ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

Independent Auditor's Report

To the Shareholders and Management of Atlantic Grupa d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Atlantic Grupa d.d. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2013 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Report on Other Legal and Regulatory Requirements

We have read the accompanying Annual Report of the Group for the year ended 31 December 2013 set out on pages 1 to 104. We have verified that the information included in the Annual Report which describes matters that are also presented in the consolidated financial statements is consistent, in all material respects, with the consolidated financial statements referred to above.

PricewaterhouseCoopers d.o.o.
Zagreb, 28 March 2014

PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: Hrvoje Zgombic, President; J. M. Gasparac, Member; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875.

ATLANTIC GRUPA d.d.

CONSOLIDATED INCOME STATEMENT

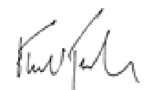
FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	**Note**	**2013**	**2012**
Revenues	5	5,092,222	5,005,484
Cost of trade goods sold		(1,223,485)	(1,155,448)
Change in inventories of finished goods and work in progress		4,636	3,667
Material and energy costs		(1,715,825)	(1,814,941)
Staff costs	6	(672,118)	(653,464)
Marketing and promotion costs	7	(351,820)	(320,754)
Depreciation, amortisation and impairment	2.24, 13, 13a, 14	(166,158)	(180,065)
Other operating costs	8	(535,295)	(498,526)
Other (losses)/ gains - net	9	(7,538)	9,105
Operating profit		**424,619**	**395,058**
Finance income	10	46,141	49,085
Finance costs	10	(217,607)	(370,566)
Finance costs - net	10	(171,466)	(321,481)
Profit before tax		**253,153**	**73,577**
Income tax expense	11	(54,159)	(7,465)
Profit for the year		**198,994**	**66,112**
Attributable to:			
Owners of the parent		194,872	55,230
Non-controlling interests		4,122	10,882
		198,994	66,112
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		58.46	16.57
- diluted		58.46	16.57

The consolidated financial statements set out on pages 2 to 62 were approved by the Management Board of Atlantic Grupa d.d. in Zagreb on 28 March 2014.

President of the Management Board

Emil Tedeschi



The accompanying notes on pages 7 to 62 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	**Note**	**2013**	**2012**
Profit for the year		**198,994**	**66,112**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gains from defined benefit plan		2,495	-
		2,495	**-**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences	22	9,707	(56,069)
Cash flow hedges	22	32,332	(10,226)
		42,039	**(66,295)**
Other comprehensive income/(loss) for the year, net of tax		**44,534**	**(66,295)**
Total comprehensive income/(loss) for the year		**243,528**	**(183)**
Attributable to:			
Owners of the parent		239,372	(5,620)
Non-controlling interests		4,156	5,437
Total comprehensive income/(loss) for the year		243,528	(183)

The accompanying notes on pages 7 to 62 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2013**	**31 December 2012**
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,060,847	1,093,108
Investment property		1,672	1,707
Intangible assets	14	1,851,023	1,870,965
Deferred income tax assets	25	47,912	72,182
Available-for-sale financial assets	17	1,072	1,300
Trade and other receivables	18	9,054	9,584
		2,971,580	3,048,846
Current assets			
Inventories	19	537,232	543,317
Trade and other receivables	18	1,126,410	1,148,770
Prepaid income tax		22,820	23,703
Deposits	18	251	20,142
Cash and cash equivalents	20	325,334	250,865
		2,012,047	1,986,797
Non-current assets held for sale	13a	99,133	113,868
Total current assets		2,111,180	2,100,665
TOTAL ASSETS		**5,082,760**	**5,149,511**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	882,597	882,748
Treasury shares	21	(16)	-
Reserves	22	(15,363)	(57,091)
Retained earnings		622,613	455,201
		1,623,203	1,414,230
Non-controlling interests		51,292	47,136
Total equity		1,674,495	1,461,366
Non-current liabilities			
Borrowings	24	1,968,950	2,198,901
Deferred income tax liabilities	25	181,378	186,955
Derivative financial instruments	15	9,733	50,224
Other non-current liabilities		143	191
Provisions	26	59,723	56,477
		2,219,927	2,492,748
Current liabilities			
Trade and other payables	23	736,172	793,596
Borrowings	24	387,288	354,101
Derivative financial instruments	15	18,950	20,911
Current income tax liabilities		16,213	3,575
Provisions	26	29,715	23,214
		1,188,338	1,195,397
Total liabilities		3,408,265	3,688,145
TOTAL EQUITY AND LIABILITIES		**5,082,760**	**5,149,511**

The accompanying notes on pages 7 to 62 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2012	1,015,904	3,203	425,297	1,444,404	67,920	1,512,324
Comprehensive income:						
Net profit for the year	-	-	55,230	55,230	10,882	66,112
Other comprehensive loss	-	(60,850)	-	(60,850)	(5,445)	(66,295)
Total comprehensive (loss)/income	-	(60,850)	55,230	(5,620)	5,437	(183)
Transaction with owners:						
Acquisition of non-controlling interest (Note 28)	-	-	(23,919)	(23,919)	(25,342)	(49,261)
Share based payment (Note 21)	5,609	-	247	5,856	-	5,856
Purchase of treasury shares (Note 21)	(5,393)	-	-	(5,393)	-	(5,393)
Transfer	-	556	(556)	-	-	-
Dividends relating to 2011	-	-	(1,098)	(1,098)	(879)	(1,977)
Balance at 31 December 2012	**1,016,120**	**(57,091)**	**455,201**	**1,414,230**	**47,136**	**1,461,366**
Comprehensive income:						
Net profit for the year	-	-	194,872	194,872	4,122	198,994
Other comprehensive income	-	42,005	2,495	44,500	34	44,534
Total comprehensive income	-	42,005	197,367	239,372	4,156	243,528
Transaction with owners:						
Share based payment (Note 21)	8,896	-	(224)	8,672	-	8,672
Purchase of treasury shares (Note 21)	(9,063)	-	-	(9,063)	-	(9,063)
Transfer	-	(277)	277	-	-	-
Dividends relating to 2012 (Note 21)	-	-	(30,008)	(30,008)	-	(30,008)
Balance at 31 December 2013	**1,015,953**	**(15,363)**	**622,613**	**1,623,203**	**51,292**	**1,674,495**

The accompanying notes on pages 7 to 62 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

(all amounts expressed in thousands of HRK)	Note	2013	2012
Cash flows from operating activities:			
Cash generated from operations	29	598,423	554,686
Interest paid		(146,761)	(219,779)
Income tax paid		(31,417)	(38,950)
		420,245	295,957
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13, 14, 24	(99,994)	(78,811)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		21,360	20,071
Acquisition of available-for-sale financial assets		(58,005)	(21,000)
Proceeds from sale of available-for-sale financial assets		58,048	21,043
Advance for acquisition of subsidiary	28	(6,775)	-
Loans granted and deposits placed		(4,328)	(91,293)
Repayments of loan and deposits granted		23,161	112,291
Interest received		8,189	9,741
		(58,344)	(27,958)
Cash flows used in financing activities			
Purchase of treasury shares	21	(9,063)	(5,393)
Proceeds from borrowings, net of fees paid	24	85,111	1,919,805
Repayments of borrowings	24	(334,591)	(2,127,499)
Acquisition of interest in a subsidiary from non-controlling interests	28	-	(40,536)
Dividends paid to Company shareholders	21	(30,008)	-
Dividends paid to non-controlling interests		-	(879)
Withholding tax paid on dividend distributed within the Group		-	(1,098)
		(288,551)	(255,600)
Net increase in cash and cash equivalents		**73,350**	**12,399**
Exchange gains/(losses) on cash and cash equivalents		1,119	(9,130)
Cash and cash equivalents at beginning of year		250,865	247,596
Cash and cash equivalents at end of year	20	**325,334**	**250,865**

The accompanying notes on pages 7 to 62 are an integral part of these consolidated financial statements.

NOTE 1 – GENERAL INFORMATION

Operating as a vertically integrated multinational company, Atlantic Grupa d.d. (the Company) and its subsidiaries (as disclosed in Note 32 "the Group") have business activities that incorporate R&D, production and distribution of fast moving consumer goods in Southeast Europe, the European markets and Russia and CIS (Commonwealth of Independent States). With its modern production network, the Group stands out as one of the leading food & beverage producers in Southeast Europe with prominent coffee brands Grand Kafa and Barcaffe, a range of beverage brands Cockta, Donat Mg, Cedevita, Cedevita GO!, a portfolio of sweet and salted snacks brands Smoki, Najlepše želje and Bananica and the savoury spread brand Argeta. Additionally, the Group has a wide range of personal care product portfolio, owns the leading Croatian producer of vitamins, minerals, supplements and OTC drugs as well as the leading pharmacy chain in Croatia under the Farmacia brand. Furthermore, the Group manufactures and distributes the leading European brand in sports nutrition - Multipower and has a strong foothold on the Russian and CIS markets with its baby food portfolio under the Bebi brand. With its own distribution network in Croatia, Slovenia, Serbia and Macedonia, the Group also distributes a range of products from external partners (Unilever, Ferrero, Wrigley, Johnson & Johnson, Duracell and others). The Group has manufacturing plants in Croatia, Slovenia, Serbia, Bosnia and Herzegovina, Macedonia and Germany with firms and representative offices in 11 countries. The Group exports its products to more than 40 markets worldwide.

The Company is domiciled in Zagreb, Miramarska 23, Croatia.

The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in Note 21.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) which were endorsed by the EU under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year which were endorsed by the EU. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendments to IAS 1 Financial Statement Presentation Regarding Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012).* The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI and affects presentation only and therefore did not have an impact on the Group's financial position or performance.

- *Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013).* Makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income. The Group reports accumulated amount of these re-measurements in retained earnings in equity. Retrospective application of the standard was not applied as it did not have material impact on the consolidated financial statements of the Group.

- *Amendment to IFRS 1 First time adoption on government loans (effective for annual periods beginning on or after 1 January 2013*). This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. This amendment is not relevant to the Group's operations, because the Group is not a first-time adopter nor user of government loans.

- *Amendment to IFRS 7 Financial Instruments: Disclosures on Asset and Liability Offsetting (effective for annual periods beginning on or after 1 January 2013*). This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The amendment has impact on disclosure only and did not have an impact on the Group's financial position or performance.

- *IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)*. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. It did not have an impact on the Group's financial statements.

- *IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013).* The interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. This interpretation is not relevant to the Group's operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013).* These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to:
  - IFRS 1, 'First time adoption'
  - IAS 1, 'Financial statement presentation'
  - IAS 16, 'Property plant and equipment'
  - IAS 32, 'Financial instruments; Presentation'
  - IAS 34, 'Interim financial reporting'

  These improvements did not have an impact on the Group's financial statements.

(b) Standards and interpretations issued but not effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have significant effect on the consolidated financial statements of the Group and the Group plans to adopt them on their effective date as of and when endorsed by the EU.

- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014).* The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It sets out the accounting requirements for the preparation of consolidated financial statements.

- *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014).* IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- *IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014).* IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- *IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014).* IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- *IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014).* IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendment to IFRSs 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2014).* These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.

- *IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015).* IFRS 9 is the first standard issued as part of a wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

- *Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).* These amendments are to the application guidance in IAS 32 Financial instruments: Presentation, and clarify some of requirements for offsetting financial assets and financial liabilities on the statement of financial position.

- *Amendments to IFRS 10, IFRS 12 and IAS 27 – on Consolidation for Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).* These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through comprehensive income. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

- *Amendment to IAS 36 Impairment of Assets on Recoverable Amount Disclosures (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014)* This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment could have an impact on disclosure only, but not on measurement and recognition of the assets in the Group's financial position or performance.

- *Amendment to IAS 39 Financial Instruments: Recognition and Measurement 'Novation of Derivatives' (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014)* This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.

- *IFRIC 21 Levies (issued on 20 May 2013 and effective for annual periods beginning on or after 1 January 2014)* This is an interpretation of IAS 37 Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendments to IAS 19 – Defined benefit plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014)* The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

- *Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below)* The improvements consist of changes to seven standards:
  - IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; It is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
  - IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments are effective for business combinations where the acquisition date is on or after 1 July 2014.
  - IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.
  - The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
  - IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
  - IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

- *Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014)* The improvements consist of changes to four standards:
  - The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
  - IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
  - The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.
  - IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of identifiable acquiree's net assets.

Goodwill is initially measured as excess of the aggregate of the consideration transferred and the fair value of non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. If this is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Mergers

The predecessor method of accounting is used to account for the merger of related companies under common control. The carrying value of assets and liabilities of the predecessor entity are transferred as balances in the merged entity. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated, recognizing the carrying value of net assets merged within equity.

(c) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiary

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Strategic Management Council.

2.4 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment where the entity operates ('the functional currency'). The consolidated financial statements are presented in Croatian kuna (HRK), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses related to borrowings are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) – net'.

(c) Group companies

The results and financial position of all Group entities with a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates; and
(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken into other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are reclassified from other comprehensive income to the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, if required. Historical cost includes expenditure directly attributable to the acquisition of items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they incurred.

Land and assets not yet in use are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to residual values over their estimated useful lives, as follows:

Buildings	10 to 50 years
Plant and equipment	2 to 20 years

The residual value of an asset is an estimated amount that the Group would currently obtain from disposal of the asset less estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within other gains/(losses) - net in the income statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are recognised immediately as an expense and not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from synergies of the business combination in which the goodwill arose. Goodwill is monitored at the operating segment level.

(b) Distribution rights

Separately acquired distribution rights are shown at historical cost. Distribution rights acquired in a business combination are recognised at fair value at the acquisition date. Product distribution rights have a finite useful life and are carried at cost less accumulated amortization and impairment, if any. Amortization is calculated using the straight-line method to allocate the cost of rights over their estimated useful lives (from 1.5 to 5 years).

(c) Brands

Brands acquired in a business combination are carried at initially determined fair value (recognised at acquisition date) less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of brands over their estimated useful life (15 years).

Brands with indefinite useful lives are not amortized, but are tested annually for impairment at the cash generating unit level.

(d) Computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (up to 5 years).

(e) Licences

Licences acquired in a business combination are recognized at fair value at the acquisition date. Licences have indefinite useful lives and are not amortised, but are tested annually for impairment at the cash generating unit level.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life (such as land, brands, licences and goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, available for sale and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'deposits' and 'cash and cash equivalents' in the balance sheet (Notes 2.11 and 2.12).

Loans and receivables are carried at amortised cost using the effective interest method.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value, except investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, consequently, these are carried at cost.

(c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are categorised as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Interest income and the translation differences are recognised in the income statement, whereas other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from other comprehensive income to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of receivables is described in Note 2.11.

2.9 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges in order to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.10 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Trade goods are carried at selling price less applicable taxes and margins.

Where necessary, a provision is made for damaged and expired inventories.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision and subsequent recoveries of amounts previously written off are recognised in the income statement within 'other operating expenses'.

If the collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less (excluding bills of exchange). Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including all directly attributable incremental transaction costs, is deducted from equity until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of the loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

The Group makes payments to mandatory pension funds on behalf of its employees in the ordinary course of business through salary deductions, as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group has no other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits except for the one-off retirement payment as prescribed by local legislation. The liability recognised in the balance sheet in respect of one-off retirement payment is the present value of the defined benefit obligation at the end of the reporting period. This obligation is calculated annually by independent actuaries. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Interest costs/income arising from actuarial calculation are charged/credited to income statement within 'interest expenses'.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged immediately or credited to the income statement within ‘staff costs’. Interest costs/income arising from actuarial calculation are charged/credited to income statement within ‘interest expense’.

(d) Share-based compensation

Key management of the Group receives remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

(e) Short-term employee benefits

The Group recognises a provision for bonuses and accumulating unused vacation entitlement days if contractually obliged or if there is a past practice that has created a constructive obligation.

2.17 Provisions

Provisions for termination benefits and long term employee benefits, restructuring costs, warranty claims and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

When there are number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, returns, rebates and discounts, expenses of listing the products and marketing activities that are an integral part of contracts with customers. All other marketing activities related to marketing campaigns that are not integral part of customer contract are presented within Marketing and promotion costs.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(a) Sales of products and trade goods – wholesale

The Group manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Group has delivered the products to the wholesaler, the wholesaler has full discretion over the price to sell and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of loss have been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

Products are sold with volume discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specific in the sales contracts, net of estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of up to 90 days, which is consistent with the market practice.

(b) Sales of goods - retail

The Group operates a pharmacy and specialised stores.

Sale of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The Group operates a customer loyalty programme, allowing customers to accumulate points when they purchase products. The points can then be redeemed as discount on subsequent purchase, subject to a minimum number of points being obtained. Consideration received is allocated between the products sold and the points issued. Part of fair value of the points issued is deferred as liability in the balance sheet and recognised as revenue when the points are redeemed.

(c) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Interest income

Interest income arising from fixed-term bank deposits, loans granted and interest from customers is recognised on a time-proportion basis using the effective interest method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which dividends are approved by the Company's shareholders.

2.20 Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where a provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.21 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.22 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of cash flow hedge derivatives is disclosed in Note 15 and changes in cash flow hedge reserves are disclosed in Note 22.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges, is recognised in other comprehensive income. The gain or loss related to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) – net'.

Amounts accumulated in equity are reclassified from other comprehensive income to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs - net'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/(losses) – net'.

When a hedging instrument expires or is sold or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred from other comprehensive income to the income statement within 'other gains/(losses) – net'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the regular operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.24 Investment property

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Investment property is derecognized when it either has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Transfers are made to or from investment property only when there is a change in use. The carrying amount approximates fair value. Investment property is held for long term rental yields and is not occupied by the Group. Depreciation expense related to investment property amounted to HRK 49 thousand in 2013 (2012: HRK 231 thousand).

2.25 Comparatives

In 2013 the classification of Representative offices costs has changed from ‘Other operating costs’ to ‘Staff costs’, reflecting the classification of these costs by their nature. The classification of these costs in the 2012 comparative information has been changed to reflect the 2013 presentation.

The effect of these changes on comparative figures for 2012 is as follows:

(in thousands of HRK)	2012
Increase in staff costs	1,966
Decrease in other operating costs	(1,966)

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO, Serbian dinar (RSD), and to the lesser extent the US dollar (USD) and Russian Rubles (RUB).

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

31 December 2013

(in thousands of HRK)	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	393,240	304,130	222	31,823
Cash and cash equivalents	146,888	51,226	6,759	1,781
Trade and other payables	(287,061)	(89,362)	(31,289)	(2,135)
Borrowings	(2,100,238)	-	(6,510)	-
Net balance sheet exposure	**(1,847,171)**	**265,994**	**(30,818)**	**31,469**

31 December 2012

(in thousands of HRK)	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	387,350	328,988	192	24,501
Cash and cash equivalents	113,105	52,249	224	2,452
Trade and other payables	(268,135)	(100,547)	(35,287)	(1,757)
Borrowings	(2,296,234)	-	(3,867)	-
Net balance sheet exposure	**(2,063,914)**	**280,690**	**(38,738)**	**25,196**

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

In the event of a rise of 1% in the EUR against HRK and RSD, assuming all other variables remain constant, the profit after tax for the year would have been HRK 7,886 thousand lower (2012: HRK 9,826 thousand lower), mainly due to the EUR denominated borrowings and other comprehensive income would be HRK 10,803 thousand higher (2012: HRK 10,148 thousand higher), due to the translation differences arising on consolidation of subsidiaries whose local currency is EUR.

In the event of a rise of 1% in the RSD against HRK, assuming all other variables remain constant, the profit after tax for the year would have been HRK 1,079 thousand higher (2012: HRK 280 thousand higher) and other comprehensive income would be HRK 3,484 thousand higher (2012: HRK 3,094 thousand higher), assuming no change in other items.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(ii) Equity securities risk

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

No reliable external information exists with respect to fair value. Management believes, based on internal information, that the fair value equals or exceeds carrying value. However, due to limited information available, management has not carried out a sensitivity analysis. At 31 December 2013, if the fair value of the available-for-sale investment would change, with all other variables held constant, other comprehensive income and revaluation reserves would also change by the same amount.

(iii) Cash flow and fair value interest rate risk

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

The Group’s interest rate risk arises from long-term borrowings and bonds issued. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable interests rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk although no borrowings are carried at fair value.

The Group analyses its interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. As at 31 December 2013, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2012: 100 basis points), the profit after tax would have been lower/higher by HRK 7,337 thousand (2012: HRK 10,992 thousand) mainly as a result of increased/decreased interest expense.

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group's assets, potentially subjecting the Group to concentrations of credit risk, primarily include cash, deposits and trade and other receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. The Group's credit risk is low, since receivables are dispersed among a large group of customers. Additionally, the Group's key customers are large retail chains, whereas dependence on these customers is reduced by developing alternative distribution channels. The Group reduces credit risk by implementing strict policies for receivables collection and goods delivery, as well as securing receivables with standard security instruments (bills of exchange and promissory notes). No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. A detailed analysis and maximum exposure to credit risk is shown in Notes 15, 16 and 18.

(c) Liquidity risk

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

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

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

At 31 December 2013, the Group held cash and cash equivalents in the amount of HRK 325,334 thousand (2012: HRK 250,865 thousand) and short-term deposits in the amount of HRK 251 thousand (2012: HRK 20,142 thousand). These are expected to readily generate cash inflows for managing liquidity risk.

Trade and other payables, as well as short-term borrowings. are due within 12 months after the balance sheet date, while the long-term borrowings' maturity is disclosed in Note 24.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

The table below analyses financial liabilities of the Group according to contracted maturities. The amounts disclosed in the table below represent the contractual undiscounted cash flows.

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
31 December 2013				
Trade and other payables	691,779	-	-	691,779
Borrowings (excluding finance lease)	457,997	1,808,040	443,254	2,709,291
Finance lease liabilities	3,412	1,644	-	5,056
Derivative financial instruments	18,950	9,733	-	28,683

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
31 December 2012				
Trade and other payables	735,312	-	-	735,312
Borrowings (excluding finance lease)	401,304	1,719,333	943,548	3,064,185
Finance lease liabilities	10,396	5,163	-	15,559
Derivative financial instruments	20,911	50,224	-	71,135

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including long-term and short-term borrowings, as shown in the consolidated balance sheet) plus derivative financial instruments less short-term deposits and cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

The gearing ratios were as follows:

	2013	2012
	(in thousands of HRK)	
Total borrowings (Note 24)	2,356,238	2,553,002
Derivative financial instruments (Note 15)	28,683	71,135
Less: Short-term deposits given and Cash and cash equivalents (Note 18 and 20)	(325,585)	(271,007)
Net debt	2,059,336	2,353,130
Total equity	1,674,495	1,461,366
Total capital	**3,733,831**	**3,814,496**
Gearing ratio	**55%**	**62%**

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Comparing to previous year, gearing ratio decreased as a result of repayment of borrowings and increase in cash and cash equivalents.

3.3 Fair value estimation

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of derivative financial instruments and of available-for-sale financial instruments is determined based on specific valuation techniques (level 3).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Deferred income tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (Note 25).

(b) Impairment of goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment as stated in Note 2.7. Intangible assets with indefinite useful lives are tested for impairment on an individual asset basis whereas goodwill is tested based on the operating segment to which it is allocated.

Goodwill and intangible assets with indefinite lives have been allocated to cash generating units within operating segments as follows:

Operating segment *(in thousands of HRK)*	**Goodwill**	**Licences**	**Brands**
SBU Beverages	91,576	-	76,735
SBU Coffee	66,505	-	261,399
SBU (Sweet and Salted) Snacks	232,104	-	146,404
SBU Savoury Spreads	128,286	-	245,367
SBU Pharma and Personal Care	198,848	170,211	-
Russian market	22,162	-	28,924
SDU Croatia	38,605	-	-
SDU Slovenia, Serbia, Macedonia	90,076	-	-

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(b) Impairment test for goodwill and intangible assets with indefinite useful lives (continued)

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial forecasts approved by the management, covering a seven-year period.

Value in use calculations for goodwill were determined based on the following assumptions:

Operating segment	Pre-tax discount rate
SBU Beverages	10.4%
SBU Coffee	10.9%
SBU (Sweet and Salted) Snacks	11.6%
SBU Savoury Spreads	10.9%
SBU Pharma and Personal Care	9.1%
Russian market	11.4%
SDU Croatia	9.6%
SDU Slovenia, Serbia, Macedonia	9.6%

The Growth rate assumptions were based on historical data and management's expectations for market development. Terminal growth rate is 2% for all Operating segments and is based on management's expectations for market development.

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 27,096 thousand was recognised (2012: HRK 4,002 thousand) in respect of impairment of intangible assets with indefinite useful lives.

The sensitivity analysis of key assumptions used in the impairment testing showed that a discount rate increase by 100 basis points would result on average in an 10.7% decrease of the recoverable amount of cash generating units. Despite the decrease, the net recoverable amount of cash generating units would still exceed the carrying value.

(c) Brand valuation

The fair value of acquired brands, relating to legally registered trademarks of Fidifarm/ Dietpharm, Montana and Multivita, was determined by independent valuers based on the income-comparative method. This method combined the use of comparative market transactions of licensing trademarks as well as cash flow projections of hypothetical royalty income based on historical sales information of related products and extrapolated estimated growth rates for subsequent periods.

Key assumptions used for cash flow projections were as follows:

	Growth rate	Hypothetical royalty rates	Discount rate
Fidifarm/ Dietpharm	10.00%	4.94%	11.87%
Montana	5.00%	3.55%	7.59%
Multivita	18.00%	4.94%	10.00%

The growth rate assumption was based on past performance and management's expectations for market development. The discount rate used was based on the weighted average cost of capital of entities using the trademarks.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(c) Brand valuation (continued)

The fair value of acquired brands relating to legally registered trademarks of Droga Kolinska was determined by independent valuers based on the Income approach, Relief-from-Royalty method. In using this method, arms'-length royalty or licence agreements are analysed. The licensing transactions selected should reflect similar risk and characteristics that make them comparable to the subject asset. Finally estimated royalty rates were adjusted for brand's specifics including market position, geographic presence, future growth potential and additionally tested for reasonableness by applying licensee/licensor profit split method. The net revenue expected to be generated by the intangible assets during their expected remaining life are then multiplied by estimated royalty rates.

This valuation relied on the following assumptions:

	Estimated royalty rates	**Discount rate**
Barcaffe	4.0%	9.5%
Grand Kafa	4.0%	11.6%
Najlepše želje	8.0%	11.7%
Bananica	5.0%	11.5%
Smoki	8.0%	11.5%
Argeta	8.0%	11.5%
Donat	8.0%	10.3%
Cockta	5.0%	10.9%
Bebi	3.0%	11.4%

(d) Licences valuation

The fair value of acquired licences, relating to exclusive rights for the pharmacy business, was determined by independent valuators based on the income-comparative method. This method estimates net revenues from licences ownership (royalty) based on comparative market transactions of buying and selling of licences on the global market.

Key assumptions used for cash flow projections were as follows:

Growth rate	6.36%
Hypothetical royalty rate	4.80%
Discount rate	8.78%

The growth rate assumption was based on past performance and management's expectations for market development. The discount rate used was based on the weighted average cost of capital calculated as the risk free interest rate increased by the Republic of Croatia's risk premium.

NOTE 5 – SEGMENT INFORMATION

The business model of the Group is organized through six strategic business units and three strategic distribution units, which have been joined by a separate market unit, Russia. Strategic Management Council is responsible for strategic and operational issues.

For more efficient management of individual strategic business and strategic distribution units, the organization unites similar business activities or products, shared markets or channels, together. Specifically, Atlantic Grupa's business has been organized in six strategic business units (SBU) and three strategic distribution units (SDU):

- SBU Beverages,
- SBU Coffee,
- SBU (Sweet and Salted) Snacks,
- SBU Savoury Spreads,
- SBU Sports and Functional Food,
- SBU Pharma and Personal Care
- SDU Croatia,
- SDU Slovenia, Serbia, Macedonia,
- SDU HoReCa,

and the Russian market.

Due to the fact that SDU HoReCa and MU Russia do not meet quantitative thresholds required by IFRS 8 for reportable segments, they are reported within Other segments. The Other segments category comprises also of non-allocable business activities (headquarters and support functions in Serbia, Slovenia and Macedonia) which are excluded from the reportable operating segments. For the time being, performance of SDU International will not be measured as a separate segment. Instead, sales and profitability of this unit will be reported within related SBUs.

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

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

The measure of assets and liabilities has not been disclosed for reportable segments as assets and liabilities are provided to the Strategic Management Council on a Group basis only.

NOTE 5 – SEGMENT INFORMATION (continued)

Sales revenues *(in thousands of HRK)*	**2013**	**2012**
SBU Beverages	651,991	671,934
SBU Coffee	1,087,157	1,090,672
SBU (Sweet and Salted) Snacks	617,494	600,473
SBU Savoury Spreads	458,843	463,664
SBU Sports and Functional Food	780,992	679,971
SBU Pharma and Personal Care	505,954	481,328
SDU Croatia	806,721	876,829
SDU Slovenia, Serbia, Macedonia	1,938,605	1,930,387
Other segments	423,659	373,152
Reconciliation	(2,220,129)	(2,237,969)
Total	**5,051,287**	**4,930,441**

Operating results	**For the year ending 31 December 2013**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	122,237	40,521	81,716
SBU Coffee	238,704	15,148	223,556
SBU (Sweet and Salted) Snacks	111,827	20,920	90,907
SBU Savoury Spreads	123,320	14,024	109,296
SBU Sports and Functional Food	22,639	5,672	16,967
SBU Pharma and Personal Care	47,926	10,110	37,816
SDU Croatia	15,178	5,788	9,390
SDU Slovenia, Serbia, Macedonia	82,588	5,897	76,691
Other segments	(173,642)	48,078	(221,720)
Total	**590,777**	**166,158**	**424,619**

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results	**For the year ending 31 December 2012**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	137,019	44,164	92,855
SBU Coffee	156,734	17,854	138,880
SBU (Sweet and Salted) Snacks	115,334	21,612	93,722
SBU Savoury Spreads	122,791	16,525	106,266
SBU Sports and Functional Food	11,281	6,440	4,841
SBU Pharma and Personal Care	57,140	10,062	47,078
SDU Croatia	12,562	6,491	6,071
SDU Slovenia, Serbia, Macedonia	84,539	5,450	79,089
Other segments	(122,277)	51,467	(173,744)
Total	**575,123**	**180,065**	**395,058**

Geographical information

The total of non-current assets other than financial instruments, deferred income tax assets and trade and other receivables is located as follows:

	2013	**2012**
	(in thousands of HRK)	
Serbia	1,004,932	1,029,562
Slovenia	990,665	978,566
Croatia	704,384	729,777
Other	213,561	227,875
Total geographically allocated non-current assets	**2,913,542**	**2,965,780**

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2013 *(in thousands of HRK)*	2013 %	2012 *(in thousands of HRK)*	2012 %
Croatia	1,254,097	24.8	1,313,338	26.6
Serbia	1,215,221	24.1	1,226,774	24.9
Slovenia	689,269	13.6	648,695	13.2
Bosnia and Herzegovina	364,201	7.2	376,980	7.7
Macedonia, Montenegro, Kosovo	317,073	6.3	316,936	6.4
Germany, Italy, United Kingdom	387,943	7.7	361,952	7.3
Russia and CIS countries	299,285	5.9	244,960	5.0
Other markets	524,198	10.4	440,806	8.9
Total sales by markets	**5,051,287**	**100.0**	**4,930,441**	**100.0**

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

Analysis of revenue by category	2013 *(in thousands of HRK)*	2013 %	2012 *(in thousands of HRK)*	2012 %
Sales by type of products				
Own brands	3,660,516	71.9	3,552,099	71.0
Principal brands	756,782	14.9	782,099	15.6
Pharmacy	308,508	6.0	300,230	6.0
Private label	325,481	6.4	296,013	5.9
Total sales by type of products	**5,051,287**	**99.2**	**4,930,441**	**98.5**
Other income /i/	40,935	0.8	75,043	1.5
Total revenues	**5,092,222**	**100.0**	**5,005,484**	**100.0**

/i/ Of total other income in 2012, HRK 20,673 thousand relates to income from the expiry of liability under the option for sale of property in Ljubljana.

NOTE 6 – STAFF COSTS

	2013	2012
	(in thousands of HRK)	
Gross salaries /i/	596,715	580,498
Public transport	15,357	14,815
Termination benefits	4,664	7,128
Share options granted (Note 21)	5,849	6,083
Other staff costs /ii/	49,533	44,940
	672,118	**653,464**

At 31 December 2013, the number of staff employed by the Group was 4,228 (2012: 4,247).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2013 amounted to HRK 92,287 thousand (2012: HRK 87,056 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2013	2012
	(in thousands of HRK)	
Marketing and promotion costs - external	283,584	266,322
Marketing and promotion costs - related parties (Note 30)	20,662	17,045
Sponsorships and donations	47,574	37,387
	351,820	**320,754**

NOTE 8 – OTHER OPERATING COSTS

	2013	2012
	(in thousands of HRK)	
Transportation costs	109,044	102,822
Maintenance	97,575	96,563
Rentals (Note 27)	79,709	75,860
Non-production material	26,831	29,844
Fuel	21,311	23,023
Provision for impairment of inventories (Note 19)	18,060	22,454
Intellectual services	17,390	20,420
Taxes and contributions not related to operating results	15,100	16,365
Travel expense and daily allowances	16,554	14,827
Non-production services	14,169	14,165
Telecommunication services	13,009	13,730
Entertainment	13,859	12,515
Bank charges	9,133	10,175
Provision for impairment of receivables (Note 18)	30,930	9,960
Production services	5,737	5,895
Supervisory Board fees	1,398	1,358
Royalties	1,464	1,441
Collection of receivables previously provided for (Note 18)	(3,739)	(5,148)
Other – related parties (Note 30)	2,689	2,743
Other	45,072	29,514
	535,295	**498,526**

NOTE 9 – OTHER (LOSSES)/GAINS – NET

	2013	2012
	(in thousands of HRK)	
(Loss)/gain on sale of property, plant and equipment	(250)	9,248
Gain on sale of available-for-sale financial assets	48	43
Fair value losses on financial assets	(5,846)	(1,168)
Foreign exchange (losses)/gains – net	(2,757)	1,470
Other gains/(losses) – net	1,267	(488)
	(7,538)	**9,105**

NOTE 10 – FINANCE COSTS – NET

	2013	2012
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	(46,141)	(49,033)
Other finance income	-	(52)
	(46,141)	(49,085)
Finance costs		
Foreign exchange loss on borrowings	58,342	113,020
Interest expense on bank borrowings	66,722	195,348
Interest expense on bonds	8,371	8,419
Interest expense on provisions for employee benefits	1,544	-
Interest expense on borrowings – related parties (Note 30)	82,628	53,779
	217,607	370,566
Finance costs - net	**171,466**	**321,481**

NOTE 11 – INCOME TAX

	2013	2012
	(in thousands of HRK)	
Current income tax	42,737	25,975
Deferred tax (Note 25)	11,422	(18,510)
	54,159	**7,465**

NOTE 11 – INCOME TAX (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2013	2012
	(in thousands of HRK)	
Profit before taxation	**253,153**	**73,577**
Income tax calculated at domestic tax rates applicable to profits in the respective countries	51,580	23,398
Tax effects of: Adjustments in respect of prior years	(198)	(404)
Income not subject to tax	(24,751)	(9,288)
Expenses not deductible for tax purposes	26,451	13,342
Utilisation of previously unrecognized tax losses	(21,339)	(21,095)
Tax losses for which no deferred tax assets was recognised	10,995	20,022
Effect of utilized tax losses	22,825	2,680
Effect of recognized tax losses	(2,799)	(22,866)
Effect of change in tax rate	-	(811)
Origination and reversal of temporary tax differences	(8,605)	2,487
Tax expense	**54,159**	**7,465**

The weighted average effective tax rate was 21.4% (2012: 10.1%). The increase comparing to the previous year is primarily caused by the recognition of income tax losses in 2012 and their utilisation in 2013.

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

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

	2013	2012
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	194,872	55,230
Weighted average number of ordinary shares in issue	3,333,240	3,334,014
Basic earnings per share *(in HRK)*	58.46	16.57

Diluted earnings per share

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

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets not yet in use	Total
At 31 December 2011					
Cost	95,960	752,800	1,640,606	33,926	2,523,292
Accumulated depreciation	-	(308,693)	(1,025,097)	-	(1,333,790)
Net book amount	**95,960**	**444,107**	**615,509**	**33,926**	**1,189,502**
At 1 January 2012					
Opening net book amount	95,960	444,107	615,509	33,926	1,189,502
Additions	-	472	9,406	60,817	70,695
Transfer	-	17,799	55,543	(73,342)	-
Disposals	-	(582)	(3,604)	-	(4,186)
Depreciation	-	(21,471)	(113,140)	-	(134,611)
Transfer to / from assets held for sale	(4,034)	(1,461)	21	-	(5,474)
Foreign exchange differences	(238)	(6,756)	(13,872)	(1,952)	(22,818)
Closing net book amount	**91,688**	**432,108**	**549,863**	**19,449**	**1,093,108**
At 31 December 2012					
Cost	91,688	772,920	1,633,867	19,449	2,517,924
Accumulated depreciation	-	(340,812)	(1,084,004)	-	(1,424,816)
Net book amount	**91,688**	**432,108**	**549,863**	**19,449**	**1,093,108**
At 1 January 2013					
Opening net book amount	91,688	432,108	549,863	19,449	1,093,108
Additions	-	-	-	91,187	91,187
Transfer	337	11,812	70,124	(82,273)	-
Disposals	-	(839)	(2,633)	-	(3,472)
Depreciation	-	(19,452)	(106,609)	-	(126,061)
Transfer to / from assets held for sale	(150)	-	(602)	-	(752)
Foreign exchange differences	807	3,184	2,696	150	6,837
Closing net book amount	**92,682**	**426,813**	**512,839**	**28,513**	**1,060,847**
At 31 December 2013					
Cost	92,682	787,784	1,678,909	28,513	2,587,888
Accumulated depreciation	-	(360,971)	(1,166,070)	-	(1,527,041)
Net book amount	**92,682**	**426,813**	**512,839**	**28,513**	**1,060,847**

Property, plant and equipment with a net book value of HRK 316,793 thousand as at 31 December 2013 (2012: HRK 331,153 thousand), have been pledged as collateral for borrowings (Note 24).

Property, plant and equipment include assets leased under a finance lease with a net book value of HRK 27,534 thousand (2012: HRK 35,791 thousand).

NOTE 13a – NON-CURRENT ASSETS HELD FOR SALE

	2013	2012
	(in thousands of HRK)	
Opening net book amount	113,868	139,127
Classified as held for sale during the year	752	5,495
Disposals	(16,617)	(5,551)
Impairment charge /i/	-	(25,107)
Transfer to own use assets	-	(21)
Foreign exchange differences	1,130	(75)
Closing net book amount	**99,133**	**113,868**

Non-current assets held for sale relate to the property of Droga Kolinska d.d. and Atlantic Trade Zagreb d.o.o. An active program to complete the sale plan has been initiated and one part of assets has been sold during 2013 whilst the remaining part is expected to be sold in 2014.

Assets in the amount of HRK 72,659 thousand (2012: nil) have been pledged as collateral for borrowings (Note 24).

/i/ An impairment charge of HRK 25,107 thousand was recognized in 2012 to reduce the carrying amount of the assets to the fair value less costs to sell.

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brands	Rights	Software	Total
At 31 December 2011						
Cost	911,927	210,292	839,377	5,646	108,436	2,075,678
Accumulated amortisation and impairment	-	(15,196)	(19,482)	(5,646)	(79,160)	(119,484)
Net book amount	**911,927**	**195,096**	**819,895**	**-**	**29,276**	**1,956,194**
At 1 January 2012						
Opening net book amount	911,927	195,096	819,895	-	29,276	1,956,194
Foreign exchange differences	(43,551)	-	(18,803)	-	8	(62,346)
Additions	-	-	-	-	8,116	8,116
Disposals	(3,916)	(5,855)	-	-	(1,112)	(10,883)
Amortisation	-	-	(3,752)	-	(12,362)	(16,114)
Impairment charge /i/	-	(4,002)	-	-	-	(4,002)
Closing net book amount	**864,460**	**185,239**	**797,340**	**-**	**23,926**	**1,870,965**
At 31 December 2012						
Cost	864,460	204,437	820,574	-	114,711	2,004,182
Accumulated amortisation and impairment	-	(19,198)	(23,234)	-	(90,785)	(133,217)
Net book amount	**864,460**	**185,239**	**797,340**	**-**	**23,926**	**1,870,965**
At 1 January 2013						
Opening net book amount	864,460	185,239	797,340	-	23,926	1,870,965
Foreign exchange differences	3,702	-	7,474	-	140	11,316
Additions	-	-	-	-	8,807	8,807
Disposals	-	-	-	-	(17)	(17)
Amortisation	-	-	(3,761)	-	(9,191)	(12,952)
Impairment charge /i/	-	(15,028)	(12,068)	-	-	(27,096)
Closing net book amount	**868,162**	**170,211**	**788,985**	**-**	**23,665**	**1,851,023**
At 31 December 2013						
Cost	868,162	204,437	823,577	-	124,620	2,020,796
Accumulated amortisation and impairment	-	(34,226)	(34,592)	-	(100,955)	(169,773)
Net book amount	**868,162**	**170,211**	**788,985**	**-**	**23,665**	**1,851,023**

The disclosure on goodwill and intangible assets with indefinite useful lives impairment test is provided in Note 4 b).

/i/ The basis for impairment charge is explained in Note 4.

The 2012 disposal of goodwill and licences relate to the sale of one pharmacy, as part of the acquisition of non-controlling interests (Note 28).

Intangible assets with a net book value of HRK 703,618 thousand as at 31 December 2013 (2012: HRK 711,703) have been pledged as collateral for borrowings (Note 24).

NOTE 15 – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	Total
31 December 2013			
Financial assets			
Available-for-sale	-	1,072	**1,072**
Trade and other receivables	1,090,037	-	**1,090,037**
Short-term deposits	251	-	**251**
Cash and cash equivalents	325,334	-	**325,334**
Total	**1,415,622**	**1,072**	**1,416,694**

(in thousands of HRK)	Other financial liabilities	Finance leases	Derivatives used for hedging	Total
31 December 2013				
Financial liabilities				
Borrowings	2,351,484	-	-	**2,351,484**
Finance leases	-	4,754	-	**4,754**
Derivative financial instruments /i/	-	-	28,683	**28,683**
Trade and other payables	691,397	-	-	**691,397**
Total	**3,042,881**	**4,754**	**28,683**	**3,076,318**

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	Total
31 December 2012			
Financial assets			
Available-for-sale	-	1,300	**1,300**
Trade and other receivables	1,105,359	-	**1,105,359**
Short-term deposits	20,142	-	**20,142**
Cash and cash equivalents	250,865	-	**250,865**
Total	**1,376,366**	**1,300**	**1,377,666**

(in thousands of HRK)	Other financial liabilities	Finance leases	Derivatives used for hedging	Liabilities at fair value through profit or loss	Total
31 December 2012					
Financial liabilities					
Borrowings	2,538,342	-	-	-	**2,538,342**
Finance leases	-	14,660	-	-	**14,660**
Derivative financial instruments /i/	-	-	63,724	7,411	**71,135**
Trade and other payables	734,395	-	-	-	**734,395**
Total	**3,272,737**	**14,660**	**63,724**	**7,411**	**3,358,532**

i/ Derivative financial instruments classified as held for trading relate to the fair value of interest-risk hedges.

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information on counterparty default rates.

As at 31 December 2013, financial assets classified as trade and other receivables and short-term deposits given that are not past due amounted to HRK 895,080 thousand (2012: HRK 919,572 thousand). These receivables relate to existing customers with no defaults in the past.

External credit ratings about counterparty default rates for cash and cash equivalents are as follows:

Credit rating	**2013**	**2012**
	(in thousands of HRK)	
A-1/Negative (Standard &Poor's)	118,784	120,269
A-2/Negative (Standard &Poor's)	134,716	105,063
Non-Prime /Stable (Moody's)	35,835	-
Non-Prime /Negative (Moody's)	-	3,891
Petty cash and other banks	35,999	21,642
	325,334	**250,865**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2013	**2012**
	(in thousands of HRK)	
Trade receivables		
Counterparties without external credit rating		
Group 1	22,991	25,839
Group 2	617,977	501,065
Group 3	214,387	320,389
Total unimpaired trade receivables	**855,355**	**847,293**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2013	2012
	(in thousands of HRK)	
Other receivables		
A-	-	3
Counterparties without external credit rating		
Group 2	21,830	35,337
Total unimpaired other receivables	**21,830**	**35,340**

	2013	2012
	(in thousands of HRK)	
Loans and long-term deposits		
Counterparties without external credit rating		
Group 2	10,763	11,777
Group 3	6,881	5,020
	17,644	**16,797**

	2013	2012
	(in thousands of HRK)	
Short-term deposits		
A-1/Negative	251	20,142
	251	**20,142**

- Group 1 – new customers/related parties (less than 12 months)
- Group 2 – existing customers/related parties (more than 12 months) with no defaults in the past
- Group 3 – existing customers/related parties (more than 12 months) with some defaults in the past. All defaults were fully recovered.

None of the financial assets that are fully performing has been renegotiated in the last year.

NOTE 17 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

Investments in available-for-sale financial assets relate to unlisted equity instruments and are carried at cost since they do not have quoted market price and fair value cannot be reliably measured.
During 2013 and 2012, there were no impairment provisions on available-for-sale financial assets.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2013	2012
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	8,777	9,547
Other non-current receivables /iv/	277	37
	9,054	9,584
Current receivables		
Trade receivables /ii/	1,050,563	1,053,222
Loans receivable and deposits /i/	8,867	7,250
Current portion of other non-current receivables /iv/	-	9,595
Other receivables /iii/	66,980	78,703
	1,126,410	1,148,770
Short-term deposits /vi/	251	20,142
	1,135,715	**1,178,496**

	2013	2012
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	17,644	16,797
Trade receivables	1,050,563	1,053,222
Other receivables	21,830	35,340
Short-term deposits	251	20,142
	1,090,288	**1,125,501**

/i/ Loans receivable and deposits are as follows:

	2013	2012
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	1,621	1,084
Loans	9,127	9,727
Current portion	(1,971)	(1,264)
	8,777	9,547
Current receivables		
Loans – related parties (Note 30)	5,764	4,248
Loans	1,132	1,738
Current portion of non-current receivables	1,971	1,264
	8,867	7,250
	17,644	**16,797**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

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

/ii/ Trade receivables are as follows:

	2013	**2012**
	(in thousands of HRK)	
Gross trade receivables	1,107,429	1,115,853
Trade receivables – related parties (Note 30)	87,442	76,099
Provision for trade receivables	(144,308)	(138,730)
	1,050,563	**1,053,222**

/iii/ Other receivables are as follows:

	2013	**2012**
	(in thousands of HRK)	
Receivables from government institutions	22,881	35,164
Outstanding advances	8,746	2,206
Factoring receivables	9,298	7,387
Prepaid expenses	5,673	5,068
Interest receivable	6	18
Other receivables – related parties (Note 30)	88	79
Other /v/	20,288	28,781
	66,980	**78,703**

/iv/ Other non-current receivables in the amount of HRK 9,595 thousand as at 31 December 2012 related to receivables from continuous cession on trade receivables of Badel 1862 d.d.. Since Badel 1862 d.d. experienced significant difficulties including pre-bankruptcy procedures in 2013, provision for the uncollected receivables of HRK 8,669 thousand was made (Note 8).

/v/ Due to uncertainty in collection, other receivables of HRK 6,873 thousand were impaired (Note 8).

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

As of 31 December 2013, trade receivables in the amount of HRK 144,308 thousand (2012: HRK 138,730 thousand) were impaired and provided for. The individually impaired receivables relate to customers that are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2013	**2012**
	(in thousands of HRK)	
Up to 3 months	810	850
3 to 6 months	2,001	945
Over 6 months	141,497	136,935
	144,308	**138,730**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2013, trade receivables in the amount of HRK 195,208 thousand (2012: HRK 205,929 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2013	2012
	(in thousands of HRK)	
Up to 3 months	164,753	143,328
3 to 6 months	24,477	37,028
Over 6 months	5,978	25,573
	195,208	**205,929**

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

	2013	2012
	(in thousands of HRK)	
EUR	393,240	387,350
HRK	291,342	326,043
RSD	304,130	328,988
Other	101,576	83,120
	1,090,288	**1,125,501**

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

	2013	2012
	(in thousands of HRK)	
As at 1 January	138,730	156,156
Provision for receivables impairment (Note 8)	15,388	9,960
Collected amounts reversed (Note 8)	(3,739)	(5,148)
Receivables written off	(6,579)	(21,016)
Exchange differences	508	(1,222)
As at 31 December	**144,308**	**138,730**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The Group does not hold any collateral as security other than bills of exchange and promissory notes.

NOTE 19 – INVENTORIES

	2013	2012
	(in thousands of HRK)	
Raw materials and supplies	175,428	199,332
Work in progress	13,783	16,968
Finished goods	181,181	195,494
Trade goods	166,840	131,523
	537,232	**543,317**

As of 31 December 2013, inventories of HRK 18,060 thousand (2012: HRK 22,454 thousand) were impaired and fully provided for, due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2013	2012
	(in thousands of HRK)	
Current account and cash on hand	94,249	71,490
Foreign currency account	111,490	93,977
Deposits up to three months /i/	119,595	85,398
	325,334	**250,865**

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

Cash and cash equivalents are denominated in the following currencies:

	2013	2012
	(in thousands of HRK)	
EUR	146,888	113,105
HRK	97,190	71,583
RSD	51,226	52,249
Other	30,030	13,928
	325,334	**250,865**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2012	3,333,827	133,372	882,903	(371)	1,015,904
Purchase of treasury shares	(10,541)	-	-	(5,393)	(5,393)
Share based payments	11,014	-	(155)	5,764	5,609
31 December 2012	**3,334,300**	**133,372**	**882,748**	**-**	**1,016,120**
Purchase of treasury shares	(13,029)	-	-	(9,063)	(9,063)
Share based payments	13,007	-	(151)	9,047	8,896
31 December 2013	**3,334,278**	**133,372**	**882,597**	**(16)**	**1,015,953**

All shares issued are ordinary shares, including all relevant rights. All shares have the right to vote at the Company's General Assembly, as well as the right to dividend payment.

The ownership structure of the Company is as follows:

	31 December 2013		31 December 2012	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	323,500	9.70	322,943	9.69
EBRD	284,301	8.53	284,301	8.53
DEG	283,209	8.49	283,209	8.49
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	38,386	1,15	37,481	1.12
Other shareholders	537,907	16.14	539,391	16.18
Treasury shares	22	-	-	-
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

NOTE 21 – SHARE CAPITAL (continued)

Share based payments

According to the Company's share option programme, shares are granted to Management Board members and to top management.

One part of the share grant is subject to the Group achieving its operating profit target growth and subject to individual performance achievements. The other part is conditional on the employee completing two or more years of service (the vesting period). Furthermore, part of the programme is designated for the extraordinary performance on special projects.

Under the programme, 6,254 new shares have been granted in 2013 (2012: 6,538 shares).

The fair value of equity-settled share based payment transactions amounted to HRK 6,182 thousand (2012: HRK 6,491 thousand). Of that amount, HRK 5,849 thousand (2012: HRK 6,083 thousand) has been reported, together with appropriated tax, as staff costs (Note 6), relating to shares for which vesting conditions were met in 2013 (5,887 shares; 2012: 6,127 shares) and HRK 332 thousand (2012: HRK 408 thousand) was deferred, relating to shares for which vesting conditions will be met in the next two years (367 shares; 2012: 411 shares).

The fair value of the shares granted is determined as of the grant date at the estimated market price of the share of HRK 700 (2012: HRK 700).

Dividend distribution

According to the decision of the Company's General Assembly from 20 June 2013, the distribution of dividend in the amount of HRK 9.00 per share, or HRK 30,008 thousand in total was approved. Dividend was paid in July 2013.

In 2012 there were no payments of dividends to the Company's shareholders.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves /i/**	**Translation reserves /ii/**	**Cash flow hedge reserve /ii/**	**Total**
At 1 January 2012	5,428	45,136	(47,361)	3,203
Foreign exchange differences	-	(50,737)	-	(50,737)
Transfer from retained earnings	556	-	-	556
Cash flow hedge	-	-	(10,113)	(10,113)
At 31 December 2012	**5,984**	**(5,601)**	**(57,474)**	**(57,091)**
Foreign exchange differences	-	9,707	-	9,707
Transfer to retained earnings	(277)	-	-	(277)
Cash flow hedge	-	-	32,298	32,298
At 31 December 2013	**5,707**	**4,106**	**(25,176)**	**(15,363)**

/i/ Reserves mainly comprise statutory reserves recorded in accordance with the Company's Articles of Association. These reserves are distributable.

/ii/ Movements represent amounts attributable to the owner of the Company only.

NOTE 23 – TRADE AND OTHER PAYABLES

	2013	2012
	(in thousands of HRK)	
Trade payables	595,226	626,685
Trade payables – related parties (Note 30)	1,416	1,816
Other payables	139,530	165,095
	736,172	**793,596**

Other payables recorded as at 31 December are as follows:

	2013	2012
	(in thousands of HRK)	
Gross salaries payable	32,766	41,254
Liabilities to state institutions	11,920	17,648
Liabilities to Kapitalni Fond d.d. /i/	22,036	33,136
Accrued expenses	41,368	27,610
Vacation accrual	14,515	13,800
Severance payable	89	299
Deferred income	1,361	1,112
Dividend payable (Note 30)	111	22
Other	15,364	30,214
	139,530	**165,095**

/i/ The maturity of these liabilities has been prolonged to 2014.

Financial liabilities are denominated in the following currencies:

	2013	2012
	(in thousands of HRK)	
EUR	287,061	268,135
HRK	270,970	314,433
RSD	89,362	100,547
Other	44,004	51,280
	691,397	**734,395**

NOTE 24 – BORROWINGS

	2013	2012
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /i/	373,807	415,045
Related parties /ii/ (Note 30)	1,479,720	1,665,948
Bonds /iii/	113,984	113,375
Finance lease	1,439	4,533
Long-term debt	**1,968,950**	**2,198,901**
Short-term borrowings:		
Financial institutions /i/	184,035	186,171
Related parties /ii/ (Note 30)	198,577	156,442
Bonds /iii/	1,361	1,361
Finance lease	3,315	10,127
	387,288	**354,101**
	2,356,238	**2,553,002**

/i/ In November 2012, Atlantic Grupa signed agreements to refinance its existing loans. The Agreements were signed with the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC) and other local commercial banks. The amount of the loan package granted was EUR 307 million and was structured as such that the EBRD arranged a loan of EUR 232 million, the IFC participated in the package with a loan of EUR 50 million, while the remaining EUR 25 million were ensured by Raiffeisenbank Austria Zagreb and Zagrebačka banka. The funds from the contracted package were primarily used for restructuring of the Group's balance sheet, (EUR 272 million), an additional uncommitted energy efficiency line (EUR 10 million) and a working capital line (EUR 25 million). As at 31 December 2013, EUR 20.7 million of the committed line was unused (31 December 2012: EUR 20.7 million).

/ii/ Borrowings from EBRD and DEG are disclosed separately since these financial institutions own shares of the Company (Note 21) and are therefore considered as related parties.

/iii/ Bonds were issued in September 2011 in amount of HRK 115 million at the price of 99.375% with a coupon of 6.75% per annum and final redemption on 20 September 2016.

Borrowings from financial institutions (including related parties) are secured by pledges over property, plant and equipment (Notes 13 and 13a), intangible assets (Note 14) and shares of subsidiaries (Atlantic Trade d.o.o., Droga Kolinska d.d., Grand Prom d.o.o. and Soko Štark d.o.o.). Furthermore, issued bonds and part of borrowings from financial institutions are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators such as total net debt cover, interest cover, cash flow cover and maximum capital expenditures. At the balance sheet date, all covenant clauses were met.

NOTE 24 – BORROWINGS (continued)

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates at the balance sheet date are as follows:

	2013	2012
	(in thousands of HRK)	
Fixed interest rate	171,461	192,728
Up to 3 months	1,668,810	1,808,750
3 to 6 months	515,967	551,524
	2,356,238	**2,553,002**

The maturity of long-term borrowings is as follows:

	2013	2012
	(in thousands of HRK)	
Between 1 and 2 years	292,769	233,084
Between 2 and 5 years	1,351,843	1,098,612
Over 5 years	324,338	867,205
	1,968,950	**2,198,901**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 4.16% (2012: 4.51%). The effective annual interest rate related to bonds at the balance sheet date was 7.26% (2012: 7.25%).

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

	Carrying amounts		Fair value	
	2013	2012	2013	2012
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Financial institutions	1,853,527	2,080,993	1,852,845	2,079,354
Bonds	113,984	113,375	119,703	119,669
Finance lease	1,439	4,533	1,439	4,533
	1,968,950	**2,198,901**	**1,973,987**	**2,203,556**

NOTE 24 – BORROWINGS (continued)

The fair values of borrowings from banks and financial institutions are based on cash flows discounted using a rate of 4.16% (2012: 4.51%).

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

Gross finance lease liabilities – minimum lease payments:

	2013	2012
	(in thousands of HRK)	
No later than 1 year	3,412	10,396
Later than 1 year and no later than 5 years	1,644	5,163
	5,056	15,559
Future finance charges on finance leases	(302)	(899)
Present value of finance lease liabilities	**4,754**	**14,660**

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

	2013	2012
	(in thousands of HRK)	
HRK	247,732	252,901
EUR	2,100,238	2,296,234
USD	6,510	3,867
Other	1,758	-
	2,356,238	**2,553,002**

NOTE 25 – DEFERRED INCOME TAX

	2013	2012
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	34,852	60,914
- Deferred tax assets to be recovered within 12 months	13,060	11,268
	47,912	72,182
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(179,792)	(185,970)
- Deferred tax liabilities to be recovered within 12 months	(1,586)	(985)
	(181,378)	(186,955)
Deferred tax liabilities - net	**(133,466)**	**(114,773)**

Deferred tax assets are recognised for tax loss carry forwards and tax credits to the extent that realisation of the related tax benefit through future taxable profits of the related Group entities is probable.

The Group did not recognise deferred income tax assets of HRK 74,000 thousand (2012: HRK 78,838 thousand) in respect of losses that arose in its subsidiaries that can be carried forward against future taxable income. Deferred tax assets have not been recognised in respect of these losses as it is not certain that future taxable profit will be available for utilisation of the temporary differences. Losses amounting to HRK 407,009 thousand (2012: HRK 388,118 thousand) expire over the next ten years, while the losses in the amount of HRK 8,223 thousand (2012: HRK 10,730 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	Tax losses	Provisions	Other	Total
At 1 January 2012	11,677	5,963	38,772	56,412
(Charged)/credited to the income statement (Note 11)	18,678	1,800	(2,138)	18,340
(Charged)/credited to other comprehensive income	-	-	(818)	(818)
Exchange differences	(680)	(44)	(1,028)	(1,752)
At 31 December 2012	**29,675**	**7,719**	**34,788**	**72,182**
At 1 January 2013	29,675	7,719	34,788	72,182
(Charged)/credited to the income statement (Note 11)	(20,027)	(244)	2,214	(18,057)
(Charged)/credited to other comprehensive income	-	(71)	(5,944)	(6,015)
Other movements	-	(544)	130	(414)
Exchange differences	96	14	106	216
At 31 December 2013	**9,744**	**6,874**	**31,294**	**47,912**

NOTE 25 – DEFERRED INCOME TAX (continued)

Deferred tax liabilities

(in thousands of HRK)	Fair value gains	Fair value uplifts of assets acquired in business combinations	Other	Total
At 1 January 2012	66	185,066	7,932	193,064
Charged/(credited) to the income statement (Note 11)	19	(1,057)	868	(170)
Other movements	-	(1,171)	(3,062)	(4,233)
Exchange differences	3	(1,323)	(386)	(1,706)
At 31 December 2012	**88**	**181,515**	**5,352**	**186,955**
At 1 January 2013	88	181,515	5,352	186,955
Charged/(credited) to the income statement (Note 11)	-	(5,594)	(1,041)	(6,635)
Other movements	(88)	-	(717)	(805)
Exchange differences	-	1,834	29	1,863
At 31 December 2013	**-**	**177,755**	**3,623**	**181,378**

NOTE 26 – PROVISIONS

(in thousands of HRK)	Employee benefits	Legal proceedings	Warranties	Other provisions	Total
At 31 December 2012	45,964	26,546	2,450	4,731	79,691
Analysis of total provisions:					
Non-current	29,762	25,146	-	1,569	56,477
Current	16,202	1,400	2,450	3,162	23,214
At 1 January 2013	**45,964**	**26,546**	**2,450**	**4,731**	**79,691**
Additions	20,782	13,233	2,531	24	36,570
Used during year	(20,057)	(241)	(2,459)	(863)	(23,620)
Unused amounts reversed	(2,475)	(757)	-	(2,310)	(5,542)
Interest expense	1,544	-	-	-	1,544
Exchange differences	204	541	31	19	795
At 31 December 2013	**45,962**	**39,322**	**2,553**	**1,601**	**89,438**
Analysis of total provisions:					
Non-current	30,332	27,827	-	1,564	59,723
Current	15,630	11,495	2,553	37	29,715

NOTE 26 – PROVISIONS (continued)

Legal proceedings

In the ordinary course of business, the Group is defendant and plaintiff in pending legal proceedings. In Management's opinion, the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2013.

Employee benefits

This provision comprises estimated long-term employee benefits relating to termination benefits and jubilee awards, as defined by the collective bargaining agreement and bonuses to employees. The non-current portion of the provision relates to estimated acquired rights to termination benefits and jubilee awards that will be paid after 31 December 2014. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 1,159 thousand that will be paid out within the following year from the balance sheet date. During 2013 the group adopted Amendment to IAS 19 in presentation of post-employment benefit obligation. The financial statements for 2012 were not adjusted related to this accounting change due to immateriality.

Other provisions

Other provisions mainly relate to provisions for severance payments for employees due to restructuring.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2013 but not yet incurred amounted to HRK 20,697 thousand (2012: nil) for property, plant and equipment and HRK 1,745 thousand for intangible assets (2012: nil).

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

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

The lease rentals charged to the income statement during the year is disclosed in Note 8.

The future aggregate minimum lease payments under non-cancellable operating leases for equipment, vehicles and business premises are as follows:

	2013	**2012**
	(in thousands of HRK)	
Not later than 1 year	47,611	35,317
Later than 1 year and not later than 5 years	79,162	65,066
Over 5 years	4,277	6,495
	131,050	**106,878**

NOTE 28 – BUSINESS COMBINATIONS

(i) Acquisitions in 2013/2014

In December 2013, the Group signed an agreement to acquire Prodis d.o.o. in Slovenia. When completed, this transaction effectively represents the acquisition of distribution rights of one of the leading global producers of consumer goods, Unilever, for the markets of Croatia and Slovenia. In accordance with the purchase agreement, one part of the purchase consideration was paid in advance, while the remaining amount will be paid in 2014, upon the finalization of acquisition process. The finalization of the acquisition process is expected to be realized by the end of March 2014, as the the approval from the Slovenian Competition Protection Agency was obtained at the end of February 2014.

(ii) Acquisitions in 2012

During the year ended 31 December 2012, the Group acquired non-controlling interests and became the sole owner of subsidiaries ZU Ljekarne Bamapharm and Atlantic Farmacia d.o.o.. Acquisition of these non-controlling interests was partially settled in cash (HRK 20,343 thousand) and partially in kind by selling one pharmacy from the subsidiary ZU Farmacia (Note 14). The subsidiary Atlantic Farmacia d.o.o. was subsequently merged into Fidifarm d.o.o.

In October 2012, the Group became the sole owner of Soko Štark d.o.o., Belgrade, by acquiring the remaining 5.86% of the share capital from non-controlling interest shareholders through the majority shareholder Grand Kafa d.o.o., Belgrade for purchase consideration of EUR 2.3 million (HRK 19,601 thousand).

Finally, in December 2012, the Group became the sole owner of Palanački Kiseljak a.d., Smederevska Palanka, after acquiring the remaining 7.1% of the share capital for cash consideration of HRK 592 thousand.

The Group derecognised non-controlling interests of HRK 25,342 thousand and recorded a decrease in equity attributable to owners of the parent of HRK 23,919 thousand.

The effect of changes in ownership interest in the above mentioned subsidiaries on the equity attributable to owners of the company during the year is summarised as follows:

(in thousands of HRK)	
Carrying amount of non-controlling interests acquired	25,342
Cash consideration paid to non-controlling interests	(40,536)
Consideration in kind, net of tax	(8,725)
Excess of consideration paid recognized in equity	**(23,919)**

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2013	2012
Net profit		**198,994**	**66,112**
Income tax	11	54,159	7,465
Depreciation, amortisation and impairment	13, 13a, 14, 2.24	166,158	180,065
Loss/ (gain) on sale of property, plant and equipment	9	250	(9,248)
Gain on sale of available-for-sale financial assets	9	(48)	(43)
Provision for current assets		48,990	32,414
Foreign exchange differences - net		19,349	49,460
Increase in provision for risks and charges - net	26	9,747	3,176
Fair value losses on financial assets	9	5,846	1,168
Share based payment		8,671	5,855
Interest income		(8,189)	(9,741)
Interest expense	10	159,265	257,546
Other non-cash items, net		(3,212)	918
Changes in working capital:			
Increase in inventories		(11,979)	(32,090)
Increase in current receivables		(1,845)	(31,576)
(Decrease)/ increase in current payables		(47,733)	33,205
Cash generated from operations		**598,423**	**554,686**

NOTE 30 – RELATED PARTY TRANSACTIONS

The Group enters into transactions with the following related parties: shareholders and other entities owned or controlled by shareholders (‘other entities’).

Related party transactions that relate to balances as at 31 December 2013 and as at 31 December 2012 and transactions recognised for years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2013	2012
RECEIVABLES			
Current receivables			
Other entities	18	93,294	80,426
LIABILITIES			
Borrowings			
Shareholders	24	1,678,297	1,822,390
Trade payables			
Shareholders	23	111	22
Other entities	23	1,416	1,816
		1,527	1,838
REVENUES			
Sales revenues			
Other entities		455,364	459,324
Other revenues			
Other entities		1,379	-
EXPENSES			
Marketing and promotion expenses	7		
Other entities		20,662	17,045
Other operating expenses	8		
Other entities		2,689	2,743
Finance cost - net	10		
Shareholder		82,628	53,779

Management board compensation

In 2013 members of the Management Board received total gross amount of HRK 13,758 thousand relating to salaries, bonuses and supervisory board compensations in operative companies (2012: HRK 13,733 thousand).

NOTE 31 – AUDITORS’ FEES

PricewaterhouseCoopers d.o.o., the auditor of the Group’s financial statements has rendered services in the amount of HRK 3,375 thousand (2012: HRK 3,062 thousand). These services relate to the audits and reviews of the financial statements and agreed upon procedures in relation to financial covenants calculation.

NOTE 32 – SUBSIDIARIES

The Group is comprised of the Company and the following subsidiaries in which the Company has an ownership interest above 50% and exercises control:

	2013	2012
Cedevita d.o.o., Croatia	81%	81%
- Multivita d.o.o., Serbia	100%	100%
Neva d.o.o., Croatia	100%	100%
Atlantic Trade d.o.o., Croatia	100%	100%
- Droga Kolinska d.d.,Slovenia	100%	100%
- Soko Štark d.o.o. Serbia	100%	100%
- Palanački kiseljak a.d., Serbia (merged to Soko Štark d.o.o. in 2013)	-	100%
- Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- Droga d.o.o.e.l., Macedonia (liquidated in 2013)	-	100%
- o.o.o. Droga Kolinska, Russia	100%	100%
- Grand Prom d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Kofikom Produkt d.o.o., Bosnia and Herzegovina	100%	100%
- Droga Kolinska d.o.o.e.l., Macedonia	100%	100%
- Atlantic Brands d.o.o., Serbia	100%	100%
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., Macedonia	75%	75%
- Lasago d.o.o., Croatia (bankruptcy proceedings)	100%	100%
- Bionatura bidon vode d.o.o., Croatia	100%	100%
- Atlantic Multipower d.o.o., Croatia (founded in 2013)	100%	-
Atlantic Trade Sofia e.o.o.d., Bulgaria (liquidated in 2013)	-	100%
Fidifarm d.o.o. Croatia	100%	100%
- Atlantic Pharmacentar d.o.o., Croatia	100%	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- ZU Ljekarne Bamapharm, Croatia (merged to ZU Ljekarne Farmacia in 2013)	-	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	100%
- ZU Ljekarne Dvoržak 2, Croatia (merged to ZU Ljekarne Farmacia in 2013)	-	100%
-ZU Ljekarne Marijam, Croatia (merged to ZU Ljekarne Farmacia in 2013)	-	100%
Montana Plus d.o.o., Croatia	100%	100%
Atlantic s.r.l., Italy (liquidation proceedings)	100%	100%
Hopen Investments, BV, Netherlands	100%	100%
-Atlantic Multipower GmbH & CO OHG, Germany	100%	100%
- Atlantic Multipower UK Ltd, Great Britain	65%	65%
- Sport Direct Ltd, Great Britain	100%	100%
- Atlantic Multipower Srl, Italy	100%	100%
- Atlantic Multipower Iberica, Spain	100%	100%
- AKTIVKOST Handelsgesellschaft mbH, Germany	100%	100%
- Atlantic Management GmbH, Germany	100%	100%