ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2009

This version of the accompanying documents is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

PRICEWATERHOUSECOOPERS

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Independent auditor's report

To the Shareholders of ATLANTIC GRUPA d.d.

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 of 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o.
Zagreb, 29 March 2010

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ATLANTIC GRUPA d.d.

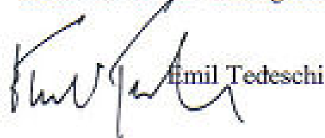
CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

(all amounts expressed in thousands of HRK)	Note	2009	2008
Revenues	5	2,225,182	2,020,194
Cost of trade goods sold		(1,044,548)	(929,646)
Change in inventories of finished goods and work in progress		15,233	(2,433)
Materials and energy expenses		(287,099)	(261,921)
Staff expenses	6	(322,481)	(310,245)
Marketing and promotion expenses	7	(142,624)	(133,431)
Depreciation, amortisation and impairment	13, 14	(43,188)	(39,906)
Other operating expenses	8	(255,251)	(212,924)
Other gains / (losses) - net	9	8,617	(288)
Operating profit		**153,841**	**129,400**
Finance costs- net	10	(26,904)	(28,710)
Share in profit of joint venture	19	150	160
Profit before tax		**127,087**	**100,850**
Income tax expense	11	(29,758)	(22,489)
Profit for the year		**97,329**	**78,361**
Attributable to:			
Equity holders of the Company		85,053	68,629
Minority interest		12,276	9,732
		97,329	78,361
Earnings per share for profit attributable to the owners of the Company during the year (in HRK)	12		
- basic		34.50	27.84
- diluted		34.50	27.84

The consolidated financial statements set out on pages 2 to 60 were approved by the Management Board of the Company in Zagreb on 29 March 2010.

President of the Management Board



Emil Tedeschi

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

(all amounts expressed in thousands of HRK)	**2009**	**2008**
Profit for the year	**97,329**	**78,361**
Other comprehensive income:		
Currency translation differences	(1,752)	(3,320)
Cash flow hedge	(1,788)	-
Total other comprehensive income	(3,540)	(3,320)
Total comprehensive income	**93,789**	**75,041**
Attributable to:		
Owners of the Company	81,653	65,079
Minority interest	12,136	9,962
Total comprehensive income	93,789	75,041

The accompanying notes form an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2009

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2009**	**31 December 2008 (restated)**	**1 January 2008 (restated)**
ASSETS				
Non-current assets				
Property, plant and equipment	13	296,945	242,109	226,131
Intangible assets	14	449,414	483,653	210,857
Available-for-sale financial assets	16	35,041	35,041	35,041
Interest in joint venture	19	179	185	-
Trade and other receivables	17	10,718	5,097	9,450
Deferred tax assets	25	7,485	9,293	8,781
		799,782	775,378	490,260
Current assets				
Inventories	18	233,736	232,616	207,365
Trade and other receivables	17	512,815	506,277	398,247
Prepaid income tax		4,128	1,599	1,708
Deposits	17	143,129	2,514	1,754
Cash and cash equivalents	20	74,580	200,193	399,837
		968,388	943,199	1,008,911
Non-current assets held for sale	13	7,154	8,047	-
Total current assets		975,542	951,246	1,008,911
TOTAL ASSETS		**1,775,324**	**1,726,624**	**1,499,171**
EQUITY AND LIABILITIES				
Capital and reserves attributable to owners of the Company				
Share capital	21	98,800	98,800	98,800
Share premium	21	312,784	313,854	313,854
Treasury shares	21	(3,180)	(4,454)	(3,063)
Reserves	22	(2,075)	1,325	4,875
Retained earnings		318,858	252,251	191,094
		725,187	661,776	605,560
Minority interest		32,620	78,537	68,619
		757,807	740,313	674,179
Non-current liabilities				
Borrowings	24	379,240	390,456	248,616
Deferred tax liabilities	25	45,989	51,391	22,642
Provisions	26	5,739	5,333	2,764
		430,968	447,180	274,022
Current liabilities				
Trade and other payables	23	446,975	408,612	285,475
Borrowings	24	109,112	100,929	241,713
Derivative financial instruments		1,846	-	-
Current income tax liabilities		10,626	8,958	4,701
Provisions	26	17,990	20,632	19,081
		586,549	539,131	550,970
Total liabilities		1,017,517	986,311	824,992
TOTAL EQUITY AND LIABILITIES		**1,775,324**	**1,726,624**	**1,499,171**

The accompanying notes form an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of HRK)	Attributable to owners of the Company					
	Share Capital	**Reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total**
At 1 January 2008	409,591	4,875	191,094	605,560	45,969	651,529
Restatement	-	-	-	-	22,650	22,650
At 1 January 2008 (restated)	409,591	4,875	191,094	605,560	68,619	674,179
Comprehensive income:						
Net profit for the year	-	-	68,629	68,629	9,732	78,361
Other comprehensive income	-	(3,550)	-	(3,550)	230	(3,320)
Total comprehensive income	-	(3,550)	68,629	65,079	9,962	75,041
Transaction with owners						
Acquisition of subsidiary	-	-	-	-	6,687	6,687
Purchase of treasury shares	(1,391)	-	-	(1,391)	-	(1,391)
Share based payment (Note 21)	-	-	4,115	4,115	-	4,115
Dividends relating to 2007	-	-	(11,587)	(11,587)	(6,731)	(18,318)
At 31 December 2008 (restated)	**408,200**	**1,325**	**252,251**	**661,776**	**78,537**	**740,313**
Comprehensive income:						
Net profit for the year	-	-	85,053	85,053	12,276	97,329
Other comprehensive income	-	(3,400)	-	(3,400)	(140)	(3,540)
Total comprehensive income	-	(3,400)	85,053	81,653	12,136	93,789
Transaction with owners						
Acquisition of minority interest	-	-	-	-	(47,802)	(47,802)
Purchase of treasury shares	(1,071)	-	-	(1,071)	-	(1,071)
Share based payment (Note 21)	1,275	-	(1,184)	91	-	91
Dividends relating to 2008	-	-	(17,262)	(17,262)	(10,251)	(27,513)
At 31 December 2009	**408,404**	**(2,075)**	**318,858**	**725,187**	**32,620**	**757,807**

The accompanying notes form an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

(all amounts expressed in thousands of HRK)	Note	2009	2008
Cash flows from operating activities:			
Cash generated from operations	29	167,677	151,035
Interest paid		(27,671)	(24,872)
Income tax paid		(29,922)	(19,841)
		110,084	106,322
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13, 14, 24	(97,695)	(55,888)
Proceeds from sale of property, plant and equipment		5,301	1,803
Acquisition of subsidiary net of cash acquired		-	(226,215)
Advance received for sale of tangible assets	23	48,416	-
Advance for acquisition of subsidiaries and minority interests	17	(27,624)	(13,460)
Loans and deposits given	17	(144,406)	(9,045)
Proceeds from repayment of loans and deposits	17	3,496	13,100
Investment in joint venture		-	(25)
Dividend received		164	-
Interest received		10,868	5,121
		(201,480)	(284,609)
Cash flows used in financing activities			
Purchase of treasury shares	21	(1,071)	(1,391)
Proceeds from borrowings	24	43,197	251,158
Repayments of borrowings	24	(48,830)	(252,810)
Dividends paid to minority interests		(10,251)	(6,731)
Dividends paid to equity holders of the company		(17,262)	(11,583)
		(34,217)	(21,357)
Net decrease in cash and cash equivalents		**(125,613)**	**(199,644)**
Cash and cash equivalents at beginning of year		200,193	399,837
Cash and cash equivalents at end of year	20	**74,580**	**200,193**

The accompanying notes form an integral part of these consolidated financial statements.

NOTE 1 – GENERAL INFORMATION

Atlantic Grupa d.d. (the Company) is incorporated in the Republic of Croatia. Atlantic Grupa is the leading European producer of sports food with the Multipower brand, the largest regional producer of vitamin instant drinks and food supplements with Cedevita and Dietpharm brands, a significant manufacturer of personal care products as well as the leading distributor of fast moving consumer goods in South-eastern Europe and leading private pharmacy chain in Croatia under the brand Farmacia. The registered activities of the Company and its subsidiaries (the Group) are production, distribution of consumer goods, imports and exports as well as brokerage and representation. The Group has manufacturing plants in Croatia and Germany with firms and representative offices in 10 countries. It exports its products to more than 30 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) under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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

- *IFRS 7 Financial instruments – Disclosures' (amendment)* – effective 1 January 2009. The amendment requires enhanced disclosures on fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- *IAS 1 (revised).'Presentation of financial statements'* - effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As the result, the group presents all owner changes in equity in the consolidated statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRS 2 (amendment), 'Share-based payment'* (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features should be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation of the subsequent to grant date. All cancellations, whether by entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group financial statements.

- With respect to borrowing costs related to qualifying assets with the commencement date for capitalization on or after 1 January 2009, the Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of the qualifying assets as part of the cost of that asset. The Group previously recognized all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS 23, 'Borrowing costs' (2007) in accordance with transition provisions of the standard. The change in accounting policy had no impact on the Group's financial statements as the Group has no qualifying assets.

- *IAS 31 (Amendment), Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7)* - the amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation' and IFRS 7 'Financial instruments: Disclosures'. The application of the amendment does not have a material impact on the Group's financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not adopted them earlier:

- *IFRIC 17, 'Distribution of non-cash assets to owners'* (effective on or after 1 July 2009). The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group will apply IFRIC 17 from 1 January 2010. The application of the IFRIC 17 is not expected to have a material impact on the Group financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IAS 27 (revised), 'Consolidated and separate financial statements'*, (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.
- *IFRS 3 (revised), 'Business combinations'* (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.
- *IAS 38 (amendment), 'Intangible Assets'*. The amendment is a part of the IASB's annual improvements project published in April 2009 and the Group will apply IAS 38 (amendment) from the date when IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination, while permitting the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The application of the amendment is not expected to have a material impact on the Group's financial statements.
- *IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'*. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still applies, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group will apply IFRS 5 (amendment) from 1 January 2010. The application of the amendment is not expected to have a material impact on the Group financial statements.
- *IAS 1 (amendment), 'Presentation of financial statements'*. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply IAS 1 (amendment) from 1 January 2010. The application of the amendment is not expected to have a material impact on the Group financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRS 9, 'Financial instruments part 1: Classification and measurement'*, issued in November 2009. The Standard relates to the classification and measurement of financial assets. It will replace IAS 39. The standard requires that entity classifies its financial instruments depending on its own business model for managing of financial instruments and the contractual cash flow characteristics of the instrument as well as subsequently measures these instruments at fair value or at amortized cost. The adoption of IFRS 9 is mandatory from 1 January 2013, while earlier adoption is permitted. The Group is considering the implications of the standard and the timing of its adoption.

- *IFRS 2 (amendment), 'Group cash-settled and share-based payment transactions'*. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the acquisition cost over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.6). If the acquisition cost is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions among the 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) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties outside to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary, purchases from minority interests result in goodwill. Negative goodwill is recognised in the income statement under other gains/losses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(c) Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the purchase method of accounting as described in paragraph *(a)*.

(d) Joint ventures

The Group's interest in a jointly controlled entity is accounted for using the equity method of accounting and is initially recognised at cost. Under the equity method, the Group's share of post-acquisition profits or losses are recognised in the income statement, whereas its share of post-acquisition movements in reserves are recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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 Board of Directors.

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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies (continued)

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.

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 under construction 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
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) 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 annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not 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 the business combination in which the goodwill arose identified according to operating segment.

(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 amortisation and impairment, if any. Amortisation 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. Amortisation is calculated using the straight-line method to allocate the cost of brand over its estimated useful life (15 years).

(d) Computer software

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

(e) Licences

Licences acquired in a business combination are recognised 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 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 and available for sale. 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.

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 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.11 Trade and loan receivables

Trade and loan 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'.

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 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.

When the Company purchases its equity share capital (treasury shares), the consideration paid, including all directly attributable incremental transaction costs, is deducted from equity until the shares are cancelled, reissued or disposed of. Where such 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 owners.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated 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.

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.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. 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's 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 the balance sheet 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.

(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 income statement.

(d) Share-based compensations

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, employee benefits, warranty claims, returns 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 is a 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.

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 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 the pharmacy and specialised shops chain.

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. By the end of 2009, the Group launched customer loyalty programme, allowing customers to accumulate points when they purchase products. The points can then be redeemed for free products or discount may be achieved 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 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.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by the management.

(d) Interest income

Interest income arising from fixed-term bank deposits, given loans 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, 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 if their carrying amount is to be recovered principally through a sale transaction rather than continuing use.

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 15a 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 expenses'. 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)

2.22 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.

2.23 Comparatives and restatements

In 2009, the Group identified that independent valuators failed to include the value of licences related to minority owners of Health Institutions acquired and that deferred tax liability on valued licences has not been recognized. Since the valuation was performed in 2008, the Group restated opening balances of intangible assets, minority interest and deferred tax liability.

The effect of these changes on comparative figures for 2008 is as follows:

(in thousands of HRK)	2008
Increase in intangible assets	70,858
Increase in minority interest	(29,337)
Increase in deferred tax liability	(41,521)

In 2009 the Group reclassified external sales agents’ commissions from 'Marketing and selling expenses' to ‘Staff expenses’. Also, the classification of income from bad debt receivables collected/reversed has changed from ‘Revenues’ to deduction of ‘Other operating expenses’ while the income from the support from principals has been reclassified to deduction of 'Cost of trade goods sold'.

The effect of these changes on comparative figures for 2008 is as follows:

(in thousands of HRK)	2008
Decrease in other income	(4,265)
Decrease in cost of merchandise sold	1,837
Increase in staff costs	(7,344)
Decrease in marketing and selling expenses	7,427
Decrease in other operating expenses	2,343

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 equity securities risk), credit risk and liquidity risk. Management closely monitors the risk profile of the Group's operations, including the establishment of authorisation and accountability levels.

(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. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Movements in exchange rates between the EURO and Croatian kuna (HRK) may have an impact on the results of future operations and future cash flow. The table below shows percentages of EURO denominated sales revenue, trade and other payables, trade and other receivables, cash and cash equivalents and borrowings in total consolidated figures.

	2009	**2008**
Sales revenue	28%	27%
Trade and other receivables	40%	17%
Trade and other payables	31%	23%
Cash and cash equivalents	52%	75%
Borrowings	71%	72%

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.

At 31 December 2009, if the EURO had weakened /strengthened by 0.5% against the HRK (2008: 0.5%), with all other variables held constant, the profit after tax for the reporting period would have been HRK 655 thousand higher/lower (2008: HRK 821 thousand), mainly as a result of foreign exchange gains/losses on translation of EURO denominated borrowings, trade payables, cash and cash equivalents and trade receivables.

(ii) Equity securities risk

The Group is exposed to equity securities fair value and price risk amid investments held by the Group classified on the consolidated balance sheet as available for sale. Equity investments classified as available for sale are not listed. 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 sensitivity analysis. At 31 December 2009, if the fair value of the available for sale investment would change with all other variables remaining constant, then other comprehensive income and revaluation reserves would also change by the same amount.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(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. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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 2009, if the effective interest rate on borrowings increased/decreased by 1% on an annual level (2008: 1%), the profit after tax would have been lower/higher by HRK 474 thousand (2008: 1,601 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.

(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 and 17.

(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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Surplus cash held over and above 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 the balance sheet date, the Group held cash and cash equivalents in the amount of HRK 74,580 thousand (2008: 200,193 thousand) and short term deposits given in the amount of HRK 143,129 thousand (2008: 2,514 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.

The next table analyses financial liabilities of the Group according to contracted maturities. The amounts stated below represent undiscounted cash flows.

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
31 December 2009				
Trade and other payables	372,529	-	-	372,529
Borrowings (excluding finance lease)	128,864	351,320	64,363	544,547
Finance lease	3,067	5,774	-	8,841
Derivative financial instruments	1,846	-	-	1,846

(in thousands of HRK)	**Less than 1 year**	**Between 1-5 years**	**Over 5 years**	**Total**
31 December 2008				
Trade and other payables	384,067	-	-	384,067
Borrowings (excluding finance lease)	125,409	347,437	103,631	576,477
Finance lease	2,579	4,568	-	7,147

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

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.

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.

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) less short term deposits given and cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt. The Group expects to achieve the gearing ratio of 50% in foreseeable future.

The gearing ratios were as follows:

	2009	**2008**
	(in thousands of HRK)	
Total borrowings (Note 24)	488,352	491,385
Less: Short term deposits given and Cash and cash equivalents (Note 17 and 20)	(217,709)	(202,707)
Net debt	270,643	288,678
Total equity	757,807	740,313
Total capital	**1,028,450**	**1,028,991**
Gearing ratio	**26%**	**28%**

The decrease in the gearing ratio during 2009 resulted from the decrease in net debt and increase in total equity compared to 2008.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- 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 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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.

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 is based on quoted market prices at the balance sheet date (level 1) while the available-for-sale financial instruments are included in 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.

The deferred tax asset resulted primarily from tax losses of Atlantic Multipower GmbH & CO OHG, Germany realised in 2005 and 2006 and from tax losses of Atlantic Multipower UK, Ltd, Great Britain realised in 2006 and in the period prior to 1992. According to financial budgets, management estimates the former to be utilised in future periods.
As at 31 December 2009 the amount of these tax losses was HRK 8,186 thousand (2008: HRK 16,930 thousand). These losses do not expire.

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

Goodwill and licences are tested annually for impairment as stated in Note 2.7.

Goodwill and licences with indefinite lives have been allocated to cash generating units within reporting segments, for impairment testing as follows:

Reporting segment *(in thousands of HRK)*	**Goodwill**	**Licences**
Consumer Health Care	12,701	-
Pharma	192,931	184,184

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by the management covering a six-year period in the Consumer Health Care segment and nine-year period in the Pharma segment. The cash flows beyond the six-year period in the Consumer Health Care segment and nine-year period in the Pharma segment were extrapolated with a terminal growth rate of 2%, whereas discount rate applied to the cash flow projections is 10.16%. Growth rate assumption was based on the historical data and the management's expectations for market development. Discount rate used is based on the Group's weighted average cost of capital.

Impairment loss of HRK 1,955 thousand recognised at the balance sheet date relates to licences that were acquired, but subsequently not used.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

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

Sensitivity analysis of key assumptions used in the impairment testing showed that a terminal growth rate decrease by 100 basis points and weighted average cost of capital increase by 100 basis points would result on average in a 16.7% 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, 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:

	Fidifarm/ Dietpharm	**Montana**	**Multivita**
Growth rate	10%	5%	18%
Hypothetical royalty rate	4.94%	3.55%	4.94%
Discount rate	11.87%	7.59%	10%

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

(d) Licences valuation

The fair value of acquired licences, relating to exclusive rights for 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 is based on past performance and management's expectations for market development. The discount rate used is 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 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(e) Recent volatility in global and Croatian financial markets

The ongoing global liquidity crisis, commenced in the middle of 2007, has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates as well as very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

It is not possible to reliably estimate the effects of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes that it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

NOTE 5 – SEGMENT INFORMATION

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

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

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

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

- **The Pharma Division** specialises in the development, production and sales of prescription drugs, OTC products and food supplements, through its chain of pharmacy stores.

Management monitors the operating results of its 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 as explained in the following table. Group financing (including finance costs and finance income), share of profit of a joint venture and income taxes are managed on a group basis and are not allocated to operating segments.

NOTE 5 – SEGMENT INFORMATION (continued)

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

Year ended 31 December 2009 *(in thousands of HRK)*	**Distribution**	**Consumer Health Care**	**Sports and Functional Food**	**Pharma**	**Unallocated /i/**	**Group**
Gross revenues	1,330,946	503,169	498,376	300,196	8,314	2,641,001
Inter-segment revenues /ii/	21,281	379,242	2,519	12,777	-	415,819
Total revenues	**1,309,665**	**123,927**	**495,857**	**287,419**	**8,314**	**2,225,182**
Operating profit before depreciation and amortisation	41,936	105,757	27,788	14,921	6,627	197,029
Depreciation and amortisation	10,729	18,975	6,254	5,275	1,955	43,188
Operating profit	**31,207**	**86,782**	**21,534**	**9,646**	**4,672**	**153,841**
Capital expenditure /iii/	9,151	75,441	7,587	6,901	3,037	102,117
Total assets /iv/	**480,240**	**458,183**	**144,634**	**556,797**	**(155,942)**	**1,483,912**

Year ended 31 December 2008 *(in thousands of HRK)*	**Distribution**	**Consumer Health Care**	**Sports and Functional Food**	**Pharma**	**Unallocated /i/**	**Group**
Gross revenues	1,164,339	453,756	485,006	287,641	3,792	2,394,534
Inter-segment revenues /ii/	11,395	356,623	2,413	3,909	-	374,340
Total revenues	**1,152,944**	**97,133**	**482,593**	**283,732**	**3,792**	**2,020,194**
Operating profit before depreciation and amortisation	32,884	87,372	21,949	26,384	717	169,306
Depreciation and amortisation	7,651	21,727	5,904	4,624	-	39,906
Operating profit	**25,233**	**65,645**	**16,045**	**21,760**	**717**	**129,400**
Capital expenditure /iii/	9,262	35,074	3,861	7,478	213	55,888
Total assets /iv/	**468,517**	**430,352**	**147,609**	**592,338**	**(176,107)**	**1,462,709**

/i/ Unallocated relates to Company's gross revenues and corporate overheads that cannot reasonably be allocated to any operating segment.

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

/iii/ Capital expenditure consists of additions of property, plant and equipment (Note 13) and intangible assets (Note 14) excluding the Company's additions and assets from the acquisitions of subsidiaries.

NOTE 5 – SEGMENT INFORMATION (continued)

/iv/ Inter-segment receivables are eliminated on consolidation. Reportable segment assets are reconciled to total consolidated assets as follows:

	2009	2008
	(in thousands of HRK)	
Segment assets for reportable segments	1,639,854	1,638,816
Inter-segment receivables	**(155,942)**	**(176,107)**
Unallocated:		
Property, plant and equipment	1,754	481
Intangible assets	1,407	148
Trade and other receivables	27,837	16,060
Available-for-sale financial assets	35,041	35,041
Interest in joint venture	179	185
Deferred tax assets	7,485	9,293
Short term deposits given	143,129	2,514
Cash and cash equivalents	74,580	200,193
Total assets per the balance sheet	**1,775,324**	**1,726,624**

The measure of liabilities has not been disclosed for reportable segments as liabilities are provided to the chief operating decision maker on a Group basis only.

Geographical information

The total of non-current assets other than financial instruments, interest in joint venture and deferred tax assets located in Croatia is HRK 678,394 thousand (2008: HRK 592,241) and the total of these non-current assets located in other countries is HRK 67,965 thousand (2008: HRK 70,707 thousand).

	2009 *(in thousands of HRK)*	%	2008 *(in thousands of HRK)*	%
Revenues by markets				
Croatia	1,340,919	60.3	1,274,221	63.1
International markets				
Germany	245,207	11.0	240,198	11.9
European Union (excluding Germany)	297,397	13.4	249,266	12.3
South-eastern Europe (excluding Croatia)	244,289	11.0	198,402	9.8
Other	97,370	4.3	58,107	2.9
Total international markets	884,263	39.7	745,973	36.9
Total revenues	**2,225,182**	**100.0**	**2,020,194**	**100.0**

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

NOTE 5 – SEGMENT INFORMATION (continued)

Analysis of revenue by category

	2009 *(in thousands of HRK)*	%	2008 *(in thousands of HRK)*	%
Sales by type of products				
Own brands	936,385	42.1	885,220	43.8
Principal brands	896,254	40.3	754,217	37.3
Pharmacy	224,745	10.1	220,642	10.9
Private label	142,029	6.3	142,847	7.1
Total sales by type of products	**2,199,413**	**98.8**	**2,002,926**	**99.1**
Other revenue /v/	25,769	1.2	17,268	0.9
Total revenue	**2,225,182**	**100.0**	**2,020,194**	**100.0**

/v/ Other revenues mainly comprise of interest and rental income.

NOTE 6 – STAFF EXPENSES

	2009	2008
	(in thousands of HRK)	
Gross salaries /i/	286,522	265,980
Public transport	6,716	6,882
Termination benefits	1,877	2,422
Share options granted (Note 21)	1,433	1,489
Other staff costs /ii/	25,933	33,472
	322,481	**310,245**

At 31 December 2009 the number of staff employed by the Group was 1,719 (2008: 1,672).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2009 amounted to HRK 34,857 thousand (2008: 31,356 thousand).

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

NOTE 7 – MARKETING AND PROMOTION EXPENSES

	2009	2008
	(in thousands of HRK)	
Marketing expenses - external	85,619	83,673
Marketing expenses – related parties (Note 30)	3,021	1,568
Promotion expenses	30,809	29,281
Sponsorships and donations	16,881	13,859
Entertainment	6,294	5,050
	142,624	**133,431**

NOTE 8 – OTHER OPERATING EXPENSES

	2009	2008
	(in thousands of HRK)	
Rentals	48,273	44,219
Transportation expenses	39,045	33,624
Maintenance	30,310	32,505
Provision for impairment of inventories (Note 18)	18,226	11,717
Production services	16,849	2,003
Fuel	12,052	11,343
Intellectual services	10,840	8,057
Non-production material	10,326	8,460
Provision for impairment of trade receivables (Note 17)	9,381	5,302
Non-production services	9,356	8,350
Travel expense and daily allowances	8,617	9,001
Telecommunication services	7,722	7,545
Taxes and contributions not related to operating results	5,161	5,667
Brokerage services	4,766	5,334
Bank charges	4,502	4,073
Supervisory Board fees	1,541	1,573
Royalties	800	2,075
Collected amounts reversed (Note 17)	(491)	(1,056)
Other – related parties (Note 30)	2,634	2,295
Other	15,341	10,837
	255,251	**212,924**

NOTE 9 – OTHER GAINS / (LOSSES) – NET

	2009	2008
	(in thousands of HRK)	
Gain on sale of property, plant and equipment	1,153	791
Gain on sale of financial assets	25	-
Foreign exchange losses – net	(350)	(1,079)
Other gains – net /i/	7,789	-
	8,617	**(288)**

/i/ Other gains – net relate to gain from the purchase of minority interest in subsidiary Cedevita d.o.o. and to expenses related to transfer of Neva production to new location.

NOTE 10 – FINANCE COSTS – NET

	2009	2008
	(in thousands of HRK)	
Finance income		
Foreign exchange gains from borrowings	(10,285)	(3,496)
	(10,285)	(3,496)
Finance costs		
Foreign exchange loss from borrowings	9,575	6,896
Interest expense on bank borrowings	13,535	15,906
Interest expense on bonds and commercial papers	6,603	6,931
Interest expense on borrowings – related parties (Note 30)	7,476	2,473
	37,189	32,206
	26,904	**28,710**

NOTE 11 – INCOME TAX

	2009	2008
	(in thousands of HRK)	
Current income tax	29,133	24,080
Deferred tax (Note 25)	625	(1,591)
	29,758	**22,489**

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:

	2009	2008
	(in thousands of HRK)	
Profit before taxation	127,087	100,850
Income tax calculated at the domestic tax rate applicable to profits in the respective countries	28,807	23,816
Adjustments in respect of prior years	1,908	(747)
Effect of non-taxable income	(7,036)	(5,170)
Effect of expenses not deductible for tax purposes	4,926	2,416
Effects of previously not recognized tax losses	(1,186)	(917)
Effect of utilized tax losses	2,339	3,091
Tax expense	**29,758**	**22,489**

The weighted average effective tax rate was 23.4% (2008: 22.3%).

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit of the Group 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.

	2009	2008
Net profit attributable to shareholders *(in thousands of HRK)*	85,053	68,629
Weighted average number of shares	2,465,279	2,465,436
Basic earnings per share *(in HRK)*	34.50	27.84

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
1 January 2008					
Cost	22,406	199,843	365,519	25,658	613,426
Accumulated depreciation	-	(113,980)	(273,315)	-	(387,295)
Net book amount	**22,406**	**85,863**	**92,204**	**25,658**	**226,131**
At 1 January 2008					
Opening net book amount	22,406	85,863	92,204	25,658	226,131
Acquisition of subsidiary (Note 28)	-	759	663	-	1,422
Additions	3,949	54	8,645	42,237	54,885
Transfer	-	2,456	13,379	(15,835)	-
Disposals	-	(76)	(1,107)	-	(1,183)
Depreciation	-	(8,058)	(22,374)	-	(30,432)
Transfer to assets held for sale /i/	-	-	(8,047)	-	(8,047)
Foreign exchange differences	-	(22)	(625)	(20)	(667)
Closing net book amount	**26,355**	**80,976**	**82,738**	**52,040**	**242,109**
At 31 December 2008					
Cost	26,355	203,518	362,120	52,040	644,033
Accumulated depreciation	-	(122,542)	(279,382)	-	(401,924)
Net book amount	**26,355**	**80,976**	**82,738**	**52,040**	**242,109**
At 1 January 2009					
Opening net book amount	26,355	80,976	82,738	52,040	242,109
Additions	39	1,212	13,921	83,969	99,141
Transfer	-	22,968	109,647	(132,615)	-
Disposals	-	-	(5,085)	(16)	(5,101)
Depreciation	-	(8,106)	(23,512)	-	(31,618)
Transfer to assets held for sale /ii/	(976)	(5,721)	(52)	(405)	(7,154)
Foreign exchange differences	(11)	(9)	(409)	(3)	(432)
Closing net book amount	**25,407**	**91,320**	**177,248**	**2,970**	**296,945**
At 31 December 2009					
Cost	25,407	201,956	456,232	2,970	686,565
Accumulated depreciation	-	(110,636)	(278,984)	-	(389,620)
Net book amount	**25,407**	**91,320**	**177,248**	**2,970**	**296,945**

Property, plant and equipment with a net book value of HRK 99,388 thousand as at 31 December 2009 (2008: HRK 81,862 thousand), have been pledged as collateral for borrowings (Note 24).

Property, plant and equipment include assets leased under finance lease with a net book value of HRK 8,720 thousand (2008: 7,419 thousand).

/i/ By the end of 2008, the Group initiated sale of tea production equipment which was finalized in January 2009. Equipment was sold for HRK 8,047 thousand plus VAT and no gain on sale was recognised.

/ii/ During 2009, due to transfer of production facilities, the Group has initiated sale of property which was completed in January 2010. This sale resulted in HRK 48,557 thousand gain on sale (Note 32).

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brand	Rights	Software	Total
1 January 2008	70,283	37,164	59,457	3,099	6,109	176,112
Restatement	11,437	23,308	-	-	-	34,745
	81,720	60,472	59,457	3,099	6,109	210,857
1 January 2008 (restated)						
Cost	81,720	60,472	63,309	34,473	18,881	258,855
Accumulated amortisation	-	-	(3,852)	(31,374)	(12,772)	(47,998)
Net book amount	**81,720**	**60,472**	**59,457**	**3,099**	**6,109**	**210,857**
At 1 January 2008 (restated)						
Opening net book amount	81,720	60,472	59,457	3,099	6,109	210,857
Foreign exchange differences	-	-	-	(2)	(26)	(28)
Acquisition of subsidiary (Note 28)	128,045	147,135	-	5,646	469	281,295
Additions	-	-	-	-	1,003	1,003
Amortisation	-	-	(4,224)	(2,655)	(2,595)	(9,474)
Restated closing net book amount	**209,765**	**207,607**	**55,233**	**6,088**	**4,960**	**483,653**
At 31 December 2008						
Cost	209,765	207,607	63,309	40,116	20,058	540,855
Accumulated amortisation	-	-	(8,076)	(34,028)	(15,098)	(57,202)
Net book amount	**209,765**	**207,607**	**55,233**	**6,088**	**4,960**	**483,653**
At 1 January 2009						
Opening net book amount	209,765	207,607	55,233	6,088	4,960	483,653
Foreign exchange differences	-	-	-	(1)	1	-
Additions	-	-	-	-	2,976	2,976
Disposals /i/	(4,133)	(21,468)	-	-	(44)	(25,645)
Amortisation	-	-	(4,224)	(2,793)	(2,598)	(9,615)
Impairment /ii/	-	(1,955)	-	-	-	(1,955)
Closing net book amount	**205,632**	**184,184**	**51,009**	**3,294**	**5,295**	**449,414**
At 31 December 2009						
Cost	205,632	184,184	63,309	40,055	22,929	516,109
Accumulated amortisation	-	-	(12,300)	(36,761)	(17,634)	(66,695)
Net book amount	**205,632**	**184,184**	**51,009**	**3,294**	**5,295**	**449,414**

Disclosure on goodwill and licences impairment test is given in Note 4 b).

/i/ Disposals are related to spin-off of ZU Coner (Note 28).

/ii/ Basis for impairment charge is explained in Note 4.

NOTE 15a – 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 2009			
Financial assets			
Available-for-sale	-	35,041	**35,041**
Trade and other receivables	472,929	-	**472,929**
Short term deposits given	143,129	-	**143,129**
Cash and cash equivalents	74,580	-	**74,580**
Total	**690,638**	**35,041**	**725,679**

(in thousands of HRK)	**Other financial liabilities**	**Finance leases**	**Derivatives used for hedging**	**Total**
31 December 2009				
Financial liabilities				
Borrowings	480,692	-	-	**480,692**
Finance leases	-	7,660	-	**7,660**
Cash flow hedge	-	-	1,846	**1,846**
Trade and other payables	372,529	-	-	**372,529**
Total	**853,221**	**7,660**	**1,846**	**862,727**

(in thousands of HRK)	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
31 December 2008			
Financial assets			
Available-for-sale	-	35,041	**35,041**
Trade and other receivables	466,028	-	**466,028**
Short term deposits given	2,514	-	**2,514**
Cash and cash equivalents	200,193	-	**200,193**
Total	**668,735**	**35,041**	**703,776**

(in thousands of HRK)	**Other financial liabilities**	**Finance leases**	**Total**
31 December 2008			
Financial liabilities			
Borrowings	485,197	**-**	**485,197**
Finance leases		6,188	**6,188**
Trade and other payables	384,067	**-**	**384,067**
Total	**869,264**	**6,188**	**875,452**

NOTE 15b – 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 2009, financial assets classified in category as trade and other receivables that are not past due amounted to HRK 506,596 thousand (2008: HRK 349,709 thousand). These receivables relate to existing customers with no defaults in the past.

As at 31 December 2009, almost all short term deposits in the total amount of HRK 142,471 thousand are held at a bank's group member with an A- credit rating by Standard & Poor's and are neither past due nor impaired.

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

Credit rating by Standard & Poor's	**2009**	**2008**
	(in thousands of HRK)	
A/Negative/A-1	31,792	164,455
A/Stable/A-1	12,916	11,274
AA-/Negative/A-1+	19,072	8,813
Petty cash and other banks	10,800	15,651
	74,580	**200,193**

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:

	2009	**2008**
	(in thousands of HRK)	
Trade receivables		
Counterparties without external credit rating		
Group 1	11,685	8,907
Group 2	76,921	69,431
Group 3	250,146	247,143
Total unimpaired trade receivables	**338,752**	**325,481**

	2009	**2008**
	(in thousands of HRK)	
Other receivables		
A-	1,159	286
Counterparties without external credit rating		
Group 2	10,357	13,710
Total unimpaired other receivables	**11,516**	**13,996**

NOTE 15b – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2009	2008
	(in thousands of HRK)	
Loans and long term deposits		
Counterparties without external credit rating		
Group 2	11,836	5,995
Group 3	1,363	1,723
	13,199	**7,718**

	2009	2008
	(in thousands of HRK)	
Short term deposits		
A-	142,471	-
Group 2	658	2,514
	143,129	**2,514**

- 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 16 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2009, the Group has an investment in an unlisted equity instrument in the amount of HRK 35,041 thousand (31 December 2008: HRK 35,041 thousand) in a company with a BBB/stable/A-2 credit rating by Standard & Poor's. . This investment is carried at cost since its fair value cannot be reliably measured. During 2009 and 2008, there were no disposal nor impairment provisions on available-for-sale financial assets. Presently, there is no intention of management to dispose of this investment.

NOTE 17 – TRADE AND OTHER RECEIVABLES

	2009	2008
	(in thousands of HRK)	
Non-current receivables		
Loans and deposits /i/	10,718	5,097
Current receivables		
Trade receivables /ii/	448,214	444,314
Short-term loans and current portion of long-term loans and deposits /i/	2,481	2,621
Other receivables /iii/	62,120	59,342
	512,815	506,277
Short-term deposits /iv/	143,129	2,514
	666,662	**513,888**

	2009	2008
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	13,199	7,718
Trade receivables	448,214	444,314
Other receivables	11,516	13,996
Short-term deposits	143,129	2,514
	616,058	**468,542**

/i/ Receivables for given loans and deposits are as follows:

	2009	2008
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	1,193	1,845
Loans	10,643	3,639
Current portion	(1,118)	(387)
	10,718	5,097
Current receivables		
Loans	1,363	2,234
Current portion of non-current receivables	1,118	387
	2,481	2,621
	13,199	**7,718**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

/ii/ Trade receivables are as follows:

	2009	2008
	(in thousands of HRK)	
Gross trade receivables	468,675	462,537
Trade receivables – related parties (Note 30)	18,389	14,023
Provision for trade receivables	(38,850)	(32,246)
	448,214	**444,314**

/iii/ Other receivables are as follows:

	2009	2008
	(in thousands of HRK)	
Receivables from government institutions	19,414	25,263
Outstanding advances /v/	28,359	16,444
Factoring	2,550	2,542
Prepaid expenses	2,831	3,639
Interest receivable	1,166	293
Other	7,800	11,161
	62,120	**59,342**

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

/v/ Out of total amount of outstanding advances, HRK 27,624 thousand (2008: HRK 13,460 thousand) relate to advance for acquisition of subsidiaries and minority interest.

As of 31 December 2009, trade receivables in the amount of HRK 38,850 thousand (2008: HRK 32,246 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:

	2009	2008
	(in thousands of HRK)	
Up to 3 months	1,759	2,779
3 to 6 months	463	352
Over 6 months	36,628	29,115
	38,850	**32,246**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

As of 31 December 2009, trade receivables in the amount of HRK 109,462 thousand (2008: 118,833 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2009	2008
	(in thousands of HRK)	
Up to 3 months	80,757	88,197
3 to 6 months	19,921	22,958
Over 6 months	8,784	7,678
	109,462	**118,833**

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

	2009	2008
	(in thousands of HRK)	
EUR	249,557	78,460
HRK	290,957	338,438
Other	75,544	51,644
	616,058	**468,542**

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

	2009	2008
	(in thousands of HRK)	
As at 1 January	32,246	29,031
Provision for receivables impairment (Note 8)	9,381	5,302
Collected amounts reversed (Note 8)	(491)	(1,056)
Receivables written off	(2,374)	(788)
Exchange differences	88	(243)
As at 31 December	**38,850**	**32,246**

The other classes within trade and other receivables do not contain impaired assets.

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 18 – INVENTORIES

	2009	2008
	(in thousands of HRK)	
Raw materials and supplies	53,267	58,321
Work in progress	3,074	3,845
Finished goods	41,815	37,366
Trade goods	135,580	133,084
	233,736	**232,616**

As of 31 December 2009, inventories of HRK 18,226 thousand (2008: HRK 11,717 thousand) were impaired and fully provided for, due to the adjustment to their net realisable value.

NOTE 19 – INTEREST IN JOINT VENTURE

The Group is co-founder and has a 50% interest in Atlantic Media d.o.o., a jointly controlled entity involved in the media buying business.

The following table illustrates summarised financial information of the Group's interest in Atlantic Media d.o.o.

	2009	2008
	(in thousands of HRK)	
Share of the joint venture's balance sheet:		
Current assets	11,980	4,495
Current liabilities	11,801	(4,310)
Net assets	**179**	**185**
Share of the joint venture's revenue and profit:		
Revenue	10,945	11,147
Profit	150	160
Dividend received	(156)	-
Carrying amount of the interest in joint venture	**179**	**185**

NOTE 20 – CASH AND CASH EQUIVALENTS

	2009	2008
	(in thousands of HRK)	
Current account and cash on hand	18,103	42,256
Foreign currency account	31,145	17,927
Deposits up to one month /i/	25,332	140,010
	74,580	**200,193**

/i/ Accrued interest up to the balance sheet date is recorded within other income (Note 5).

Cash and cash equivalents are denominated in the following currencies:

	2009	2008
	(in thousands of HRK)	
EUR	38,721	149,825
HRK	31,352	42,273
Other	4,507	8,095
	74,580	**200,193**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2008	2,466,636	98,800	313,854	(3,063)	409,591
Purchase of treasury shares /i/	(1,922)	-	-	(1,391)	(1,391)
31 December 2008	**2,464,714**	**98,800**	**313,854**	**(4,454)**	**408,200**
Purchase of treasury shares /i/	(2,309)	-	-	(1,071)	(1,071)
Share based payments /ii/	3,203	-	(1,070)	2,345	1,275
31 December 2009	**2,465,608**	**98,800**	**312,784**	**(3,180)**	**408,404**

/i/ In 2009 the Company purchased 2,309 treasury shares (2008: 1,922) on the Zagreb Stock Exchange for an amount of HRK 1,071 thousand (2008: HRK 1,391 thousand). The consideration paid for the purchased treasury shares includes all directly attributable transaction costs.

All shares issued are ordinary shares, including all relevant rights. They 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:

	2009		2008	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,298,390	52.57	1,302,304	52.72
Lada Tedeschi	191,013	7.73	191,589	7.76
DEG	176,461	7.14	171,971	6.96
Free float	752,125	30.45	755,827	30.61
Management of Company	47,619	1.93	43,023	1.74
Treasury shares	4,387	0.18	5,281	0.21
Total	**2,469,995**	**100.00**	**2,469,995**	**100.00**

NOTE 21 – SHARE CAPITAL (continued)

Share based payments

During 2008 the Company started a share option programme under which shares are granted to Management Board members and to selected employees.

One part of the share grant is subject to 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).

The fair value of the equity-settled share based payment transactions amounted to HRK 4,115 thousand. Out of that amount, HRK 1,433 thousand has been reported as staff expenses (Note 6), related to shares for which vesting conditions were met in 2009 and HRK 1,489 thousand has been reported as staff expenses in 2008, relating to shares for which vesting conditions were met in 2008 (2,899 shares).

The fair value of the shares granted is determined as of the grant date at the market price of the share of HRK 398. Movements in the number of shares granted are as follows:

	Average exercise price in HRK per share	Number of Shares	Market price per share (HRK)
At 1 January 2008	-	-	
Granted /i/	zero	9,496	398
At 31 December 2008		**9,496**	
Additional shares granted at exercise date /i/	zero	304	
Exercised	zero	(3,203)	455
At 31 December 2009	**zero**	**6,597**	

/i/ At the grant date, the number of shares granted represents an estimate. The share option programme provides for the number of shares that will actually be granted to be based on the share price at the exercise date. At grant date, therefore, the share price at exercise date must be estimated. The significant inputs into the valuation model were estimated share price at exercise date of HRK 600 (2008: HRK 500) and exercise price shown in the table above. The volatility used for estimating share price was based on the statistical analysis of daily share prices over the last 12 months. Due to fluctations in the market price of the share between the grant date and the exercise date, the actual number of shares granted and exercised is different from the number of shares estimated at grant date.

Shares granted but not fully vested at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price in HRK per share	31 December 2009	31 December 2008
2009		-	2,899
2010	zero	2,830	2,830
2011	zero	2,830	2,830
2012	zero	641	641
2013	zero	296	296
		6,597	**9,496**

NOTE 21 – SHARE CAPITAL (continued)

Distribution of profit

According to the decision of the Company's General Assembly in June 2009 (in June 2008), distribution of dividend in the amount of HRK 7.00 per share, or HRK 17,262 thousand in total was approved (2008: HRK 4.70 per share and HRK 11,587 thousand in total).

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves**	**Translation reserves**	**Cash flow hedge reserve**	**Total**
At 1 January 2008	5,428	(553)	-	4,875
Foreign exchange differences	-	(3,550)	-	(3,550)
At 31 December 2008	**5,428**	**(4,103)**	**-**	**1,325**
Foreign exchange differences	-	(1,612)	-	(1,612)
Cash flow hedge	-	-	(1,788)	(1,788)
At 31 December 2009	**5,428**	**(5,715)**	**(1,788)**	**(2,075)**

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

NOTE 23 – TRADE AND OTHER PAYABLES

	2009	2008
	(in thousands of HRK)	
Trade payables	345,587	359,010
Trade payables – related parties (Note 30)	673	645
Other payables	100,715	48,957
	446,975	**408,612**

Other payables recorded as at 31 December are as follows:

	2009	2008
	(in thousands of HRK)	
Gross salaries payable	20,073	18,978
Liabilities to state institutions	5,957	5,567
Liabilities for acquisition of subsidiary	4,869	4,869
Accrued expenses	18,379	14,435
Dividend payable (Note 30)	9	4
Liabilities for advances received for sale of tangible assets	48,416	-
Other	3,012	5,104
	100,715	**48,957**

Financial liabilities are denominated in the following currencies:

	2009	2008
	(in thousands of HRK)	
EUR	114,403	86,793
HRK	234,508	271,111
Other	23,618	26,163
	372,529	**384,067**

NOTE 24 – BORROWINGS

	2009	2008
	(in thousands of HRK)	
Long-term borrowings:		
Banks /i/	113,915	121,813
Related parties /ii/ (Note 30)	145,580	149,847
Bonds /iii/	114,578	114,577
Finance lease	5,167	4,219
Long-term debt	**379,240**	**390,456**
Short-term borrowings:		
Banks /i/	105,433	94,909
Related parties (Note 30)	853	3,708
Bonds /iv/	333	343
Finance lease	2,493	1,969
	109,112	**100,929**
	488,352	**491,385**

/i/ In June 2008, the Group was granted a loan for the Cedevita GO project financing in the amount of EUR 2,831 thousand. Successive utilisation of the loan until 28 October 2010 was agreed. The loan is repayable in 20 equal quarterly instalments until 2016, with the first instalment becoming due in May 2011.

/ii/ In November 2008, the Group was granted a EUR 20,000 thousand loan for further acquisition activities. The loan is repayable in 12 equal semi-annual instalments until 2016, with the first instalment becoming due in May 2011.

/iii/ In December 2006, the Group issued 115,000 thousand bonds in the nominal amount of HRK 115,000 thousand. The bonds carry a nominal value of HRK 1 per bond and mature in December 2011. The bonds are listed on the Zagreb Stock Exchange. The carrying value of bonds as at 31 December 2009 and at 31 December 2008 represents the nominal value less non-current portion of prepaid issuance expenses.

/iv/ The balance of short-term bonds liabilities includes accrued interest and the current portion of prepaid issuance expense.

NOTE 24 – BORROWINGS (continued)

Part of bank borrowings are secured by the land and buildings of the Group (Note 13) and another part of bank borrowings, borrowings from related parties and issued bonds are subject to a covenant clause which were met, whereby the Group is required to meet certain key performance indicators.

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:

	2009	2008
	(in thousands of HRK)	
Fixed interest rate	216,156	181,209
Up to 3 months	125,756	156,879
3 to 6 months	146,440	145,774
1-5 years	-	7,523
	488,352	**491,385**

The maturity of long-term borrowings is as follows:

	2009	2008
	(in thousands of HRK)	
Between 1 and 2 years	175,014	28,519
Between 2 and 5 years	143,381	266,316
Over 5 years	60,845	95,621
	379,240	**390,456**

The average effective annual interest rate related to borrowings from banks and related parties at the balance sheet date was 5.76% (2008: 6.73%). The effective annual interest rate related to bonds at the balance sheet date was 5.74% (2008: 5.98%).

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

	Carrying amounts		Fair value	
	2009	2008	2009	2008
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Banks and financial institution	259,495	271,660	252,965	263,842
Bonds	114,578	114,577	109,250	105,800
Finance lease	5,167	4,219	5,167	4,219
	379,240	**390,456**	**367,382**	**373,861**

The fair values of borrowings from banks and financial institution are based on cash flows discounted using a rate of 5.76% (2008: 6.73%), while the fair values of bonds are based on the market quotation of Raiffeisenbank Austria d.d. Zagreb as of the balance sheet date.

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

NOTE 24 – BORROWINGS (continued)

Gross finance lease liabilities – minimum lease payments:

	2009	2008
	(in thousands of HRK)	
No later than 1 year	3,067	2,579
Later than 1 year and no later than 5 years	5,774	4,568
	8,841	7,147
Future finance charges on finance leases	(1,181)	(959)
Present value of finance lease liabilities	**7,660**	**6,188**

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

	2009	2008
	(in thousands of HRK)	
HRK	141,488	134,195
EUR	345,583	355,387
CHF	1,281	1,803
	488,352	**491,385**

NOTE 25 – DEFERRED TAX

	2009	2008
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	1,738	1,157
- Deferred tax assets to be recovered within 12 months	5,747	8,136
	7,485	9,293
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(45,241)	(50,647)
- Deferred tax liabilities to be recovered within 12 months	(748)	(744)
	(45,989)	(51,391)
Deferred tax liabilities - net	**(38,504)**	**(42,098)**

Deferred tax assets are recognised for tax loss carryforwards 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 1,841 thousand (2008: HRK 2,136 thousand) in respect of losses that arose in Croatian subsidiaries that can be carried forward against future taxable income during the next 5 years. 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.

NOTE 25 – DEFERRED TAX (continued)

Deferred tax assets

(in thousands of HRK)	**Tax losses**	**Provisions**	**Other**	**Total**
At 1 January 2008	5,808	2,759	214	8,781
Tax credited to the income statement (Note 11)	1,312	4,867	198	6,377
Tax charged to the income statement (Note 11)	(3,514)	(2,270)	-	(5,784)
Other movements	-	(11)	(20)	(31)
Exchange differences	(33)	(5)	(12)	(50)
At 31 December 2008	**3,573**	**5,340**	**380**	**9,293**
Tax credited to the income statement (Note 11)	1,798	3,806	219	5,823
Tax charged to the income statement (Note 11)	(3,581)	(3,998)	(19)	(7,598)
Other movements	-	-	35	35
Exchange differences	(53)	(1)	(14)	(68)
At 31 December 2009	**1,737**	**5,147**	**601**	**7,485**

Deferred tax liability

(in thousands of HRK)	**Fair value gains**	**Fair value uplifts of assets acquired in business combinations**	**Total**
At 1 January 2008 (restated)	-	22,642	22,642
Tax arising from acquisition of subsidiary (Note 28)	-	29,750	29,750
Tax credited to the income statement (Note 11)	-	(1,064)	(1,064)
Tax charged to the income statement (Note 11)	66	-	66
Exchange differences	(3)	-	(3)
At 31 December 2008 (restated)	**63**	**51,328**	**51,391**
Tax credited to the income statement (Note 11)	(13)	(1,137)	(1,150)
Other movements	41	(4,294)	(4,253)
Exchange differences	1	-	1
At 31 December 2009	**92**	**45,897**	**45,989**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employees benefits**	**Legal proceedings**	**Warranties**	**Other provisions**	**Total**
At 31 December 2008	22,656	1,565	1,744	-	25,965
Analysis of total provisions:					
Non-current	4,454	879	-	-	5,333
Current	18,202	686	1,744	-	20,632
At 1 January 2009	**22,656**	**1,565**	**1,744**	**-**	**25,965**
Additions	12,919	922	1,600	2,596	18,037
Used during year	(18,099)	(132)	(1,747)	-	(19,978)
Reversed during year	(216)	-	-	(15)	(231)
Exchange differences	(42)	(6)	(4)	(12)	(64)
At 31 December 2009	**17,218**	**2,349**	**1,593**	**2,569**	**23,729**
Analysis of total provisions:					
Non-current	4,510	1,061	-	168	5,739
Current	12,708	1,288	1,593	2,401	17,990

Legal proceedings

In the ordinary course of business, the Group is defendant and plaintiff in a number of pending legal proceedings. In the Management opinion, the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2009.

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 2010. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 177 thousand that will be paid out within the following year from the balance sheet date.

Other provisions

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

NOTE 27 – COMMITMENTS

Capital expenditure contracted for at 31 December 2009 but not yet incurred amounted to HRK 102 thousand for property, plant and equipment (2008: HRK 19,049 thousand) and HRK 1,742 thousand for intangible assets (2008: HRK 2,694 thousand).

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 expenditure 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:

	2009	**2008**
	(in thousands of HRK)	
Not later than 1 year	26,286	28,364
Later than 1 year and not later than 5 years	54,798	34,166
Over 5 years	15,359	8,488
	96,443	**71,018**

NOTE 28 – BUSINESS COMBINATIONS

(i) Acquisition of additional share in related parties

In January 2009, Group acquired an additional 30% in subsidiary Cedevita d.o.o. for HRK 13,460 thousand. Net book value of minority interest at purchase date was HRK 23,316 thousand. The difference between acquisition cost and net book value of acquired minority interest of HRK 9,856 thousand is recognised in the income statement within Other (gains)/losses – net.

On 1 September 2009 the Group acquired the entire minority interest in 5 pharmacies out of Health Institution Coner. These pharmacies were subsequently merged into Health Institution Farmacia. In exchange for minority interest, Group has conceded its share in Health Institution Coner to previous minority co-owners. Upon separation of 5 pharmacies, licences for two pharmacies that in the previous period functioned under Pharma Division remained within Health Institution Coner.

Disposal of Health Institutions Coner has resulted in decrease of assets, liabilities and minority interest as follows:

	(in thousands of HRK)
Property, plant and equipment	(953)
Goodwill (Note 14)	(4,133)
Licences (Note 14)	(21,468)
Software (Note 14)	(44)
Inventories	(2,495)
Trade and other receivables	(29,783)
Trade and other payables	29,131
Borrowings	924
Income tax liability	72
Deferred tax liability (Note 25)	4,294
Minority interest	24,486

(ii) Acquisitions in 2008

During 2008, the Group acquired and obtained control over eight companies. One of them (ZIP Distribucija) became a part of the Distribution segment and shortly after completion of the acquisition was merged into Atlantic Trade d.o.o.. The remaining companies acquired are mainly Health institutions and all of them are included in the Pharma segment.

Based on the various Share purchase agreements the Group acquired 75%-100% of the share capital of these companies for a total purchase consideration of HRK 243,192 thousand as follows:

	Acquired share in %
ZU Ljekarne Bamapharm, Zagreb, Croatia	75
ZU Ljekarne Baričević II, Zagreb, Croatia	100
ZU Ljekarne Kuna, Daruvar, Croatia	100
ZU Ljekarne Melissa, Velika Mlaka, Croatia	100
ZU Ljekarne Farmacia (former ZU Ljekarne Mandić), Zagreb, Croatia	100
ZU Ljekarna Mandić, Ljubuški, Bosnia and Herzegovina	100
Farmacia Plus d.o.o. Zagreb (former Mandić Pharm Plus), Zagreb Croatia	100
ZIP Distribucija, Novaki, Croatia	100

Additionally, in October 2008 the Group acquired 4 licences relating to exclusive rights for specialised pharmacy stores.

NOTE 28 – BUSINESS COMBINATIONS (continued)

Details of the net assets acquired and goodwill are as follows:

	(in thousands of HRK)
Purchase consideration:	
- paid in cash	249,492
Net assets acquired (see below)	(121,447)
Goodwill (restated) (Note 14)	**128,045**

Goodwill in amount of HRK 128,045 thousand relates to synergy effects that are expected to be realised by integrating the companies into existing segment operations and is tested for impairment as part of the regular annual impairment testing.

Details of the value of assets and liabilities acquired during the 2008 are as follows:

(in thousands of HRK)	Acquiree's carrying amount	Fair value recognised on acquisition
Cash and cash equivalents	4,015	4,015
Property, plant and equipment (Note 13)	1,422	1,422
Distribution rights (Note 14)	-	5,646
Licences (Note 14)	3,350	147,135
Software (Note 14)	469	469
Inventories	14,026	14,026
Trade and other receivables	42,659	42,655
Prepaid income tax	494	494
Trade and other payables	(55,910)	(55,910)
Borrowings	(877)	(877)
Provisions	(571)	(571)
Income tax liability	(620)	(620)
Deferred tax liability	(323)	(29,750)
Net assets	**8,134**	**128,134**
Acquired share		**121,447**
Minority interest		**6,687**
Purchase consideration paid in cash:		249,492
- paid in 2007		20,164
- paid in 2008		229,328
Cash and cash equivalents acquired		(4,015)
Cash used in the acquisitions		225,313

The acquired businesses contributed to the consolidated result for the year ended December 2008 with revenue of HRK 139,726 thousand and net profit of HRK 3,821 thousand. Had all companies been acquired as at 1 January 2008, the consolidated revenue for the year ended 31 December 2008 would have been HRK 3,805 thousand higher, while profit before taxation would have been HRK 238 thousand higher than currently reported.

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2009	2008
Net profit		**97,329**	**78,361**
Income tax	11	29,758	22,489
Depreciation, amortisation and impairment	13,14	43,188	39,906
Gain on purchase from minority interests		(9,856)	-
Gain on sale of property, plant and equipment	9	(1,153)	(791)
Share of the joint venture's profit	19	(150)	(160)
Provision for current assets		29,912	17,549
Foreign exchange differences – net		(1,953)	(1,252)
(Decrease) / increase in provision for risks and charges	26	(2,236)	3,625
Share based payment	21	91	4,115
Interest income		(11,739)	(5,121)
Interest expense	10	27,614	25,310
Other non-cash items		2,135	380
Changes in working capital:			
Increase in inventories		(21,839)	(22,942)
Increase in current receivables		(32,561)	(79,901)
Increase in current payables		19,137	69,467
Cash generated from operations		**167,677**	**151,035**

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').

Related party transactions that relate to balances in the Balance Sheet as at 31 December 2009 and at 31 December 2008 and transactions stated in the Income statement for years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2009	2008
RECEIVABLES			
Current receivables			
Other entities	17	18,389	14,023
LIABILITIES			
Borrowings			
Shareholders	24	146,433	153,555
Trade payables			
Shareholders	23	9	4
Other entities		673	645
		682	649
REVENUES			
Sales revenues			
Other entities		84,418	62,528
Other revenues			
Other entities		169	102
EXPENSES			
Marketing and promotion expenses	7		
Other entities		3,021	1,568
Other operating expenses	8		
Other entities		2,634	2,295
Finance cost - net	10		
Shareholder		7,476	2,473
Key management compensation			
Gross salaries and bonuses /i/		17,078	18,375
Share based payment		1,710	1,489

/i/ Key management compensations relate to gross wages and bonuses for 8 employees (2008: 8 employees).

NOTE 31 – SUBSIDIARIES

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

	2009	2008
Cedevita d.o.o., Zagreb	81%	51%
- Multivita d.o.o., Vršac	100%	100%
Neva d.o.o., Zagreb	100%	100%
Atlantic Trade d.o.o., Zagreb	100%	100%
- Atlantic BG d.o.o., Beograd	100%	100%
- Atlantic Trade d.o.o., Ljubljana	100%	100%
- Atlantic Trade d.o.o., Skopje	75%	75%
Atlantic Farmacia d.o.o., Zagreb	90%	90%
- ZU Ljekarne Farmako, Velika Gorica (merged to ZU Ljekarne Farmacia)	-	100%
- ZU Ljekarne Coner, Bjelovar (spun-off in 2009, Note 28)	-	51%
- ZU Ljekarne Farmacia, Zagreb (acquired in 2008, Note 28)	100%	100%
- ZU Ljekarna Mandić, Ljubuški, BiH (acquired in 2008, Note 28)	100%	100%
- ZU Ljekarne Bamapharm, Zagreb (acquired in 2008, Note 28)	75%	75%
- ZU Ljekarne Baričević II, Zagreb (acquired in 2008, Note 28)	100%	100%
- ZU Ljekarne Kuna, Daruvar (acquired in 2008, Note 28 and merged to ZU Farmacia in 2009)	-	100%
- ZU Ljekarne Melissa, Velika Mlaka (acquired in 2008, Note 28 and merged to ZU Farmacia in 2009)	-	100%
- Farmacia Plus d.o.o., Zagreb (acquired in 2008, Note 28)	100%	100%
Farmacia Specijalizirana Prodavaonica d.o.o., Zagreb (founded in 2008)	100%	100%
Montana d.o.o., Zagreb	100%	100%
Atlantic s.r.l., Milano, Italy	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%
- AKTIVKOST Handelsgesellschaft mbH, Germany	100%	100%
- Atlantic Management GmbH, Germany	100%	100%
Fidifarm d.o.o., Zagreb	100%	100%

On 31 August 2009, subsidiaries ZU Ljekarne Kuna, ZU Ljekarne Melissa and ZU Ljekarne Farmako were merged into subsidiary ZU Farmacia.

NOTE 32 – POST BALANCE SHEET EVENTS

In January 2010, subsidiary Neva has completed transaction of property sale. This transaction resulted in HRK 48,557 thousand profit from sale.

In February 2010, the Group acquired 5% interest in subsidiary Atlantic Farmacia d.o.o. As a result, the Group increased its share in Atlantic Farmacia d.o.o. from 90% to 95%.