Droga Kolinska’s assortment to Atlantic Grupa’s distribution infrastructure from former distribution partners. This process implied new negotiations with key customers on all regional markets that were successfully completed by the end of March. Among division’s product categories, baby food reported top-line growth, while the largest product segment – coffee – saw lower single-digit decline in the functional currency.

**Multi-division summary by geographic zone**

| in HRKm | 1Q11 | % of total sales | 1Q10 | % of total sales | Change 1Q11/1Q10 |
|---|---|---|---|---|---|
| **Croatia** | **278.7** | 28.6% | 277.4 | 55.0% | **0.5%** |
| **Serbia** | **225.2** | 23.1% | 27.8 | 5.5% | **710.1%** |
| **Slovenia** | **112.9** | 11.6% | 35.4 | 7.0% | **219.3%** |
| **BiH** | **83.0** | 8.5% | 17.5 | 3.5% | **373.7%** |
| **Other ex. YU*** | **53.0** | 5.4% | 8.7 | 1.7% | **512.8%** |
| **Key WEU** (GER, UK, ITA) | **100.6** | 10.3% | 82.8 | 16.4% | **21.5%** |
| **Russia & EE** | **34.1** | 3.5% | 8.9 | 1.8% | **283.1%** |
| **Other** | **88.7** | 9.1% | 45.8 | 9.1% | **93.9%** |
| **Total sales** | **976.2** | 100.0% | 504.2 | 100.0% | **93.6%** |

*Other ex. YU: Macedonia, Montenegro and Kosovo

- In 1Q11, **Croatian market** saw total sales (including Droga Kolinska's assortment) of HRK278.7m compared to HRK277.4m in the same quarter last year. Thereby, Atlantic Grupa posted 6.0% yoy lower sales on organic level and 9.2% yoy sales decline on the pro-forma consolidated level. Lower sales level largely reflected: (i) absence of "higher sales amidst Eastern holidays effect" whereby this effect supported sales right at the end of 1Q10, (ii) renewal of contracts with key costumers amidst Droga Kolinska's assortment entry into Atlantic Grupa's distribution system and (iii) still dismal dynamics in Croatian economy due to poor domestic demand and consumption (evident through drop in retail sales, ex. auto/motorcycle sales, by 2.1% yoy and 2.0% yoy in February and January, respectively), elevated consumer pessimism (consumer sentiment index tumbled to -58.6 pts in March from -47.8 pts in January), amplified unemployment rate of 19.6% in February and further net wages contraction and thus available personal income.
  Following consolidation of Droga Kolinska's sales, Croatian market remained the largest market in Atlantic Grupa's geographical sales profile with 28.6%. Nevertheless, Atlantic Grupa's dependence on the local market considerably diminished considering that Croatian market accounted for 55.0% of total sales in 1Q10.

- **Regional markets** (excluding Croatia) recorded sales of HRK474.0m in 1Q11 as opposed to HRK89.3m in 1Q10. Organically sales dipped 4.8% yoy and 4.6% yoy on the pro-forma consolidated level. Considering regional markets separately, Slovenian and other ex. Yu markets (Macedonia,

Montenegro and Kosovo) posted 7.1% yoy higher top-line and 23.9% yoy higher sales on organic level, apiece, largely on wings of Ferrero assortment distribution and other new distribution programs. The Serbian market delivered sales of HRK225.2m compared to HRK27.8m in 1Q10. The Serbian market's 6.1% yoy sales drop on the pro-forma consolidated basis can be largely attributed to an average 5.5% yoy Serbian Dinar depreciation in 1Q11 and partially to the complexity of Droga Kolinska and Atlantic Grupa's distribution system consolidation into new distribution company on the Serbian market and therewith related renewal of contracts with key customers. Moreover, Serbian macroeconomic environment indicates unstable domestic demand and spending induced by elevated unemployment, yoy decline in retail sales in the first two months of 2011 as well as generally depressed real incomes.
Upon consolidation of Droga Kolinska, regional markets (ex. Croatia) augmented their share in total sales to 48.6% in 1Q11 from 17.7% in 1Q10. Nearly threefold higher share reflects Droga Kolinska's geographical profile with Serbia and Slovenia as the largest markets in terms of sales.

- Following the ex. YU markets, **key West European markets** (Germany, Italy and UK) posted the most dynamic growth with Germany and UK spearheading the growth with 22% and 25% rates, respectively, while Italian market reported 6.7% sales drop. Furthermore, the German market remains the largest among the key West European markets in terms of sales with 74% of share, followed by UK and Italy with 14% and 12% share, apiece. Aforementioned growth rates reflect positive showing of the Sports and Functional Food division on wings of: (i) brands positioned in the lower price range - Champ and Multaben and (ii) private label sales uplift. German economy rebound followed by further unemployment drop and higher retail sales in the first two months of 2011 undoubtedly provided support to the German top-line showing.
  Following acquisition of Droga Kolinska, the key West European markets make up 10.3% of Atlantic Grupa's sales, whereby the highest portion emerges from Atlantic Grupa's existing portfolio.

- The **Russian and East European markets** delivered total sales of HRK34.1m versus HRK8.9m in 1Q10. Following the acquisition of Droga Kolinska and its baby food assortment mostly present on the East European markets, share of Russian and East European markets in Atlantic Grupa's geographical sales profile leaped to 3.5% in 1Q11 from 1.8% in 1Q10.

- **Other markets** posted top-line surge spurred by existing Atlantic Grupa's assortment mostly related to the sports and functional food assortment. Share of other markets in Atlantic Grupa's geographical sales profile upon Droga Kolinska's consolidation remained at 1Q10 level of 9.1%.

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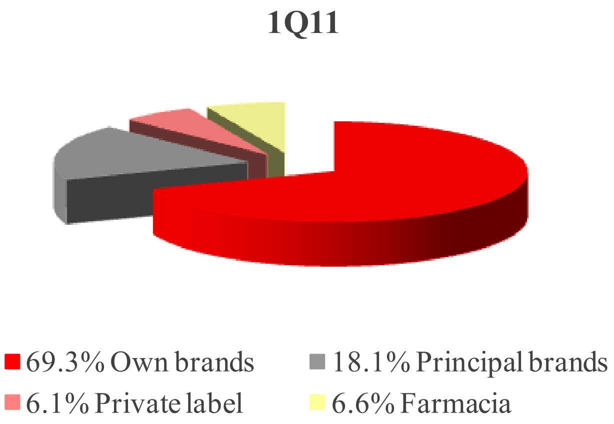
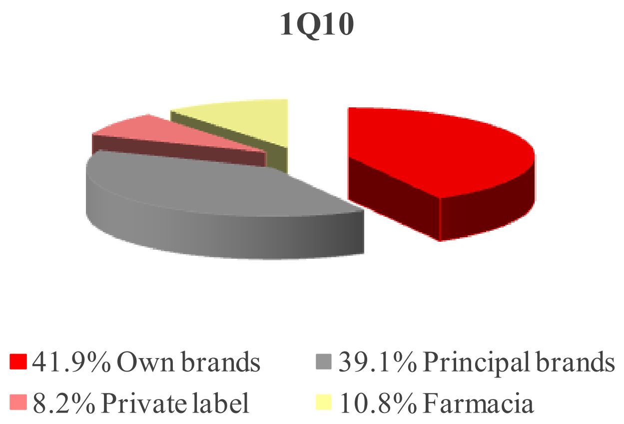
## Sales profile




- Following the acquisition of Droga Kolinska with sales profile entirely consisting of own brands, share of **own brands** in Atlantic Grupa's consolidated sales profile surged to 69.3% in 1Q11 from 41.9% in 1Q10. On organic level, own brands posted meagre 0.3% yoy sales dip whereby higher sales in sports and functional food brands coupled with Dietpharm brand largely cushioned sales decline of other brands. On pro-forma consolidated level, own brands delivered 3.8% yoy lower sales largely affected by sales dip in coffee and savoury spreads' brands as well as changes related to Droga Kolinska's distribution model.

- Share of **principal brands** in total sales slipped to 18.1% in 1Q11 from 39.1% in 1Q10 on the back of higher portion of Atlantic Grupa's own brands in total sales. Thereby, principal brands posted 10.5% yoy sales drop mostly pressured by absence of "higher sales amidst Eastern holidays effect" that supported the 1Q10 top-line. Nevertheless, one should consider several distribution groups including Ferrero assortment (Kinder and Nutella) and One2play assortment that delivered top-line growth on wings of regional distribution expansion through 2009 and 2010.

- Share of **private label** in total sales was downsized to 6.1% in 1Q11 from 8.2% in 1Q10, while delivering surge in sales of 44% yoy primarily supported by private label sales in the sports and functional food assortment.

- Following the consolidation of Droga Kolinska, share of **Farmacia** in total sales dropped to 6.6% in 1Q11 from 10.8% in 1Q10 with the pharmacy chain delivering 17.4% yoy higher sales on wings of newly opened pharmacies/specialised stores and consolidation of previously acquired pharmacies/specialised stores.

## PROFITABILITY DYNAMICS in 1Q11

| in HRKm | 1Q11 | 1Q10 | 1Q11/1Q10 |
|---|---|---|---|
| Sales | **976.2** | 504.2 | 93.6% |
| EBITDA | **92.9** | 90.8 | 2.4% |
| EBITDA ex. one-offs | **92.9** | 43.0 | 116.1% |
| EBIT | **42.9** | 78.8 | -45.6% |
| EBIT ex. one-offs | **42.9** | 31.0 | 38.1% |
| Net profit/(loss) | **-10.3** | 56.7 | -118.2% |
| Net profit/(loss) ex. one-offs | **-10.3** | 16.8 | -161.4% |
| *Profitability margins* | | | |
| EBITDA margin | **9.5%** | 18.0% | |
| EBITDA margin ex. one-offs | **9.5%** | 8.5% | |
| EBIT margin | **4.4%** | 15.6% | |
| EBIT margin ex. one-offs | **4.4%** | 6.2% | |
| Net profit/(loss) margin | **-1.1%** | 11.2% | |
| Net margin ex. one-offs | **-1.1%** | 3.3% | |

**Key highlights:**

- Following the consolidation of Droga Kolinska in 1Q11, Atlantic Grupa saw higher levels of EBITDA (earnings before interests, taxes and depreciation) and EBIT (earnings before interests and taxes) compared to normalized deliveries in 1Q10. Thereby, normalized profitability levels imply stripping off HRK48.5m one-off gain from the sale of Neva's former location in Tuškanova, while there were no one-offs in 1Q11. Consequently, in 1Q11:

  - **EBITDA of HRK92.9m** came in 2.2 times yoy higher from normalised EBITDA in 1Q10 that eventually led to 99 bps higher EBITDA margin of 9.5%. The latter largely came on the back of Droga Kolinska's product mix primarily focused on own brands.

  - **EBIT of HRK42.9m** was 38.1% higher as opposed to 1Q10 normalised EBIT.

- On pro-forma consolidated basis:

  - EBITDA was 19.2% yoy lower as opposed to pro-forma consolidated EBITDA on normalised level in 1Q10. Alongside 2.0% yoy lower sales on pro-forma consolidated level, key reasons for lower EBITDA emerge from surge in production materials expense inflated by rocketing key raw materials' prices on the global commodity markets. Namely, production materials soared 25.1% yoy driven by unfavourable trends in raw materials prices on global commodity markets. Thereby, coffee as the key raw material in Atlantic Grupa's product mix is the most exposed to adversely volatile global movements. Namely, coffee price on global commodity market skyrocketed 91% yoy in 1Q11 on average and 103% since the beginning of 2010 amidst decline in global coffee production in 2010 (with Brasil evidencing 19% lower production) and increase in 2010 world demand for coffee beans by 9% that eventually led to world supply deficit of 520 tonnes of coffee beans and global coffee beans inventories at the 50-years minimum[1]. Moreover, sugar is as well exposed to adverse price movements with twofold higher average sugar price on the EU market compared to the year before, largely driven by 4 million tonnes sugar shortage on the EU market. Furthermore, milk powder evidenced price growth globally amidst lower world supply in 2010 (with the largest global producer – EU – posting 9% lower production), higher world demand and eventually downtrend in global inventories[2].

- ❖ EBIT came in 20.3% yoy lower compared to pro-forma consolidated 1Q10 EBIT on normalised level.

- ➢ Net loss of HRK10.3m largely reflected HRK51.4m in financial expenses related to (i) acquisition financing of Droga Kolinska and (ii) refinanced financial liabilities of Droga Kolinska taken over in the acquisition. Thereby, impact on the company's bottom-line should be analysed in the light of linear allocation of financial expenses on a quarterly basis whereby historical analysis of Atlantic Grupa and Droga Kolinska's results shows the least favourable seasonal impact on operations in the first quarter.

[1] Kairos Commodities, http://www.kairoscommodities.com/
[2] Ibid.

## FINANCIAL INDICATORS in 1Q11

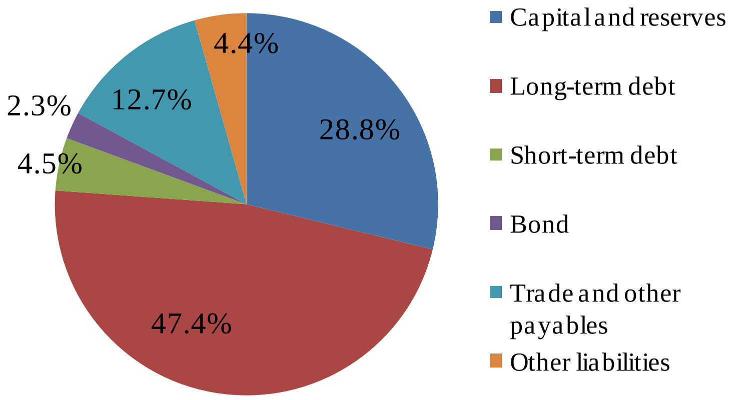
| in HRKm | 1Q11 | YE10 |
|---|---|---|
| **Net debt** | **2,510.3** | 2,467.1 |
| **Total assets** | **5,073.9** | 5,101.1 |
| **Equity** | **1,461.1** | 1,455.5 |
| **Current ratio** | **1.83** | 1.31 |
| **Gearing ratio** | **63.2%** | 62.9% |
| | **1Q11** | 1Q10 |
| **Interest coverage ratio*** | **1.8** | 6.9 |
| **Capex** | **28.1** | 5.1 |
| **Cash flow from operating activities** | **13.6** | 24.3 |

*Ex. one-offs in 2010, based on AG figures only

Among key highlights in Atlantic Grupa's 1Q11 financial position, one should consider following:

❖ Alongside existing indebtness of Atlantic Grupa and financing for the acquisition of Droga Kolinska, net debt of HRK2,510.3m at the 1QE11 reflects refinanced loans of Droga Kolinska d.d. and its subsidiaries at the beginning of the current year (excluding the EBRD loan) with syndicated bank loan in the amount of EUR136.8m.

❖ Following Droga Kolinska's refinancing, Atlantic Grupa's financing structure somewhat changed largely with reference to long-term – short-term financial liabilities amidst refinancing of current portion of long-term liabilities. Consequently the financing structure reveals the following:




Long-term financial liabilities account for 47.4% of total financing structure at the end of 1Q11 versus 39.3% at the YE10, whereby short-term financial liabilities (excluding current portion of corporate bond) make up 4.5% at the end of 1Q11 as opposed to 11.4% at the YE10.

❖ In the scope of active debt management, Atlantic Grupa used available hedging instruments, including interest rate swaps to fix substantial portion of its long-term financial debt cost in the following three years.

## OUTLOOK for FY11

**Atlantic Grupa's strategic guidance for 2011** includes:

- Fast and efficient integration of Droga Kolinska into Atlantic Grupa's business model on all levels (operating and supporting functions) followed by delivery of planned synergy potentials both on sales and costs side
- Focus on organic growth through innovations in product categories and strengthening the regional character of distribution business
- Meeting financial commitments on regularly basis coupled with prudent debt and financial cost management
- Cost management and optimisation of operating processes on both centralised and lower levels, aiming to improve operating efficiency
- Prudent liquidity management

Alongside continuously inauspicious macroeconomic surrounding with Croatian economy expected to show one of the slowest rebounds among the CEE economies in 2011 and regional economies, particularly Serbia and BiH, with pronouncedly high unemployment rates and anaemic disposable income trends and therewith related grim impact on consumer spending, only German growth and Russian recovery provide some relief to the real sector. Additional uncertainty in 2011 emerges from adverse movements in key raw materials on the global commodity markets and fundamentals pointing to continuance of uptrend in key raw materials' prices on world commodity markets.

Taken all into account, the management currently retains guidance communicated at the beginning of 2011 including:

- Lower single-digit growth rate in sales compared to FY10 pro-forma consolidated level of HRK4.5bn
- Retaining EBITDA profitability at FY10 pro-forma consolidated normalised level of approximately HRK520m.

**ATLANTIC GRUPA d.d.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THREE MONTH PERIOD ENDED 31 MARCH 2011 (UNAUDITED)**

## ATLANTIC GRUPA d.d.

## INTERIM CONSOLIDATED INCOME STATEMENT

| in thousands of HRK, unaudited | Jan - Mar 2011 | Jan - Mar 2010 | Index |
|---|---|---|---|
| **Turnover** | **982,996** | **512,630** | **191.8** |
| Sales revenues | 976,206 | 504,236 | 193.6 |
| Other revenues | 6,790 | 8,394 | 80.9 |
| **Operating expenses** | **890,064** | **421,869** | **211.0** |
| Cost of merchandise sold | 245,515 | 238,748 | 102.8 |
| Change in inventories | (29,320) | (7,861) | 373.0 |
| Production material and energy | 352,750 | 71,698 | 492.0 |
| Services | 67,987 | 30,703 | 221.4 |
| Staff costs | 151,706 | 78,147 | 194.1 |
| Marketing and selling expenses | 62,924 | 36,107 | 174.3 |
| Other operating expenses | 40,680 | 20,710 | 196.4 |
| Other gains - net | (2,178) | (46,383) | n/a |
| **EBITDA** | **92,932** | **90,761** | **102.4** |
| Depreciation | 34,943 | 9,552 | 365.8 |
| Amortization | 15,130 | 2,420 | 625.2 |
| **EBIT** | **42,859** | **78,789** | **54.4** |
| Financial expenses - net | (49,521) | (4,758) | n/a |
| **EBT** | **(6,662)** | **74,031** | **n/a** |
| Income tax | 3,673 | 17,345 | 21.2 |
| **(Loss) / Profit for the period** | **(10,335)** | **56,686** | **n/a** |
| Attributable to: | | | |
| Non-controlling interest | 633 | 1,247 | 50.8 |
| Owners of the parent | (10,968) | 55,439 | n/a |
| Earnings per share for profit attributable to the owners of the Company | | | |
| - basic | (3.29) | 22.48 | |
| - diluted | (3.29) | 22.48 | |

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| in thousands of HRK, unaudited | Jan - Mar 2011 | Jan - Mar 2010 | Index |
|---|---|---|---|
| **(Loss) / Profit for the period** | **(10,335)** | **56,686** | **n/a** |
| Cash flow hedge | (3,310) | - | n/a |
| Currency translation differences | 24,453 | (2,292) | n/a |
| **Total comprehensive income** | **10,808** | **54,394** | **19.9** |
| Attributable to: | | | |
| Non-controlling interest | 1,039 | 1,259 | 82.5 |
| Equity holders of the parent | 9,769 | 53,135 | 18.4 |
| Total comprehensive income | 10,808 | 54,394 | 19.9 |

## ATLANTIC GRUPA d.d.

## INTERIM CONSOLIDATED BALANCE SHEET

| in thousands of HRK, unaudited | 31 March 2011 | 31 December 2010 |
|---|---|---|
| Property, plant and equipment | 1,159,420 | 1,172,877 |
| Investment property | 1,496 | 1,816 |
| Intangible assets | 1,863,654 | 1,858,710 |
| Available-for-sale financial assets | 36,264 | 36,202 |
| Trade and other receivables | 21,246 | 23,736 |
| Deferred tax assets | 56,525 | 52,924 |
| **Non-current assets** | 3,138,605 | 3,146,265 |
| Inventories | 524,650 | 480,408 |
| Trade and other receivables | 1,017,838 | 1,100,134 |
| Non-current assets held for sale | 118,567 | 111,199 |
| Prepaid income tax | 25,024 | 17,951 |
| Deposits given | 392 | 5,192 |
| Derivative financial instrument | 13,461 | 7,939 |
| Cash and cash equivalents | 235,345 | 231,978 |
| **Current assets** | 1,935,277 | 1,954,801 |
| **Total assets** | 5,073,882 | 5,101,066 |
| **Capital and reserves attributable to owners of the Company** | 1,396,457 | 1,391,834 |
| **Non-controlling interest** | 64,645 | 63,632 |
| Borrowings | 2,402,542 | 2,006,540 |
| Deferred tax liabilities | 53,532 | 53,955 |
| Other non-current liabilities | 38,868 | 38,421 |
| Provisions | 59,473 | 59,745 |
| **Non-current liabilities** | 2,554,415 | 2,158,661 |
| Trade and other payables | 644,900 | 711,751 |
| Borrowings | 343,508 | 697,744 |
| Current income tax liabilities | 18,123 | 16,594 |
| Derivative financial instrument | 40,064 | 35,344 |
| Provisions | 11,770 | 25,506 |
| **Current liabilities** | 1,058,365 | 1,486,939 |
| **Total liabilities** | 3,612,780 | 3,645,600 |
| **Total equity and liabilities** | 5,073,882 | 5,101,066 |

## ATLANTIC GRUPA d.d.

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of Company | | | | | |
|---|---|---|---|---|---|---|
| *in thousands of HRK, unaudited* | **Share capital** | **Reserves** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total** |
| **At 1 January 2010** | **408,404** | **(2,075)** | **318,858** | **725,187** | **32,620** | **757,807** |
| **Comprehensive income:** | | | | | | |
| Net profit for the period | - | - | 55,439 | 55,439 | 1,247 | 56,686 |
| Other comprehensive income | - | (2,304) | - | (2,304) | 12 | (2,292) |
| Total comprehensive income | - | (2,304) | 55,439 | 53,135 | 1,259 | 54,394 |
| **Transactions with owners:** | | | | | | |
| Acquisition of non-controlling interest | - | - | (11,474) | (11,474) | 674 | (10,800) |
| **At 31 March 2010** | **408,404** | **(4,379)** | **362,823** | **766,848** | **34,553** | **801,401** |
| **At 1 January 2011** | **1,016,282** | **(3,980)** | **379,532** | **1,391,834** | **63,632** | **1,455,466** |
| **Comprehensive income:** | | | | | | |
| Loss for the period | - | - | (10,968) | (10,968) | 633 | (10,335) |
| Cash flow hedge | - | (3,310) | - | (3,310) | - | (3,310) |
| Other comprehensive income | - | 24,047 | - | 24,047 | 406 | 24,453 |
| Total comprehensive income | - | 20,737 | (10,968) | 9,769 | 1,039 | 10,808 |
| **Transactions with owners:** | | | | | | |
| Acquisition of non-controlling interest | - | - | (2,614) | (2,614) | (26) | (2,640) |
| Purchase of treasury shares | (2,532) | - | - | (2,532) | - | (2,532) |
| **At 31 March 2011** | **1,013,750** | **16,757** | **365,950** | **1,396,457** | **64,645** | **1,461,102** |

## INTERIM CONSOLIDATED CASH FLOW STATEMENT

| in thousands of HRK, unaudited | **Jan - March 2011** | **Jan - March 2010** |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Net (loss) / profit** | **(10,335)** | **56,686** |
| Income tax | 3,673 | 17,345 |
| Depreciation and amortization | 50,073 | 11,972 |
| Gain on disposal of property, plant and equipment | 846 | (48,642) |
| Value adjustment of current assets | 4,456 | 4,623 |
| Interest income | (2,390) | (2,035) |
| Interest expense | 51,429 | 6,193 |
| Other non-cash changes | 10,096 | (2,779) |
| **Changes in working capital:** | | |
| Increase in inventories | (45,755) | (36,109) |
| Decrease in current receivables | 77,855 | 10,285 |
| (Decrease) / increase in current payables | (65,360) | 16,463 |
| (Decrease) / increase in provisions for risks and charges | (14,007) | 261 |
| Interest paid | (33,874) | (2,803) |
| Income tax paid | (13,154) | (7,164) |
| **Net cash flow from operating activities** | **13,553** | **24,296** |
| | | |
| **Cash flow from investing activities** | | |
| Purchase of tangible and intangible assets | (28,084) | (5,132) |
| Proceeds from sale of property, plant and equipment | 2,263 | 8,095 |
| Acquisition of subsidiary and non-controlling interest | (5,052) | (10,800) |
| Loans and deposits given | (935) | 483 |
| Interest received | 2,390 | 428 |
| **Net cash flow used in investing activities** | **(29,418)** | **(6,926)** |
| | | |
| **Cash flow from financing activities** | | |
| Purchase of treasury shares | (2,532) | - |
| Proceeds from / (repayment of) borrowings - net | 21,764 | (15,333) |
| **Net cash flow from / (used in) financing activities** | **19,232** | **(15,333)** |
| | | |
| **Net increase in cash and cash equivalents** | **3,367** | **2,037** |
| Cash and cash equivalents at beginning of period | 231,978 | 74,580 |
| Cash and cash equivalents at end of period | 235,345 | 76,617 |

## NOTE 1 – GENERAL INFORMATION

Atlantic Grupa d.d. (the Company) is incorporated in the Republic of Croatia. The principal activities of the Company and its subsidiaries (the Group) are described in Note 3.

The interim condensed consolidated financial statements of the Group for the three months ended 31 March 2011 were approved by the Management Board of the Company in Zagreb on 19 April 2011.

The interim condensed consolidated financial statements have not been audited.

## NOTE 2 – BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 2.1. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group for the three months ended 31 March 2011 have been prepared in accordance with IAS 34 – Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of 31 December 2010.

### 2.2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

## NOTE 3 – SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable segments – divisions as follows:

**- The Distribution Division** deals with the distribution of consumer goods including products of the Consumer Health Care, Pharma, Droga Kolinska and Sports and Functional Food divisions.

**- The Consumer Health Care Division** produces vitamin instant drinks, tea, sweets, cosmetics and personal hygiene products.

**- The Sports and Functional Food Division** specialises in development, production and sale of sports and functional food.

**- The Pharma Division** specialises in development and production of OTC products and food supplements as well as their sale through the pharmacy chain.

**- The Droga Kolinska Division** specialises in food and beverages production with a wide portfolio of leading brand names across the region.

Management monitors the operating results of its business unites separately for the purpose of making decisions about resource allocation and performance assessment.

Sales between operating segments are carried out at arm's length.

## NOTE 3 – SEGMENT INFORMATION (continued)

| For the period ended 31 March 2011 (in thousands of HRK) | Distribution | Consumer Health Care | Sports and Functional Food | Pharma | Droga Kolinska | Reconc. | Group |
|---|---|---|---|---|---|---|---|
| Gross revenues /i/ | 404,305 | 98,901 | 164,162 | 88,348 | 479,225 | (788) | 1,234,153 |
| Inter-segment revenues /ii/ | 3,970 | 77,511 | 1,169 | 6,528 | 161,979 | - | 251,157 |
| **Total revenues** | **400,335** | **21,390** | **162,993** | **81,820** | **317,246** | **(788)** | **982,996** |
| Total assets /iii/ | 681,426 | 571,192 | 182,604 | 590,676 | 3,085,382 | (414,336) | 4,696,944 |
| **Total assets at 31.12.2010. /iv/** | 561,173 | 598,000 | 164,158 | 580,608 | 3,037,730 | (208,437) | 4,733,232 |

| For the period ended 31 March 2010 (in thousands of HRK) | Distribution | Consumer Health Care | Sports and Functional Food | Pharma | Droga Kolinska | Reconc. | Group |
|---|---|---|---|---|---|---|---|
| Gross revenues /i/ | 285,097 | 117,613 | 130,074 | 76,530 | n/a | 1,609 | 610,923 |
| Inter-segment revenues /ii/ | 5,253 | 88,442 | 1,265 | 3,333 | n/a | - | 98,293 |
| **Total revenues** | **279,844** | **29,171** | **128,809** | **73,197** | **n/a** | **1,609** | **512,630** |

/i/ The Company's gross revenues are not allocated to operating segments.

/ii/ Inter-segment revenues are eliminated on consolidation.

/iii/ Inter-segment receivables are eliminated on consolidation. Segment assets do not include property, plant and equipment of the Company (HRK 746 thousand), Company's intangible assets (HRK 2,855 thousand), short term deposits given (HRK 392 thousand), trade and other receivables (HRK 31,350 thousand), available-for-sale financial assets (HRK 36,264 thousand), deferred tax assets (HRK 56,525 thousand), derivative financial instruments (HRK 13,461 thousand) and cash and cash equivalents (HRK 235,345 thousand).

/iv/ Inter-segment receivables are eliminated on consolidation. Segment assets do not include property, plant and equipment of the Company (HRK 1,036 thousand), Company's intangible assets (HRK 2,871 thousand), short term deposits given (HRK 5,192 thousand), trade and other receivables (HRK 29,692 thousand), available-for-sale financial assets (HRK 36,202 thousand), deferred tax assets (HRK 52,924 thousand), derivative financial instruments (HRK 7,939 thousand) and cash and cash equivalents (HRK 231,978 thousand).

## NOTE 4 – EARNINGS PER SHARE

### Basic earnings per share

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

| | 2011 | 2010 |
|---|---|---|
| Net (loss) / profit attributable to equity holders (in thousands of HRK) | (10,968) | 55,439 |
| Weighted average number of shares | 3,334,078 | 2,465,608 |
| Basic (loss) / earnings per share (in HRK) | (3.29) | 22.48 |

### Diluted earnings per share

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

## NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

During the three months period ended 31 March 2011, Group invested HRK 28,084 thousand in purchase of property, plant and equipment (2010: HRK 5,132 thousand).

## NOTE 6 - INVENTORIES

During the three months period ended 31 March 2011, the Group wrote down HRK 1,513 thousand of inventories due to damage and short expiry dates (2010: HRK 3,866 thousand). The amount is recognised in the income statement within Other operating expenses.

## NOTE 7 – ACQUISITION OF NON-CONTROLLING INTEREST

In January 2011 Group closed the public offer to acquire a non-controlling stake in the subsidiaries Palanački Kiseljak a.d. and Soko Nada Štark a.d., Serbia. The offer resulted in the acquisition of additional 14% stake in subsidiary Palanački Kiseljak a.d. Serbia thereby increasing the share in the company from 79% to 93%. Difference between acquisition cost and net book value of acquired minority interest is recognised directly in equity.

## NOTE 8 – ONE-OFF ITEMS

One-off item in three months period ended 31 March 2010 relates to profit of HRK 48,557 thousand realized from the sale of property on Neva’s prior production location.

Atlantic Grupa d.d.
Miramarska 23
Zagreb

Register number: 1671910

Zagreb, 28 April 2011

Pursuant to the article 407. to 410. of the Capital market Law (Official Gazette 88/08. and 146/08) the President of the Management board of Atlantic Grupa d.d., Miramarska 23, Zagreb provide

# MANAGEMENT BOARD'S STATEMENT OF LIABILITY

The consolidated financial statements of Atlantic Grupa d.d. have been prepared pursuant to the International Financial Reporting Standards (IFRS) and Croatian Accounting Law.

The consolidated financial statements for the period ended 31 March 2011 present complete and fair view of assets and liabilities, profit and loss, financial position and operations of the Group.
The management report for the period ended 31 March 2011 presents true and fair presentation of development and results of the Group's operations with description of significant risks and uncertainties for the Group.

**President of the Management Board**

**Emil Tedeschi**

**<u>Contact:</u>**

Atlantic Grupa
Investor relations

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