

ATLANTIC GRUPA

**AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006**

ATLANTIC GRUPA**CONSOLIDATED INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2006**

<i>(all amounts expressed in thousands of HRK)</i>	Note	2006	2005
Revenues	5	1,469,230	1,107,191
Cost of trade goods sold		(475,849)	(435,704)
Cost of materials and energy		(389,143)	(227,328)
Staff costs	6	(219,248)	(164,214)
Marketing and promotion expenses	7	(141,296)	(89,448)
Depreciation and amortisation	13,14	(44,529)	(40,649)
Other operating expenses	8	(151,418)	(123,807)
Other gains/losses – net	9	5,826	9,951
Operating profit		53,573	35,992
Financial income		1,006	5,766
Financial cost		(22,832)	(19,490)
Financial cost - net	10	(21,826)	(13,724)
Profit before tax		31,747	22,268
Income tax expense	11	(5,255)	350
Profit for the year		26,492	22,618
Attributable to:			
Equity holders of the Company		20,580	17,030
Minority interest		5,912	5,588
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		1,002.68	830.73
- diluted		-	-

The consolidated financial statements set out on pages 2 to 42 were approved by the Management Board of the Company in Zagreb on 19 April 2007.

President of the Management Board

Emil Tedeschi

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

ATLANTIC GRUPA

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

<i>(all amounts expressed in thousands of HRK)</i>	Note	As at 31 December	
		2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	13	179,242	183,085
Intangible assets	14	23,647	25,583
Investments in associates	27	-	4,213
Available-for-sale financial assets	15	32,175	32,175
Trade and other receivables	16	9,647	17,218
Deferred tax assets	24	9,687	6,865
		<u>254,398</u>	<u>269,139</u>
Current assets			
Inventories	17	167,483	145,480
Trade and other receivables	16	310,171	228,303
Financial assets at fair value through profit or loss	18	55,058	-
Cash and cash equivalents	19	73,509	77,009
		<u>606,585</u>	<u>450,792</u>
Total assets		<u>860,619</u>	<u>719,931</u>
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the Company			
Share capital	20	83,481	50
Reserves	21	5,104	6,990
Retained earnings		149,834	137,210
		<u>238,419</u>	<u>144,250</u>
Minority interest		42,270	40,808
		<u>280,689</u>	<u>185,058</u>
Non-current liabilities			
Long-term debt	23	199,886	219,083
Deferred tax liabilities	24	-	5,566
Provisions	25	2,951	2,929
		<u>202,837</u>	<u>227,578</u>
Current liabilities			
Trade and other payables	22	242,685	189,108
Short-term borrowings	23	120,178	99,905
Current Income tax liabilities		6,947	6,376
Provisions	25	7,283	11,906
		<u>377,093</u>	<u>307,295</u>
Total liabilities		<u>579,930</u>	<u>534,873</u>
Total equity and liabilities		<u>860,619</u>	<u>719,931</u>

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

ATLANTIC GRUPA

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Attributable to equity holders of the Company				Minority interest	Total
	Share Capital	Reserves	Retained earnings	Total		
<i>(in thousands of HRK)</i>						
At 1 January 2005	50	7,492	89,094	96,636	42,563	139,199
Foreign exchange differences	-	(524)		(524)	-	(524)
Negative goodwill (Note 2.1)	-	-	31,993	31,993	-	31,993
Transfer to reserves		22	(22)	-	-	-
Net income/(expense) recognised directly in equity	-	(502)	31,971	31,469	-	31,469
Net profit for the year	-	-	17,030	17,030	5,588	22,618
Total recognised income/(expense) for 2005		(502)	49,001	48,499	5,588	54,087
Disposal of subsidiary	-	-	-	-	(3,547)	(3,547)
Distribution of dividend to owners	-	-	(885)	(885)	(3,796)	(4,681)
At 31 December 2005	50	6,990	137,210	144,250	40,808	185,058
Foreign exchange differences	-	114	-	114	(53)	61
Net income/(expense) recognised directly in equity	-	114	-	114	(53)	61
Net profit for the year	-	-	20,580	20,580	5,912	26,492
Total recognised income for 2006	-	114	20,580	20,694	5,859	26,553
Acquisition of subsidiary	-	-	-	-	1,224	1,224
Distribution of dividend to owners	-	-	(7,956)	(7,956)	(5,621)	(13,577)
Shares issued (Note 20)	83,431	(2,000)	-	81,431	-	81,431
At 31 December 2006	83,481	5,104	149,834	238,419	42,270	280,689

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

ATLANTIC GRUPA

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

<i>(all amounts expressed in thousands of HRK)</i>	Note	2006	2005
Cash flows from operating activities			
Cash generated from operations	28	40,596	74,669
Interest paid		(17,427)	(15,192)
Income tax paid		(13,042)	(4,839)
		10,127	54,638
Cash flows from investing activities			
Purchase of tangible and intangible assets		(27,893)	(23,980)
Proceeds from sale of tangible assets		7,312	1,201
Acquisition of subsidiary net of cash acquired	27	(7,038)	(90,799)
Loans given		(3,734)	(5,696)
Repayment of loans		86	5,531
Purchase of investments in open-ended cash funds	18	(55,000)	-
Investments in financial assets		-	(8,097)
Investments in associates		-	(830)
Interest received		802	219
		(85,465)	(122,451)
Cash flows from financing activities			
Shares issued	20	81,431	-
Proceeds from bank borrowings		26,657	108,393
Repayment of bank borrowings		(50,745)	(32,026)
Bonds issued		5,921	-
Bonds redeemed		(1,013)	-
Commercial papers issued		44,552	-
Commercial papers redeemed	23	(30,000)	-
Distribution of profit to owners		(4,965)	(4,659)
		71,838	71,708
Net (decrease)/increase in cash and cash equivalents		(3,500)	3,895
Cash and cash equivalents at beginning of year		77,009	73,114
Cash and cash equivalents at end of year	19	73,509	77,009

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

NOTE 1 – GENERAL INFORMATION

Atlantic Grupa d.d. (the Company) is incorporated in the Republic of Croatia. The main 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.

At 31 December 2006, the main shareholder of the Group is the family Tedeschi who owned 91.76 % (2005: 100%) of the Company's shares.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years 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 financial assets at fair value through profit or loss and available-for-sale financial assets.

The preparation of 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.

In 2005 the adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting policy for goodwill. Up to 31 December 2004, the negative goodwill incurred has been recorded under revenues over the estimated useful life of acquired identifiable assets within a period of 5 years. As of 1 January 2005, in accordance with the transitional provisions of IFRS 3 – Business Combinations, the balance of any previous negative goodwill was transferred to retained earnings. In accordance with the aforementioned, the Group restated the opening balance of retained earnings for previously recognized negative goodwill.

The adoption of IFRS 3 resulted in:	<u>1 January 2005</u>
	<i>(in thousands of HRK)</i>
Increase in retained earnings	31.993
Decrease in negative goodwill in the balance sheet	(31.993)

(a) Amendments to published standards effective in 2006

Certain standards, amendments and interpretations are mandatory for the Group's accounting periods beginning on or after 1 January 2006 and are relevant for the Group's activities:

- *IAS 39 (Amendment), The Fair Value Option.* In accordance with requirements of the amendment to IAS 39, financial assets in the balance sheet as at 31 December 2005 were reclassified. Namely, equity investments were recorded as financial assets at fair value through profit or loss under non-current assets in the amount of HRK 32,175 thousand. They have been reclassified as comparative information in the balance sheet as at 31 December 2006 as available-for-sale financial assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Amendments to published standards effective in 2006 (continued)

- *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts.* As a result of this amendment, the Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of: (i) the unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment did not have a significant impact on these financial statements.

(b) Standards early adopted by the Group

No standards were early adopted by the Group.

(c) Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 19 (Amendment), Employee Benefits
- IAS 21 (Amendment), Net Investment in a Foreign Operation
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IFRS 1 (Amendment), First-Time Adoption of International Financial Reporting Standards
- IFRS 6 and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRIC 4, Determining whether an Arrangement contains a Lease
- IFRIC 5, Rights to interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

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

The following standards, amendments and interpretations to existing standards are mandatory for the Group's accounting period beginning on or after the effective date, but have not been early adopted by the Group:

- *IFRS 7, Financial Instruments: Disclosures and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).* IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Company will apply IFRS 7 beginning 1 January 2007. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management considered the effect of the new IFRS 7 and the amendment to IAS 1 and concluded that additional disclosures will be necessary in the financial statements with respect to capital management.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(d) *Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

- *IFRS 8, Business segments* is applicable for the period beginning on or after 1 January 2009. Management is still assessing the impact of this standard.
- *IAS 23 (revised), Borrowing costs (effective from 1 January 2009)*. The standard removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group does not currently capitalise borrowing costs. Management is still considering the impact of the standard and will apply it in later reporting periods.

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

The following interpretations to existing standards are mandatory for the Group's accounting period beginning on or after the effective date, but are not relevant to the Group's operations:

- *IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006)*. IFRIC 7 is not relevant as the Group does not operate in a hyperinflationary environment.
- *IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006)*. IFRIC 8 is not relevant, since the Group does not have payments or liabilities based on the price or value of own equity instruments, except for Management share options.
- *IFRIC 9, Reassessment of embedded derivatives (effective from 1 June 2006)*. IFRIC 9 is not relevant to the Group's operations because it does not have any embedded derivatives.
- *IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 November 2006)*. IFRIC 10 is not relevant to the Group's operations because interim financial reports are not produced.
- *IFRIC 11, IFRS 2 – Group and Treasury share transactions (effective from 1 March 2007)*. IFRIC 11 is not relevant, since the Group does not awards the managements of subsidiaries with treasury shares of the parent Company.
- *IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)*. IFRIC 12 is not relevant since the Group is not an operator of a public-to-private service concession arrangement.

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 but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and 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.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the income statement.

(d) 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).

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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 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.

(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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, 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.

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 line item 'other gains/(losses) – net' 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.

Separately recognised 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. The Group allocates goodwill to each business segment in each country in which it operates (Note 2.7).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(b) Licences and distribution rights

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 licences and rights over their estimated useful lives (up to 5 years).

(c) 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).

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: at fair value through profit or loss, 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) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within line item 'other operating gains/losses' in the period in which they arise.

(b) 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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

(c) 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.

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.

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.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement in line item ‘Other gains/(losses) – net’.

Regular 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. Investments 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.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), 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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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-process and finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Trade goods are carried at selling price less applicable taxes and margins.
Small inventory and tools are expensed when put into use.

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'.

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. Bank overdrafts are included within current liabilities on the balance sheet.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares 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.

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. The Group does not capitalise borrowing costs.

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 Deferred income tax

Deferred income tax is provided in full, 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 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 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. Long-term employee benefit liability is determined using assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

(d) Short-term employee benefits

The Group recognises a provision for bonuses 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 has been 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.

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 has been satisfied.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition (continued)

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 approximately 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.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

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.

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.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of: changes in market prices, foreign currency exchange rates and interest rates. The Group does not use derivative instruments to actively hedge its financial risk exposure, but lowered these risks by introducing a flexible selling price policy.

(a) 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 capital and operating activities.

The majority of the Group's foreign sales revenue and long-term debt is denominated in EUROS. Therefore, movements in exchange rates between the EURO and Croatian kuna may have an impact on the results of future operations and future cash flow. The Group does not use derivative instruments to actively hedge foreign exchange risk exposure. In 2006, the Group exchanged previously issued bonds denominated in EUROS with newly issued bonds denominated in HRK, thus reducing the Group's foreign exchange risk (Note 23).

(b) Credit risk

The Group's assets, which potentially subject the Group to concentrations of credit risk primarily include cash and trade 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 limitations. The Group has no significant concentrations of credit risk, since receivables are dispersed among a large group of customers. The Group reduces this risk by implementing strict policies for collection of receivables and delivery of goods, as well as securing receivables by standard instruments collaterals (bills of exchange and promissory notes).

(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. The Finance department regularly monitors available cash resources.

(d) 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 does not use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 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 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.

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) Impairment testing of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) 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 circumstances.

(c) Fair value financial assets available for sale

The fair value of financial assets available-for-sale that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group uses results of recent arms length transactions for the same or similar investments to estimate the fair values of available-for-sale investments, or assess whether impairment indicators exist.

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 5 – SEGMENT INFORMATION

(a) *Primary reporting format – business segments*

The business operations are divided into three divisions:

- **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, food supplements, 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.

Business segments are managed separately due to differences in marketing strategies and production technologies. Business segment information is based on internal management information. Inter-segment sales is carried out at market prices.

Operating profit of business segments does not include corporate overhead expenses (administrative expenses of corporate support functions), nor certain items of income which cannot be directly attributed to business segments, since business segments are monitored on the level of operating profit. Information on interest income and expense and taxes are not disclosed on the level of business segments, since business segments are monitored on the level of operating profit.

The segments results for the year ended 31 December 2006 are as follows:

<i>(in thousands of HRK)</i>	Distribution	Consumer Health Care	Sports and Functional Food	Unallocated	Group
Gross sales	971,579	353,921	433,739	3,359	1,762,598
Inter-segment sales	9,864	278,069	5,435	-	293,368
Total sales	961,715	75,852	428,304	3,359	1,469,230
Operating profit/(loss) before, depreciation and amortisation	33,486	69,670	(2,418)	(2,636)	98,102
Operating profit/(loss)	28,632	50,063	(21,666)	(3,456)	53,573
Net finance expenses	-	-	-	-	(21,826)
Profit before tax	-	-	-	-	31,747
Income tax	-	-	-	-	(5,255)
Net profit	-	-	-	-	26,492
Other segment information					
Depreciation and amortisation (Note 13, 14)	4,854	19,607	19,248	820	44,529

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 5 – SEGMENT INFORMATION (continued)

The segments results for the year ended 31 December 2005 are as follows:

<i>(in thousands of HRK)</i>	Distribution	Consumer Health Care	Sports and Functional Food	Unallocated	Group
Gross sales	852,289	283,873	193,214	302	1,329,688
Inter-segment sales	(7,453)	(229,173)	(118)	-	(236,744)
Total sales	844,836	54,700	193,096	302	1,092,944
Negative Goodwill	-	-	14,257	-	14,257
Operating profit/(loss) before, depreciation and amortisation	21,491	55,240	3,008	(3,098)	76,641
Operating profit /(loss)	12,677	35,431	(7,778)	(4,338)	35,992
Net finance costs	-	-	-	-	(13,724)
Profit before tax	-	-	-	-	22,268
Income tax	-	-	-	-	350
Net profit	-	-	-	-	22,618

Other segment information

Depreciation and amortisation (Note 13, 14)	8,814	19,809	10,786	1,240	40,649
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Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets primarily include property, plant and equipment, intangible assets, receivables and inventories. Unallocated assets comprise deferred taxation, available-for-sale financial assets, other financial assets at fair value through profit or loss and cash.

Segment liabilities include trade payables. Unallocated liabilities comprise items such as taxation and borrowings. Capital expenditure comprises additions to property, plant and equipment (Note 13) and intangible assets (Note 14).

The segment analysis of assets and liabilities as at 31 December 2006 and capital expenditure for the year then ended are as follows:

<i>(in thousands of HRK)</i>	Business segment			Unallocated	Group
	Distribution	Consumer Health Care	Sports and Functional Food		
Assets	342,057	296,664	175,274	174,585	988,580
Inter-segment receivables	2,319	123,054	2,224	-	127,597
Assets excluding inter- segment receivables	339,738	173,610	173,050	174,585	860,983
Liabilities	262,017	57,656	63,645	324,573	707,891
Inter-segment liabilities	118,482	9,115	-	-	127,597
Liabilities excluding inter- segment liabilities	143,535	48,541	63,645	324,573	580,294
Capital expenditure	10,657	11,642	5,262	332	27,893

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 5 – SEGMENT INFORMATION (continued)

The segment analysis of assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

<i>(in thousands of HRK)</i>	Business segment			Unallocated	Total
	Distribution	Consumer Health Care	Sports and Functional Food		
Assets	257,302	239,743	172,847	132,802	802,697
Inter-segment receivables	2,355	80,408	-	-	82,763
Assets excluding inter-segment receivables	254,947	159,335	172,847	132,802	719,931
Liabilities	207,291	40,177	56,466	313,702	617,828
Inter-segment liabilities	78,721	4,042	-	-	82,763
Liabilities excluding inter-segment liabilities	128,570	36,135	56,466	313,702	534,873
Capital expenditure	12,302	8,909	1,627	1,142	23,980

(b) Secondary reporting format – geographical segments

Geographical segments are secondary to the business segments. Income by geographical segments depends on the geographical location of the customer.

	2006		2005	
	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%
Sales by markets				
Croatia	903,669	61.50	796,797	71.97
International markets				
Germany	210,366	14.32	179,219	16.19
European Union (excluding Germany)	229,730	15.64	59,768	5.40
South-eastern Europe (excluding Croatia)	97,518	6.64	58,310	5.26
Other	27,947	1.90	13,097	1.18
Total international markets	565,561	38.50	310,394	28.03
Total sales	1,469,230	100.00	1,107,191	100.00

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 5 – SEGMENT INFORMATION (continued)

The segment analysis of assets and liabilities as at 31 December and capital expenditure for the year then ended are as follows:

<i>(in thousands of HRK)</i>	2006		2005	
	Assets	Capital expenditure	Assets	Capital expenditure
Croatia	641,165	21,979	510,122	19,852
International markets:				
Germany	133,184	5,262	158,689	1,627
European Union (excluding Germany)	51,735	-	26,620	-
South-eastern Europe (excluding Croatia)	34,899	652	24,500	2,501
Total international markets	212,818	5,914	209,809	4,128
Total	860,983	27,893	719,931	23,980
	Liabilities		Liabilities	
Croatia	478,277		444,208	
International markets:				
Germany	57,607		58,528	
European Union (excluding Germany)	35,312		26,077	
South-eastern Europe (excluding Croatia)	9,098		6,060	
Total international markets	102,017		90,665	
Total	580,294		534,873	

Analysis of revenue by category

	2006		2005	
	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%
Sales by type of products				
Own brands	699,396	47.60	448,492	40.51
Principal brands	626,632	42.65	578,928	52.29
Private label	124,151	8.45	57,825	5.22
Total sales by type of products	1,450,179	98.70	1,085,245	98.02
Other revenue	19,051	1.30	21,946	1.98
Total revenue	1,469,230	100.00	1,107,191	100.00

ATLANTIC GRUPA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2006**

NOTE 6 – STAFF COSTS

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Gross salaries /i/	201,251	147,856
Public transport	5,476	4,453
Termination benefits	3,033	6,094
Other staff costs	9,488	5,811
	<u>219,248</u>	<u>164,214</u>

At 31 December 2006, the number of staff employed by the Group was 1,332 (2005: 1,197).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds in 2006 amounted to HRK 31,391 thousand (2005: HRK 23,068 thousand).

NOTE 7 – MARKETING AND PROMOTION EXPENSES

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Marketing expenses	91,941	53,326
Promotion expenses	36,584	27,206
Sponsorships and donations	8,926	5,506
Entertainment	3,845	3,410
	<u>141,296</u>	<u>89,448</u>

NOTE 8 – OTHER OPERATING EXPENSES

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Transportation services	30,287	24,245
Maintenance and security services	22,771	20,603
Rentals	26,378	16,030
Non-production services	10,178	10,502
Intellectual services	12,648	10,343
Consultancy services at acquisitions	-	9,706
Brokerage services	9,018	5,790
Taxes and contributions irrespective of operating results	3,803	3,344
Supervisory Board fees	3,285	2,608
Provision for trade receivables	1,073	3,538
Collection of previously written off trade receivables	(671)	(1,481)
Cost of samples	5,076	1,855
Bank charges	1,910	1,322
Royalties	1,886	1,150
Business trip expenses	7,881	1,108
Production services	4,761	1,027
Other	11,134	12,117
	<u>151,418</u>	<u>123,807</u>

ATLANTIC GRUPA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2006**

NOTE 9 – OTHER GAINS/LOSSES – NET

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Net gain/(loss) on sale of tangible assets	5,256	(4)
Loss on disposal of investment in associate	(80)	-
Gains on fair value adjustment of financial assets	58	15
Gains on sale of subsidiary	-	10,338
Foreign exchange gains/(losses) – net	592	(398)
	<u>5,826</u>	<u>9,951</u>

NOTE 10 – FINANCIAL COST - NET

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Financial income		
Net foreign exchange gains from borrowings	(1,006)	(5,766)
Financial cost		
Interest expense from bank borrowings	13,355	10,534
Interest expense from bonds and commercial papers	8,218	6,976
Interest expense from loans – related parties (Note 29)	1,259	1,980
	<u>22,832</u>	<u>19,490</u>
	<u>21,826</u>	<u>13,724</u>

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 11 – INCOME TAX

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Current income tax	13,613	8,738
Deferred tax (Note 24)	<u>(8,358)</u>	<u>(9,088)</u>
	5,255	(350)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of 20.18% (2005: 22.4%) applicable to the profit of the consolidated companies as follows:

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Profit before taxation	31,747	22,268
Income tax calculated at the weighted average tax rate of companies in the respective countries	6,407	4,998
Utilisation of previously unrecognised tax losses	(1,457)	(940)
Effect of expenses not deductible for tax purposes - net	3,264	2,457
Tax losses for which deferred income tax assets was recognised	<u>(2,959)</u>	<u>(6,865)</u>
Tax expense/(credit)	5,255	(350)

In accordance with local regulations, the Tax Authority may at any time inspect the books and records of the companies in Croatia within 3 years following the end of the year in which the tax liability is reported and may impose additional tax assessments and penalties. The same regulations apply to other Croatian subsidiaries within the Group. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

Up to the end of 2006, Croatian companies realised tax losses in the amount of HRK 10,794 thousand (2005: HRK 12,228 thousand) which can be utilised until 2011 at the latest. Unutilised tax losses are not recognised as deferred tax assets in the balance sheet, as it is uncertain that sufficient taxable profit will be realised against which these deferred tax assets may be utilised.

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.

	<u>2006</u>	<u>2005</u>
Net profit attributable to shareholders <i>(in thousands of HRK)</i>	20,580	17,030
Weighted average number of shares	20,525	20,500
Basic earnings per share <i>(in HRK)</i>	1,002.68	830.73

Diluted earnings per share

Diluted earnings per share is the same as basic earnings per share.

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land	Buildings	Plant and equipment	Assets under construction	Total
At 1 January 2005					
Cost	10,122	198,254	273,101	4,528	486,005
Accumulated depreciation	-	(130,069)	(200,228)	-	(330,297)
Net book value	10,122	68,185	72,873	4,528	155,708
Year ended 31 December 2005					
Opening net book amount	10,122	68,185	72,873	4,528	155,708
Acquisition of subsidiary (Note 27)	4,742	14,027	19,210	-	37,979
Additions	1,773	6,604	11,852	940	21,169
Disposals	-	-	(1,202)	(4)	(1,206)
Depreciation	-	(8,559)	(21,852)	-	(30,411)
Foreign exchange differences	(16)	(45)	(91)	(2)	(154)
Closing net book amount	16,621	80,212	80,790	5,462	183,085
At 31 December 2005					
Cost	16,621	179,882	326,794	5,462	528,759
Accumulated depreciation	-	(99,670)	(246,004)	-	(345,674)
Net book value	16,621	80,212	80,790	5,462	183,085
Year ended 31 December 2006					
Opening net book amount	16,621	80,212	80,790	5,462	183,085
Acquisition of subsidiary (Note 27)	-	-	1,932	-	1,932
Additions	-	2,508	9,703	11,727	23,938
Disposals	-	(225)	(974)	(857)	(2,056)
Depreciation	-	(6,892)	(20,836)	-	(27,728)
Foreign exchange differences	(23)	(54)	148	-	71
Closing net book amount	16,598	75,549	70,763	16,332	179,242
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 value	16,598	75,549	70,763	16,332	179,242

Property, plant and equipment with a net book value of HRK 81,031 thousand as at 31 December 2006 (2005: HRK 84,857 thousand), have been pledged as collateral for loan repayment (Note 23).

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 14 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	<u>Goodwill</u>	<u>Rights</u>	<u>Software</u>	<u>Total</u>
At 1 January 2005				
Cost	-	9,984	4,325	14,309
Accumulated amortisation	-	(1,269)	(1,933)	(3,202)
Net book value	-	8,715	2,392	11,107
Year ended 31 December 2005				
Opening net book amount	-	8,715	2,392	11,107
Foreign exchange differences	-	(43)	(7)	(50)
Acquisition of subsidiary (Note 27)		19,622	2,331	21,953
Additions	-	-	2,811	2,811
Amortisation	-	(8,538)	(1,700)	(10,238)
Closing net book amount	-	19,756	5,827	25,583
At 31 December 2005				
Cost	-	29,541	18,577	48,118
Accumulated amortisation	-	(9,785)	(12,750)	(22,535)
Net book value	-	19,756	5,827	25,583
Year ended 31 December 2006				
Opening net book amount	-	19,756	5,827	25,583
Foreign exchange differences	-	(100)	(5)	(105)
Acquisition of subsidiary (Note 27)	10,515	739	11	11,265
Additions	-	-	3,955	3,955
Disposals	-	-	(250)	(250)
Amortisation	-	(14,932)	(1,869)	(16,801)
Closing net book amount	10,515	5,463	7,669	23,647
At 31 December 2006				
Cost	10,515	30,202	22,745	63,462
Accumulated amortisation	-	(24,739)	(15,076)	(39,815)
Net book value	10,515	5,463	7,669	23,647

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Investments in:		
RTL d.o.o., Zagreb	32,175	32,175
	32,175	32,175

NOTE 16 – TRADE AND OTHER RECEIVABLES

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Non-current receivables		
Loans and deposits given /i/	9,647	10,314
Receivables from partial sale of subsidiary (Note 29)	-	6,904
	<u>9,647</u>	<u>17,218</u>
Current receivables		
Trade receivables /ii/	272,614	195,989
Loans and deposits given /i/	3,821	8,174
Other receivables /iii/	33,736	24,140
	<u>310,171</u>	<u>228,303</u>
	<u>319,818</u>	<u>245,521</u>

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

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Non-current receivables		
Given deposits	6,784	7,451
Loans given	3,008	3,809
Current portion	(145)	(946)
	<u>9,647</u>	<u>10,314</u>
Current receivables		
Given deposits	1,054	-
Loans given – related parties (Note 29)	-	5,677
Loans given	2,622	1,551
Current portion of non-current receivables	145	946
	<u>3,821</u>	<u>8,174</u>
	<u>13,468</u>	<u>18,488</u>

The fair value of non-current receivables approximates the carrying amounts, since the contracted interest rates reflect market rates.

/ii/ Trade receivables are as follows:

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Domestic trade receivables	196,428	145,041
Foreign trade receivables	99,494	78,219
Trade receivables – related parties (Note 29)	2,956	-
Provision for trade receivables	(26,264)	(27,271)
	<u>272,614</u>	<u>195,989</u>

ATLANTIC GRUPA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2006**

NOTE 16 – TRADE AND OTHER RECEIVABLES (continued)

/iii/ Other receivables are as follows:

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Receivables from partial sale of subsidiary (Note 29)	7,090	738
Factoring	2,468	3,179
Receivables for sales services provided	922	1,923
Receivables from government institutions	10,481	8,650
Outstanding advances	3,520	1,658
Prepaid expenses	1,312	2,367
Receivables for bonuses from suppliers	3,649	1,096
Other – related parties (Note 29)	467	1,764
Other	3,827	2,765
	<u>33,736</u>	<u>24,140</u>

NOTE 17 – INVENTORIES

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Raw materials and supplies	50,710	47,277
Work in progress	2,482	3,570
Finished goods	43,373	32,165
Trade goods	70,918	62,468
	<u>167,483</u>	<u>145,480</u>

NOTE 18 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In December 2006, the Group invested HRK 55,000 thousand into cash funds. As at 31 December 2006, an increase in investments for the fair value calculation was recorded in the amount of HRK 58 thousand (Note 9).

NOTE 19 – CASH AND CASH EQUIVALENTS

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Current account and cash on hand	10,669	16,264
Foreign currency account	11,039	18,419
Bills of exchange	25,801	42,326
Deposits up to one month	26,000	-
	<u>73,509</u>	<u>77,009</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 20 – SHARE CAPITAL

	<u>Nominal value</u>	<u>Number of shares</u>	<u>Ordinary shares</u>	<u>Share premium</u>	<u>Total</u>
	<i>(in thousands of HRK)</i>				
1 January 2006	-	-	-	-	-
Shares issued:					
- A series	100	20,500	2,050	-	2,050
- B series	100	1,840	184	81,247	81,431
31 December 2006	-	22,340	2,234	81,247	83,481

Transformation into a joint stock company and capital increase

In April 2006, the Company was transformed from a limited liability company into a joint stock company, at which point 2,050 shares were issued with a nominal value of HRK 1,000 per share. Before the stated transformation, the Company increased its registered capital from HRK 50 thousand to HRK 2,050 thousand. The stated increase was charged to reserves, and the registered capital amounted to HRK 2,050 thousand.

In November 2006, the Company's shares were split by dividing each existing share into 10 new shares, whereby the total number of ordinary shares increased from 2,050 to 20,500 (A series). The stated distribution did not have an effect on the value of the Company's share capital.

In December 2006, the Company issued 1,840 new ordinary shares (B series) with a nominal value of HRK 100 per share to the German development bank „DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH“ (DEG) for a consideration of EUR 11 million or HRK 81,431 thousand based on the exchange rate prevailing at the date of payment. The premium on the nominal value was recorded as an increase in share capital.

The Company's shares are not listed on the Zagreb Stock Exchange.

NOTE 21 – RESERVES

<i>(in thousands of HRK)</i>	<u>Reserves</u>	<u>Translation reserves</u>	<u>Total</u>
At 1 January 2005	7,406	86	7,492
Transfer to reserves	22	-	22
Foreign exchange differences	-	(524)	(524)
At 31 December 2005	7,428	(438)	6,990
At 1 January 2006	7,428	(438)	6,990
Transfer to share capital	(2,000)	-	(2,000)
Foreign exchange differences	-	114	114
At 31 December 2006	5,428	(324)	5,104

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

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 22 – TRADE AND OTHER PAYABLES

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Trade payables – domestic	125,661	100,332
Trade payables – foreign	73,840	57,511
Payables to related parties (Note 29)	-	1,548
Other payables	43,184	29,717
	<u>242,685</u>	<u>189,108</u>

Other payables recorded as at 31 December 2006 are as follows:

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Gross salaries payable	16,422	17,241
Liabilities to state institutions	2,385	2,539
Rebates payable	9,894	5,034
Liabilities for acquisition of subsidiary (Note 27, 29)	3,838	-
Dividend payable (Note 29)	2,519	-
Accrued expenses	5,816	4,141
Other	2,310	762
	<u>43,184</u>	<u>29,717</u>

NOTE 23 – BORROWINGS

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Long-term borrowings:		
Banks and financial institution	85,745	109,021
Bonds /i/	114,141	110,062
Long-term borrowings	<u>199,886</u>	<u>219,083</u>
Short-term borrowings:		
Banks and financial institution	100,121	96,721
Bonds /ii/	5,079	3,184
Commercial papers /iii/	14,978	-
	<u>120,178</u>	<u>99,905</u>
Total borrowings	<u>320,064</u>	<u>318,988</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 23 – BORROWINGS (continued)

/i/ 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 value of redeemed and old bonds exchanged with new Croatian kuna bonds was EUR 14,357 thousand or HRK 105,718 thousand increased by accrued interest and fee amounting to HRK 3,263 thousand and new issuance expenses amounting to HRK 1,111 thousand, which totals HRK 110,092 thousand. The remaining amount of HRK 4,908 thousand relates to the net inflow of cash for new HRK bonds.

The recorded balance of bonds as at 31 December 2006 and 2005 relates to the nominal value less non-current portion of prepaid issuance expenses.

/ii/ As at 31 December 2006, the balance of liabilities for unredeemed old bonds due in 2007, translated at the mid EUR exchange rate are recorded increased by the underlying accrued interest, less prepaid issuance expenses. In addition, short-term borrowings also include accrued interest for new bonds.

/iii/ Based on the Contract on the issue of commercial papers through Raiffeisen Bank d.d., Zagreb dated 2003, in July 2006, the third tranche of commercial papers was issued in the amount of HRK 30.0 million with a maturity of 91 days and a discount of 4.05%. The stated tranche was redeemed in October 2006. Based on the same contract, in October 2006, the fourth tranche of commercial papers was issued in the amount of HRK 15.0 million with a maturity of 91 days and a discount of 4.00%. The stated tranche was redeemed in January 2007.

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 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 repricing dates at the balance sheet date are as follows:

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Up to 3 months	148,736	146,915
3-12 months	31,019	25,721
1-5 years	140,309	146,352
	<u>320,064</u>	<u>318,988</u>

The maturity of long-term borrowings is as follows:

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	35,446	156,391
Between 2 and 5 years	158,430	56,656
Over 5 years	6,010	6,036
	<u>199,886</u>	<u>219,083</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 23 – BORROWINGS (continued)

The effective interest rates at the balance sheet date were as follows:

	HRK	2006 EUR	2005 EUR
Long-term borrowings			
Domestic banks		5.81%	5.22%
Bonds	5.94%		5.92%
Foreign banks and financial institution		9.30%	12.33%
Short-term borrowings			
Foreign banks and financial institution		9.30%	4.6%
Bonds		5.92%	
Commercial papers	4.0%	-	-

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

	Carrying amounts		Fair value	
	2006	2005	2006	2005
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Long-term borrowings				
Banks and financial institution	85,745	109,021	84,782	107,283
Bonds	114,141	110,062	114,655	112,847
	199,886	219,083	199,437	220,130

The fair values of domestic bank borrowings are based on cash flows discounted using a rate of 6.52% (2005: 5.57%), while the fair values of bonds are based on the current bid price at the balance sheet date.

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

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

	2006	2005
	<i>(in thousands of HRK)</i>	
HRK	150,472	-
EUR	169,111	318,988
CHF	481	-
	320,064	318,988

NOTE 24 – DEFERRED TAX

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	9,163	6,722
- Deferred tax assets to be recovered within 12 months	524	143
	<u>9,687</u>	<u>6,865</u>
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered 12 months	-	(414)
- Deferred tax liabilities to be recovered within 12 months	-	(5,152)
	<u>-</u>	<u>(5,566)</u>
	<u>9,687</u>	<u>1,299</u>

Deferred tax assets are recognised for tax losses and tax credits to the extent that it is probable amounts recorded will be realised through future taxable profits of the related Group entities.

Deferred tax assets

	<u>Tax losses</u>	<u>Provisions</u>	<u>Total</u>
	<i>(in thousands of HRK)</i>		
At 1 January 2005	-	-	-
Tax credited to the income statement (Note 11)	6,527	338	6,865
At 31 December 2005	6,527	338	6,865
Tax credited to the income statement (Note 11)	2,600	694	3,294
Tax charged to the income statement (Note 11)	-	(335)	(335)
Other movements		(123)	(123)
Exchange differences	(12)	(2)	(14)
At 31 December 2006	9,115	572	9,687

Deferred tax liability

	<u>Acquisition of subsidiary</u>
	<i>(in thousands of HRK)</i>
At 1 January 2005	-
Tax arising from acquisition of subsidiary	7,815
Tax credited to the income statement (Note 11)	(2,223)
Exchange differences	(26)
At 31 December 2005	5,566
Tax credited to the income statement (Note 11)	(5,399)
Other movements	(123)
Exchange differences	(44)
At 31 December 2006	-

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 25 – PROVISIONS

<i>(in thousands of HRK)</i>	Employees benefits	Legal proceedings	Warranties	Termination	Provision for unused space	Total
At 1 January 2005	-	-	-	-	-	-
Additions	5,558	425	2,504	6,348	-	14,835
Used during year	-	-	-	-	-	-
At 31 December 2005	5,558	425	2,504	6,348	-	14,835
Analysis of total provisions:						
Non-current	-	425	2,504	-	-	2,929
Current	5,558	-	-	6,348	-	11,906
At 1 January 2006	5,558	425	2,504	6,348	-	14,835
Additions	5,857	363	-	-	1,762	7,982
Used during year	(5,558)	-	(677)	(6,348)	-	(12,583)
At 31 December 2006	5,857	788	1,827	-	1,762	10,234
Analysis of total provisions:						
Non-current	401	788	-	-	1,762	2,951
Current	5,456	-	1,827	-	-	7,283

Legal proceedings

In the ordinary course of business, the Group was defendant and plaintiff in a number of pending legal proceedings. Management believes that the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2006.

Employee benefits

This provision comprises estimated long-term employee benefits relating to 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 jubilee awards that will be paid after 2007.

The current amount of employee benefits includes HRK 5,400 thousand of annual bonuses to employees and HRK 56 thousand of jubilee awards that will be paid in 2007.

NOTE 26 – COMMITMENTS

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

	<u>2006</u>	<u>2005</u>
	<i>(in thousands of HRK)</i>	
Not later than 1 year	14,648	9,296
Later than 1 year and not later than 5 years	18,291	15,833
	32,939	25,129

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 27 – BUSINESS COMBINATIONS

Montana

Based on the Business share purchase agreement, the Group acquired 100% of the share capital of Montana Plus d.o.o. for a consideration of HRK 12,000 thousand in July 2006. Montana Plus d.o.o. manufactures and distributes foodstuffs. For the period from 31 July 2006 to 31 December 2006, the acquired business contributed to the consolidated result for the year ended 31 December 2006 a loss of HRK 110 thousand. Goodwill resulting from the business combination is provisionally determined; no brands recognised separately. Management plans to complete the valuation of acquired net assets during 2007.

Had the company been acquired as at 1 January 2006, the estimated revenue for the year ended 31 December 2006 would have amounted to HRK 10,250 thousand higher, while profit before taxation would have amounted to HRK 232 thousand higher than currently reported. The amounts were calculated using the Group's accounting policies.

Sports Direct

On 1 January 2006, the Group acquired the outstanding 50% of the share capital of Sports Direct Ltd., distributor of the Group's Sport and functional food products in the UK. The acquired business contributed revenues of HRK 20,734 thousand and a net loss of HRK 1,981 thousand to the Group for the period from 1 January 2006 to 31 December 2006.

Before this acquisition, the investment in Sports Direct Ltd was shown as investment in associate in 2005 and accounted for under the equity method.

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

(in thousands of HRK)

	Montana	Sports Direct
Purchase consideration:	12,000	4,785
- Cash paid in 2006	6,590	3,959
- Compensated in 2006 with loans given	1,572	-
- Advance paid in 2005	-	826
- Liability (Note 22)	3,838	-
Carrying value of assets acquired (see below)	1,485	4,046
Goodwill (Note 14)	10,515	-
Rights (Note 14)	-	739

Goodwill arising on acquisition mainly relates to synergy effects which are expected to be realised by integrating the company into existing Group operations. It will be tested for impairment as part of the regular annual impairment testing. Synergy effects are primarily expected through Montana's well-developed special distribution and sales channel of products with short expiry periods.

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 27 – BUSINESS COMBINATIONS (continued)

Details on the fair value of assets and liabilities acquired are as follows:

<i>(in thousands of HRK)</i>	Montana	Sports Direct
Cash and cash equivalents	385	3,126
Property and plant (Note 13)	1,288	644
Intangible assets (Note 14)	11	-
Inventories	726	5,555
Trade and other receivables	6,504	4,227
Trade and other payables	(7,429)	(5,460)
Net assets	1,485	8,092
Acquired share (50%)	-	4,046
Purchase consideration paid in cash in 2006	6,590	3,959
Cash and cash equivalents acquired	(385)	(3,126)
Cash used in the acquisition	6,205	833

The fair value of Montana net assets approximate the carrying value of net assets acquired.

At the end of June 2005, the Company acquired a 100% ownership interest over the entities stated in Note 30 through its subsidiary Hopen Investments B.V. The purchase price of the shares of the acquired entities was EUR 12.5 million (HRK 92,502 thousand). The purchase price was below the fair value of the company's net assets acquired by approximately EUR 1.9 million. Negative goodwill was realised, which was entirely recorded under other revenues of the current period in the amount of HRK 14,257 thousand.

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

	<i>(in thousands of HRK)</i>
Purchase consideration paid in cash	92,502
Fair value of assets acquired (see below)	106,759
Negative goodwill (Note 5)	(14,257)

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 27 – BUSINESS COMBINATIONS (continued)

Details on the performed assessment of assets and liabilities acquired are as follows:

	Fair value
	<i>(in thousands of HRK)</i>
Cash and cash equivalents	1,703
Property and plant (Note 13)	37,979
Intangible assets (Note 14)	21,953
Investments in associates	4,805
Trade and other receivables	145,705
Trade and other payables	(97,571)
Deferred tax (Note 24)	(7,815)
Net assets	<u>106,759</u>
Purchase consideration paid in cash	92,502
Cash and cash equivalents acquired	<u>(1,703)</u>
Cash used in the acquisition	<u>90,799</u>

ATLANTIC GRUPA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2006**

NOTE 28 – CASH GENERATED FROM OPERATIONS

	<u>Note</u>	<u>2006</u>	<u>2005</u>
		<i>(in thousands of HRK)</i>	
Net profit		26,492	22,618
Income tax	11	5,255	(350)
Depreciation and amortisation	13, 14	44,529	40,649
Negative goodwill	5	-	(14,257)
(Gain)/loss on sale of property, plant and equipment	9	(5,256)	4
Provision for current assets		1,073	3,457
Net foreign exchange gains		(854)	(6,455)
(Decrease)/increase in provisions for risks and expenses	25	(4,601)	14,835
Profit from partial sale of subsidiary	9	-	(10,338)
Interest income		(836)	(970)
Interest expense	10	22,832	19,490
Other non-cash changes		272	-
Changes in working capital:			
Increase in inventories		(15,722)	(14,596)
(Increase)/decrease in current receivables		(69,822)	17,477
Increase in current payables		37,234	3,105
Cash generated from operations		40,596	74,669

ATLANTIC GRUPA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2006**

NOTE 29 – RELATED PARTY TRANSACTIONS

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

Related party transactions, which relate to the year-end balances in the Balance Sheet as at 31 December 2006 and 2005 and transactions stated in the Income statement for the year then ended are as follows:

<i>(all amounts expressed in thousands of HRK)</i>	<u>Note</u>	<u>2006</u>	<u>2005</u>
RECEIVABLES			
Non-current receivables			
Other	16	-	6,904
Current receivables			
Other	16	10,513	2,502
Shareholders		-	5,677
		<u>10,513</u>	<u>8,179</u>
LIABILITIES			
Long-term debt			
Shareholders	23	7,375	11,380
Trade payables			
Other	22	-	1,548
Shareholder		6,357	-
REVENUES			
Sales revenues			
Other		3,372	518
Other revenues			
Other		31	57
EXPENSES			
Net financial expense			
Shareholder	10	1,259	1,980
Key management compensation – Group (Salaries and bonuses)			
		15,844	15,458

ATLANTIC GRUPA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 30 – SUBSIDIARIES

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

	<u>2006</u>	<u>2005</u>
Cedevita d.o.o., Zagreb	51%	51%
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%
- Cape Logistika d.o.o., Zagreb	-	100%
Montana d.o.o., Zagreb	100%	-
Atlantic s.r.l., Milano, Italy	100%	100%
Hopen Investments, BV, the Netherlands	100%	100%
- Atlantic Multipower GmbH & CO OHG, Germany	100%	100%
- Atlantic Multipower UK Ltd, UK (acquired 100% in 2005)	65%	65%
- Sport Direct Ltd, UK	65 %	32.5%
- Atlantic Multipower Srl, Italia	100%	100%
- AKTIVNOST Handelsgesellschaft mbH, Germany	100%	100%
- Atlantic Management GmbH, Germany	100%	100%

NOTE 31 – POST BALANCE SHEET EVENTS

In January 2007, the Group obtained control over the companies Fidifarm d.o.o. and Dietpharm d.o.o. whose principal activity is the production and distribution of vitamin products and food supplements under the brand "Dietpharm". On 18 April 2007, the contract was concluded on the acquisition of 100% of the share capital for a total purchase consideration of HRK 80,850 thousand. The Group is currently in the process of allocating the purchase consideration to the acquired assets and liabilities and consequently disclosure of the fair value of acquired assets and liabilities is not possible.