ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2008

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

PricewaterhouseCoopers d.o.o.
Alexandera von Humboldta 4
HR-10000 Zagreb
CROATIA
Telephone (385 1) 63 28 888
Facsimile (385 1) 61 11 556

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 2008 and the consolidated income statement, 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 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o.
Zagreb, 27 March 2009

This version of our report 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.

ATLANTIC GRUPA d.d.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

(all amounts expressed in thousands of HRK)	Note	2008	2007
Revenues	5	2,024,459	1,699,103
Cost of trade goods sold		(931,483)	(713,517)
Change in inventories of finished goods and work in progress		(2,433)	(9,443)
Cost of materials and energy		(261,921)	(250,310)
Staff costs	6	(302,901)	(252,945)
Marketing and promotion expenses	7	(140,858)	(138,941)
Depreciation and amortisation	13, 14	(39,906)	(37,212)
Other operating expenses	8	(215,269)	(203,686)
Other (losses) / gains - net	9	(288)	2,069
Operating profit		**129,400**	**95,118**
Finance costs - net	10	(28,710)	(23,592)
Share of profit of joint venture	19	160	-
Profit before tax		**100,850**	**71,526**
Income tax expense	11	(22,489)	(17,070)
Profit for the year		**78,361**	**54,456**
Attributable to:			
Equity holders of the Company		68,629	46,405
Minority interest		9,732	8,051
		78,361	54,456
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		27.84	21.96
- diluted		27.84	21.96

The consolidated financial statements set out on pages 2 to 60 were approved by the Management Board of the Company in Zagreb on 25 March 2009.

President of the Management Board

Emil Tedeschi

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

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

(all amounts expressed in thousands of HRK)	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	13	242,109	226,131
Intangible assets	14	412,795	176,112
Available-for-sale financial assets	16	35,041	35,041
Interest in joint venture	19	185	-
Trade and other receivables	17	5,097	9,450
Deferred tax assets	25	9,293	8,781
		704,520	455,515
Current assets			
Inventories	18	232,616	207,365
Trade and other receivables	17	508,791	400,001
Prepaid income tax		1,599	1,708
Cash and cash equivalents	20	200,193	399,837
		943,199	1,008,911
Non-current assets held for sale	13	8,047	-
TOTAL ASSETS		**1,655,766**	**1,464,426**
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the Company			
Share capital	21	98,800	98,800
Share premium	21	313,854	313,854
Treasury shares	21	(4,454)	(3,063)
Reserves	22	1,325	4,875
Retained earnings		252,251	191,094
		661,776	605,560
Minority interest		49,200	45,969
		710,976	651,529
Non-current liabilities			
Borrowings	24	390,456	248,616
Deferred tax liabilities	25	9,870	10,548
Provisions	26	5,333	2,764
		405,659	261,928
Current liabilities			
Trade and other payables	23	408,612	285,474
Borrowings	24	100,929	241,713
Current income tax liabilities		8,958	4,701
Provisions	26	20,632	19,081
		539,131	550,969
Total liabilities		944,790	812,897
TOTAL EQUITY AND LIABILITIES		**1,655,766**	**1,464,426**

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 2008

	Attributable to equity holders of the Company					
(in thousands of HRK)	**Share Capital**	**Reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total**
At 1 January 2007	83,481	5,104	149,834	238,419	42,270	280,689
Currency translation differences	-	(229)	-	(229)	320	91
Net income/(expense) recognised directly in equity	-	(229)	-	(229)	320	91
Net profit for the year	-	-	46,405	46,405	8,051	54,456
Total recognised income for 2007	-	(229)	46,405	46,176	8,371	54,547
Shares issued (Note 21)	329,173	-	-	329,173	-	329,173
Purchase of treasury shares	(3,063)	-	-	(3,063)	-	(3,063)
Acquisition of subsidiary	-	-	-	-	2,164	2,164
Dividends relating to 2006	-	-	(5,145)	(5,145)	(6,836)	(11,981)
At 31 December 2007	**409,591**	**4,875**	**191,094**	**605,560**	**45,969**	**651,529**
Currency translation differences	-	(3,550)	-	(3,550)	230	(3,320)
Net income/(expense) recognised directly in equity	-	(3,550)	-	(3,550)	230	(3,320)
Net profit for the year	-	-	68,629	68,629	9,732	78,361
Total recognised income for 2008	-	(3,550)	68,629	65,079	9,962	75,041
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	**408,200**	**1,325**	**252,251**	**661,776**	**49,200**	**710,976**

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 2008

(all amounts expressed in thousands of HRK)	**Note**	**2008**	**2007**
Cash flows from operating activities:			
Cash generated from operations	29	151,035	87,314
Interest paid		(24,872)	(20,954)
Income tax paid		(19,841)	(20,876)
		106,322	45,484
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13, 14	(55,888)	(54,349)
Proceeds from sale of property, plant and equipment		1,803	3,503
Acquisition of subsidiary net of cash acquired		(226,215)	(182,261)
Proceeds from partial sale of subsidiary		-	7,055
Advance for purchases from minority interests	32	(13,460)	-
Loans given		(9,045)	(7,256)
Proceeds from loans given		13,100	7,298
Purchase of financial assets		(25)	(6,842)
Proceeds from sale of financial assets		-	62,971
Interest received		5,121	5,218
		(284,609)	(164,663)
Cash flows (used in) / from financing activities			
Proceeds from issuance of ordinary shares	21	-	329,173
Purchase of treasury shares	21	(1,391)	(3,063)
Minority interest changes		-	455
Proceeds from borrowings	24	251,158	270,189
Repayments of borrowings		(252,810)	(91,258)
Commercial papers redeemed		-	(15,000)
Bonds redeemed		-	(4,688)
Dividends paid		(18,314)	(14,500)
		(21,357)	471,308
Net (decrease) / increase in cash and cash equivalents		**(199,644)**	**352,129**
Cash and cash equivalents at beginning of year		399,837	47,708
Cash and cash equivalents at end of year	20	**200,193**	**399,837**

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 biggest 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, import and export sales, as well as brokerage and representation. The Group has manufacturing plants in Croatia and Germany with firms and representative offices in 9 countries. It exports its products to more than 30 markets worldwide.

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

As at 31 December 2008 and 2007, the Company's shares were listed on the public joint stock company listing on 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 the periods presented, unless otherwise stated.

2.1 Basis of preparation

These 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) Interpretations and amendments to existing standards effective in 2008

- *IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008).* IFRIC 14 is not relevant since the Group does not have defined benefit plans.

- *IFRIC 11, IFRS 2 – Group and treasury share transactions*, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the group's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendment to IAS 39 Financial instruments: Recognition and measurement and IFRS 7 Financial instruments: Disclosures.* An amendment to the standards, issued in October 2008, permits the Company to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits the Group to transfer from the "available-for-sale" category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial assets had not been designated as available for sale), if the Group has the intention and ability to hold that financial asset for the foreseeable future. The Group did not utilise the option to reclassify financial assets.

(b) Standards and amendments early adopted by the Group

- *IFRS 8, 'Operating segments'* was early adopted in 2008. IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

(c) Interpretations effective in 2008 but not relevant for the Group

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the group's operations:

- *IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008).* IFRIC 12 is not relevant since the Group does not provide for public sector services.
- *IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).* IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant because the Group does not operate any loyalty programmes.

(d) Standards and amendments 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 2009 or later periods, but the group has not early adopted them:

- *IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009).* The revised IAS 23 requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Management is currently assessing the impact of this Standard and the Group will apply IAS 23 (Revised) prospectively from 1 January 2009.
- *IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009).* The revised standard will prohibit 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. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009.

- *IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- *IAS 38 (Amendments), 'Intangible assets' (effective from 1 January 2009).* The amendments are part of the IASB's annual improvements project published in May 2008.
  - A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. Management does not expect it will have a material impact on the financial statements.
  - Amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not currently have an impact on the Group's operations as all intangible assets are amortised using the straight line method.

- *IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009).* The amended standard 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. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009. It is not expected to have a material impact on the group's financial statements.

- *IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).* The amended standards require entities to classify puttable financial instruments and instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the IAS 32 and IAS 1 (Amendment) from 1 January 2009. It is not expected to have any impact on the Group's 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 re-measured to fair value and a 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.

- *IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

- *IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008.

  - This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
  - The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.
  - The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8, 'Operating segments' which requires disclosure for segments to be based on information used by Management.
  - When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

  The Group will apply the IAS 39 (Amendment) from 1 January 2009.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries 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 either 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.

- There are a number of minor amendments to IFRS 7, *'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting',* which are part of the IASB's annual improvements project published in May 2008. These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.

(e) *Interpretations and amendments to existing standards that are not yet effective and not relevant for the group's operations*

The following interpretations and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the group's operations:

- *IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements'(effective from 1 January 2009).* The amendment is not relevant since the Group applied IAS in earlier periods.

- *IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement' is classified as held for sale under IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008.

  - The amendment clarifies the effects of defined benefit plan amendments on expected gains arising from future salary increases or past service.
  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
  - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
  - IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

- *IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Group's operations because none of the Group's companies ordinary activities comprise renting and subsequently selling assets.

- *IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The amendment will have no impact on the Group's operations as the Group has no investments in associates.

- *IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in associate is accounted for in accordance with IAS 39 'Financial instruments: recognition and measurement' only certain, rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the group's operations as the Group has no investments in associates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).* 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 amendment will not have an impact on the Group's operations because it is the Group's policy for an interests in joint ventures to be equity accounted in the Group's consolidated accounts.

- *IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the Group's operations, as none of the Group's subsidiaries operate in hyperinflationary economies.

- *IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment will not have an impact on the Group's operations, as there are no investment properties held by the Group.

- *IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).* The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the Group's operations as no agricultural activities are undertaken.

- *IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).* The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement', and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not have an impact on the Group's operations.

- The minor amendments to *IAS 20 'Accounting for government grants and disclosure of government assistance'* and *IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property'* and *IAS 41, 'Agriculture'*, which are part of the IASB's which are part of the IASB's annual improvements project published in May 2008. These amendments will not have an impact on the Group's operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009).* The interpretation clarifies whether IAS 18, 'Revenue', or IAS 11,'Construction contracts' should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

- *IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).* IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The group will apply IFRIC 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

- *IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).* The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable.

- *IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).* The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and 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 cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.6). If the cost of acquisition 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 between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with minority interests

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

(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, and its share of post-acquisition movements in reserves are recognised in reserves. 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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in which 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 such 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 that relate 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 (losses)/gains – net'.

(c) Group companies

The results and financial position of all the Group entities that have 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 as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to 'Translation reserves' in shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in 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, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the 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 are incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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 their 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 the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were 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.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. 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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(d) Computer software

Acquired computer software 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 rights and are not amortised, but are tested for impairment at the cash generating unit level.

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' 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 of 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 which are carried at cost.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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. The translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. 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 equity.

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 removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of loans and 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 so as 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 retained by 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 comprise 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 effective interest rate. The amount of the provision is recognised in the income statement within 'other operating expenses'. Subsequent recoveries of amounts previously written off are credited against 'other revenues' in the income statement.

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.

Where 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 equity holders.

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. Borrowing costs are not capitalised.

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 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

In the normal course of business through salary deductions, the Group makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group does not have any 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 or credited to income statement.

(d) Share-based compensations

Key management of the Group receive 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 unused vacation where contractually obliged or where 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.

Where there are 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 shown, 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 has 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 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 raise to the revision become known by management.

(c) 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.

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 the dividends are approved by the Company's shareholders.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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. The Group does not have a written risk management programme. 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.

	2008	**2007**
Sales revenue	27%	33%
Trade and other receivables	17%	22%
Trade and other payables	20%	25%
Cash and cash equivalents	75%	4%
Borrowings	72%	48%

The Group also has subsidiaries outside of Croatia, and 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 consolidated statement of changes in equity.

At 31 December 2008, if the EURO had weakened /strengthened by 0.5% against the HRK (2007: 0.5%), with all other variables held constant, the profit after tax for the reporting period would have been HRK 821 thousand higher/lower (2007: HRK 801 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 because of 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.

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 2008 if the effective interest rate on borrowings had increased/decreased by 1% on an annual level (2007: 1%), the profit after tax would be lower/higher by HRK 1,601 thousand (2007: 1,487 thousand) mainly as a result of increased/decreased interest expense.

(b) Credit risk

The Group's assets, which potentially subject the Group to concentrations of credit risk, primarily include cash, 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 credit risk is low, since receivables are dispersed among a large group of customers. Additionally, the Group's key customers are large retail chains, and dependence on these customers is managed through developed alternative channels of distribution. The Group reduces credit risk by implementing strict policies for collection of receivables and delivery of goods, as well as securing receivables by 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.

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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2008				
Trade and other payables	389,069	-	-	389,069
Borrowings	127,988	352,005	103,631	583,624

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2007				
Trade and other payables	272,584	-	-	272,584
Borrowings	269,283	251,604	30,245	551,132

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 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:

	2008	2007
	(in thousands of HRK)	
Total borrowings (Note 24)	491,385	490,329
Less: Cash and cash equivalents (Note 20)	(200,193)	(399,837)
Net debt	291,192	90,492
Total equity	710,976	651,529
Total capital	**1,002,168**	**742,021**
Gearing ratio	**29%**	**12%**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

The increase in the gearing ratio during 2008 resulted primarily from the increase in net debt compared to 2007 and from the decrease in cash and cash equivalents that has been invested into new acquisitions (Note 28).

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

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. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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 and Atlantic Multipower Srl, Italy, realised in 2004, 2005 and 2006. According to financial budgets, management estimates it can be utilised in future periods.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(b) Share-based payments

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the grant date. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model. The assumptions used for estimating fair value for share-based payments are disclosed in Note 21.

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

Provisionally determined goodwill resulting from the business combinations during the year 2007 has been restated upon completion of the valuation of acquired net assets (Notes 14 and 28).

Goodwill and licences are tested annually for impairment as stated in Note 2.6.

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	155,313	178,500

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. The terminal growth rate used to extrapolate the cash flows beyond the six-year period is 2%, and discount rate applied to the cash flow projections is 10.93%. 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.

At the balance sheet date the recoverable amount of cash generating units was higher than carrying value and there were no impairment losses.

Sensitivity analysis of key assumptions used in the impairment testing showed that the terminal growth rate decrease of 100 basis points and the weighted average cost of capital increase of 100 basis points would result on average in a 14% 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.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(d) Brand valuation

The fair value of acquired brands, relating to legally registered trademarks, was determined by independent valuators 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%	11.5% until 2009 and 10% onwards

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.

(e) 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 risk premium.

(f) Recent volatility in global and Croatian financial markets

The ongoing global liquidity crisis which 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 and 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 it is taking all the necessary measures to support the sustainability and growth 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 divisions Consumer Health Care and Sports and Functional Food.

- **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** formed starting from 2008, specialises in the development, production and sales of prescription drugs. OTC products and food supplements, through its chain of pharmacy stores. As one part of the Pharma Division was reported under Consumer Health Care Division in 2007, comparatives have been restated accordingly.

Management monitors the operating results of its business unites separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. 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.

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

Year ended 31 December 2008 *(in thousands of HRK)*	**Distribution**	**Consumer Health Care**	**Sports and Functional Food**	**Pharma**	**Reconciliation**	**Group**
Gross revenues /i/	1,164,754	454,650	487,643	287,960	3,792	2,398,799
Inter-segment revenues /ii/	11,395	356,623	2,413	3,909	-	374,340
Total revenues	**1,153,359**	**98,027**	**485,230**	**284,051**	**3,792**	**2,024,459**
Operating profit before depreciation and amortisation /iii/	31,347	84,975	24,267	28,000	717	169,306
Depreciation and amortisation	7,651	21,727	5,904	4,624	-	39,906
Operating profit	**23,696**	**63,248**	**18,363**	**23,376**	**717**	**129,400**
Capital expenditure /iv/	9,262	35,074	3,861	7,478	213	55,888
Total assets /v/	**468,517**	**430,352**	**147,609**	**521,480**	**(176,107)**	**1,391,851**

NOTE 5 – SEGMENT INFORMATION (continued)

Year ended 31 December 2007 *(in thousands of HRK)*	**Distribution**	**Consumer Health Care**	**Sports and Functional Food**	**Pharma**	**Reconciliation**	**Group**
Gross revenues /i/	1,060,784	413,356	488,733	59,606	4,308	2,026,787
Inter-segment revenues /ii/	11,302	313,855	2,428	99	-	327,684
Total revenues	**1,049,482**	**99,501**	**486,305**	**59,507**	**4,308**	**1,699,103**
Operating profit/(loss) before depreciation and amortisation /iii/	28,309	75,895	16,389	12,323	(586)	132,330
Depreciation and amortisation	7,158	20,659	6,243	3,152	-	37,212
Operating profit/(loss)	**21,151**	**55,236**	**10,146**	**9,171**	**(586)**	**95,118**
Capital expenditure /iv/	6,073	43,366	3,074	1,736	100	54,349
Total assets /v/	**392,164**	**377,752**	**165,471**	**217,940**	**(135,000)**	**1,018,327**

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

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

/iii/ Translation difference from net investment in foreign subsidiaries are not allocated to operating segments.

/iv/ 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.

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

	2008	**2007**
	(in thousands of HRK)	
Segment assets for reportable segments	1,391,851	1,018,327
Unallocated:		
Property, plant and equipment	481	578
Intangible assets	148	220
Trade and other receivables	18,574	1,642
Available-for-sale financial assets	35,041	35,041
Interest in joint venture	185	-
Deferred tax assets	9,293	8,781
Cash and cash equivalents	200,193	399,837
Total assets per the balance sheet	**1,655,766**	**1,464,426**

NOTE 5 – SEGMENT INFORMATION (continued)

The measure of liabilities has not been disclosed for reportable segments as liabilities are provided to the chief 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 592,241 thousand (2007: HRK 328,171) and the total of these non-current assets located in other countries is HRK 70,707 thousand (2007: HRK 74,072 thousand).

	2008		2007	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Revenues by markets				
Croatia	1,275,950	63.0	996,091	58.6
International markets				
Germany	242,070	12.0	247,836	14.7
European Union (excluding Germany)	250,030	12.3	243,014	14.3
South-eastern Europe (excluding Croatia)	198,302	9.8	163,807	9.6
Other	58,107	2.9	48,355	2.8
Total international markets	748,509	37.0	703,012	41.4
Total revenues	**2,024,459**	**100.0**	**1,699,103**	**100.0**

Income by geographical segments depends on the geographical location of the customer.

Analysis of revenue by category

	2008		2007	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Sales by type of products				
Own brands	885,220	43.7	851,283	50.1
Principal brands	754,217	37.3	665,810	39.2
Pharmacy	220,642	10.9	-	-
Private label	142,847	7.0	152,952	9.0
Total sales by type of products	**2,002,926**	**98.9**	**1,670,045**	**98.3**
Other revenue	21,533	1.1	29,058	1.7
Total revenue	**2,024,459**	**100.0**	**1,699,103**	**100.0**

NOTE 6 – STAFF COSTS

	2008	2007
	(in thousands of HRK)	
Gross salaries /i/	258,636	227,988
Public transport	6,882	4,194
Termination benefits	2,422	2,620
Share options granted (Note 21)	1,489	-
Other staff costs /ii/	33,472	18,143
	302,901	**252,945**

At 31 December 2008 the number of staff employed by the Group was 1,672 (2007: 1,452).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2008 amounted to HRK 31,356 thousand (2007: 25,131 thousand).

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

NOTE 7 – MARKETING AND PROMOTION EXPENSES

	2008	2007
	(in thousands of HRK)	
Marketing expenses	83,673	88,097
Marketing expenses – related parties (Note 30)	1,568	1,246
Promotion expenses	36,708	35,903
Sponsorships and donations	13,859	8,991
Entertainment	5,050	4,704
	140,858	**138,941**

NOTE 8 – OTHER OPERATING EXPENSES

	2008	2007
	(in thousands of HRK)	
Rentals	44,219	33,917
Transportation expenses	33,624	32,307
Maintenance	32,505	31,304
Provision for impairment of inventories (Note 18)	11,717	7,066
Fuel	11,343	8,907
Travel expense and daily allowances	9,001	10,075
Non-production material	8,460	7,502
Non-production services	8,350	6,689
Intellectual services	8,057	12,722
Telecommunication services	7,545	6,354
Taxes and contributions not related to operating results	5,667	6,458
Supervisory Board fees	5,402	5,606
Brokerage services	5,334	6,279
Provision for impairment of trade receivables (Note 17)	5,302	2,917
Bank charges	4,073	2,653
Royalties	2,075	2,281
Production services	2,003	3,530
Other – related parties (Note 30)	2,295	1,791
Other	8,297	15,328
	215,269	**203,686**

NOTE 9 – OTHER (LOSSES) / GAINS – NET

	2008	2007
	(in thousands of HRK)	
Gain on sale of property, plant and equipment	791	1,336
Gain on sale of financial assets	-	1,355
Foreign exchange losses – net	(1,079)	(622)
	(288)	**2,069**

NOTE 10 – FINANCE COST – NET

	2008	2007
	(in thousands of HRK)	
Foreign exchange loss / (gain) from borrowings - net	3,400	(66)
Interest expense on bank borrowings	15,906	13,987
Interest expense on bonds and commercial papers	6,931	7,016
Interest expense on borrowings – related parties (Note 30)	2,473	2,655
	25,310	23,658
	28,710	**23,592**

NOTE 11 – INCOME TAX

	2008	2007
	(in thousands of HRK)	
Current income tax	24,080	16,567
Deferred tax (Note 25)	(1,591)	503
	22,489	**17,070**

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:

	2008	2007
	(in thousands of HRK)	
Profit before taxation	100,850	71,526
Income tax calculated at the domestic tax rate applicable to profits in the respective countries	23,816	17,300
Adjustments in respect of prior years	(747)	(753)
Remeasurement of deferred tax – change in German tax rate (Note 25)	-	3,030
Utilisation of previously unrecognised tax losses	-	(2,254)
Effect of expenses not deductible for tax purposes	297	(48)
Tax losses for which deferred income tax asset was recognised	(877)	(205)
Tax expense	**22,489**	**17,070**

The weighted average applicable tax rate was 22.3% (2007: 24.2%).

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

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

	2008	2007
Net profit attributable to shareholders *(in thousands of HRK)*	68,629	46,405
Weighted average number of shares	2,465,436	2,113,365
Basic earnings per share *(in HRK)*	27.84	21.96

Diluted earnings per share

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

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land**	**Buildings**	**Plant and equipment**	**Assets under construction**	**Total**
At 31 December 2006					
Cost	16,598	181,507	327,169	16,332	541,606
Accumulated depreciation	-	(105,958)	(256,406)	-	(362,364)
Net book amount	**16,598**	**75,549**	**70,763**	**16,332**	**179,242**
At 1 January 2007					
Opening net book amount	16,598	75,549	70,763	16,332	179,242
Acquisition of subsidiary (Note 28)	5,821	12,442	5,624	23	23,910
Additions	-	3,763	35,351	14,578	53,692
Transfer	-	3,042	2,225	(5,267)	-
Disposals	-	(1,468)	(684)	(8)	(2,160)
Depreciation	-	(7,432)	(21,084)	-	(28,516)
Foreign exchange differences	(13)	(33)	9	-	(37)
Closing net book amount	**22,406**	**85,863**	**92,204**	**25,658**	**226,131**
At 31 December 2007					
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**

Property, plant and equipment with a net book value of HRK 81,862 thousand as at 31 December 2008 (2007: HRK 89,310 thousand), have been pledged as collateral for borrowings (Note 24).

Property, plant and equipment include the assets leased under finance lease with a net book value of HRK 7,419 thousand (2007: 6,461 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.

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brand	Rights	Software	Total
At 31 December 2006						
Cost	10,515	-	-	34,538	22,745	67,798
Accumulated amortisation	-	-	-	(29,075)	(15,076)	(44,151)
Net book amount	**10,515**	**-**	**-**	**5,463**	**7,669**	**23,647**
At 1 January 2007						
Opening net book amount	10,515	-	-	5,463	7,669	23,647
Foreign exchange differences	-	-	-	(1)	165	164
Brand valuation	(10,069)	-	10,069	-	-	-
Deferred tax liability	2,014	-	-	-	-	2,014
Acquisition of subsidiary (Note 28)	67,823	37,164	53,240	-	277	158,504
Additions	-	-	-	-	657	657
Disposals	-	-	-	(126)	(52)	(178)
Amortisation	-	-	(3,852)	(2,237)	(2,607)	(8,696)
Closing net book amount	**70,283**	**37,164**	**59,457**	**3,099**	**6,109**	**176,112**
At 31 December 2007						
Cost	70,283	37,164	63,309	34,473	18,881	224,110
Accumulated amortisation	-	-	(3,852)	(31,374)	(12,772)	(47,998)
Net book amount	**70,283**	**37,164**	**59,457**	**3,099**	**6,109**	**176,112**
At 1 January 2008						
Opening net book amount	70,283	37,164	59,457	3,099	6,109	176,112
Foreign exchange differences	-	-	-	(2)	(26)	(28)
Acquisition of subsidiary (Note 28)	97,731	141,336	-	5,646	469	245,182
Additions	-	-	-	-	1,003	1,003
Amortisation	-	-	(4,224)	(2,655)	(2,595)	(9,474)
Closing net book amount	**168,014**	**178,500**	**55,233**	**6,088**	**4,960**	**412,795**
At 31 December 2008						
Cost	168,014	178,500	63,309	40,116	20,058	469,997
Accumulated amortisation	-	-	(8,076)	(34,028)	(15,098)	(57,202)
Net book amount	**168,014**	**178,500**	**55,233**	**6,088**	**4,960**	**412,795**

Disclosure on goodwill impairment test is given 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 2008			
Financial assets			
Available-for-sale	-	35,041	**35,041**
Trade and other receivables	482,351	-	**482,351**
Cash and cash equivalents	200,193	-	**200,193**
Total	**682,544**	**35,041**	**717,585**

(in thousands of HRK)	Other financial liabilities	Total
31 December 2008		
Financial liabilities		
Borrowings	491,385	**491,385**
Trade and other payables	389,069	**389,069**
Total	**880,454**	**880,454**

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	Total
31 December 2007			
Financial assets			
Available-for-sale	-	35,041	**35,041**
Trade and other receivables	377,926	-	**377,926**
Cash and cash equivalents	399,837	-	**399,837**
Total	**777,763**	**35,041**	**812,804**

(in thousands of HRK)	Other financial liabilities	Total
31 December 2007		
Financial liabilities		
Borrowings	490,329	**490,329**
Trade and other payables	272,584	**272,584**
Total	**762,913**	**762,913**

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 about counterparty default rates.

As at 31 December 2008, financial assets classified in category as trade and other receivables that are not past due amounted to HRK 363,518 thousand (2007: HRK 304,159 thousand). These receivables relate to existing customers with no defaults in the past.

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

Credit rating by Standard & Poor's	**2008**	**2007**
	(in thousands of HRK)	
A/Negative/A-1	164,455	381,807
A/Stable/A-1	11,274	3,412
AA-/Negative/A-1+	8,813	2,641
Petty cash and other banks	15,651	11,977
	200,193	**399,837**

The Group holds available-for-sale financial assets in the amount of HRK 35,041 thousand (2007: HRK 35,041 thousand) in a company with a BBB+ credit rating by Standard & Poor's.

NOTE 16 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2008, the Group has an investment in an unlisted equity instrument in the amount of HRK 35,041 thousand (31 December 2007: HRK 35,041 thousand). This investment is carried at cost since its fair value cannot be reliable measured. During 2008 and 2007, there were no disposal nor impairment provisions on available-for-sale financial assets.

NOTE 17 – TRADE AND OTHER RECEIVABLES

	2008	**2007**
	(in thousands of HRK)	
Non-current receivables		
Loans and deposits given /i/	5,097	9,450
Current receivables		
Trade receivables /ii/	444,314	348,754
Loans and deposits given /i/	5,135	4,472
Other receivables /iii/	59,342	46,775
	508,791	400,001
	513,888	**409,451**

	2008	**2007**
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits given	5,097	9,450
Trade receivables	444,314	348,754
Other receivables	27,805	15,250
Short-term loans and deposits given	5,135	4,472
	482,351	**377,926**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

	2008	2007
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	1,845	6,585
Loans given	3,639	3,133
Current portion	(387)	(268)
	5,097	9,450
Current receivables		
Operating lease deposits	2,514	1,754
Other loans	2,234	2,450
Current portion of non-current receivables	387	268
	5,135	4,472
	10,232	**13,922**

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

/ii/ Trade receivables are as follows:

	2008	2007
	(in thousands of HRK)	
Gross trade receivables	462,537	363,146
Trade receivables – related parties (Note 30)	14,023	14,639
Provision for trade receivables	(32,246)	(29,031)
	444,314	**348,754**

/iii/ Other receivables are as follows:

	2008	2007
	(in thousands of HRK)	
Receivables from government institutions	25,263	12,225
Outstanding advances	16,444	5,826
Factoring	2,542	3,025
Prepaid expenses	3,639	1,725
Other	11,454	23,974
	59,342	**46,775**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

As of 31 December 2008, trade receivables in the amount of HRK 32,246 thousand (2007: HRK 29,031 thousand) were impaired and provided for. The individually impaired receivables relate to customers which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2008	2007
	(in thousands of HRK)	
Up to 3 months	2,779	375
3 to 6 months	352	736
Over 6 months	29,115	27,920
	32,246	**29,031**

As of 31 December 2008, trade receivables in the amount of HRK 118,833 thousand (2007: 73,767 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2008	2007
	(in thousands of HRK)	
Up to 3 months	88,197	67,627
3 to 6 months	22,958	4,027
Over 6 months	7,678	2,113
	118,833	**73,767**

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

	2008	2007
	(in thousands of HRK)	
EUR	80,522	84,971
HRK	350,848	252,716
Other	50,981	40,239
	482,351	**377,926**

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

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

	2008	2007
	(in thousands of HRK)	
As at 1 January	29,031	28,993
Acquisition of subsidiary	-	1,324
Provision for receivables impairment (Note 8)	5,302	2,917
Collected amounts reversed	(1,056)	(114)
Receivables written off	(788)	(4,103)
Exchange differences	(243)	14
As at 31 December	**32,246**	**29,031**

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 fair 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

	2008	2007
	(in thousands of HRK)	
Raw materials and supplies	58,321	61,934
Work in progress	3,845	1,942
Finished goods	37,366	39,622
Trade goods	133,084	103,867
	232,616	**207,365**

As of 31 December 2008, inventories of HRK 11,717 thousand (2007: HRK 7,066 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 which is involved in media buying business.

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

	2008	2007
	(in thousands of HRK)	
Share of the joint venture's balance sheet:		
Current assets	4,495	-
Current liabilities	(4,310)	-
Net assets	**185**	**-**
Share of the joint venture's revenue and profit:		
Revenue	11,147	-
Profit	160	-
Carrying amount of the interest in joint venture	**185**	**-**

NOTE 20 – CASH AND CASH EQUIVALENTS

	2008	2007
	(in thousands of HRK)	
Current account and cash on hand	42,256	24,895
Foreign currency account	17,927	18,323
Deposits up to one month /i/	140,010	356,619
	200,193	**399,837**

/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:

	2008	2007
	(in thousands of HRK)	
EUR	149,825	14,939
HRK	42,273	377,015
Other	8,095	7,883
	200,193	**399,837**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2007	22,340	2,234	81,247	-	83,481
Effect of share split /i/	33,510	-	-	-	-
New shares issued /ii/	2,031,175	81,247	(81,247)	-	-
Share capital before IPO	**2,087,025**	**83,481**	**-**	**-**	**83,481**
Increase in capital /iii/	382,970	15,319	313,854	-	329,173
Purchase of treasury shares /iv/	(3,359)	-	-	(3,063)	(3,063)
31 December 2007	**2,466,636**	**98,800**	**313,854**	**(3,063)**	**409,591**
Purchase of treasury shares /iv/	(1,922)	-	-	(1,391)	(1,391)
31 December 2008	**2,464,714**	**98,800**	**313,854**	**(4,454)**	**408,200**

/i/ In July 2007, a share split was performed by reducing the nominal share value from HRK 100 to HRK 40, whereby the total number of shares increased from the existing 22,340 to 55,850 (C series). The stated split did not have an effect on the value of the Company's share capital.

/ii/ After the share split, in July 2007 the Company's share capital was increased by conversion of the share premium account in the amount of HRK 81,247 thousand to an amount of HRK 83,481 thousand and it was divided among 2,087,025 ordinary shares with a nominal value of HRK 40 per share.

/iii/ On 18 October 2007, the Croatian Financial Service Supervisory Agency approved the Prospectus for the Initial Public Offering of the Company's ordinary shares. The Initial Public Offering included 382,970 ordinary shares newly issued on the Zagreb Stock Exchange (D series) with a nominal value of HRK 40 per share. The registration of shares was finalised on 31 October and the share price included in the public offering was set at HRK 935 per share, which increased the Company's share capital by HRK 15,318,800 to HRK 98,800 thousand, while the share premium was increased by HRK 342,758,150. The share premium was decreased by costs directly attributable to the Initial Public Offering, including consultants' fees of HRK 28,904 thousand.

/iv/ In 2008 the Company purchased 1,922 treasury shares (2007: 3,359) on the Zagreb Stock Exchange for an amount of HRK 1,391 thousand (2007: HRK 3,063 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:

	2008		2007	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,302,304	52.72	1,302,304	52.72
Lada Tedeschi	191,589	7.76	191,589	7.76
DEG	171,971	6.96	171,971	6.96
Free float	755,827	30.61	757,749	30.68
Management of Company	43,023	1.74	43,023	1.74
Treasury shares	5,281	0.21	3,359	0.14
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 target growth in operating profit 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 1,489 thousand has been reported as staff costs (Note 6), related to shares for which vesting conditions were met in 2008 (2,899 shares) and the remaining amount has been reported under Other receivables.

The fair value of the shares granted is estimated as of the grant date taking into account the terms and conditions upon which the options were granted. The significant inputs into the valuation model were estimated share price at exercise date of HRK 500 and exercise price shown in table below. The volatility used for estimating share price was based on statistical analysis of daily share prices over the last 12 months.

Movements in the number of share options are as follows:

	Average exercise price in HRK per share	**Options**
At 1 January 2008	-	-
Granted	zero	9,496
At 31 December 2008		**9,496**

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	**Exercise price in HRK per share**	**Shares**
2009	zero	2,899
2010	zero	2,830
2011	zero	2,830
2012	zero	641
2013	zero	296
		9,496

Distribution of profit

According to the decision of the Company's General Assembly in June 2008 (in January 2007), distribution of dividend was approved in the amount of HRK 11,587 thousand (2007.: 5,145 thousand). Unallocated profit was used for dividend distribution.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves**	**Translation reserves**	**Total**
At 1 January 2007	5,428	(324)	5,104
Foreign exchange differences	-	(229)	(229)
At 31 December 2007	**5,428**	**(553)**	**4,875**
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**

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

	2008	**2007**
	(in thousands of HRK)	
Trade payables	359,010	240,118
Trade payables – related parties (Note 30)	645	99
Other payables	48,957	45,257
	408,612	**285,474**

Other payables recorded as at 31 December are as follows:

	2008	**2007**
	(in thousands of HRK)	
Gross salaries payable	18,978	14,887
Liabilities to state institutions	5,567	11,949
Liabilities for acquisition of subsidiary (Note 28)	4,869	5,531
Accrued expenses	14,435	8,115
Dividend payable (Note 30)	4	-
Other	5,104	4,775
	48,957	**45,257**

Financial liabilities are denominated in the following currencies:

	2008	**2007**
	(in thousands of HRK)	
EUR	77,956	68,100
HRK	284,538	190,639
Other	26,575	13,845
	389,069	**272,584**

NOTE 24 – BORROWINGS

	2008	2007
	(in thousands of HRK)	
Long-term borrowings:		
Banks /i/	121,813	123,708
Related parties /ii/ (Note 30)	149,847	6,638
Bonds /iii/	114,577	114,359
Finance lease	4,219	3,911
Long-term debt	**390,456**	**248,616**
Short-term borrowings:		
Banks /i/	94,909	233,055
Related parties (Note 30)	3,708	7,129
Bonds /iv/	343	244
Finance lease	1,969	1,285
	100,929	**241,713**
	491,385	**490,329**

/i/ In June 2007, the Group was granted a loan from a foreign bank in the amount of EUR 6,000 thousand which was used for the purchase of Multivita. The loan is repayable by 2014 in semi-annual instalments, the first instalment is due in 2009. The loan is secured by 100% ownership investment in Multivita.

In October 2007, the Group was granted a loan for financing investments in production equipment in the amount of EUR 6,600 thousand. Successive utilisation of the loan until 31 July 2008 was agreed. The loan is repayable in 20 equal quarterly instalments until 2015, with the first instalment becoming due in October 2010.

In December 2007, the Group obtained a short-term borrowing for working capital purposes in the amount of HRK 110,000 thousand. The borrowing was repaid in January 2008.

In June 2008, the Group was granted a loan for 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. As at 31 December 2008, HRK 4,155 thousand of this loan was used.

/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 2008 and 31 December 2007 represents the nominal value less non-current portion of prepaid issuance expenses.

/iv/ The balance of short-term bonds liabilities included 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, financial institution borrowings and issued bonds are subject to a covenant clause, 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:

	2008	2007
	(in thousands of HRK)	
Fixed interest rate	181,209	165,655
Up to 3 months	156,879	314,574
3 to 6 months	145,774	-
1-5 years	7,523	10,100
	491,385	**490,329**

The maturity of long-term borrowings is as follows:

	2008	2007
	(in thousands of HRK)	
Between 1 and 2 years	28,519	26,179
Between 2 and 5 years	266,316	193,732
Over 5 years	95,621	28,705
	390,456	**248,616**

The average effective annual interest rate relating to borrowings from banks and financial institution at the balance sheet date was 6.73% (2007: 6.69%). The effective annul interest rate relating to bonds at the balance sheet date was 5.98% (2007: 5.98%)

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

	Carrying amounts		**Fair value**	
	2008	**2007**	**2008**	**2007**
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Banks and financial institution	271,660	130,346	263,842	125,555
Bonds	114,577	114,359	105,800	112,240
Finance lease	4,219	3,911	4,219	3,911
	390,456	**248,616**	**373,861**	**241,706**

The fair values of borrowings from banks and financial institution are based on cash flows discounted using a rate of 6.73% (2007: 6.69%), while the fair values of bonds are based on the market quotation of Raiffeisenbank Austria d.d. Zagreb on the 31 December 2008 (in 2007: based on current bid price at the Zagreb Stock Exchange).

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

NOTE 24 – BORROWINGS (continued)

Gross finance lease liabilities – minimum lease payments:

	2008	2007
	(in thousands of HRK)	
No later than 1 year	2,579	1,750
Later than 1 year and no later than 5 years	4,568	4,504
	7,147	6,254
Future finance charges on finance leases	(959)	(1,058)
Present value of finance lease liabilities	**6,188**	**5,196**

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

	2008	2007
	(in thousands of HRK)	
HRK	134,195	250,853
EUR	355,387	237,961
CHF	1,803	1,515
	491,385	**490,329**

NOTE 25 – DEFERRED TAX

	2008	2007
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	8,136	4,241
- Deferred tax assets to be recovered within 12 months	1,157	4,540
	9,293	8,781
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(9,126)	(9,703)
- Deferred tax liabilities to be recovered within 12 months	(744)	(845)
	(9,870)	(10,548)
Deferred tax liabilities - net	**(577)**	**(1,767)**

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 has tax losses which arose in Croatian subsidiaries of HRK 2,136 thousand (2007: nil) that are available during the next 5 years for offset against future taxable profits of the companies in which the losses arose. 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

	Tax losses	Provisions	Total
		(in thousands of HRK)	
At 1 January 2007	**9,115**	**572**	**9,687**
Tax arising from acquisition of subsidiary	-	239	239
Tax credited to the income statement (Note 11)	-	2,869	2,869
Tax charged to the income statement (Note 11)	(257)	(769)	(1,026)
Tax charged due to change in income tax rate (Note 11)	(3,030)	-	(3,030)
Other movements	-	54	54
Exchange differences	(20)	8	(12)
At 31 December 2007	**5,808**	**2,973**	**8,781**
Tax credited to the income statement (Note 11)	1,312	5,065	6,377
Tax charged to the income statement (Note 11)	(3,514)	(2,270)	(5,784)
Other movements	-	(31)	(31)
Exchange differences	(33)	(17)	(50)
At 31 December 2008	**3,573**	**5,720**	**9,293**

Deferred tax liability

	Fair value gains	Acquisition of subsidiary	Total
		(in thousands of HRK)	
At 1 January 2007	-	-	-
Tax arising from acquisition of subsidiary	-	6,681	6,681
Tax arising from brand valuation (Note 14 and 28)	-	4,549	4,549
Tax credited to the income statement (Note 11)	-	(684)	(684)
Other movements	-	2	2
At 31 December 2007	**-**	**10,548**	**10,548**
Tax arising from acquisition of subsidiary	-	323	323
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	**63**	**9,807**	**9,870**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employees benefits**	**Legal proceedings**	**Warranties**	**Total**
At 31 December 2007	18,174	1,663	2,008	21,845
Analysis of total provisions:				
Non-current	1,466	1,298	-	**2,764**
Current	16,708	365	2,008	**19,081**
At 1 January 2008	**18,174**	**1,663**	**2,008**	**21,845**
Additions	20,833	144	556	21,533
Acquisition of subsidiary	572	-	-	572
Used during year	(11,442)	(166)	(816)	(12,424)
Reversed during year	(5,412)	(72)	-	(5,484)
Exchange differences	(69)	(4)	(4)	(77)
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**

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 2008.

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 2009. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 216 thousand that will be paid out within the following year from the balance sheet date.

NOTE 27 – COMMITMENTS

Capital expenditure contracted for at 31 December 2008 but not yet incurred amounted at HRK 19,049 thousand for property, plant and equipment and HRK 2,694 thousand for intangible assets (2007: HRK 9,545 thousand for property, plant and equipment).

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 a 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:

	2008	**2007**
	(in thousands of HRK)	
Not later than 1 year	28,364	16,629
Later than 1 year and not later than 5 years	34,166	19,774
Over 5 years	8,488	-
	71,018	**36,403**

NOTE 28 – BUSINESS COMBINATIONS

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 it 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.

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)	(151,761)
Goodwill (Note 14)	**97,731**

Goodwill in amount of HRK 97,731 thousand relates to synergy effects which 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.

NOTE 28 – BUSINESS COMBINATIONS (continued)

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	141,336
Other intangible assets (Note 14)	469	469
Inventories	14,026	14,026
Trade and other receivables	42,654	42,654
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)	(323)
Net assets	**8,129**	**151,761**
Acquired share		**151,761**
Minority interest		**-**
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
Purchase consideration:		
- paid in cash		249,492
Net asset acquired		(151,761)
Goodwill (Note 14)		**97,731**

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.

Mergers in 2008

On 30 April 2008, according to Commercial Court Resolution, 100% owned subsidiary Dietpharm d.o.o. was merged into 100% owned subsidiary Fidifarm d.o.o.. Net assets of Dietpharm d.o.o. at the date of merger amounted to HRK 1,900 thousand.

In September 2008 newly acquired subsidiary ZIP Distribucija d.o.o. was merged to its parent company, Atlantic Trade d.o.o., Zagreb. Net assets of ZIP Distribucija d.o.o. at the date of merger amounted to HRK 4,796 thousand.

NOTE 28 – BUSINESS COMBINATIONS (continued)

Acquisitions in 2007

During 2007, the Group acquired and obtained control over five companies. One of them (Multivita) is included in the Consumer and Health Care segment and the remaining four are included in the newly established 'Pharma' division starting in 2008.

Based on the various Share purchase agreements the Group acquired 48.45%-100% of the share capital of these companies for a total purchase consideration of HRK 196,100 thousand as follows:

	Acquired share in %
Multivita d.o.o., Vršac, Serbia	100
Fidifarm d.o.o., Zagreb, Croatia	100
Dietpharm d.o.o., Zagreb, Croatia	100
Ljekarna Coner Bjelovar, Croatia	48.45
Ljekarna Farmako, Velika Gorica , Croatia	100

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

	(in thousands of HRK)
Purchase consideration:	
- paid in cash	190,569
- liability (Note 23)	5,531
Total purchase consideration	196,100
Net assets acquired (see below)	(91,113)
Goodwill (Note 14)	**104,987**

Goodwill of HRK 36,478 thousand relates to fair value of net asset acquired in amount of HRK 89,165 thousand. It relates to synergy effects which are expected to be realised by integrating the companies into existing divisional operations and is tested for impairment as part of the regular annual impairment testing.

Remaining goodwill of HRK 68,509 thousand has been provisionally determined as the difference between purchase consideration and net book value of assets acquired.

The valuation of licences was completed in November 2008 and as a result of the valuation the goodwill was reduced by HRK 37,164 thousand and the value of licences was increased by the same amount.

NOTE 28 – BUSINESS COMBINATIONS (continued)

Details of the value of assets and liabilities acquired during the 2007, restated after an independent valuation are as follows:

(in thousands of HRK)	Fair value	Previous net asset acquired
Cash and cash equivalents	11,551	11,551
Financial asset at fair value through profit and loss	2,582	2,582
Property, plant and equipment (Note 13)	23,910	23,910
Brand (Note 14)	53,240	53,240
Licences (Note 14)	37,164	-
Other intangible assets (Note 14)	277	277
Inventories	16,903	16,903
Trade and other receivables	53,734	53,734
Prepaid income tax	134	134
Trade and other payables	(53,996)	(53,996)
Borrowings	(6,242)	(6,242)
Deferred tax liability	(9,271)	(9,271)
Net assets	**129,986**	**92,822**
Acquired share	**128,277**	**91,113**
Minority interest	**1,709**	**1,709**
Purchase consideration paid in cash	190,569	190,569
Cash and cash equivalents acquired	(11,551)	(11,551)
Cash used in the acquisitions	179,018	179,018
Purchase consideration:		
- paid in cash	190,569	190,569
- liability	5,531	5,531
Total purchase consideration	196,100	196,100
Net asset acquired	(128,277)	(91,113)
Goodwill (Note 14)	**67,823**	**104,987**

The acquired businesses contributed to the consolidated result for the year ended 31 December 2007 with a revenue of HRK 73,992 thousand and net profit of HRK 13,927 thousand. Had all companies been acquired as at 1 January 2007, the consolidated revenue for the year ended 31 December 2007 would have been HRK 97,777 thousand higher, while profit before taxation would have been HRK 8,142 thousand higher than currently reported.

The goodwill of HRK 67,823 thousand comprises the fair value of expected synergies arising from acquisition.

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2008	2007
Net profit		**78,361**	**54,456**
Income tax	11	22,489	17,070
Depreciation and amortisation	13,14	39,906	37,212
Gain on sale of property, plant and equipment	9	(791)	(1,336)
Gain on sale of financial assets	9	-	(1,355)
Share of the joint venture's profit	19	(160)	-
Provision for current assets		17,549	9,983
Foreign exchange differences – net		(1,252)	18
Increase in provision for risks and charges	26	3,625	11,449
Share based payment	21	4,115	-
Interest income		(5,121)	(5,218)
Interest expense	10	25,310	23,658
Other non-cash items		380	(14)
Changes in working capital:			
Increase in inventories		(22,942)	(30,045)
Increase in current receivables		(79,901)	(34,748)
Increase in current payables		69,467	6,184
Cash generated from operations		**151,035**	**87,314**

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, which relate to balances in the Balance Sheet as at 31 December 2008 and 31 December 2007 and transactions stated in the Income statement for years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2008	2007
RECEIVABLES			
Current receivables			
Other entities	17	14,023	14,639
LIABILITIES			
Borrowings			
Shareholders	24	153,555	13,767
Trade payables			
Shareholders	23	4	-
Other entities		645	99
		649	99
REVENUES			
Sales revenues			
Other entities		62,528	58,074
Other revenues			
Other entities		102	124
EXPENSES			
Marketing and promotion expenses	7		
Other entities		1,568	1,246
Other operating expenses	8		
Other entities		2,295	1,791
Net financial expense	10		
Shareholder		2,473	2,655
Key management compensation			
Gross salaries and bonuses /i/		18,375	11,693
Share based payment	6	1,489	-

/i/ Key management compensations relate to gross wages and bonuses for 8 employees (2007: gross wages for 6 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%:

	2008	**2007**
Cedevita d.o.o., Zagreb	51%	51%
- Multivita d.o.o., Vršac (acquired in 2007, Note 28)	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 (founded in 2007)	75%	75%
Atlantic Farmacia d.o.o., Zagreb (founded in 2007)	90%	95%
- ZU Ljekarne Farmako, Velika Gorica (acquired in 2007, Note 28)	100%	100%
- ZU Ljekarne Coner, Bjelovar (acquired in 2007, Note 28)	51%	51%
- ZU Ljekarne Farmacia, Zagreb (acquired in 2008, Note 28)	100%	-
- ZU Ljekarna Mandić, Ljubuški, BiH (acquired in 2008, Note 28)	100%	-
- ZU Ljekarne Bamapharm, Zagreb (acquired in 2008, Note 28)	75%	-
- ZU Ljekarne Baričević II, Zagreb (acquired in 2008, Note 28)	100%	-
- ZU Ljekarne Kuna, Daruvar (acquired in 2008, Note 28)	100%	-
- ZU Ljekarne Melissa, Velika Mlaka (acquired in 2008, Note 28)	100%	-
- Farmacia Plus d.o.o., Zagreb (acquired in 2008, Note 28)	100%	-
Farmacia Specijalizirana Prodavaonica d.o.o., Zagreb (founded in 2008)	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	65%	65 %
- Atlantic Multipower Srl, Italy	100%	100%
- AKTIVKOST Handelsgesellschaft mbH, Germany	100%	100%
- Atlantic Management GmbH, Germany	100%	100%
Fidifarm d.o.o., Zagreb (acquired in 2007, Note 28)	100%	100%
Dietpharm d.o.o., Zagreb (acquired in 2007 and merged to Fidifarm d.o.o. in 2008, Note 28)	-	100%

NOTE 32 – POST BALANCE SHEET EVENTS

In January 2009, the Group finalized acquisition of 30% interest in subsidiary Cedevita d.o.o. for HRK 13,460 thousand. As a result of this transaction, the Group increased its share in Cedevita d.o.o. from 51% to 81%.