ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS
31 DECEMBER 2011

pwc

Independent Auditor's Report

To the Shareholders of ATLANTIC GRUPA d.d.

We have audited the accompanying financial statements of ATLANTIC GRUPA d.d. (the "Company"), which comprise the balance sheet as of 31 December 2011 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 30 March 2012

Our report has been prepared in Croatian and in English languages. In all matters of interpretation of information, views or opinions, the Croatian language version of our report takes precedence over the English language version.

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ATLANTIC GRUPA d.d.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	2011	2010
Revenues	5	89,776	251,805
Staff costs	6	(34,316)	(29,300)
Marketing and promotion costs	7	(6,497)	(3,259)
Depreciation and amortisation	12, 13	(1,364)	(862)
Other operating costs	8	(21,118)	(20,757)
Other gains – net	9	12,428	15,876
Operating profit		**38,909**	**213,503**
Finance costs – net	10	(31,069)	(21,365)
Profit before tax		**7,840**	**192,138**
Income tax credit / (expense)	11	2,582	(4,111)
Profit for the year		**10,422**	**188,027**

The financial statements set out on pages 2 to 42 were approved by the Management Board of the Company in Zagreb on 29 March 2012.

President of the Management Board

Emil Tedeschi

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

ATLANTIC GRUPA d.d.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	**2011**	**2010**
Profit for the year	**10,422**	**188,027**
Other comprehensive income:		
Cash flow hedge	(1,226)	(1,959)
Total other comprehensive income	**(1,226)**	**(1,959)**
Total comprehensive income	**9,196**	**186,068**

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

BALANCE SHEET

AT 31 DECEMBER 2011

(all amounts are expressed in thousands of HRK)	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,896	1,037
Intangible assets	13	2,710	2,871
Investments in subsidiaries and joint ventures	14	1,453,934	1,050,776
Deferred tax assets	23	4,120	863
Available-for-sale financial assets	16	42	35,041
Trade and other receivables	17	11,240	320,930
		1,474,942	1,411,518
Current assets			
Trade and other receivables	17	183,041	179,374
Income tax receivable		2,401	-
Cash and cash equivalents	18	3,798	58,571
		189,240	237,945
Total assets		**1,664,182**	**1,649,463**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	19	133,372	133,372
Share premium	19	882,903	883,022
Treasury shares	19	(371)	(112)
Cash flow hedge reserves	20	(4,727)	(3,501)
Retained earnings		224,357	214,783
Total equity		1,235,534	1,227,564
Non-current liabilities			
Borrowings	22	230,450	148,787
Provisions	24	93	49
Other non-current liabilities	21a	36,101	38,101
		266,644	186,937
Current liabilities			
Trade and other payables	21	26,623	8,837
Borrowings	22	111,117	216,298
Provisions	24	9,274	4,274
Derivative financial instruments	15a	14,990	3,501
Income tax liabilities		-	2,052
		162,004	234,962
Total liabilities		**428,648**	**421,899**
Total equity and liabilities		**1,664,182**	**1,649,463**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of HRK)	**Share capital (Note 19)**	**Cash flow hedge reserves**	**Retained earnings**	**Total**
At 1 January 2010	408,404	(1,542)	49,601	456,463
Comprehensive income:				
Net profit for the year	-	-	188,027	188,027
Other comprehensive income	-	(1,959)	-	(1,959)
Total comprehensive income	-	(1,959)	188,027	186,068
Transaction with owners				
Proceeds from shares issued	605,014	-	-	605,014
Dividends relating to 2009	-	-	(20,975)	(20,975)
Share based payment	2,864	-	(1,870)	994
At 31 December 2010	**1,016,282**	**(3,501)**	**214,783**	**1,227,564**
Comprehensive income:				
Net profit for the year	-	-	10,422	10,422
Other comprehensive income	-	(1,226)	-	(1,226)
Total comprehensive income	-	(1,226)	10,422	9,196
Transaction with owners				
Purchase of treasury shares	(2,532)	-	-	(2,532)
Share based payment	2,154	-	(848)	1,306
At 31 December 2011	**1,015,904**	**(4,727)**	**224,357**	**1,235,534**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts expressed in thousands of HRK)	Note	2011	2010
Cash flows used in operating activities:			
Cash generated from operations	26	264	4,696
Income tax paid		(5,128)	(1,234)
Interest paid		(18,866)	(25,323)
Net cash generated from operating activities		(23,730)	(21,861)
Cash flows used in investing activities			
Purchases of property, plant and equipment and intangible assets	12, 13	(3,124)	(1,710)
Proceeds from sale of property, plant and equipment		98	143
Proceeds from sale of available-for-sale financial assets	16	46,962	-
Loans granted and deposits placed - net		(44,678)	119,106
Investments in subsidiaries	14	(3,896)	(777,514)
Dividends received		333	225
Interest received		8,991	33,064
		4,686	(626,686)
Cash flows from / (used in) financing activities			
Proceeds from issuance of ordinary shares	19 /i/	-	605,014
Purchase of treasury shares	19 /i/	(2,532)	-
Proceeds from issuance of bonds	22	62,221	-
Redemption of bonds	22	(66,082)	-
Proceeds from borrowings	22	207,823	146,164
Repayment of borrowings	22	(237,159)	(23,196)
Dividends paid	19 /iii/	-	(20,975)
		(35,729)	707,007
Net increase / (decrease) in cash and cash equivalents		**(54,773)**	**58,460**
Cash and cash equivalents at beginning of year		58,571	111
Cash and cash equivalents at end of year	18	**3,798**	**58,571**

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

NOTE 1 – GENERAL INFORMATION

Atlantic Grupa d.d. (the Company) was incorporated in the Republic of Croatia in 2002. The Company performs corporate activities such as planning entrepreneurial functions, organisation of principal activities, gathering and utilising financial assets, defining the strategy and development of business activities of the Atlantic Group.

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

The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in Note 19.

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 financial statements 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 and derivative financial instruments.

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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The Company has issued these separate financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2011 and for the year then ended in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 29 March 2012. In the consolidated financial statements, subsidiary undertakings (listed in Note 14) and those companies in which the Group indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2011 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

(a) New and amended standards adopted by the Company

- *Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010).* The amendment allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The adoption of the amendment did not have any impact on the financial position and performance of the Company, as the Company does not have such instruments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 July 2010).* The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The adoption of the interpretation did not have any impact on the financial statements as the Company does not negotiate such terms with its creditors.

- *Amendment to IFRS 1 First time adoption – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for financial years beginning on or after 1 July 2010).* The amendment clarifies that first time adopters do not need to provide comparative disclosures as introduced by the IFRS 7 amendment issued in March 2009. The adoption of the amendment did not affect the financial statements of the Company.

- *Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011).* The amendments simplify the definition of a related party and modify certain related-party disclosure requirements for government-related entities. The implementation of these amendments did not have any impact on the financial position and performance of the Company and the related parties' disclosures.

- *Amendment to IFRIC 14 The Limit On A Defined Benefit Assets, Minimum Funding Requirements And Their Interaction (effective for financial years beginning on or after 1 January 2011).* Removes unintended consequences arising from the treatment of pre-payments where there is a minimum funding requirement. Results in pre-payments of contributions in certain circumstances being recognised as an asset rather than an expense. The Company is not subject of minimum funding requirements; therefore the amendment of the interpretation did not have any effect on the financial position and performance of the Company.

- *Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).* The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

(b) New and amended standards, and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

The following standards and amendments to existing standards have been published but not effective and not early adopted. The Company plans to adopt the applicable standards / amendments on their effective date, and they will not have a significant impact on the Company's financial statements.

- *Amendments to IFRS 7 Financial Instruments: Disclosures on Derecognition (effective for annual periods beginning on or after 1 July 2011).* This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

- *Amendments to IFRS 1 First Time Adoption: Fixed Dates and Hyperinflation (effective for annual periods beginning on or after 1 July 2011).* These amendments include two changes to *IFRS 1 First-time adoption of IFRS*. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

- *IAS 12 Income Taxes – Deferred Taxes (effective for annual periods beginning on or after 1 January 2012).* IAS 12 Income taxes, currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment property. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 Income taxes - recovery of revalued non-depreciable assets, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendment to IAS 1 Financial Statement Presentation Regarding Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012).* The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- *Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013).* These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

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

- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013).* The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements.

- *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013).* IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- *IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013).* IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013).* IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- *IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013).* IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

- *IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013).* The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realised in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met.

- *Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).* The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

- *Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).* The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment where the entity operates (‘the functional currency’). The 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 these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

2.3 Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures in which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations are recorded at cost less impairment losses, if any. Impairment is tested annually whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries for which an impairment loss has been recorded are tested at each reporting date for a potential reversal of impairment.

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

2.4 Property, plant and equipment

Motor vehicles, equipment, investments in third party assets and assets under construction are included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, if required. Historical cost includes expenditure directly attributable to the acquisition of items. Assets not yet in use are not depreciated.

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 Company 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.

Depreciation of motor vehicles, equipment and investments in third party assets is calculated using the straight-line method to allocate their cost to residual values over their estimated useful lives, as follows:

Motor vehicles	5 years
Investments in third party assets	4 years
Equipment	2 to 10 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment (continued)

The residual value of an asset is an estimated amount that the Company would currently obtain from disposal of the asset less estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

The residual value of an asset is nil if the Company 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 2.6).

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

2.5 Intangible assets

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 (four years).

2.6 Impairment of non-financial assets

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 that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

The Company 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.

(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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(b) Available-for-sale financial assets

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

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Company 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 Company has transferred substantially all risks and rewards of ownership.

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Company 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 Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from other comprehensive income to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of receivables is described in Note 2.9.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Leases

The Company leases certain property, vehicles and equipment. Leases where the significant portion of risks and rewards of ownership are not retained by the Company 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.

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company 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 and subsequent recoveries of amounts previously written off are recognised in the income statement within 'other operating expenses'.

2.10 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.

2.11 Share capital

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Borrowings

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

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

2.13 Deferred income tax

The current income tax charge is calculated on the basis of the tax law enacted at the balance sheet date in Croatia. 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 provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The deferred tax liability is recognised for all taxable temporary differences associated with the acquisition of the fair value of subsidiaries' net assets.

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.

2.14 Employee benefits

(a) Pension obligations and post-employment benefits

The Company makes payments to mandatory pension funds on behalf of its employees in the ordinary course of business through salary deductions, as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company has no other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-employment benefits.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the ordinary retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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)

2.14 Employee benefits (continued)

(c) Long-term employee benefits

The Company 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 includes assumptions regarding the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged immediately or credited to income statement when they arise.

(d) Share-based compensations

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company'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 Company recognises a provision for bonuses and accumulating unused vacation entitlement days if contractually obliged or if there is a past practice that has created a constructive obligation.

2.15 Provisions

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 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 Company's activities. Revenue is presented net of value-added tax.

The Company 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 Company's activities as described below.

(a) Revenue from services

Revenue from services is 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. Income from corporate governance services is recognised in the accounting period in which the services are rendered and invoiced.

(b) Interest income

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

(c) Dividend income

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

2.17 Dividend distribution

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

2.18 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.

2.19 Trade payables

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Derivative financial instruments and hedging activities

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

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

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

The fair value of cash flow hedge derivatives is disclosed in Note 15a and changes in cash flow hedge reserves are disclosed in Note 20.

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

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and equity securities risk), credit risk and liquidity risk. Management closely monitors the risk profile of the Company's operations, including the establishment of authorisation and accountability levels.

(a) Market risk

(i) Foreign exchange risk

The Company 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 trade and other payables, trade and other receivables, cash and cash equivalents and borrowings.

	2011	**2010**
Trade and other receivables	8%	-
Trade and other payables	33%	15%
Cash and cash equivalents	67%	70%
Borrowings	50%	46%

At 31 December 2011, if the EURO had weakened/strengthened by 0.5% against the HRK (2010: 0.5%), with all other variables held constant, profit after tax for the reporting period would have been HRK 620 thousand higher/lower (2010: HRK 580 thousand higher/lower), mainly as a result of foreign exchange gains/losses on translation of EURO denominated trade and other receivables, cash and cash equivalents and borrowings (Notes 17, 18 and 22).

(ii) Equity securities risk

The Company is exposed to equity securities fair value and price risk amid investments held by the Company classified on the 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 Company monitors market transactions and performance of investment entities. No reliable external information exists with respect to fair value. Management believes, based on internal information, that the fair value equals or exceeds carrying value. However, due to limited information available, management has not carried out a sensitivity analysis. At 31 December 2011, if the fair value of the available for sale investment would change with all other variables remaining constant, then other comprehensive income and revaluation reserves would also change by the same amount.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(iii) Cash flow and fair value interest rate risk

As the Company does not have significant interest-bearing assets, the Company's income and operating cash flows are not substantially dependent of changes in market interest rates.

The Company's interest rate risk arises from long-term borrowings and bonds issued. Debt issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The Company 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 Company calculates the impact on profit and loss of a defined interest rate shift.

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

At 31 December 2011, if the effective interest rate on borrowings had been 1% higher/lower on an annual level, the profit after tax for the reporting period would have been HRK 233 thousand lower/higher (2010: HRK 166 thousand).

(b) Credit risk

The Company's assets, potentially subjecting the Company to concentrations of credit risk, primarily include cash and trade and other receivables. The Company does not have significant concentrations of credit risk, since loans and receivables mainly relate to transactions within the Group. The Company has policies that limit the amount of credit exposure to any financial institution. A detailed analysis and maximum exposure to credit risk is presented in Notes 15b 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 Company 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 maturity of long-term borrowings is disclosed in Note 22.

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

Surplus cash held over and above the balance required for working capital management is invested in interest bearing current accounts, time deposits and cash funds, i.e. instruments with appropriate maturities or sufficient liquidity. At the balance sheet date, the Company held cash and cash equivalents in the amount of HRK 3,798 thousand (2010: 58,571 thousand) that are expected to readily generate cash inflows for managing liquidity risk.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2011				
Trade and other payables	8,125	-	-	8,125
Borrowings	129,569	280,227	-	409,796
Other non-current liabilities	1,570	37,671	-	39,241
Derivative financial instruments	14,990	-	-	14,990

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2010				
Trade and other payables	4,676	-	-	4,676
Borrowings	234,627	144,402	30,660	409,689
Other non-current liabilities	-	41,740	-	41,740
Derivative financial instruments	3,501	-	-	3,501

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company 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 balance sheet) less short-term deposits and cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

The gearing ratios were as follows:

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Total borrowings (Note 22)	341,567	365,085
Less: Cash and cash equivalents (Note 18)	(3,798)	(58,571)
Net debt	337,769	306,514
Total equity	1,235,534	1,227,564
Total capital	**1,573,303**	**1,534,078**
Gearing ratio	**21%**	**20%**

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

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

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

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

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

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

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

The fair value of derivative financial instruments is based on quoted market prices at the balance sheet date (level 1) while the available-for-sale financial instruments are included in level 3.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Company 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.

Investment in subsidiaries and its impairments

The Company performs tests on annual basis to conclude whether there are any indicators that investment in subsidiaries suffers any impairment, in accordance with the accounting policy stated in Note 2.3. If any indicator of impairment exists, the Company performs impairment tests. These tests require the use of estimates such as expected growth rate, discount rate etc., that are mainly based on market conditions existing at time when tests are performed. During 2011 there were no indicators of impairment of investment in subsidiaries.

NOTE 5 – REVENUES

	2011	2010
	(in thousands of HRK)	
Service revenues:		
Income from corporate services – related parties (Note 27)	55,054	42,335
Other revenues:		
Dividend income – related parties (Note 27)	24,622	176,625
Dividend income	333	-
Interest income from loans – related parties (Note 27)	9,027	23,774
Interest income from cash with banks and deposit	99	9,021
Other	641	50
	89,776	**251,805**

NOTE 6 – STAFF COSTS

	2011	2010
	(in thousands of HRK)	
Gross salaries /i/	23,689	21,224
Share options granted (Note 19)	3,818	5,210
Public transport	220	202
Other staff costs /ii/	6,589	2,664
	34,316	**29,300**

At 31 December 2011, the number of staff employed by the Company was 63 (2010: 56).

/i/ Pension contributions to mandatory pension funds for the year ended 31 December 2011 amounted to HRK 3,244 thousand (2010: 2,952 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2011	2010
	(in thousands of HRK)	
Entertainment	4,337	1,566
Sponsorships and donations	1,376	1,511
Advertising and marketing expenses	784	182
	6,497	**3,259**

NOTE 8 – OTHER OPERATING COSTS

	2011	2010
	(in thousands of HRK)	
Transportation services	3,819	5,568
Rentals	6,669	5,278
Intellectual services	1,363	2,233
Supervisory Board compensation	1,464	1,565
Maintenance and security	1,067	869
Taxes and contributions irrespective of operating results	1,221	936
Travel expense and daily allowances	1,402	868
Telecommunication services	960	877
Bank charges	440	277
Office supplies	400	371
Insurance premiums	280	276
Services from related parties (Note 27)	490	432
Other	1,543	1,207
	21,118	**20,757**

NOTE 9 – OTHER GAINS – NET

	2011	2010
	(in thousands of HRK)	
Gain on sale of property, plant and equipment	37	42
Gain on sale of available-for-sale financial assets (Note 16)	11,962	-
Fair value gains on derivative financial instruments	536	-
Foreign exchange gains / (losses) – net	(107)	15,834
	12,428	**15,876**

NOTE 10 – FINANCE COSTS – NET

	2011	2010
	(in thousands of HRK)	
Finance income:		
Foreign exchange gains from borrowings	8	4,218
	8	4,218
Finance costs:		
Foreign exchange loss from borrowings	(3,335)	(6,347)
Interest expense on bank borrowings	(3,901)	(4,428)
Interest expense on loans from related parties (Note 27)	(11,833)	(7,918)
Interest expense on bonds	(8,528)	(6,498)
Other interest expense	(3,480)	(392)
	(31,077)	(25,583)
	(31,069)	**(21,365)**

NOTE 11 – INCOME TAX

	2011	2010
	(in thousands of HRK)	
Current income tax	675	3,998
Deferred tax (Note 23)	(3,257)	113
	(2,582)	**4,111**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of 20% applicable to the Company's profit as follows:

	2011	2010
	(in thousands of HRK)	
Profit before taxation	7,840	192,138
Tax at 20%	1,568	38,428
Effect of expenses not deductible for tax purposes	1,836	2,268
Effect of income not subject to tax	(5,986)	(36,585)
Current income tax	**(2,582)**	**4,111**
Effective interest rate	(32.93%)	2.14%

To date, the Tax Authority did not perform a tax audit of the Company's income tax return. In accordance with local regulations, the Tax Authority may at any time inspect the Company's books and records 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 Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Investments in third party assets	Vehicles	Equipment	Assets not yet in use	Total
At 1 January 2010					
Cost	-	82	3,381	1,303	4,766
Accumulated depreciation	-	(9)	(3,003)	-	(3,012)
Net book amount	**-**	**73**	**378**	**1,303**	**1,754**
At 31 December 2010					
Opening net book amount	-	73	378	1,303	1,754
Additions	-	-	-	200	200
Transfer	-	173	1,330	(1,503)	-
Disposals	-	(101)	-	-	(101)
Depreciation	-	(24)	(792)	-	(816)
Closing net book amount	**-**	**121**	**916**	**-**	**1,037**
At 31 December 2010					
Cost	-	138	4,711	-	4,849
Accumulated depreciation	-	(17)	(3,795)	-	(3,812)
Net book amount	**-**	**121**	**916**	**-**	**1,037**
At 31 December 2011					
Opening net book amount	-	121	916	-	1,037
Additions	-	-	-	2,884	2,884
Transfer	2,288	-	596	(2,884)	-
Disposals	-	(62)	-	-	(62)
Depreciation	(95)	(23)	(845)	-	(963)
Closing net book amount	**2,193**	**36**	**667**	**-**	**2,896**
At 31 December 2011					
Cost	2,288	55	5,308	-	7,651
Accumulated depreciation	(95)	(19)	(4,641)	-	(4,755)
Net book amount	**2,193**	**36**	**667**	**-**	**2,896**

NOTE 13 – INTANGIBLE ASSETS

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Opening net book amount	2,871	1,407
Additions	240	1,510
Amortisation	(401)	(46)
Closing net book amount	2,710	2,871
Cost	3,366	3,126
Accumulated amortisation	(656)	(255)
Closing net book amount	**2,710**	**2,871**

NOTE 14 – INVESTMENTS IN SUBSIDIARIES

	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	Holding in %	Holding in %	*(in thousands of HRK)*	
Cedevita d.o.o., Zagreb, Croatia /iii/	81%	81%	46,459	46,459
Neva d.o.o., Zagreb, Croatia /iv/	100%	100%	781,825	781,825
Atlantic Trade d.o.o., Zagreb, Croatia	100%	100%	10,000	10,000
Atlantic Italia S.r.l., Italy	100%	100%	919	919
Hopen Investments, BV, Netherlands	100%	100%	91,017	91,017
Montana Plus d.o.o., Zagreb, Croatia	100%	100%	12,000	12,000
Atlantic Farmacia d.o.o., Zagreb, Croatia /v/	95%	95%	10,890	10,895
Fidifarm d.o.o., Zagreb, Croatia	100%	100%	81,591	81,591
Farmacia Specijalizirana prodavaonica d.o.o., Zagreb, Croatia	100%	100%	20	20
ZU Marjam, Split, Croatia /vi/	100%	100%	4,057	4,057
Alpha Medical 2, Zagreb, Croatia /vii/	100%	100%	11,630	11,630
Atlantic Trade Eood, Sofia, Bulgaria /viii/	100%	100%	363	363
ZU Dvorzak 2, Zagreb, Croatia /i/	100%	-	10,846	-
Atlantic Ulaganja d.o.o. /ii/	100%	-	392,317	-
			1,453,934	**1,050,776**

/i/ In May 2011, the Company acquired 100% interest in the subsidiary ZU Ljekarne Dvorzak II, Zagreb.

/ii/ In 2011, the Company founded the subsidiary Atlantic Ulaganja d.o.o. whose operations are related to Group financing.

/iii/ In September 2010, the Company acquired Kalničke vode Bio Natura d.d. which merged with Cedevita d.o.o. in December 2010

/iv/ In December 2010, Atlantic Grupa Ulaganja d.o.o. merged with Neva d.o.o. Prior to the merger, the Company increased its investment in Atlantic Grupa Ulaganja d.o.o. through a cash contribution of HRK 770,825 thousand.

/v/ In February 2010 the Company acquired additional 5% interest in the subsidiary Atlantic Farmacia d.o.o.

/vi/ In January 2010 the Company acquired 100% interest in the subsidiary ZU Ljekarne Marjam, Split.

/vii/ In March 2010 the Company acquired 100% interest in the subsidiary Alpha Medical 2, Zagreb.

/viii/ In 2010, the Company founded the subsidiary Atlantic Trade Eood, Sofia. The subsidiary had no operating activities during 2010 and 2011.

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 2011			
Financial assets			
Available-for-sale (Note 16)	-	42	**42**
Trade and other receivables (Note 17)	191,435	-	**191,435**
Deposits (Note 17)	438	-	**438**
Cash and cash equivalents (Note 18)	3,798	-	**3,798**
Total	**195,671**	**42**	**195,713**

(in thousands of HRK)	Other financial liabilities	Derivatives used for hedging	Liabilities at fair value through profit or loss	Total
31 December 2011				
Financial liabilities				
Borrowings (Note 22)	341,567	-	-	**341,567**
Other non-current liabilities (Note 21a)	36,101	-	-	**36,101**
Derivative financial instruments	-	4,727	10,263	**14,990**
Trade and other payables (Note 21)	8,125	-	-	**8,125**
Total	**385,793**	**4,727**	**10,263**	**400,783**

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	Total
31 December 2010			
Financial assets			
Available-for-sale (Note 16)	-	35,041	**35,041**
Trade and other receivables (Note 17)	491,451	-	**491,451**
Deposits (Note 17)	860	-	**860**
Cash and cash equivalents (Note 18)	58,571	-	**58,571**
Total	**550,882**	**35,041**	**585,923**

(in thousands of HRK)	Other financial liabilities	Derivatives used for hedging	Total
31 December 2010			
Financial liabilities			
Borrowings (Note 22)	365,085	-	**365,085**
Other non-current liabilities (Note 21a)	38,101	-	**38,101**
Derivative financial instruments	-	3,501	**3,501**
Trade and other payables (Note 21)	4,676	-	**4,676**
Total	**407,862**	**3,501**	**411,363**

NOTE 15b – CREDIT QUALITY OF FINANCIAL ASSETS

As at 31 December 2011, financial assets classified in the category trade and other receivables that are not past due amounted to HRK 187,058 thousand (2010: HRK 476,061 thousand). Receivables not past due relate to receivables from related parties in the amount of HRK 163,047 thousand (2010: HRK 455,225 thousand) and the risk of non-collectability is low.

Almost all of the Company's cash and cash equivalents of HRK 3,758 thousand (2010: HRK 58,515 thousand) are held at a banks' group member with an A-1/Negative credit rating by Standard & Poor's and are neither past due nor impaired.

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:

	2011	2010
	(in thousands of HRK)	
Trade and other receivables - external		
A-	5,760	2
Counterparties without external credit rating		
Group 1	18,218	20,756
Group 2	32	78
Total unimpaired trade and other receivables	**24,010**	**20,836**

	2011	2010
	(in thousands of HRK)	
Long-term deposit		
Group 2	438	860
	438	**860**

Group 1 – new customers (less than 6 months)
Group 2 – existing customers (more than 6 months) with no defaults in the past
Group 3 – existing customers (more than 6 months) with some defaults in the past; all defaults were fully recovered.

None of the financial assets that are fully performing have been renegotiated in the last year. None of the loans to related parties is past due.

NOTE 16 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

In 2011 the Company has disposed major part of its investment in an unlisted equity instrument for the amount of HRK 46,962 thousand and realized gain of HRK 11,962 (Note 9).

NOTE 17 – TRADE AND OTHER RECEIVABLES

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Non-current receivables		
Loan receivables – related parties (Note 27)	-	308,941
Deposits	438	860
Other non-current receivables /iii/	15,802	20,756
Less: Current portion of other non-current receivables	(5,000)	(9,627)
	11,240	**320,930**
Current receivables		
Trade receivables – related parties (Note 27)	25,741	6,882
Trade receivables	38	3
Short-term loan receivables– related parties (Note 27)	-	17,985
Current portion of long-term loans – related parties	-	147
Current portion of other non-current receivables	5,000	9,480
Accrued interest receivable	9	2
Accrued interest receivable – related parties (Note 27)	464	15,590
Receivables for distribution of profit – related parties (Note 27)	141,214	121,214
Other receivables /ii/	10,575	8,071
	183,041	**179,374**
Total trade and other receivables	**194,281**	**500,304**

/i/ Financial assets by category are as follows (Note 15a):

	2011	2010
	(in thousands of HRK)	
Category: Loans and receivables		
Non-current loan receivables – related parties (Note 27)	-	308,941
Deposits	438	860
Trade receivables – related parties (Note 27)	25,741	6,882
Trade receivables	38	3
Short-term loan receivables – related parties (Note 27)	-	17,985
Accrued interest receivable	9	2
Accrued interest receivable – related parties (Note 27)	464	15,590
Receivables for distribution of profit – related parties (Note 27)	141,214	121,214
Other non-current receivables	15,802	20,756
Other receivables	8,167	78
	191,873	**492,311**

All non-current receivables fall due within 5 years after the balance sheet date.

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

NOTE 17 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2011, trade and other receivables past due amounted to HRK 4,377 thousand (2010: HRK 15,390 thousand). All receivables past due relate to receivables from related parties and they were not provided for as collection is not questionable. The ageing analysis of past due but not provided for trade and other receivables by maturity periods is as follows:

	2011	2010
	(in thousands of HRK)	
Less than 3 months	3,177	6,052
3 to 6 months	748	4,672
Over 6 months	452	4,666
	4,377	**15,390**

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	2011	2010
	(in thousands of HRK)	
HRK	176,675	490,529
EUR	15,198	1,782
	191,873	**492,311**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security other than bills of exchange and promissory notes.

/ii/ Other receivables as at 31 December 2011 mainly relate to prepaid expenses. As at 31 December 2010 other receivables related to advance paid for acquisition of business.

/iii/ Other non-current receivables in the amount of HRK 15,802 thousand (2010: HRK 20,756 thousand) relate to receivables from the continuous cession on Badel 1862 d.d.' s trade receivables that will be collected over a 26 month period.

NOTE 18 – CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Current account and cash on hand	1,271	2,054
Foreign currency account	2,527	-
Deposits with maturity up to one month /i/	-	56,517
	3,798	**58,571**

/i/ Accrued interest up to the balance sheet date is recorded within other revenues (Note 5). Rating analysis is given in Note 15b.

Cash and cash equivalents are denominated in the following currencies:

	2011	2010
	(in thousands of HRK)	
EUR	2,536	41,019
HRK	1,262	17,552
	3,798	**58,571**

NOTE 19 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2010	2,465,608	98,800	312,784	(3,180)	408,404
Ordinary share issue/i/	864,305	34,572	570,442	-	605,014
Share based payments	4,233	-	(204)	3,068	2,864
31 December 2010	**3,334,146**	**133,372**	**883,022**	**(112)**	**1,016,282**
Purchase of treasury shares	(3,220)	-	-	(2,532)	(2,532)
Share based payments	2,901	-	(119)	2,273	2,154
31 December 2011	**3,333,827**	**133,372**	**882,903**	**(371)**	**1,015,904**

/i/ With an aim to raise funds to finance the acquisition of Droga Kolinska d.d., Slovenia, in July 2010, the Management Board adopted the decision to increase capital through the public offering of 864,305 newly issued ordinary shares (each with a nominal value of HRK 40.00). This resulted in an increase of the subscribed share capital of the Company from HRK 98,799,800.00, by HRK 34,572,200.00 to HRK 133,372,000.00. Newly issued shares were issued at HRK 700.00 per share and therefore proceeds collected amounted to HRK 605 million.

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, if declared.

NOTE 19 – SHARE CAPITAL (continued)

The ownership structure of the Company is as follows:

	31 December 2011		31 December 2010	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	313,084	9.39	288,466	8.65
EBRD	284,301	8.53	284,301	8.53
DEG	283,209	8.49	283,209	8.49
Lada Tedeschi	193,156	5.79	193,156	5.79
Management of Company	41,490	1.25	52,017	1.56
Free float	544,768	16.34	559,178	16.78
Treasury shares	473	0.01	154	0.00
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

/ii/ Share based payments

During 2010 the Company has modified its share option programme under which shares are granted to Management Board members and to top management.

As defined in the original programme, one part of the share grant is subject to the Group achieving its operating profit target growth and subject to individual performance achievements. The other part is conditional on the employee completing two or more years of service (the vesting period). Starting from the beginning of 2010, part of the programme is designated for the extraordinary performance on special projects.

Under the modified programme 6,017 new shares have been granted in 2011 (2010: 4,470 shares).

The fair value of equity-settled share based payment transactions amounted to HRK 4,240 thousand (2010: HRK 5,434 thousand). Of that amount, HRK 3,818 thousand (2010: HRK 5,210 thousand) has been reported, together with appropriated tax, as staff costs (Note 6), relating to shares for which vesting conditions were met in 2011 (5,418 shares; 2010: 5,115 shares) and HRK 422 thousand (2010: HRK 224 thousand) was deferred, relating to shares for which vesting conditions will be met in next two years (599 shares; 2010: 325 shares).

The fair value of the shares granted is determined as of the grant date at the market price of the share of HRK 500 (2010: HRK 690, with the exception of shares granted for special projects, where the market price at the grant date was HRK 800).

/iii/ Distribution of profit

According to the decision of the Company's General Assembly in June 2011 profit of the Company realized in 2010 has been retained for further investments in the Company’s key project development. In 2010 distribution of dividend in the amount of HRK 8.50 per share, or HRK 20,975 thousand in total was approved.

NOTE 20 – CASH FLOW HEDGE RESERVES

Cash flow hedge reserves in the amount of HRK 4,727 thousand (2010: HRK 3,501 thousand) relate to the fair value loss of floating-to-fixed interest rate swap agreements that the Company has entered into in 2009.

NOTE 21 – TRADE AND OTHER PAYABLES

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Trade payables	5,511	3,327
Trade payables – related parties (Note 27)	311	259
Other payables /i/	20,801	5,251
	26,623	**8,837**

/i/ Other payables are as follows:

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Gross salaries payable	1,934	3,820
VAT payable	-	341
Accrued expenses	1,953	677
Advances received – related parties (Note 27)	16,564	-
Other	350	413
	20,801	**5,251**

Financial liabilities are denominated in the following currencies:

	2011	2010
	(in thousands of HRK)	
HRK	5,463	3,975
EUR	2,662	701
	8,125	**4,676**

NOTE 21a – OTHER NON-CURRENT LIABILITIES

Other non-current liabilities of HRK 36,101 thousand (2010: HRK 38,101 thousand) relate to liabilities towards closed investment fund - Kapitalni Fond d.d. These liabilities mature in 2013.

NOTE 22 – BORROWINGS

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Long-term borrowings:		
Banks	-	6,713
Related parties /i/ (Note 27)	117,681	142,074
Bonds /ii/	112,769	-
Long-term debt	**230,450**	**148,787**
Short-term borrowings:		
Banks	7,209	47,087
Related parties /i/ (Note 27)	102,513	54,415
Bonds /ii/	1,395	114,796
	111,117	**216,298**
Total borrowings	**341,567**	**365,085**

/i/ The repayment schedule for the EUR 20 million borrowing facility granted in November 2008 has been modified in 2010 in a such way that the loan is repayable in 10 equal semi-annual instalments until 2016, with the first instalment falling due in May 2012.

/ii/ In September 2011 Atlantic Grupa issued Bonds in amount of HRK 115 million at the price of 99.375% with the coupon of 6.75% per annum and final redemption on 20 September 2016. The purpose of these Bonds is to refinance bonds issued in December 2006 which matured on 6 December 2011.

The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Up to 3 months	6,846	53,494
Up to 6 months	147,647	141,820
Fixed interest rate	187,074	169,771
	341,567	**365,085**

The maturity of long-term borrowings is as follows:

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Between 1 and 2 years	28,992	35,049
Between 2 and 5 years	201,458	85,005
Over 5 years	-	28,733
	230,450	**148,787**

NOTE 22 – BORROWINGS (continued)

The average effective annual interest rate relating to borrowings from banks and borrowings from related parties at the balance sheet date was 5,40% (2010: 5.43%). The effective annual interest rate relating to bonds at the balance sheet date was 6.99% (2010: 5.74%).

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

	Carrying amounts		**Fair value**	
	31 December 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Banks	-	6,713	-	6,713
Related parties	117,681	142,074	117,681	142,074
Bonds	112,769	-	109,193	-
	230,450	**148,787**	**226,874**	**148,787**

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

The carrying amounts of the Company's borrowings are translated from the following currencies:

	31 December 2011	**31 December 2010**
	(in thousands of HRK)	
HRK	171,573	197,954
EUR	169,994	167,131
	341,567	**365,085**

NOTE 23 – DEFERRED TAX ASSETS

	31 December 2011	**31 December 2010**
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	-	10
- Deferred tax assets to be recovered within 12 months	4,120	853
Deferred tax assets	**4,120**	**863**

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the amounts recognised will be realised through future taxable profits of the Company. Temporary differences relate to accrued bonuses, unused vacation days and effect of interest rate swap.

NOTE 23 – DEFERRED TAX ASSETS (continued)

Deferred tax assets

(in thousands of HRK)	**Bonuses**	**Derivative financial instruments**	**Other**	**Total**
At 1 January 2010	835	-	141	976
Tax credited to the income statement (Note 11)	854	-	6	860
Tax charged to the income statement (Note 11)	(835)	-	(138)	(973)
At 31 December 2010	**854**	**-**	**9**	**863**
Tax credited to the income statement (Note 11)	1,853	2,053	214	4,120
Tax charged to the income statement (Note 11)	(854)	-	(9)	(863)
At 31 December 2011	**1,853**	**2,053**	**214**	**4,120**

NOTE 24 – PROVISIONS

(in thousands of HRK)	**Provisions for jubilee awards and termination benefits**	**Provisions for bonuses**	**Total**
At 31 December 2010	**52**	**4,271**	**4,323**
Analysis of total provisions:			
Non-current	49	-	49
Current	3	4,271	4,274
At 1 January 2011	**52**	**4,271**	**4,323**
Additions	51	9,264	9,315
Reversed during the year	-	(1,990)	(1,990)
Used during the year	-	(2,281)	(2,281)
At 31 December 2011	**103**	**9,264**	**9,367**
Analysis of total provisions:			
Non-current	93	-	93
Current	10	9,264	9,274

NOTE 25 – COMMITMENTS

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

	31 December 2011	31 December 2010
	(in thousands of HRK)	
Not later than 1 year	6,214	3,229
Later than 1 year and not later than 5 years	7,155	9,495
	13,369	**12,724**

As at 31 December 2011 and 31 December 2010, the Company did not have contracted but not realized capital expenditures.

The Company is co-debtor and guarantor to its subsidiaries and other members of the Group in their long-term and short-term borrowings. Contingent liabilities arising from guarantees given to its subsidiaries and other members of Atlantic Group were not disclosed in the balance sheet as at 31 December 2011 and 2010, since Management believes it is not likely that they will fall into the Company's liabilities.

NOTE 26 – CASH GENERATED FROM OPERATIONS

	Note	2011	2010
Net profit		**10,422**	**188,027**
Income tax	11	(2,582)	4,111
Depreciation and amortisation	12,13	1,364	862
Gain on sale of property, plant and equipment	9	(37)	(42)
Gain on sale of available-for-sale financial assets	9, 16	(11,962)	-
Gain from fair value adjustments	9	(536)	-
Unrealised foreign exchange differences – net		3,425	1,672
Increase in provisions	24	5,044	128
Share based payment	19	1,306	994
Interest income	5	(9,126)	(32,795)
Interest expense	10	27,742	19,236
Dividend income	5	(24,955)	(176,625)
Other non-cash items		422	(97)
Changes in working capital:			
Increase in trade and other receivables		(18,050)	(1,187)
Increase in trade and other payables		17,787	412
Cash generated from operations		**264**	**4,696**

NOTE 27 – RELATED PARTY TRANSACTIONS

The Company enters into transactions with the related parties as presented in Note 14, shareholders and other entities owned or controlled by the Company and shareholders.
Related party transactions, which relate to the year-end balances in the Balance Sheet as at 31 December 2011 and 2010 and transactions stated in the Income statement for the years then ended are as follows:

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2011**	**31 December 2010**
RECEIVABLES			
Non-current receivables			
Loans given			
Subsidiaries		-	308,941
	17	-	308,941
Current receivables			
Short-term loans			
Subsidiaries	17	-	17,985
Interest receivable			
Subsidiaries	17	464	15,590
Trade receivables			
Subsidiaries	17	25,741	6,882
Receivables from distribution of profit			
Subsidiaries	17	141,214	121,214
LIABILITIES			
Trade and other payables			
Subsidiaries	21	16,875	259
Borrowings			
Subsidiaries		72,546	54,976
Shareholders		147,648	141,513
	22	220,194	196,489
REVENUES			
Revenues from corporate services			
Subsidiaries	5	55,054	42,335
Dividend income			
Subsidiaries	5	24,622	176,400
Joint venture		-	225
		24,622	176,625
Interest income			
Subsidiaries	5	9,027	23,774
EXPENSES			
Other operating expenses			
Subsidiaries	8	490	432
Net finance costs			
Subsidiaries		3,471	2,811
Shareholders		8,362	5,107
	10	11,833	7,918
Key management compensation /i/			
Gross salaries and bonuses		12,885	6,992
Share based payment		3,818	5,210

/i/ Key management compensations relate to gross wages and bonuses for 5 employees (2010: 4 employees).