



ATLANTIC GRUPA d.d.
Annual Report 2009

INTRODUCTION

CORPORATE PROFILE

Atlantic Grupa is a Croatian multinational company which in its business operations combines the production, development, sales and distribution of fast moving consumer goods with market presence in over 30 countries around the world. Based on the business results achieved so far, Atlantic Grupa developed into the leading European producer of sports food, the regional leader in the production of vitamin drinks and food supplements, a prominent regional producer of cosmetics and personal care products as well as the leading distributor of consumer goods in South East Europe. In addition to further development of the listed activities, a significant step forward in the current business operations was made through acquisitions of Health Institutions, a process that started at the end of 2007 and continued throughout 2008 and 2009, thus making Atlantic Grupa the leading national private chain of pharmacies, united under the name Farmacia.

Atlantic Grupa's business operations may be divided into two key components - Consumer Health Care and Distribution.

The Consumer Health Care segment incorporates the following areas: *Health Food* - which is dominated by products under the brand Cedevita (instant vitamin drinks, tea, vitamin candies), Multivita (vitamin drinks) and Montana (sandwiches and ready-to-eat products), *Nutraceuticals and VMS* (vitamins, minerals, supplements) - whose principal brands are Multipower (functional food for athletes), Multaben (assortment of weight control products) and Dietpharm (vitamin products, food supplements containing herbal extracts and medicinal substances of natural origin), *Over-the-Counter Medicines (OTC)* - Purisan and Uvin H Forte and *Personal Care* - in this segment the leading brands are Plidenta (dental care), Melem (universal cream), Rosal (lip, face and body care). In addition to the above, this segment also includes the pharmacy chain Farmacia since 2008.

Distribution, as the second key component of Atlantic Grupa's business operations, works in close correlation with the first and merges the distribution of brands from own production with the distribution of well-known international brands, for which it is an authorised distributor, such as: Wrigley, Johnson's Baby, Ferrero, Durex, Scholl, etc., which all together form the Company's strong distribution portfolio.

OPERATING COMPANIES AND REPRESENTATIVE OFFICES

In 2009, Atlantic Grupa had 1,719 employees, which is a 3.12% increase of employees in comparison with the previous year, resulting from the acquisitions of health institutions in the Pharma Division due to the need to recruit appropriate personnel.

As a multinational company with firms and representative offices in 10 countries, Atlantic Grupa exports its products to more than 30 markets worldwide. After Croatia, the most important markets are Germany, Great

Britain, Italy, Slovenia, Bosnia and Herzegovina, Serbia, Montenegro and Macedonia. In those markets where it is not present with its own operating companies, Atlantic Grupa has developed partnerships with regional and national distributors.



Atlantic Grupa includes the following operating companies:

ATLANTIC GRUPA d. d.¹, Zagreb

Atlantic Trade d.o.o.², Zagreb

- Atlantic BG d.o.o., Belgrade
- Atlantic Trade d.o.o., Ljubljana
- Atlantic Trade d.o.o., Skopje

Farmako Pharmacy, health institution for pharmacy services

Coner Pharmacy, health institution for pharmacy services

Farmacia, health institution for pharmacy services

Kuna Pharmacy, health institution for pharmacy services

Melissa Pharmacy, health institution for pharmacy services

Baričević II Pharmacy, health institution for pharmacy services

Bamapharm, health institution for pharmacy services

Health Institution Dvoržak Pharmacy, health institution for pharmacy services

¹ d.d. - Croatian abbreviation for "joint-stock company"

² d.o.o. - Croatian abbreviation for "limited liability company"

Health Institution Marijam Pharmacy, health institution for pharmacy services

Ljubuški Pharmacy, health institution for pharmacy services

Cedevita d.o.o., Zagreb

Multivita d.o.o., Vršac

Cedevita d.o.o. Zagreb - representative office Sarajevo

Cedevita Belgrade - representative office

Cedevita d.o.o. – representative office in the Republic of Macedonia

Neva d.o.o., Zagreb

Montana d.o.o., Zagreb

Atlantic s.r.l., Milan, Italy

Hopen Investments, BV, the Netherlands

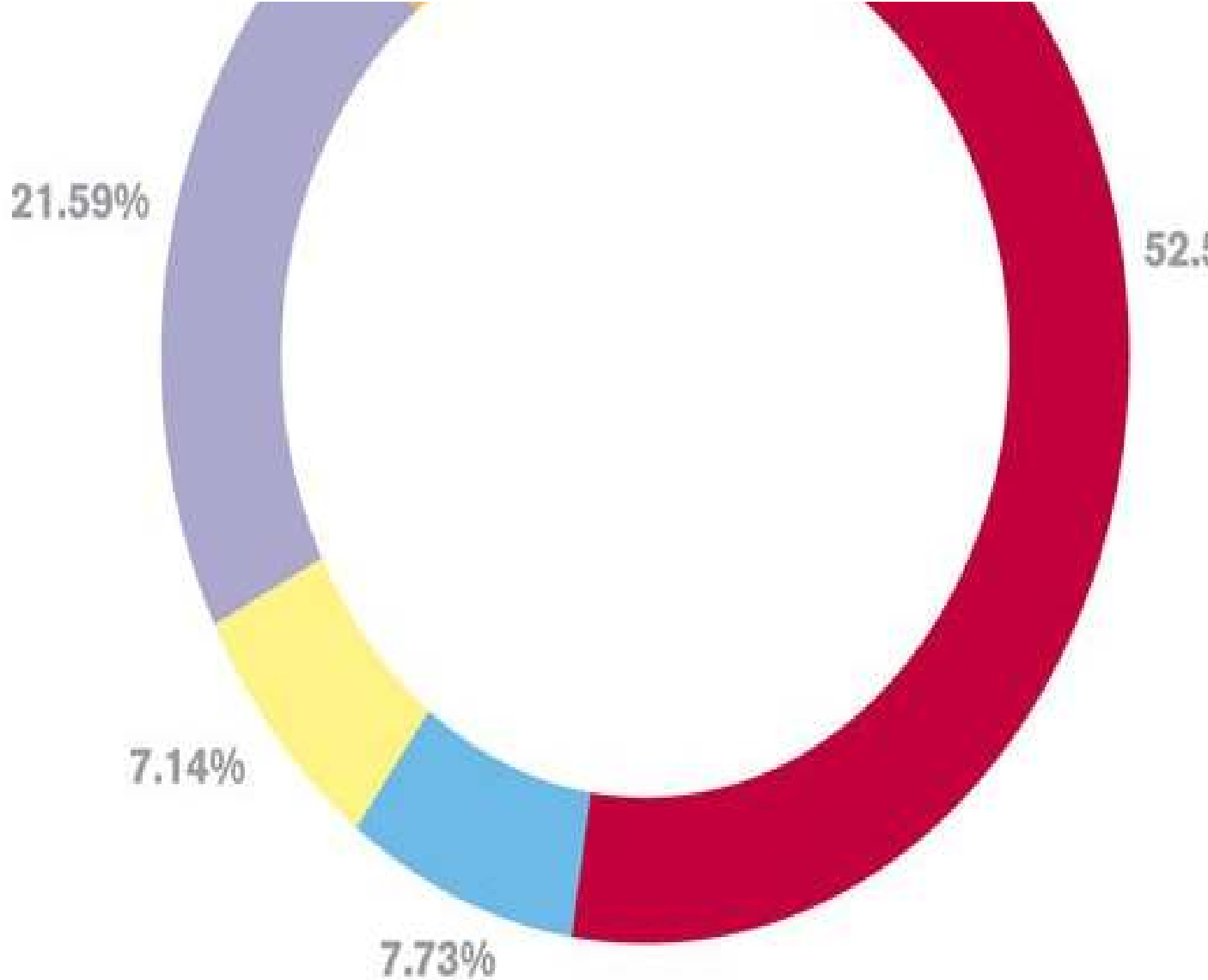
- Atlantic Multipower GmbH & CO OHG, Germany
- Atlantic Multipower UK Ltd, Great Britain
- Sport Direct Ltd, Great Britain
- Atlantic Multipower Srl, Italy
- AKTIVKOST Handelsgesellschaft mbH, Germany
- Atlantic Management GmbH, Germany

Fidifarm d.o.o., Zagreb

OWNERSHIP STRUCTURE

The majority share package of Atlantic Grupa is owned by Emil Tedeschi while the second largest shareholder is Lada Tedeschi Fiorio. With the recapitalisation contract in 2006, a portion of the company's ownership capital was acquired by Deutsche Investitions- und Entwicklungsgesellschaft mbH - DEG, one of the largest European developmental financial institutions. For the purpose of additional stimulation and closer integration with the development of Atlantic Grupa, in 2006 members of the Management Board were allowed to purchase the company's shares. Following the recapitalisation and public offer of Atlantic Grupa shares, about a third of the total number of shares is currently in circulation on the free market of the Zagreb Stock Exchange.

The year 2009 stays marked as the year in which the Atlantic Grupa share, which was listed in the first quotation of the Zagreb Stock Exchange (ZSE) under the code ATGR-R-A, is still included in CROBEX index calculation due to its good liquidity.



The list of 15 shareholders with the largest number of Atlantic Grupa shares as at 31 Dec 2009:

1	Emil Tedeschi	1,298,390
2	Raiffeisen OMF	218,781
3	Lada Tedeschi Fiorio	191,013
4	DEG	176,461
5	AZ OMF	79,325
6	Raiffeisen DMF	46,512
7	SG/Joint Scandinavia, Swedish (East Capital)	37,991
8	PBZ Croatia osiguranje OMF	33,658
9	Erste Plavi OMF	26,375
10	Zagrebačka banka/ joint custody account on behalf of UniCredit Bank Austria AG	17,914

11	Neven Vranković	15,134
12	Raiffeisen Bank Austria d.d.	14,761
13	Mladen Veber	13,700
14	PBZ d.d./CN Ltd	8,691
15	PBZ d.d. – joint custody account	7,366

The share of Atlantic Grupa was quoted on the official market of the Zagreb Stock Exchange (ZSE) under the code ATGR-R-A.

In 2009, Atlantic Grupa shares realised the turnover in the value of HRK 361.1 million. The average trading price was HRK 544.54, and the final price on 31 December 2009 was HRK 681.01.

Atlantic Grupa's market capitalisation on 1 January 2009 is HRK 1,185,597,600 while on 31 December 2008 it amounted to HRK 1,682,091,295.

In the course of 2009, Atlantic Grupa d.d. acquired the total of 2,309 own shares at the Zagreb Stock Exchange. The listed own shares have been acquired for the purpose of their allotment to the employees of Atlantic Grupa d.d. within the framework of internal remuneration rules.

INVESTOR RELATIONS

In 2009, the Investor Relations Department operating within the Office for Business Development continued to act as an important link in communication between the company management and financial community with the continuous goal of transparent presentation of the business model, long-term strategic development and recent financial results of the company. Owing to the transparent communication coupled with the stability of the business model, management's dedication and recognition of the company by the foreign investor community as a company which fulfils the announced expectations even in an adverse macroeconomic environment, the growth of the Atlantic Grupa share in 2009 exceeded all components of the domestic stock index Crobex, along with further stabilisation of the ownership structure through the increase of business shares of both domestic and foreign investors with a long-term investment horizon. In fact, the share of domestic pension fund management companies in the ownership structure has increased from 14.8% at the end of 2008 to 16.4% at the end of 2009, while East Capital, as one of the leading companies in the segment of asset management, participates with a 1.5% share in Atlantic Grupa's ownership structure. Furthermore, it was precisely with the goal of achieving short term and long term objectives of Atlantic Grupa in the domestic capital market, such as increasing liquidity and investment attractiveness of shares, that the company at the beginning of 2010, as the first on the Croatian capital market, hired a specialist to provide market making services.

Within the direct contacts with the investor community, the Investor Relations Office held presentations of the Company's financial results, participated in a number of domestic and foreign investor conferences organised by banks, regional stock exchanges, companies in the asset management segment and also held a number of individual meetings with existing and potential investors. As part of its efforts in further diversification and globalisation of the investor base, the Office this year also organised a brief road show in the United States. Together with the direct contacts, the Office invested efforts in further improvement of quality in communicating quarterly, semi-annual and annual financial results with the analysis of the company's realised business results and also communicating the financial expectations for future periods. At the same time, the company profile was prepared which, through a financial summary and review of the company's business model, quickly introduces potential investors to Atlantic Grupa's business operations. In 2009, all relevant financial institutions with corporate analysis departments continued to follow Atlantic Grupa's business activities at the same time praising the realisation of financial plans in a macroeconomically challenging year 2009 with comments like "Results for the year 2009 justify the trust of investors".

In order to further develop investor relations with the aim of constant application of transparency in communicating the company's business development toward the investor public, the Investor Relations Office plans further participations in various meetings, conferences and road shows in 2010.

ORGANISATIONAL STRUCTURE

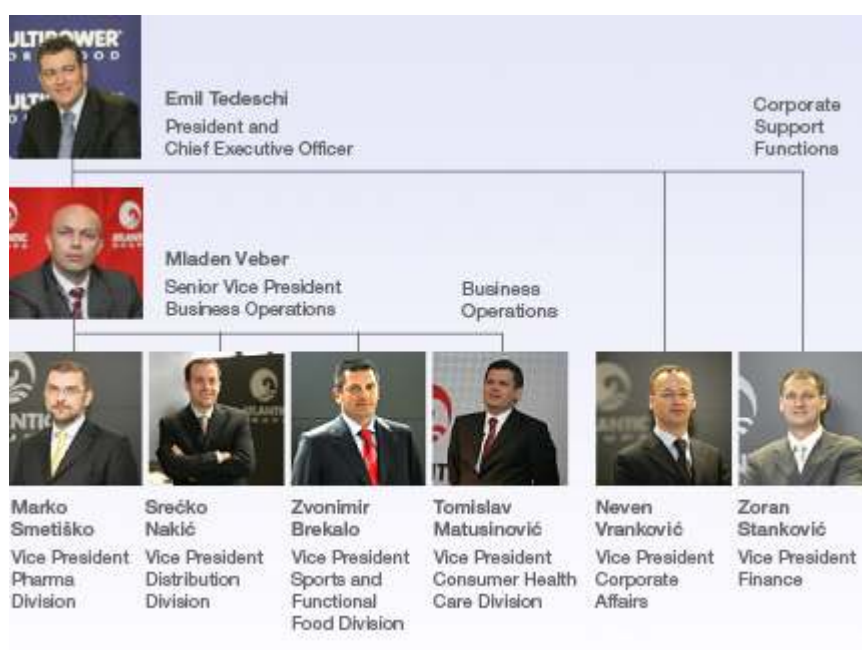
The organisational structure of Atlantic Grupa is based on a divisional principle. In order to facilitate the system management, entire business operations of all operating companies within the Group are divided into divisions - Consumer Health Care, Sports and Functional Food and Distribution, to which a new division was added in the beginning of 2008 - Pharma. The principal feature of divisional organisation is the linking of business activities into special business units associated with specific types of products and services in Atlantic Grupa's business operations.

Business operations, divided according to the listed divisions within Atlantic Grupa, are linked by the collective management of corporate support functions at the level of Atlantic Grupa, namely in the Finance Area and the Corporate Affairs Area. The Finance Area includes Finances, Information Technologies and Investor Relations, while the Corporate Affairs Area includes Human Resources, Corporate Communications, Legal Affairs, Investment Maintenance and Corporate Security. Through those support functions, the procedures for performing the listed tasks contribute to the introduction of a single corporate standard and to more transparent and efficient business operations at the level of Atlantic Grupa.

In addition to the above, the dynamic development and growth of Atlantic Grupa created the need to organisationally integrate all activities related to the Company's business development, primarily those related to the business strategy and new projects, which subsequently resulted in the Decision of the President of the Management Board concerning the establishment of a new Office for Business Development.

The Office for Business Development coordinates the development of strategic projects, identification of new potential targets in the expansion of business operations through acquisitions, mergers or strategic partnerships, communication with consulting firms and the investment community, as well as the preparation of the Company's strategic documents.

The functioning of this Office is significant for the Company's business development, as well as for the development of investor relations, presentation of Atlantic Grupa through communication with key financial and investment firms and for the participation in conferences that contribute to introducing the investment community to Atlantic's business activities and building the company's reputation.



THE SUPERVISORY BOARD OF ATLANTIC GRUPA

The joint stock company Atlantic Grupa has the Supervisory Board consisting of seven members. In 2009, the Supervisory Board held four meetings in accordance with the previously announced Schedule posted on the Company's and the Zagreb Stock Exchange's web pages.

The members of the Supervisory Board are:

Zdenko Adrović/President

Zdenko Adrović is the Chief Executive Officer at Raiffeisenbank Austria d.d. since 1996. During his twelve-year mandate, RBA developed into one of the leading financial institutions and received several awards from the Croatian Chamber of Economy as the most successful bank in Croatia. Furthermore, in 2006 and 2008, a respectable magazine, The Banker, awarded the bank with the "Best Bank in Croatia" award. Previously, he

was the Deputy General Manager of Privredna Banka Zagreb, where he also worked as the Manager of the Investment Banking Sector and the Executive Vice President in charge of treasury and liquidity. He was a member of the Supervisory Board in Pliva, Management Board of the Croatian Chamber of Economy and the Croatian Council for Competitiveness. He graduated in Foreign Trade at the Faculty of Economics and Business at the University of Zagreb

Lada Tedeschi Fiorio/Vice-President

Lada Tedeschi Fiorio began her career in Atlantic in 1997 as the Executive Director for Property Management. During the acquisition of Cedevisa in 2001, she acted as the leading negotiator with potential investors. In 2004, she was appointed Managing Director of Atlantic Italy. Before joining Atlantic, she acquired business experience working in multinational companies, Wrigley in Germany and Mars Masterfood in Poland and the United Arab Emirates. As Atlantic Grupa transformed into a joint stock company, she was appointed Vice President of the Supervisory Board of Atlantic Grupa. She graduated from the Università commerciale L. Bocconi in Milan, specializing in economics and she completed the Corporate Finance Programme at the London Business School.

Željko Perić/Member

Željko Perić is one of the leading Croatian experts for mergers and acquisitions with extensive experience in leading management positions. He is the Director of the consulting company Caper that specialises in mergers and acquisitions and strategic consulting. Before his successful career as an independent consultant, he was the President of the Management Board of Lura in the period during which the company was geared towards the national and regional expansion. Previous to that, he has been the Chief Financial Officer and a member of the Management Board of Pliva. He also worked at the Ministry of Foreign Affairs of the Republic of Croatia in the Department for Foreign Economic Affairs. He graduated in Foreign Trade at the Faculty of Economics and Business at the University of Zagreb, and gained additional professional education at the Harvard University and management schools such as Management Centre Europe (Brussels) and IEDC (Bled).

Siniša Petrović/Member

Siniša Petrović is an associate professor at the Commercial and Company Law Department at the Faculty of Law in Zagreb. In 1995, he was a legal advisor of the special envoy of the President of the Republic of Croatia for negotiations with the international community as well as a member of the delegation of the Republic of Croatia at the International Peace Conference for Bosnia and Herzegovina in Dayton. From 2000 to 2003, he was the Vice President of the Council for the Protection of Market Competition. He was also the Croatian representative in the Arbitration Committee of the International Chamber of Commerce. He participated in the drafting of regulations concerning companies, market competition, real estate agency, privatisation, sports and prevention of conflicts of interest in performance of public functions. He is a member of the Croatian Negotiating Team for the accession negotiations with the European Union. He graduated from the Faculty of Law at the University of Zagreb, where he also earned his master's and doctorate degree.

Karl Weinfurtner/Member

Karl Weinfurtner is the Vice President of DEG Invest, a German development bank which, through the recapitalisation process, became Atlantic Grupa's shareholder in November 2006. He is the Manager of Structural Finances for Agriculture, Forestry and Food Industry at DEG, where he is working for more than fifteen years. He started his career as an expert for agricultural policies at the Bavarian Farmers Association in Munich, and afterwards he was the German Farmers Association representative in Tanzania, where he planned and supervised educational and training programmes. Since 2001, DEG has been a member of KfW Bankengruppe, one of the largest German banks with AAA credit rating.

Aleksandar Pekeč/Member

Aleksandar Saša Pekeč is an associate professor in the Decision Sciences Area at the Fuqua School of Business of Duke University in the United States of America. He is an internationally acclaimed expert in design and analysis of choice, allocation and pricing mechanisms in complex competitive environments by combining methods from operations research, computer science and economics. Until 1998, he worked at the Danish University of Aarhus and, prior to that, at the Rutgers University in New Jersey where he also earned his Ph.D. degree. He is a leading Croatian economic scientist with tenure at one of the most renowned international academic institutions in the area of business management. He is also a holder of several professional awards and the author of numerous scientific papers. He graduated from the Faculty of Science at the University of Zagreb.

Eduardo Alberto Schindler/Member

Eduardo Schindler is the founder and President of the Management Board of the consulting firm 2thePoint with headquarters in Zurich, which deals in consulting on strategies, finances and mergers and acquisitions. He is a co-founder of the Alpinium Bank from Liechtenstein and founder and president of the Chilean Chapter of the Swiss-Latin American Chamber of Commerce. He was the Vice President of the acclaimed investment bank UBS Warburg in Zurich, where he also previously worked at one of the leading international consulting firms McKinsey&Co. The Swiss Stock Exchange officially recognised him as a referent expert in clients' representation for the issuing of securities. He is an associate member of the Swiss Financial Institute and the Executive School of Management in St. Gallen where he regularly teaches the subject of corporate finances. He earned his doctorate degree in International Economics at the Graduate Institute of International Studies in Geneva.

Three Committees function within the Supervisory Board with the purpose to assist the operation and functioning of the Supervisory Board: the Audit Committee, the Nomination and Remuneration Committee and the Corporate Governance Committee. Each of these Committees consists of three members, of which two are appointed from the ranks of the Supervisory Board members while one member is appointed from the ranks of top experts in the subject area.

The Audit Committee is chaired by Lada Tedeschi Fiorio, Karl Weinfurtner was appointed from the ranks of the Supervisory Board members, while Marko Lesić was appointed as the external expert. The Corporate Governance Committee is chaired by Siniša Petrović, Eduardo Schindler was appointed from the ranks of the Supervisory Board members and Hrvoje Markovinović was appointed as the external expert. The Nomination and Remuneration Committee is chaired by Željko Perić, Aleksandar Pekeč was appointed from the ranks of the Supervisory Board members and Goran Radman was appointed from the ranks of external experts.

The members of the said Committees, who at the same time are not members of the Supervisory Board, have the right to remuneration for their work and contribution to the functioning of the Supervisory Board of Atlantic Grupa in the net value of HRK 4,000.00 per held committee session.

The members of the Supervisory Board have been remunerated for their work and have the right to remuneration which is appropriate for the tasks performed as well as the Company's situation and business performance. All members of the Supervisory Board receive a gross monthly remuneration, which for the President of the Supervisory Board amounts to HRK 32,358.16, for the Vice President of the Supervisory Board amounts to HRK 26,702.13 while all other members of the Supervisory Board receive a gross monthly remuneration in the amount of HRK 13,351.06.

In 2009, the members of the Supervisory Board have received from Atlantic Grupa d.d. on all grounds the gross total value of HRK 1,386,774.41. From the above figure, individual members of the Supervisory Board have received remunerations in the following amounts:

Zdenko Adrović - HRK 388,297.92

Lada Tedeschi Fiorio – HRK 320,425.56

Karl Weinfurtner - HRK 120,480.00

Siniša Petrović - HRK 160,212.72

Željko Perić - HRK 160,212.72

Eduardo Schindler – HRK 117,458.92

Aleksandar Pekeč – HRK 119,686.57

THE MANAGEMENT BOARD OF ATLANTIC GRUPA

The Management Board of Atlantic Grupa consists of the President and all Vice Presidents of the Company which in 2009 held 15 Management Board meetings. In June 2009, Tomislav Matusinović, who until then held the position of Executive Director of the Consumer Health Care Division, was appointed a member of the Management Board and Vice President of the Consumer Health Care Division.

Emil Tedeschi/President of the Management Board

Emil Tedeschi is the founder and majority owner of Atlantic Grupa. In his business career, before founding Atlantic Trade, on the grounds of which the Company developed, he was, *inter alia*, the director of the Milan subsidiary of Meteor Holdings Ltd. London, one of the largest European paper and cellulose trading companies. In 2002 he was named Manager of the Year by CROMA, in 2005 he was selected the CEO of the Year by the Croatian business magazine Privredni Vjesnik, and in 2006 and 2008 he was named Businessman of the Year by the expert jury of Kapital Network.

He is a member of the National Committee for Monitoring Negotiations for the Accession of the Republic of Croatia to the European Union and a member of the Social and Economic Council. He was the president of the Croatian Employers' Association (HUP), where he has been an active member from its establishment, and his term ended in 2007. He is also a member of the INSEAD Alumni Association and a member of the Programme Council of the Zagreb School of Economics and Management. Additionally, he is the Vice President of the Supervisory Board of RTL Croatia and an Honorary Consul of the Republic of Ireland in the Republic of Croatia. He is also a member of the Young Global Leaders at the World Economic Forum and a member of the Business Advisory Council for South East Europe.

He was appointed a member of the Economic Council of the President of the Republic of Croatia. Additionally, he received the award Seal for the regional business leader in 2009 given by Večernji List of Bosnia and Herzegovina.

Mladen Veber/ Senior Vice President of Business Operations

Mladen Veber joined Atlantic in 1996 as the Director of the Rijeka Distribution Centre, while as the General Manager of Ataco (a partnership company in BiH) he made a key contribution to its development as one of the leading distributors in BiH. In July 2001, he was appointed Vice President of Atlantic Trade responsible for brand management and international markets. In 2006 he was appointed Senior Vice President for Business Operations for all three divisions of Atlantic Grupa. Since 2001, he has been a board member of the Trade Association Council of the Croatian Chamber of Economy. He is the President of the Management Board of the basketball club Cedevita. He graduated at the Faculty of Mechanical Engineering and Naval Architecture at the University of Zagreb, and continued his education at the IEDC in Bled.

Neven Vranković/ Vice President of Corporate Affairs

Neven Vranković joined Atlantic Grupa in 1998 as the Executive Director of Corporate Affairs. In 2001 he was responsible for Atlantic Grupa's merger and acquisition activities, while in 2002 he was appointed Vice

President of Corporate Affairs. His extensive business experience includes working in the legal department of Bergen Bank in Norway and as a career diplomat at Croatian embassies in Washington and Belgrade. He is a member of the Working Group for Preparing Negotiations for the Accession of the Republic of Croatia to the European Union for Chapter 6 – Company Law. He graduated from the Faculty of Law at the University of Zagreb and received his master's degree from the Washington College of Law in the USA. Furthermore, he gained additional knowledge at INSEAD in France, where he completed Strategic Issues in Mergers and Acquisitions.

Zoran Stanković/ Vice President of Finance

Zoran Stanković joined Atlantic Grupa in February 2007 at the position of Vice President of Finance. For the previous four years he had been working at Pliva as the Director of Controlling responsible for the coordination and supervision of financial activities of the Pliva's network of companies, domestic and abroad. Before his arrival to Pliva, from 1995 to 2003, he worked at Arthur Andersen and Ernst&Young as Senior Audit Manager responsible for key accounts. He is a member of the Croatian Association of Certified Auditors as well as a member of the International Association of Chartered Certified Accountants. He Graduated from the Faculty of Economics and Business at the University of Zagreb.

Srećko Nakić/ Vice President of Distribution Division

Srećko Nakić has been building his career at Atlantic from 1994 and he participated in all phases of the Company's development. He began as a sales representative in Atlantic Trade and in 1995 was already appointed Director of the Distribution Centre in Split and, two years later, the Distribution Centre in Rijeka was also added to his list of responsibilities. In 2002 he became the Company's Vice President responsible for overall sales and distribution in the Croatian market. In April 2005 he was appointed Atlantic Grupa's Vice President of the Distribution Division. He is responsible for managing the distribution system of Atlantic Grupa for the entire region of South East Europe. He attended the Faculty of Maritime Studies in Split and completed the General Management Program at the IEDC Bled School of Management.

Marko Smetiško/ Vice President of Pharma Division

Marko Smetiško joined Atlantic Grupa in 2004 at the position of Vice President responsible for the Customer Health Care Division. Before coming to Atlantic Grupa, he worked in Pliva as the Director of the Business Programme of Pharmaceuticals. In 1999, he joined Lura as the Executive Director of Sales and Marketing, while in 2002 he became a member of the Management Board for Sales and Marketing at Belupo d.d. Throughout his business career he was a member of supervisory boards of Medika and Pliva's company in Poland. He graduated from the Faculty of Medicine at the University of Zagreb.

Zvonimir Brekalo/ Vice President of Sports and Functional Food Division

Zvonimir Brekalo started his career in Atlantic Grupa in 2000, where he was responsible for distribution development of the Johnson&Johnson brand selection in the Croatian market. In 2001 he became Director of

Central Services of Ataco, and in 2003 a member of Neva's Management Board. After Neva's acquisition in 2003 and Haleko in 2005, his key contribution was integrating the new companies within Atlantic Grupa, with direct responsibilities for sales and marketing, as well as business development activities in export markets. In 2007 he was appointed Vice President of Atlantic Grupa responsible for the Sports and Functional Food Division. He graduated dental medicine at the Medical Faculty at the University of Zagreb, and continued his education at the IEDC Management School of Business in Bled.

Tomislav Matusinović/Vice President of Consumer Health Care Division

Tomislav Matusinović came to Atlantic Grupa in 2002 to the position of Vice President of the Management Board of Cedevida in charge of sales and marketing, and later held positions of Atlantic Grupa's Executive Director for External Markets and Executive Director for Brand Management. In February 2008 he was appointed Executive Director for the Consumer Health Care Division. He came to Atlantic Grupa from the company Agrokor where he worked as the Corporate Projects Director. Previous to that, for nine years (1992-2001) he was developing his career in the company Coca-Cola Adriatic where he was the Regional Technical Operations Manager in charge of markets of Slovenia, Croatia and BiH. He graduated from the Faculty of Chemical Engineering and Technology, where he also earned his master's degree.

Remuneration Policy for Management Board Members

The contract on performing activities of a member of the Management Board i.e. the employment contract for board members who are employed at AG lays down the rights and obligations of board members based on their function as the Management Board members, as follows:

- monthly salary for board members, set in the gross amount
- annual bonus (bonus remuneration) per year of contract duration, set in the defined percentage of the realised principal annual gross salary and remuneration on the grounds of membership in supervisory boards of associated companies. The payment of the annual bonus is conditioned on the realisation of planned business results in the ratio of at least 90% of the EBT plan for the consolidated AG's business year. For board members, bonus coefficient is calculated from the EBT coefficient and the performance evaluation by the President of the Management Board, while for the President of the Management Board this is performed by the Supervisory Board. The payment of bonus remunerations, under provision that all contractual criteria were satisfied, is performed in a way that 55% of the realised bonus amount is paid in cash, while the remaining percentage of the realised bonus is paid under the Share Option Programme by acquiring own shares of Atlantic Grupa. For the President of the Management Board, the whole bonus remuneration amount is paid in cash.
- life insurance policy for the members of the Management Board contracted by Atlantic Grupa at the reputable insurance companies in Croatia, with the annual premium of EUR 2,200 in kuna countervalue.
- personal accident insurance policy

- voluntary health insurance policy, whose system includes the Management Board members, with which Atlantic Grupa, as the insurance contractor with an annual premium of HRK 7,500 per person, provides a quality health treatment through an annual comprehensive health examination, any required specialist medical tests through the application of most contemporary and efficient medical tools and equipment in specialized polyclinics with the best health experts.
- right to use an official vehicle, right to compensation of all costs incurred by the Management Board member while performing his/her function.

All Management Board members have manager contracts which include a whole set of binding provisions as well as stimulative ones, as follows:

- confidentiality clause – board members are obliged to keep the Company's business secrets confidential during and after their employment, regardless of the reasons for employment termination. The obligation of confidentiality extends to business secrets of AG's associated companies as well.
- no-competition clause – binds a board member to a period of one year from the date of receiving severance pay, if he/she is entitled to it.
- contract penalty - in case of breaking the no-competition clause, any board member shall be liable to pay the contract penalty in the amount of twelve average net monthly salaries paid to that board member in the period of three months before contract termination.
- prohibition of participation of any board member in the ownership and/or management structure, whether directly or indirectly, in any company which is in market competition with Atlantic Grupa and associated companies, or in a company with which Atlantic Grupa and associated companies have business cooperation, as well as to act as an advisor or consultant in such companies, regardless of being paid or not for such activities.
- performance of other activities as a board member, except those performed for Atlantic Grupa's associated companies, regardless of being paid or not for such activities, including also the membership in supervisory boards, advisory bodies, etc. shall only be allowed pursuant to the prior approval of the Management Board of Atlantic Grupa.
- employment, contract duration and termination periods – board members are as a rule employed for an indefinite period in Atlantic Grupa or its associated companies, and the contract on performing the function of a board member is concluded for the period of 3 years, with the possibility of termination in accordance with the periods prescribed by law.
- severance pay – severance pay is contracted in the amount of six average monthly gross salaries of the board member and gross remunerations based on the membership in supervisory boards of associated companies paid to that board member in the period of three months prior to contract termination. The obligation of severance payment occurs in a case of contract termination by Atlantic Grupa in the period of its duration, unless the contract is terminated due to reasons caused by the fault of the board member.

In 2009, Management Board members received from Atlantic Grupa d.d. on all grounds the gross total value of HRK 18,788,195.69. From the above figure, individual Management Board members received remunerations in the following amounts:

Emil Tedeschi

- salary and SB remuneration in the amount of HRK 2,118,229.97 paid in equal monthly instalments and annual bonus in the amount of HRK 1,051,991.99, or the total gross amount of HRK 3,170,221.96.

Mladen Veber:

- salary and bonus – paid in shares and cash, remuneration in the total gross amount of HRK 2,815,782.77.

Neven Vranković

salary and bonus – paid in shares and cash, remuneration in the total gross amount of HRK 2,597,523.29.

Marko Smetiško:

salary and bonus – paid in shares and cash, remuneration in the total gross amount of HRK 2,117,934.07.

Srećko Nakić:

salary and bonus – paid in shares and cash, remuneration in the total gross amount of HRK 1,903,339.86.

Zoran Stanković:

salary and bonus – paid in shares and cash, remuneration in the total gross amount of HRK 2,176,090.91.

.

Zvonimir Brekalo:

salary and bonus – paid in shares and cash, remuneration in the total gross amount of HRK 2,461,428.63.

Tomislav Matusinović:

salary and bonus – paid in shares and cash, remuneration in the total gross amount of HRK 1,545,874.20.

BUSINESS SUMMARY 2009

DISTRIBUTION DIVISION

With its business activities related to distribution and the turnover realised in the market of South East Europe so far, Atlantic Grupa developed into a leading distributor of high-quality consumer goods whose distribution portfolio includes brands of regional and global production leaders. This Division is characterised by a highly

developed know-how in the fields of customer management, product category management, supply chain management and trade marketing, which is continuously adapted to market trends. The distribution portfolio is continually expanded so at present Atlantic Grupa is an exclusive or authorised distributor of the following renowned international brands:

- William Wrigley Jr. Co.
- Ferrero
- Duyvis
- Johnson&Johnson
- Nestle Purina Pet Care
- Hipp
- Durex
- Duracell
- Scholl
- Lorenz Snack World
- Manner
- Vivera
- Imperial Tobacco
- Rauch
- Zvečevo
- Italfood
- Nestle
- TDR

as well as the following brands from its own production programme:

- Cedevida
- Melem
- Plidenta
- Rosal
- Dietpharm
- Multivita
- Multipower

Of the listed brands, altogether nine brands from Atlantic Grupa's distribution portfolio have the status of Superbrands, three of which are company's own brands (Cedevida, Plidenta, Melem), and six are principals' brands (Wrigley, Ferrero, Nutella, Kinder, Johnson&Johnson, Duracell, Durex).

In the course of 2009, the Division's business activities were marked by the intensive development of distribution channels and, by the end of the business year, the Company's distribution was present in more than 50,000 points-of-sale, including the BiH market, of which 15,000 HoReCa (hotels, restaurants, cafes) points-of-sale, 1,000 electronic and technical goods stores, 300 specialised sports facilities and the remainder of almost 34,000 consumer goods retail points-of-sale.

During 2008 and 2009, Atlantic Grupa additionally strengthened its distribution portfolio with new distribution programmes of world-known brands, thus confirming its strategic focus on developing the distribution segment of business operations as an important lever in the overall operations of Atlantic Grupa.

Atlantic Grupa marked the entry into 2009 with a significant expansion of its distribution assortment by concluding a contract with Karolina d.o.o., a well-known Croatian manufacturer of biscuits and salty snacks, and by taking over Karolina's well-known brands into its distribution portfolio: Jadro, Bobi and Moto, which have a significant position in the overall sales product mix in this segment, both in the territory of Croatia and the whole region.

That Atlantic Grupa is considered by foreign manufacturers as a strong distribution partner was once again confirmed with one of the leading global producers of candy products Ferrero in the Slovenian market. Atlantic Grupa will distribute Ferrero brands, including Nutella, Kinder, Ferrero Rocher, Raffaello and Mon Cheri.

Cooperation with the company One2play in the segment of impulse toys and well-known licences such as Winx, Bratz, Gormits and others in the markets of Slovenia, Croatia and Macedonia ensures the continuity of cooperation with manufacturers who recognise market trends. The expansion of cooperation with one of the leading European juice manufacturers, the company Rauch, enables the strengthening of the distribution position in the drinks segment and ensures synergy effects in that segment with the existing products like Cedevida GO. With joint cooperation and a new approach in the marketing mix, the growth of the market share is expected for known Rauch products: Happy Day, Nativa, Bravo, Cafemio, etc.

In addition to Serbia, in which, in cooperation with Nestle and its brand Nestle Purina, we expect a growth larger than 50% in relation to 2009 in the segment of pet food and equipment, the cooperation was also extended to the market of Macedonia.

In 2009, the Distribution Division realised sales of HRK 1,318.7 million, a 14.1% increase in comparison with 2008. The Division achieves successful results through organic sales growth as well as the inclusion of new brands in its distribution portfolio.

The distribution network of Atlantic Grupa has 16 distribution centres: Zagreb, Osijek, Rijeka, Split, Široki Brijeg, Sarajevo, Tuzla, Laktaši, Bihać, Ljubljana, Beograd, Novi Sad, Niš, Čačak, Podgorica and Skopje, covering the markets of Croatia, BiH, Slovenia, Serbia, Macedonia and Montenegro and provides its international principals with distribution services of the highest standard in all those markets, with direct access to more than 50,000 points-of-sale in the area of South East Europe.

CONSUMER HEALTH CARE DIVISION

The strategic direction of Atlantic Grupa is to constantly increase the production and sales of its own products and own brands. A large number of Atlantic's brands in the segment of instant vitamin drinks, food supplements, teas, candies, sandwiches, cosmetics and personal care products are market leaders not only in the Croatian, but in the South East European market as well. Considering that the manufacturing of these products is the main activity of the Consumer Health Care Division, this makes the Division a significant regional manufacturer of products intended for healthy nutrition, good looks and modern lifestyle.

The Consumer Health Care Division's most prominent products are known on the market as the following brands; instant vitamin drinks like Cedevita and Multivita, consumer teas like Cedevita tea, Naturavita herbal tea, food supplements and medical-purpose products like Dietpharm products, Montana sandwiches, Multivita effervescent tablets, Plidenta toothpaste, face and body cosmetics Rosal, lip care sticks Lip Balm and widely known universal protective cream Melem.

Consumer needs, especially with regard to product quality and innovation, are continually growing. Aware of that fact, the Consumer Health Care Division introduces around thirty new and innovated products per year.

As the quality and safety of products are key factors of acquiring and maintaining consumer trust, high product quality is ensured by systematic investments in knowledge, equipment, technical skills, marketing and consumer communication. The Division's quality management systems are complying with the strict international standards.

In 2009, the Consumer Health Care Division realised sales in the amount of HRK 496.8 million, which represents a 10.8% growth in relation to the sales realised in 2008. Out of the total sales, HRK 220.4 million was realised in foreign markets while the share of exports in the total sales grew from 38% in 2008 to 44% in 2009.

The Consumer Health Care Division is structured in two segments: health food products and personal care products.

Segment of Health Food Products

Instant vitamin drinks are the most significant product category in the health food segment. For the purpose of instant vitamin drinks production, an investment of increasing the granulation capacity was realised in 2009. With this investment, the annual production capacity of granulates for instant drinks was increased to 14,000 tonnes. In addition to increasing the capacity, the investment also resulted in a significant increase of work productivity. This in turn created the prerequisites for the transfer of technology and relocation of the production of instant vitamin drinks of the brand Multivita from Hemofarm, Vršac, to its own production facility.

The total of 8,400 tonnes was manufactured in 2009, which is the largest realised production of instant vitamin drinks until now.

In addition to investing in increasing the production capacity, considerable funds were also invested in environmental protection. A new modern cooling system was procured (due to the production increase) with the use of an ecologically acceptable cooling agent in compliance with international regulations and standards.

By following consumer wishes, the assortment of instant vitamin drinks is constantly supplemented and refreshed with new flavours. The newest flavour in Cedevita's product offer is lime, which was launched on the market in 2009. This healthy, modern drink is placed on the market packaged in 200 gram bottles for retail, while a 15 gram "stick-pack" packaging is intended for the HoReCa channel. With this, the broad range of flavours orange, lemon, grapefruit, mandarin, red orange and cranberry was expanded with one more flavour, lime. Same as other Cedevita products, Cedevita lime flavour is enriched with 9 most important vitamins essential for the organism's health and even one glass satisfies 50% of the daily vitamin requirements. Significant results in the instant vitamin drink product range are achieved by products intended for special consumers groups such as children and diabetics.

In 2009, instant vitamin drinks Multivita with flavours of orange, lemon, grapefruit, wild strawberry, forest fruit and Multivita Junior have been largely sold in the Serbian market.

The year 2009 has been marked as a great milestone for the Cedevita brand. In order to offer our consumers the option of having their favourite drink at any moment, anytime and anywhere, Cedevita GO! was launched on the market in February 2009. This innovative product represents an extension of the Cedevita brand in the so called on-the-go, plastic packaging suitable for consummation anytime and anywhere. Cedevita GO! is unique because it is an almost-ready-to-drink product, which represents an entirely new category in the regional market.

In fact, any Cedevita GO! bottle contains spring water while the bottle's cap contains Cedevita granules which by twisting the cap fall into water and the drink is ready then and there. This preserves both the freshness of vitamins as well as the top organoleptics of Cedevita right for the time of consummation.

Cedevita GO! was launched on all regional markets (ex-Yugoslavian countries) in two most popular tastes – orange and lemon and realised excellent results. For instance, in Croatia it realised a market share of 3.3% already in its first year, which is a considerable success in this highly fragmented market among strong competitors with a long-standing tradition in on-the-go drinks.

Cedevita GO! is an innovation for the company as well as for the market, whereby Atlantic Grupa once again showed that the mix of consumer care, following global trends and its own vision results in top products, innovative even on the global scale.

The assortment of Cedevita teas was expanded with new flavours and the packaging was redesigned. The novelties in the packaging are: modern design, practical perforation (opening), which allows for a simpler and easier use of the product itself. This innovative solution separates Cedevita teas from the competition. The listed novelties and activities have contributed to a strong second market position of Cedevita teas in Croatia and significant growths in closer regional markets.

An important step forward was made by the Consumer Health Care Division in candy production by relocating Pepermint's production equipment in its own production facilities in Croatia. Apart from the increased production capacity and reduced production costs, this also resulted in increasing flexibility in response to trends in this extremely competitive category. The range of Cedevida multivitamin candies has been expanded with a pomegranate candy, a line of Pepermint breath refreshment candies with new Orange and Strong flavours, while Cedevida candies for children were, in addition to the already present vitamins, also enriched with calcium. The assortment of Rondo C candies was expanded with 2 new fruit mint candies, Watermelon Mint and Kiwi Mint.

The product range expansion contributed to a 20% sales growth in 2009. In the category of impulse candies, in 2009 Cedevida's product mix had 21% of the market, thus holding its 2nd position among the impulse candy manufacturers, behind only the leading global player Wrigley.

The production of sandwiches with prolonged freshness under the brand Montana Plus was in the last year marked by increased marketing activities of celebrating 10 years of Montana quality. New mini sandwich packages were introduced and the assortment was extended to the sweet segment by introducing pies and cakes. All these activities resulted in an 8% sales increase in 2009 in comparison with the previous year and in preserving the leading position in the Croatian market, which is still firmly in the hands of Montana plus d.o.o.

In 2009, the Consumer Health Care Division of Atlantic Grupa realised sales revenues of HRK 423.6 million in the segment of health food products, of which HRK 196.1 million was realised in foreign markets.

The total sales growth was 14.5% in 2009, while the share of exports in the total sales increased from 40.5% in 2008 to 46.2% in 2009. The most significant impact on the sales growth in this product segment of the Division was achieved by introducing a new product group, Cedevida GO, which in its first year realised sales in the amount of HRK 41.9 million.

In its health food products segment, the Consumer Health Care Division will base its further growth on the development and improvement of instant vitamin drinks, food supplements, teas, sandwiches, candies and products intended for consumers with "on-the-go" habits.

Segment of Personal Care Products

Near the end of 2009, an opening ceremony of the new plant for the production of cosmetics and personal care products was held in Rakitje near Zagreb. The amount of HRK 32 million invested into the construction and equipment of the new plant represents Atlantic Grupa's largest investment in the segment of cosmetics and personal care products. The construction of the new plant complies with the modern technological, ecological and urban-planning requirements and supports the set strategy of increasing production and employment, improving the quality and stability of business operations. Atlantic Grupa is strategically focused on systematic growth of production and exports with constant improvement of production and overall business processes.

With the Division's range of personal care products – “dental care”, “lip care” and “facial care”, Atlantic Grupa successfully shares the leading position in the domestic market with other multinational companies with similar product offer. In the given business segment of this Division, special position is given to the brands which are very successful in the domestic and regional markets such as Plidenta, Melem and Rosal Lip Balm. With its own brands Atlantic Grupa in 2009 retained the first or second market position within highly competitive categories like toothpaste, lip care or universal care.

The research laboratory of the Consumer Health Care Division is developing lasting, safe and dermatologically tested cosmetic product formulations while using only top-quality ingredients and, regardless of the excellent success of the existing brands in this production segment of the Division, by engaging experts in the field of marketing, chemical sciences and technology. This business segment of the Division is permanently focused on further product development and improvement with the goal of fulfilling the ever-growing consumer needs as well as regulations in accordance with EU guidelines.

By following global trends, the Consumer Health Care Division launched a reformulated assortment of Rosal Soléal products which offers consumers a wide spectrum of sun care products; from the highest protection factors SPF 50 to low protection factors like SPF 15, as well as sun care for babies (or small children) and after sun care.

Like every other year, the lip care product line ROSAL LipBalm introduced novelties and by keeping in line with consumer demands, launched ROSAL LipBalm City Red which contributes to the lip care segment in the direction of decorative cosmetics. This also strengthened the position of this brand which as a brand not only follows trends, but creates them as well.

Apart from the focus on building its own product assortment, a part of the Division's activities in this business segment also relates to manufacturing personal care products under other private label brands for leading domestic and international clients.

The quality and environment management system has been integrated into all the processes and functions in the segment of personal care products of Atlantic Grupa's Consumer Health Care Division, ranging from market research and new product development, production and control, to the monitoring of product application in end use. The present Integrated Process Management System has been designed in accordance with internationally recognised standards ISO 9001:2000 and ISO 14001:2004 which affirms the strategic direction of Atlantic Grupa in this field. The production of Atlantic Grupa is ecologically clean with installed devices for environmental protection. The system is constantly being developed and improved through the prevention of potential errors and continuous quality innovation based on scientific and market research.

In 2009, the Consumer Health Care Division realised sales revenues of HRK 73.2 million in the segment of personal care products. International sales of the Consumer Health Care Division in this segment amounted to HRK 24.3 million. The share of exports in the total sales increased from 29% in 2008 to 33% in 2009. The most

significant product lines of Atlantic Grupa in the segment of personal care products are still Plidenta and Rosal Lip Balm, which make up 49% of the total realised sales.

The main export markets are ex-Yugoslavian countries, of which the largest export market is Bosnia and Herzegovina where 18% of the total turnover in the segment of personal care products was realised, and in 2009 sales increased by 6% in relation to 2008.

The Consumer Health Care Division's future development and growth in the segment of personal care products will be directed at further development of the product range in the segment of health protection and dental care, universal creams and lip care, as well as at opening new export markets.

SPORTS AND FUNCTIONAL FOOD DIVISION

According to the Sports and Functional Food Division's business results, Atlantic Grupa is the leading European producer of sports food under the brand Multipower. Thirty three years of tradition and a leading position in the sports food segment have resulted in a diverse production programme that includes drinks, powder products, concentrates, supplements and energy bars and the establishment of the current leading brands on the international market in this product segment: Multipower, Multipower Professional, Multaben, Champ and Megaslim. Production processes are certified by ISO 9001:2000, IFS, while the plant is located in Bleckede and the Division is based in Hamburg.

The Division's production is based on the idea of continuous development of new innovative sports and health food products in line with following the trends in modern markets and needs of end consumers. Due to the specific consumer group to which the products of this Division are intended, special distribution channels have been developed in fitness centres, sports shops, pharmacies and drugstores covering over 35,000 points-of-sale across Europe while constant care is given to continuous training of sales teams, partners and end consumers.

In the course of 2009, the principal focus and feature of the Division's business activities was on changing the design and packaging of the Division's main brand – Multipower. In line with current market trends, the visual identity of the brand was altered with emphasis on more distinct accentuation of the product name, while the powder-based products also experienced a change in packaging – former tin can doses were replaced by very modern, semi-transparent PET doses. The last step is to change the visual appearance of water-based ready drinks, which will be finalised in 2010. The entire 2009 was dedicated to establishing the new product line Active, and the first results are encouraging.

All three changes of distributors made in 2008 showed that such decisions were justified and in 2009 created the grounds for a healthy and successful business in these important markets. Additionally, a strategic cooperation was arranged with our Swedish partner, Bringwell Group, in which we are manufacturing their brand in our production facilities in Bleckede.

In the segment of private label products, after in 2008 managing to expand cooperation with our largest buyer Herbalife in the segment of powder products (H3O – isotonic powder), in 2009 the Division started negotiations for additional expansion of cooperation in the segment of powder products (soups and powdered protein drinks). This would further strengthen and secure our cooperation with this strategic buyer and additionally fill up free capacities in Bleckede.

The IFS certification process was successfully finalised in the end of 2009, so from that moment forward our own production plant meets the highest standards of this industry, which will provide the option of winning over new customers and partners to whom this certification is one of the prerequisites for cooperation.

In 2009, sales in the amount of HRK 492.7 million were realised, which is a 2.9% increase in relation to 2008.

In the following period, the Sports and Functional Food Division's business efforts will be focused on further penetration and strengthening of our position in new distribution channels (specialised stores for endurance sports, running, bicycling, triathlon), followed by targeted expansion in strategically most important markets (UK, Russia, Scandinavia, Italy), expanding the distribution and presence of our brand Multipower outside the specialised channel (more quality organisation of internet sales and gradual expansion toward the drugstore retail) and introducing new principals to the markets of Germany, Great Britain and Italy, in which the Division participates with its own distribution.

From the marketing aspect, which in recent efforts manifested in the establishment of excellent sponsorship cooperation with the German Handball Association, sponsoring the bicycling team Milam, Skil Shimano team, and in realising sponsorship cooperation with the Croatian Olympic Committee in 2008, the Division in the following period also intends to turn its communication strategy more towards the end consumer and in that way create the demand for its products. The market launch of the Active product line created the preconditions for such an approach and opened the Division's way to a significantly larger consumer group. Furthermore, focus will be on unified communication with all the markets and the visual design of all promotional materials and web pages in all markets will be integrated for the first time.

In addition to all of the above, the Division's main focus will still be on the production of new and innovative products, whereby more emphasis will be placed on making quality improvements and less on the number of such innovations.

PHARMA DIVISION

Pharmacy Business

In the course of 2009, Atlantic Grupa finalised the first phase of consolidating and establishing the pharmacy business in Croatia and the current turnover of over HRK 300 million puts us in the leading position within the pharmacy business segment in the Croatian market.

In line with its announcements, in 2009 Atlantic Grupa realised further growth and concentration of the pharmacy business through acquisitions and organic growth.

In 2009, the Pharma Division opened the total of 10 new business units, of which 4 pharmacies and 6 specialised stores for retail sale of OTCs and food supplements.

The four new pharmacy units were opened in the area of Zagreb and Zagreb County, of which two in newly opened shopping centres Garden Mall and West Gate, and pharmacies in Stupnik and Gračani. With the opening of five specialised stores for retail sale of OTCs and food supplements within the business system Konzum, the strategic partnership agreement between Atlantic Grupa and Agrokor was fully realised in October 2008.

Furthermore, in August 2009 another specialised store for retail sale of OTCs and food supplements was opened in Varaždin, within the shopping park Supernova.

In line with its strategy of further growth and concentration of its pharmacy business, Atlantic Grupa concluded a strategic partnership agreement with the Health Institution Dvoržak by acquiring a share in the company Livia d.o.o, which is the owner of this health institution, previously held by Pharma Investment from Iceland.

Livia d.o.o, established by the Dvoržak family, owned ten pharmacies and five specialised shops for the sale of OTCs and medicinal products throughout the territory of Croatia. Pursuant to the strategic partnership agreement, the final goal of this transaction is to separate 12 pharmacy units – seven pharmacies and five specialised shops – from the company system of Livia and their 100% takeover by Atlantic Grupa. After separating these 12 pharmacies and specialised shops and their integration into the system of Atlantic Grupa, the pharmacies remaining under the management of the Dvoržak family will continue their business operations in a strategic partnership with the Atlantic's pharmacy chain Farmacia. The partnership will be realised through the joint coordination and management of purchasing, marketing, education and other professional activities.

The integration of new business units, implementation of the integrated IT platform for the pharmacy and accounting segment and the introduction of Atlantic Grupa's proven business processes will be continued in 2010 as well.

The process of organising the central supply system which started in 2008 was successfully finalised in 2009, which resulted in a significant unburdening of pharmacy personnel from the technical part of the job and created the opportunity and time for improved patient care and visits. Additionally, the centralisation of the supply

system also had an important effect on optimising the stock status in pharmacies, as well as on maximum creation of additional revenues through the terms contracted with the suppliers.

In its effort to integrate all business units into a single pharmacy system, in 2009 the Pharma Division worked intensely on the development of its own, recognisable visual identity. This was primarily reflected in the interior design of all new business units, which follows all professional standards and trends and enables the implementation of all elements of modern pharmacy and the provision of top pharmacy services coupled with an individualised patient approach. Furthermore, considerable investments were made in renovating and reconstructing some business units and this activity will, when possible, also be continued in 2010.

For the purpose of achieving a single visual identity, the standards of displaying and advertising products in the pharmacy chain Farmacia were defined and implemented. Except for their own goals, these standards also bring significant benefits to all business partners of Atlantic's pharmacy chain. Activities in any point-of-sale are defined and contracted and are continuously carried out in all business units which for Farmacia's partners means a sure return on any investment in a point-of-sale.

With the aim of further improvement of point-of-sale services, Atlantic Grupa, following the global trends, will in 2010 introduce a single digital media system with central content management in all pharmacies and specialised shops. This innovative approach will provide the customers in our pharmacies with quality and timely information related to health preservation, new products and our activities.

Moreover, in 2009 the Pharma Division successfully continued its projects related to career development and competence development in pharmacy, as well as the professional training of employees.

In its first year since establishment, the Education Centre Farmacia realised a truly rich programme of trainings for masters of pharmacy and pharmacy technicians and health professionals employed in our pharmacy institution. In accordance with the basic goal to provide in our pharmacies additional counselling and pharmacy care and to raise and even up the quality of our service in line with the global standards and modern trends in pharmacy, we worked intensely on trainings and reorganisation of professional competences in the pharmacy segment.

This year the Centre held as much as 36 professional lectures and workshops with prominent lecturers from the fields of sociology, pharmacotherapy, gynaecology, pharmacovigilance, aromatherapy, nutritionism, dermocosmetics, otorhinolaryngology, physical medicine, apitherapy and phytotherapy.

The trainee programme includes 20 trainees and 17 mentors within the special training system. Within the framework of personal development, trainings in the field of communication and sales skills, marketing, IT and finances were organised and enriched by the exchange of experiences within the company using own resources – professional knowledge and competences of our colleagues who also proved to be great lecturers.

Our employees participated in all significant training programmes in professional institutions, such as the Symposium of Pharmacists, World Congress of Pharmacy and other professional conferences.

Our pharmacies adopted and implemented their own new professional code of conduct and rules of financial conduct which standardize and ensure the high level of pharmacy services.

As an important contribution to public health, we designed and organised a school on how to quit smoking and counselling services called "Personal Pharmacist". We collaborated with professional institutions in England and also visited and were introduced to the pharmacy system and national education and university programmes in Scotland. In addition, new programmes were initiated relating to competence development for pharmacists and taking over a more responsible role in the treatment of our patients.

The first results of competence testing have been presented at the international FIP congress held in September 2009 in Istanbul.

Within the process of documenting pharmacy care, all masters of pharmacy formed their own portfolio containing the register of all medical interventions and medication reviews as well as the reported side effects and interactions of medicines.

Our pharmacists achieved a sufficient number of points to renew their licence for 2009 within the score system of the Croatian Chamber of Pharmacists.

On 31 December 2009 we also opened new premises of the Education Centre in Heinzelova 47B with the capacity of 60 participants, equipped with modern audio video equipment and an IT workshop equipped for 12 participants.

Fidifarm d.o.o. production of medicinal and dietary products

Wholesale Drugstore Business

According to the development defined and planned in 2008, in March 2009 Fidifarm expanded its business operations by establishing its own wholesale drugstore. The target was to strengthen the position of its own brand Dietpharm in the Croatian market and to establish the company as a reliable and quality distributor of quality national and international brands intended for pharmacy chains and specialised stores.

Since March 2009, Fidifarm realised 40% of Dietpharm's sales results in direct distribution to 567 pharmacies and specialised stores out of the total of 1,200 distribution points in the Republic of Croatia. The remaining sales results were realised through sales to other wholesale drugstores which further distributed Dietpharm's product assortment on the market.

By activating the wholesale drugstore with the business concept of exclusive distribution, new opportunities for expanding and developing distribution in all pharmacies and specialised stores in Croatia opened up, so after only 4 months of active business, 100% of the wholesale drugstore's distribution targets were realised as well as the direct cooperation with all 1,200 distribution points.

The wholesale drugstore's product offer, in addition to the brand Dietpharm, was expanded with a substantial number of brands from Atlantic Trade's distribution mix (Wrigley, Johnson&Johnson, Durex, Scholl Care and Footwear, Vivera, Cedevita and Neva) and, since May 2009, also with new distribution contracts for the OTC

portfolio SSL, Hungary and Stada Hemofarm, Serbia thus expanding the offer of OTC products for around ten new articles. The drugstore's product offer also contains the Israeli dermal and preparative cosmetics AHAVA, which are exclusively distributed in Croatia by Fidifarm.

Apart from the wholesale drugstore's warehouse in Rakitje, a regional warehouse for Dalmatia was also organised through the logistics partner Medika Split which provides Fidifarm with the services of storage, commissioning and delivery in the territory of Dalmatia.

With the purpose of faster optimising of the drugstore's sales results, the sales team in the call centre employs, along with Dietpharm's expert medical representatives, regional sales coordinators as well.

Through key client management and various marketing activities toward professionals and end consumers, further strengthening of the position and market shares of all products within the wholesale drugstore's assortment is expected.

Export Markets

With the brand Dietpharm, Fidifarm is active in six more markets in the region (BiH, Serbia, Montenegro, Macedonia, Hungary and Kosovo). The share of export markets in Dietpharm's total sales in 2009 is 30%.

The change of the exclusive importer and distributor in two largest foreign markets, Serbia and Bosnia and Herzegovina, at the beginning of 2009 resulted in a change of the work model and distribution method. The distribution in Serbia was taken over by ATLANTIC TRADE BELGRADE and in Bosnia and Herzegovina by the company ATACO, Široki Brijeg. Thus, Fidifarm has taken over complete control not only with regard to all marketing activities directed at end consumers, but also with regard to professional medical promotion activities directed at doctors. In both markets, the professional promotion is carried out through a quality sales team of medical representatives, while the marketing and ATL activities are carried out from Croatia.

Brand Dietpharm

At the end of 2009, Fidifarm's production programme consists of 97 products under the brand Dietpharm, of which four are market leaders in their respective category. In 2009, the product Magnezij 300, effervescent tablets, is one of highest-selling food supplements with 51% of market share and 61% of market value in its group (data by IMS Pharmis). In the course of 2009, the product assortment was expanded with eight new products in the category of functional food supplements (*Refemin Plus, Silimarin+Artichoke, Espresso Green, new version of Makulin Plus, Energy Up, Centravit Kids*).

A product with an exceptional market potential is *Refemin Plus capsules* for relieving menopausal discomforts. This product represents an addition to the present successful brand *Refemin*, which belongs to the segment of herbal preparations for relieving climacteric and menopausal discomforts. It is enriched with valerian and lemon balm extracts and therefore has an especially strong impact on the more pronounced symptoms of menopause

such as: stress, agitation, insomnia. These products are expected to make an additional step forward and take over an even larger market share (in 2009 Refemin and Refemin plus had a 59% market share and a 53% market value share in their category).

Another high-potential product is *Silimarin and Artichoke capsules* for liver protection. This product beats the competition with its composition and price, so even without large marketing investments it managed to take a significant market share in its category. Further market share increase is expected in 2010.

At the beginning of 2009, the weight loss product – *Espresso Green capsules* – was launched on the market. This product contains the protected and patented extract of decaffeinated green coffee which has a clinically proven effect on regulating body weight.

The Croatian market in the segment of products for pregnant women is gradually growing (5% growth in 2009). Fidifarm entered this market in 2008 with its product *Centravit Prenatal* and augmented its offer in 2009 with the product *Folna Kiselina (Folic Acid)*. As this is a quality product of a generic name, good acceptance by the profession and consumers is expected without more significant marketing investments.

Centravit Kids, chewing tablets, intended for children aged 4 to 12, also have a specially balanced formulation of vitamins and minerals. Fidifarm used the force of its cover brand for vitamin mineral products – Centravit to achieve a more successful entry into the market niche of food supplements that may be used by children.

Energy Up, effervescent tablets containing amino-acid, vitamins and minerals, are intended for anybody who needs to strengthen concentration, stay alert, alleviate a hangover and as such represents a unique product on the market.

In the category of functional cosmetics, two new products were registered: *Čajevac, eterično ulje (Tea Tree, essential oil)* and *Clean Hands* as a biocide.

Clean Hands spray is used for dry washing and disinfecting hands. It posted exceptional sales results during the period of epidemic and seasonal flu. In addition to isopropyl alcohol, it also contains benzalkonium chloride which was pointed out by the World Health Organisation as a wide-spectrum disinfectant which also has an antiviral effect. Considering its composition and guaranteed quality, *Clean Hands* holds a significant potential for use in medical institutions, during trips and in other similar conditions where the hygienic hand washing is not possible.

Čajevac, eterično ulje (Tea Tree, essential oil) is the only product on the market registered as special-purpose cosmetics. It is used as a skin antiseptic and helps to treat acne, herpes, insect bites and nail fungus.

Makulin Plus, the product containing lutein and specially formulated omega-3 fatty acids was technologically improved so that all ingredients are contained in one capsule. The product is an improved version of the existing product *Makulin*, which is the market leader in eye and eyesight protection. Together they cover 45% of the listed market in volume and 51% of the market value.

As an exclusive distributor of the known German company *Salus Haus*, specialising in the production of organically grown traditional herbal preparations, Fidifarm placed on the market *Alpenkraft* herbal syrup for relieving coughing and facilitating expectoration. This expanded the range of products that are, due to their top quality, well-accepted by pharmacists and end consumers alike.

Fidifarm owes its market position in the segment of dietary products to the high quality and constant introduction of new products as the result of long-term orientation towards research and development, compliance with all legislative requirements and meeting the ever-growing consumer needs. In 2009, as the long-standing leader in the Croatian market of food supplements, Fidifarm held the same market shares which it had in 2008. The market of dietary products dropped 3% in unit volume and grew 1% in value. The first competitor on the market continued its trend of decline and in 2009 experienced a further drop of 17% in unit volume and 11% in value. In recent years the market of food supplements is experiencing a decline in unit volume (2% in 2008) and a concurrent rise in value (1% in 2008), regardless of the rising number of competitors and different products present on the market.

The loyalty programme that joins the most loyal consumers of the brand Dietpharm – Health Club – was also in 2009 enhanced by gaining six new partners, health institutions, which offer numerous privileges to Health Club's members. In April 2009, an award programme was promoted which instigated an intense increase of the number of members of as much as 480%. Thus, at the end of 2009, Health Club has 15,100 members.

OTC Programme

In 2009, marketing authorisations for 9 medicines from the production agreement with Hemofarm were completed by the Agency for Medicinal Products and Medical Devices. At the same time, the activities required for the transfer of analytical methods and protocol validation were carried out in Fidifarm's own Quality Assurance laboratories. In this way all requirements of regulatory agencies with regard to analysing over-the-counter medicines may be fulfilled.

Out of the 12 registered OTCs, in 2009 Fidifarm was present on the market with 3 products: Purisan granules, Uvin H forte granules and C 1000 (on the market since July 2009) with the total turnover of HRK 1,285.729, which in value amounts to 0.32% of the total OTC market. In 2009, the OTC market realised the turnover of HRK 398,684,440, which is 3% more in comparison with 2008 (HRK 387,318,320).

Other Activities

In 2009, the reorganisation of the Purchase Department was carried out in a way of placing the processes of planning demand, purchase of starting materials, primary and secondary packaging, office supplies, small inventory, finished products and commercial goods, as well as the transport of goods to distributors in foreign markets into a single organisation unit. A more efficient stock management was established, which resulted in reducing stocks by 16%.

The present integrated quality management system, based on internationally recognised standards ISO 9001:2000 and the HACCP principles of food safety monitoring, has been additionally improved by introducing the rules of Good Manufacturing Practice (GMP) for pharmaceutical production. GMP rules were primarily

implemented in the processes of storage, production and distribution of medicines, but at the same time they represent the basis for continuous development and improvement of the integrated quality management system in all organisational units.

Production growth, new technological processes and use of new materials in production as well as laboratory activities require Fidifarm to take constant care of the environment and waste treatment. Since the end of 2009, disposal of all types of waste is carried out in cooperation with Atlantic Grupa's Support Functions.

Expectations

A more substantial future growth and development of Fidifarm is expected in the area of OTCs by placing on the market all medicines registered until now in close cooperation with doctors and pharmacists. Marketing activities will also be focused on end consumers by carrying out ATL and BTL activities. The production programme is planned to be increased through cooperation with new contracted manufacturers.

In the segment of food supplements, growth is primarily expected through expansion into new markets under preparation, Russia and Slovenia. The further increase of the market share in Croatia is expected to be achieved by introducing new, innovative products in the category of herbal products, specific active substances, and by improving the existing vitamin-mineral formulations. The strengthening and expansion of the Health Club loyalty programme, which includes increasing the number of members, and new partners in pharmacies and health institutions, will be reflected in increased user consumption as well as the creation of new consumers.

In the markets with greatest potential, those of Serbia and Bosnia and Herzegovina, development will be focused on strengthening the market position through new distributors and the support of expert associates. The adaptation of the marketing approach to specific market requirements is expected to result in improved market establishment of the brand Dietpharm.

In the wholesale drugstore business, the aim is to further reinforce the position of our own brand Dietpharm. The introduction of new principals is expected to result in the growth of market shares while key client management and diversified marketing activities directed at professionals and end consumers are expected to result in the strengthened position of all products in the assortment of the wholesale drugstore.

FINANCIAL SUMMARY

Excerpt from the consolidated income statement of Atlantic Grupa for the year ended 31 December 2009

In million HRK	2009	2008	% change
Revenues	2,225	2,020	10%
Sales	2,199	2,003	10%
EBITDA	197	169	16%
EBIT	154	129	19%
Profit before tax	127	101	26%
Net profit	97	78	24%
Net profit after minorities	85	69	24%

Despite the unfavourable macroeconomic environment, Atlantic Grupa in 2009 fulfilled the announced expectations due to the stability of its business model and the dedication of its employees. With a 10% growth of sales revenues to HRK 2,199 million, considerable attention was given to cost management and business efficiency improvement which was reflected in a 16% growth of profit before interest, taxes, depreciation and amortization (EBITDA) to HRK 197 million. However, it should be mentioned that a part of EBITDA growth also refers to one-off expenses in the amount of HRK 7.6 million and therefore, if one-off expenses are excluded, EBITDA grew 12 percent to HRK 189 million. The company realised a 19 percent improvement of operating profit (EBIT) to HRK 154 million, or a 13% EBIT growth if one-off expenses are excluded, while the company's net profit was up by 24% in relation to the same period last year and amounted to HRK 97 million.

BUSINESS MODEL DEVELOPMENTS IN 2009 AND 1st QUARTER 2010

Consumer Health Care Division

Cedevita GO! – opportunity for Cedevita's further consumption growth through a new distribution channel

According to the latest results of the market research agency AC Nielsen, in the period from December 2008 to November 2009, the instant vitamin drink Cedevita dominated the Croatian IVD market with a 91.5% share. The management considers the holding of such a high market share to be the consequence of the strength and recognisability of the Cedevita brand, especially considering that, according to the data of the research agency Canadean, the entire Croatian market of non-alcoholic beverages in 2009 declined by 6.0% in relation to the same period last year. In the period from December 2008 to November 2009, Cedevita in the Slovenian market held the also dominant 85.1% share while the Slovenian market of non-alcoholic beverages in 2009 marked a year-on-year (yoy) decline of 3.3%.

According to AC Nielsen's data, since its launch in February 2009 (orange flavour, while lemon flavour was launched in June) Cedevita GO! gained 3.3% of the Croatian market of "on-the-go" drinks under conditions in which the entire "on-the-go" market (including all non-alcoholic drinks in packaging of up to 0.75l) recorded a

12.0% yoy volume decline or a 7.8% yoy value decline. Considering the time period required for the distribution coverage of the entire market and also the delay in launching lemon-flavoured Cedevita GO!, the management finds the achieved result satisfying when taking into account that the first-positioned competitor with a long-standing presence on the Croatian “on-the-go” market and with significant marketing resources holds a 15.1% market value share. This shows the strength of the Cedevita brand, but at the same time also the fragmented nature of the Croatian “on-the-go” market. In the period since the start of regional distribution (lasting from February to June) until the end of 2009, the total realised sales of Cedevita GO! amounted to HRK 50 million.

In 2009, Atlantic Grupa realised an investment in the value of HRK 32 million in Neva’s new production plant in Rakitje. With the aim of increasing the production efficiency of Neva’s assortment, the new modern production plant has a surface of 2,700 sq. metres on two floors and includes the infrastructure required for production, auxiliary warehouses and the water treatment system.

Distribution Division

New distribution agreements in 2009 and 2010 aimed at further balancing of the distribution portfolio

In 2009, Atlantic Grupa’s distribution activities started with the distribution of new programmes, of which the distribution of salty and sweet snacks from Karolina’s assortment, Ferrero’s programme for the Slovenian market and also Nestlé’s NESCAFE programme in the HoReCa channel should be mentioned. New distribution contracts had a positive effect for Atlantic Grupa as the distributor, but also for the principals since they provide them with distribution coverage of the entire market and good positioning of their product mix. In addition to the distribution agreements concluded in 2009, new distribution agreements concluded in the beginning of 2010 also indicate the strength of the company’s distribution business, the development level of the distribution infrastructure and the company’s strategic focus on three key factors: (i) strengthening the distribution position through geographic diversification of the distribution portfolio with a resulting decrease of marginal distribution costs, (ii) creation of the balanced distribution portfolio which enables easier overcoming of economic cycles and (iii) careful selection of principals.

- After concluding the distribution contract for the Slovenian market to distribute the brands Nutella, Kinder, Ferrero Rocher and Mon Cheri, one of the leading world manufacturers of candy products – **Ferrero** decided to hire Atlantic Grupa as its distribution partner for the **market of Serbia to distribute its refrigerated programme**, more precisely Milk Schnitte and Kinder Pingui, whose distribution started in February. Continuing the recent results achieved in the region, with this move Ferrero yet again showed its trust to Atlantic Grupa which continues to strengthen its regional distribution positions with new distribution contracts.
- After concluding the contract for the distribution of Rauch juices in the HoReCa channel in Croatia, Rauch decided to hire Atlantic Grupa also for the distribution of the overall **Rauch assortment in the entire retail channel** (including all types of juices, nectars, ice teas, isotonic and ice coffees under the brands Happy Day, Bravo, Nativa, Rauch Ice Tea) with the beginning in March.

- In the beginning of March, the distribution of the **impulse product assortment of the company One2play**, one of the leading domestic suppliers in the segment of toys, multimedia contents, etc. of known licence owners like Disney, Gormits, Ben Ten, etc. started. The distribution of the impulse product assortment in the markets of Croatia, Slovenia and Macedonia includes the distribution of product groups like mini toys, toys containing sweets and cartoon DVDs. The distribution of this assortment with great market potentials certainly reflects the focus on further diversification of Atlantic Grupa's distribution mix.

Sports and Functional Food Division

Product mix innovations

In the segment of sports and functional food, an innovative line of endurance products was launched last year – Multipower Active – with the aim of achieving 3 strategic goals: (i) increasing the consumer base for sports and functional food products by addressing a consumer group broader than those in fitness centres and gyms, (ii) methodical expansion of the production portfolio within the Multipower brand with the aim of additional strengthening of the brand recognisability and consequential increase of market shares and (iii) developing new trends in the segment of sports and functional food in order to signal that the product range under the Multipower brand is intended for all athletes in active training. In 2009, this endurance product line posted the best sales results in sports retail formats and also in specialised sports stores for bicyclists and joggers in the markets of Italy, Netherlands, Great Britain, Germany and Austria.

In 2009, the most dynamic sales growth was posted by the brand Champ in the drugstore-type retail formats such as DM, Rossmann, etc., which in combination with the brand Multaben indicates the development of new trends in the segment of sports and functional food or an increasingly active approximation of sports and functional food to a wider circle of consumers oriented toward a healthy lifestyle, and not exclusively to consumers oriented on achieving top sport results.

Pharma Division

Further expansion of the pharmacy business, entry in the wholesale drugstore business, expansion of the VMS/OTC assortment

- **Further expansion of the pharmacy business:** In 2009, 9 new locations were opened within the Pharma Division, of which 4 are pharmacies and 5 specialised shops. It should be mentioned that of 9 new locations, 3 are located in shopping centres (of which 2 in newly opened Zagreb's shopping centres, West Gate and Garden Mall). In fact, the Pharma Division's management considers the latter as important for further development of the pharmacy business since it is exactly shopping centres which are being increasingly visited in Croatia and at the same time these units are dominated by the sales of precisely that assortment which is characterised by higher profitability (food supplements, OTCs and other products whose distribution is organised through the pharmacy channel).

With the aim of further strengthening the market position in the segment of pharmacy business as well as the concentration of pharmacies in Croatia, in August last year Atlantic Grupa acquired a 49% share in the company Livia d.o.o. from the Icelandic Pharma Investment.

- **Wholesale drugstore business:** After the Pharma Division in the first half of the year started the wholesale drugstore business in Croatia with a differentiated strategic focus on the market niche (OTCs, food supplements, medicinal cosmetics, medical devices, part of the consumer goods assortment) through exclusive distribution contracts, by the end of the year the coverage of the entire market was ensured by cooperation with all pharmacy units (over 1,000 pharmacy units and 120 specialised stores).
- **Expansion of the VMS/OTC assortment:** Under the brand Dietpharm, 10 new products were launched on the market of vitamins, minerals and food supplements in 2009, while the launching of 4 new products is planned in 2010. With these new products and larger presence in Farmacia's pharmacies, the brand Dietpharm retains the leading position with a 23.9% share in the Croatian VMS market. During the last year, one new OTC product was launched while 2 OTC products experienced a redesign (Purisan and Uvin H forte granules). The launching of 10 new OTC products is planned in 2010, which reflects the mid term focus on the development of the OTC segment primarily due to its profitability.

It should be mentioned that the company in 2009 has taken steps to ensure vertical integration within the Pharma Division: production of the VMS/OTC assortment under brands Dietpharm/Fidifarm – wholesale drugstore business – retail trade (pharmacy chain Farmacia).

Other Events

Market making of Atlantic Grupa shares

In the beginning of February 2010, Erste Securities Zagreb Ltd. started providing market making services for Atlantic Grupa shares, with which Atlantic Grupa became the first share in the Croatian capital market whose liquidity is supported by a specialist. The decision to hire a specialist combines Atlantic Grupa's short term and long term goals in the domestic capital market, which relate to: (i) increasing the liquidity of shares, (ii) increasing the investment attractiveness of shares, (iii) creating additional security for shareholders, particularly small shareholders and finally (iv) the long term strategy of listing Atlantic Grupa in the prime market of the Zagreb Stock Exchange.

SALES DYNAMICS IN 2009

Sales profile by division

in thousand HRK

2009	Distribution	Consumer Health Care	Sports and Functional Food	Pharma	Grupa
Gross sales	1,318,699	494,199	492,738	296,816	2,602,451
Sales between segments					403,039
Consolidated sales					2,199,413
FY 2008					
Gross sales	1,155,518	448,236	478,785	284,243	2,366,782
Sales between segments					363,856
Consolidated sales					2,002,926
Change FY 09/08					
Gross sales	14.1%	10.3%	2.9%	4.4%	
Sales between segments					
Consolidated sales					9.8%

In an exceptionally challenging macroeconomic environment in all markets in which it operates, Atlantic Grupa realised **the growth of sales revenues in 2009 of 9.8% to HRK 2,199.4 million** with which the company posted the growth above the previously announced plan of HRK 2,143 million. At the same time, the growth of consolidated sales is stimulated by the sales growth of all four divisions, whereby the highest growth rates were delivered by the Distribution and Consumer Health Care Divisions.

- By realising a 14.1% sales growth in 2009, the **distribution business of Atlantic Grupa** confirms the size and force of its infrastructure in the region. Observed geographically, the Division achieved the strongest growth rates in the markets of Slovenia and Serbia, whereby the sales in Slovenia were primarily driven by starting the distribution of Ferrero's assortment (in August 2009) and also by the growth of the HoReCa distribution channel. The distribution of Ferrero's product range should offer additional incentive to the sales growth in Slovenia in 2010. The growth of the Serbian market was driven by the strengthening of the HoReCa distribution channel, the launching of Cedevisa GO! and the growth of distribution categories whose distribution started in 2008. The sales growth in Croatia was, among others, driven by the launching of Cedevisa GO!, a new distribution contract in the HoReCa channel and also by the distribution of the sweet and salty snack products under the brand Karolina. Atlantic Grupa gives considerable attention to strengthening the HoReCa channel which makes around 10% of the Distribution Division's revenues while this channel's strongest growth potential, in addition to Croatia, is seen in Slovenia and Serbia. In fact, the potential of the latter is manifested from the combination of two factors: tourist development of these countries as well as culturological-sociological factors related to consumer habits.

- **The Consumer Health Care Division** delivered a **10.3% sales growth** in 2009, primarily due to the development of new products, in which Cedevida GO! stands out as the dominant innovation in the company's production portfolio, and also to the innovativeness in other production segments such as the launched Montana cakes and pies of prolonged freshness. This Division's sales growth is also the result of the strong sales growth of Multivita products in the Russian market. Considering the further development potential of the Russian market combined with the potential long term growth of personal consumption and available income of Russian consumers, the company expects to continue the positive results of the Multivita assortment in this market. In order to use the maximum potential of the Russian market, in addition to the already existing representative office of Atlantic Multipower in Moscow, the opening of Multivita's representative office is also planned.

- Despite the unfavourable macroeconomic environment in European countries in which **the Sports and Functional Food Division** predominantly places its products, it delivered a **2.9% sales growth** whereby the markets of Switzerland, Russia and Austria posted strong double digit growth rates. Actually, the strong growth in the Russian market is related to finding a distributor with a more agile approach to fitness centres. The growth in the Austrian and Swiss market is mostly connected to the launching of the new endurance line under the brand Multipower Active. The German market posted a lower, one digit growth rate due to the strength of the first-ranked Multipower brand as well as the lower-price positioned brand – Champ, with which the company is present primarily in the drugstore segment (e.g. DM, Rossmann, Kaufland, etc). It is exactly the listed brand that recorded the most dynamic growth among the sports and functional food brands in 2009, while a solid growth was also recorded by the brand Multabien in the functional food segment.

- **The Pharma Division** delivered a **4.4% growth of sales revenues** due to a 12.5% growth of Fidifarm's sales and a lower one digit sales growth rate of the leading private pharmacy chain Farmacia. The slower growth of the Pharma Division's sales has been caused due to (i) separation of two pharmacies from HI Coner at the end of August in replacement for a minority share of the remaining pharmacies which, after the reorganisation was carried out, operate within HI Farmacia and also (ii) releasing stocks held at external wholesale drugstore agents due to the transfer to own wholesale drugstore business. It should be mentioned that the two listed pharmacies in 2008 had an annual turnover just short of HRK 30 million.

Sales profile by market

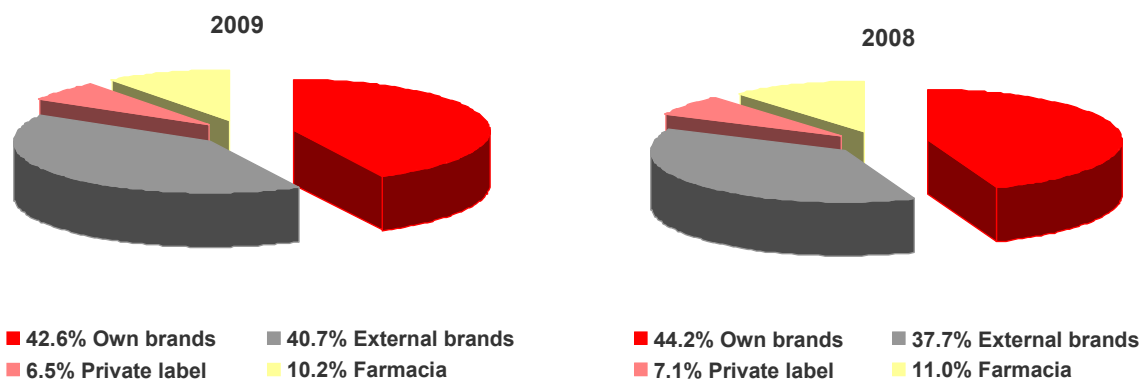
in million HRK	2009	% of total sales	2008	% of total sales	Change 09/08	in CER
Croatia	1,321.4	60.1%	1,263.6	63.1%	4.6%	
Germany	239,7	10.9%	234.0	11.7%	2.4%	0.7%
Serbia	130.8	5.9%	98.5	4.9%	32.8%	50.5%
Slovenia	118.4	5.4%	49.6	2.5%	138.9%	134.8%
BiH	76.2	3.5%	67.9	3.4%	12.1%	10.3%
UK	40.1	1.8%	43.0	2.1%	-6.9%	2.1%
Italy	43.0	2.0%	44.0	2.2%	-2.3%	-3.9%
Other	229.9	10.4%	202.2	10.1%	13.7%	
Total sales	2,199.4	100.0%	2,002.9	100.0%	9.8%	

- **The Croatian market** recorded a 4.6% sales growth of HRK 1,321 million with a predominant share of 60.1% in the total sales and with the share in the total sales growth of 288 basis points. The realised growth was primarily driven by the launch of Cedevida GO! and by new distribution contracts in the company's distribution portfolio. The management finds the results in the Croatian market satisfying considering the extremely adverse macroeconomic developments in 2009 with (i) a real decline of the Croatian economy of 5.8% in 2009, (ii) reduction of personal consumption of 8.5% in 2009 due to the weakened consumer buying power, reduced available income of the population and increased fiscal burdens (crisis tax on citizens' income in the range of 2-4% and increasing VAT by 1 percent to 23%), (iii) negative trends in the labour market with the registered unemployment rate in December 2009 at 16.7% in relation to 13.7% at the end of 2008, and also the growing job insecurity, (iv) a real decline of retail (excluding vehicle and motorcycle retail) of 5.8% in 2009, and (v) a strong decline of tourism revenues of 15.7% in the third quarter and the expected more than a billion euro lower tourist consumption in 2009.
- The strongest growth rates on the revenue side in 2009 come from the neighbouring markets of Slovenia and Serbia, of 138.9% (134.8% in CER terms) and 32.8% (50.5% in CER terms). Observed geographically, with 344 basis points it was the Slovenian market that realised the most significant contribution to the total sales growth, largely resulting from starting the distribution of the Ferrero programme. While this emerges as the strongest growth generator, the launch of Cedevida GO! and Cedevida's sales growth in the HoReCa channel also contribute to the growth. The realised growth should definitely be pointed out in light of the contraction of the Slovenian economy of 7.8% in 2009 (economic activity noted a decline for five consecutive quarters) followed by a 1.4% drop in personal consumption and a 2.2% drop in employment in the entire 2009. Without the effects of exchange rate fluctuations, **the market of Serbia** noted a 50.5% sales growth thanks to the launching of Cedevida GO!, Cedevida's sales growth in all distribution channels, sales growth of Multivita products and also the sales growth of newer external brands. It should be mentioned that this strong growth was achieved under conditions of a 3.5% reduction of economic activity in the first nine months of 2009, or the estimated GDP decline of 2.9% in 2009 and the reduced consumer buying power due to 5.1%

lower employment or the growth of the unemployment rate to 16.1% at the end of 2009 in relation to 13.6% at the end of 2008.

- On the three key **West European markets**, only the **German market** recorded a 2.4% growth resulting primarily from the sales growth of the sports and functional food brand in the drugstore channel – Champ. Without the effects of exchange rate fluctuations, the growth was 0.7% thus reflecting a 5.0% contraction of the German economy, the unemployment rate going up to 7.5% in 2009 and retail going down 1.8%. **The UK market** noted a 2.1% growth if we exclude the effect of GBP/HRK exchange rate despite a 5.0% decline in economic activity in 2009 due to a 3.0% lower personal consumption and the unemployment rate going from 5.6% in 2008 to 7.7% in 2009. It is worth mentioning that the management considers the achieved growth in the UK market to be satisfying, especially when taking into account that the first half of 2009 was marked by suspending sales to one of the key buyers during contract renewal negotiations, which were successfully completed in May. **The Italian market** noted negative developments in sales reflecting the negative macroeconomic trends in 2009 that resulted in the annual contraction of economic activity of 5.0% and the growth of the unemployment rate to 8.5% at the end of 2009 in relation to 6.8% at the end of 2008.
- **Other markets** recorded a 13.7% growth driven by the sales of Multivita and Multipower products in Russia and also the growth of Austrian and Swiss markets resulting from the launching of the new product line in the sports and functional food segment – endurance line under the brand Multipower Active.

Sales profile



- In 2009, the sales of **own brands** posted a 5.8% growth and, with a 42.6% share in the Group's total sales, represent a dominant share of sales in line with the company's strategic focus on further development of own brands. In fact, the management considers this as key due to the focus on improving the company's profitability. The sales of own brands also contributed to the growth of the total sales by 257 basis points.

The realised sales growth was driven by (i) the launching of Cedevida GO! in Croatia and the region, (ii) sales growth of products under the brand Champ, (iii) sales growth of Multivita product range, primarily in Russia, and (iv) innovativeness in the sports and functional food segment – by launching the endurance line under the brand Multipower Active.

- With the continuous expansion of the company's distribution portfolio as an imperative for regular business operations of the Distribution Division, the sales of external brands recorded an 18.8% growth and, consequently, a 308 basis points higher share in the total sales revenues of 40.7%. Among the more significant growth generators, we should point out the new distribution categories like the sweet and salty snack products under the brand Karolina in Croatia and Ferrero's programme in Slovenia. The latter should realise its full potential in 2010.
- In line with the company's strategic focus on the identification and the resulting reduction of those private labels which do not have sufficient profit margins, the sales of **private labels** posted an annual decline of 0.6% and a further decline of their share in the company's total sales revenues.
- In line with the already mentioned separation of two pharmacies from HI Coner, **Farmacia** recorded a 1.9% drop in sales in 2009 and thus an 80 basis points lower share in the total sales revenues. The management expects that the newly opened pharmacies (opened at the end of the last year) will boost sales results in 2010.

PROFITABILITY DYNAMICS IN 2009

In million HRK	2009	2008	Change 09/08
Sales	2,199.4	2.002.9	9.8%
EBITDA	197.0	169.3	16.4%
EBITDA without one-off effects	189.4	169.3	11.9%
EBIT	153.8	129.4	18.9%
EBIT without one-off effects	146.2	129.4	13.0%
Net profit	97.3	78.4	24.2%
Net profit without one-off effects	89.7	78.4	14.5%
<i>Profit margins</i>			
EBITDA margin	9.0%	8.5%	+51 bps
EBITDA margin without one-off effects	8.6%	8.5%	+16 bps
EBIT margin	7.0%	6.5%	+53 bps
EBIT margin without one-off effects	6.6%	6.5%	+19 bps
Net profit margin	4.4%	3.9%	+51 bps
Net margin without one-off effects	4.1%	3.9%	+17 bps

Key determinants:

- The results realised on the profitability level in 2009 show the focus of Atlantic Grupa's management on optimising the costs and increasing the efficiency of the company's business processes. In fact, the company noted an 18.9% growth of **operating profit (EBIT)** to HRK 153.8 million or an annual growth of **13.0%** to **HRK 146.2 million** if the effects of one-off items are excluded. One-off items in the amount of HRK 7.6 million are attributed to the one-off profit realised in the repurchase of a minority share in Cedevita d.o.o. from the German development bank DEG in the amount of HRK 9.9 million (thus increasing Atlantic Grupa's ownership share in Cedevita d.o.o. by 30% to 81%), decreased by the one-off expense of HRK 2.2 million caused by the transfer of Neva's production to a new production location in Rakitje.
- At the same time, it is worth mentioning that the growth of profit margins without one-off effects was also realised on all profitability levels:
 - ✓ EBITDA margin: +16 bp to 8.6%
 - ✓ EBIT margin: +19 bp to 6.6%
 - ✓ Net profit margin: +17 bp to 4.1%

Division operating profitability

In million HRK	2009	2008	Change 09/08
Distribution	31.2	25.2	23.7%
Consumer Health Care	86.8	65.6	32.2%
Sports and Functional Food	21.5	16.0	34.2%
Pharma	9.6	21.8	-55.7%
EBIT	149.2	128.7	15.9%
Unallocated	4.7	0.7	
Group EBIT	153.8	129.4	18.9%

- **The Distribution Division** recorded the operating profitability growth of 23.7% yoy to HRK 31.2 million resulting from continuing the optimisation activities including the optimisation of distribution-logistics processes by leasing a central warehouse under area of 10,000 square meters in Jankomir. In the course of

2009, this Division's management gave special attention to reorganising the sales force with the aim of achieving increased efficiency in operational distribution processes.

- **The Consumer Health Care Division** recorded the operating profitability improvement of 32.2% yoy to HRK 86.8 million resulting from the number of activities taken in 2009 such as, for instance, savings in raw materials and supply processes. Likewise, the transfer of Neva's production to the new production plant in Rakitje was carried out as part of the investment worth HRK 32 million, which should result in further production efficiency improvement of Neva's product range (cosmetics and personal care products). It should also be mentioned that as a result Atlantic Grupa will realise and show a net profit from the sale of Neva's previous location in Tuškanova in the amount of HRK 45 million in financial results for 2010.
- **The Sports and Functional Food Division** continues with the focused improvement of operating profitability in 2009 as well and, after an 81% growth in 2008, in 2009 it also recorded the strongest operating profitability growth of 34.2% as a result of the completed restructuring in the year before. At the same time, improvement of profitability was also influenced by the efforts invested in the identification and consequential reduction of those private label activities which had a less satisfying profitability as well as by further optimisation of marketing and other activities.
- As it was announced in previous communications, **the Pharma Division** recorded a decline of operating profitability in 2009 of 55.7% yoy to HRK 9.6 million due to the costs generated by initiating new activities:
 - The first activity relates to starting the wholesale drugstore business with a differentiated strategic approach. Actually, the start of that business resulted in a double negative effect on the Division's EBIT, firstly through the initial costs necessary to set up the infrastructure like new recruitments, logistics costs, etc. and secondly through the restructuring of Dietpharm's sales organisation. In fact, the launching of the wholesale drugstore business in the end resulted in bypassing the current wholesale agents and thus reducing the stocks held by them resulting in the decreased sales of Dietpharm's assortment by Atlantic Grupa. The management expects that the initial investments coupled with the listed restructuring will be recovered in future periods.
 - The second activity relates to the opening of new pharmacies and specialised shops and the associated initial costs invested in setting up the whole infrastructure like, for instance, hiring of new personnel, increased service costs through leasing and furnishing the business premises, etc. At the same time, it should be mentioned that the listed activities should ensure a sales increase in newly opened locations in future periods.

Operating costs structure

In million HRK	2009	% of FY 09 sales	2008	% of FY 08 sales	Change 09/08
Cost of goods sold (COGS)	1,044.5	47.5%	929.6	46.4%	12.4%
Production materials and energy and change in inventories	271.9	12.4%	264.4	13.2%	2.8%
Services	154.6	7.0%	127.7	6.4%	21.1%
Staff costs	322.5	14.7%	310.2	15.5%	3.9%
Marketing and sales costs	142.6	6.5%	133.4	6.7%	6.9%
Other operating expenses	100.7	4.6%	85.3	4.3%	18.0%
Other (gains)/losses, net	- 8.6	-0.4%	0.3	0.0%	n/a
Total operating expenses	2,028.2	92.2%	1,850.9	92.4%	9.6%

If we exclude the effect of one-off items from the “other (gains)/losses, net” row, the share in the total sales recorded only a mild growth to 92.6% from 92.4% in 2008, thus reflecting the company’s focus on costs. When observing individual items of operating expenses, the following should be pointed out:

- **Costs of goods sold** – note an increase of their share in the total revenues by 108 basis points to 47.5% in relation to 2008 due to changes in the sales mix caused by the sales growth of external brands’ share in the total revenues.
- **Costs of services** – note an increase of their share in the total revenues by 66 basis points to 7.0% resulting from production services for Cedevita GO! (e.g. filling of bottles with water) and costs in newly opened pharmacy units.
- **Staff costs** – although the number of employees was increased from 1,672 in 2008 to 1,719 in 2009, the share of staff costs in the total revenues decreased from 15.5% in 2008 to 14.7% in 2009 as a result of increasing the productivity level per employee.

FINANCIAL INDICATORS IN 2009

In million HRK	2009	2008**
Net debt	270.6	288.7
Total assets	1,775.3	1,726.6
Ownership equity and minority interest	757.8	740.3
Ratio of short-term assets to short term liabilities	1.66	1.76
Interest expense cover*	6.9	6.7
Net debt-to-capital ratio	26.3%	28.1%
Net debt-to-EBITDA ratio*	1.4	1.7
Capex , net from asset sales	49.3	55.9
Cash flow from business activities	110.1	106.3

*One-off items excluded

**FY 2008 was amended.

In 2009, the Atlantic Grupa's management has given significant attention to maintaining the financial stability as an imperative for the stability of business operations. In line with the above, the company's financial stability is manifested in the following:

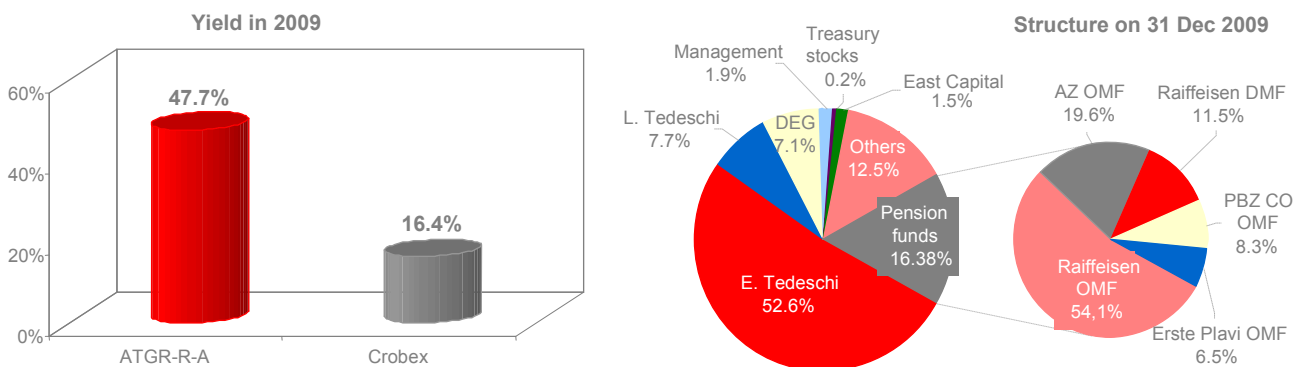
- Despite the system's reduced liquidity, continuous management of working capital resulted in the stability of the cash flow from business activities at HRK 110.1 million.
- The liquidity indicators show the management's continuous focus on maintaining the liquidity within the company in the period of extremely unstable macroeconomic environment. In line with the above, the ratio of coverage of short term liabilities with short term assets was maintained at the stable 1.7x in relation to the same period last year, as well as the ratio of coverage of short term liabilities with short term assets without stocks at 1.3x. At the same time, it is worth mentioning that at the end of 2009 the company had approximately HRK 220 million of cash funds and high-liquidity deposits available for either financing capital expenses or financing potential acquisition targets.
- In the process of debt management in 2009, the company's management used the available financial instruments and in the first half of the year fixed the cost of long term financial liabilities under 5% by using the interest swap instrument. Consequently, the interest expense coverage ratio grew to 6.9x EBITDA from 6.7x in 2008, with which it additionally increased the company's capacity to meet its financial liabilities. It should also be pointed out that the net debt-to-capital ratio increased by the net debt of 26.3% in combination with the financial debt-to-assets ratio at the stable 0.3x and the reduced net debt-to-EBITDA ratio at 1.4x from 1.7x in 2008 reflects the company's potential for additional borrowing, if required. Concurrently, the company still maintains a favourable debt maturity structure considering that the majority of the long term debt matures in 2011 or later when the credit conditions should improve.

Capital expenditures of HRK 49.3 million (net from asset sales) are primarily reflected in 3 key investments: (i)

development and production of Cedevida GO!, (ii) increasing the production capacities of Cedevida and (iii) Neva's new production plant in Rakitje.

REALISATION IN THE CROATIAN CAPITAL MARKET IN 2009

In the domestic capital market, the share of Atlantic Grupa realised a 47.7% growth thus exceeding the realisation of the domestic stock index Crobex of 16.4% and it also recorded the strongest value growth among Crobex components. At the same time, it should be mentioned that in the last two years the share of Atlantic Grupa achieved significantly better results in comparison with the stock index, primarily owing to the stability of its ownership structure composed of the investor base with a long-term investment horizon, the fulfilment of both business and financial expectations and the stability of its business model.



In the ownership structure of Atlantic Grupa on 31 December 2009, all four domestic mandatory pension funds and one voluntary pension fund participate with the stable 16.4% ownership, while one of the leading companies in the segment of asset management in the South East European region, East Capital, owns a 1.5% share.

Valuation	2009*	2008
PPS (on 31/12)	681.0	461.0
MCap (HRK 000)	1,682,091	1,138,668
Average daily turnover (HRK)	361,052	1,262,835
EV (HRK 000)	1,985,354	1,505,883
EV/EBITDA	10.48	8.89
EV/EBIT	13.58	11.64
EV/sales	0.90	0.75
EPS (HRK)	31.40	27.84
P/E	21.69	16.56

* Calculated without the effect of one-off items

Summary of financial indicators

	2007	2008	2009
Total revenues	1,699,103	2,020,194	2,225,182
<i>% annual change</i>	20.2%	18.9%	10.1%
Sales revenues	1,670,045	2,002,926	2,199,413
<i>% annual change</i>	19.8%	19.9%	9.8%
Operating profit before interest, taxes, depreciation and amortisation (EBITDA)	132,330	169,306	197,029
<i>EBITDA margin</i>	7.9%	8.5%	9.0%
Operating profit (EBIT)	95,118	129,400	153,841
<i>EBIT margin</i>	5.7%	6.5%	7.0%
Net profit	54,456	78,361	97,329
Net debt	88,738	288,678	270,643
Total assets	1,499,171	1,726,624	1,775,324
Ownership equity	674,179	740,313	757,807
Interest expense cover (EBITDA/interest cost)	5.6	6.7	7.1
Current liquidity indicator	1.83	1.76	1.66
Debt indicator	11.6%	28.1%	26.3%
Investment in long term tangible and intangible asstes, net from sales revenues	54,349	55,888	49,279
Market capitalisation (on 31 Dec)	2,166,210	1,138,668	1,682,091
EV	2,323,567	1,505,883	1,985,354
EV/EBITDA (on 31 Dec)	17.56	8.89	10.08
EV/EBIT (on 31 Dec)	24.43	11.64	12.91
EV/prodaja (on 31 Dec)	1.39	0.75	0.90
EPS (earnings per share) - in HRK	21.96	27.84	34.50
P/E	39.94	16.56	19.74
Kuna/Euro exchange rate on 31 Dec	7.325131	7.324425	7.306199
Kuna/Euro exchange rate – annual average	7.336019	7.218006	7.339832

OUTLOOK FOR 2010

After a 5.8% decline of economic activity in 2009, the macroeconomic prospects in 2010 for the geographically largest market in which Atlantic Grupa operates – Croatia – are still unfavourable mostly due to negative impacts on the personal consumption resulting from (i) growing unemployment (for instance, in February 2010 the number of unemployed reached 318,000, whereby the unemployment rate of 18.2% reached its highest point since February 2006), (ii) fiscal duties which despite the decision to abolish the crisis tax rate of 2% for citizens with income between 3,000-6,000 kuna from 1 July 2010 (affects around 720,000 employed and 190,000 retired persons), are still having a burdening effect with the crisis tax of 4% for citizens with income above 6,000 kuna (310,000 employed and 34,000 retired persons), (iii) reduced consumer buying power and also (iv) reduced crediting of citizens. At the same time, the latest GfK survey shows that 90% of Croatian citizens changed their buying habits due to the economic crisis which is reflected in a more scrupulous monitoring of prices and special promotion discounts.

The macroeconomic risks in the region are also still pronounced mostly due to the weakened personal consumption and growing unemployment and therefore we expect that the business conditions in ex-YU markets will be even more adverse in 2010 in relation to the previous year. Although the key European markets in which Atlantic Grupa operates overcame the recession, prospects for the recovery of economic activity are still relatively mild.

Considering all of the above, Atlantic Grupa's management is certainly aware of the macroeconomic environment in which the company operates and as a result maintained the strategic guidelines from 2009 as the business priority for overcoming the existing macroeconomic situation:

- Focus of the management of all divisions on innovations which stimulate organic growth with a simultaneous identification of potential acquisition targets
- Continuous improvement of operating efficiency through scrupulous cost management
- Maintaining the financial stability as an imperative for the stability of business operations
- Maintaining the liquidity of business operations
- Continuous optimisation of business processes in all divisions

In conjunction with the listed strategic guidelines, the company will also continue to implement the so called "limited growth model" with continuous monitoring of the clients' risk level and the process of payment collection from larger clients and the resulting limitation of the exposure to clients assessed as a risk.

In line with all of the above, the plan of Atlantic Grupa's management for 2010 is the following:

In million HRK	2010 Plan (without one-off effects)*	2009 without one-off effects	Change 10/09
Revenues	2,320	2,225	4.3%
Sales	2,300	2,199	4.6%
EBITDA	200	189	5.6%
EBIT	155	146	6.0%

*One-off effects in 2010 related to the net profit in the amount of HRK 45 million from selling Neva's previous production location.

HUMAN RESOURCES

The business system of Atlantic Grupa encourages the high professional standard values and expects from its employees to exhibit professionalism, openness, responsibility and efficient team work. Atlantic Grupa's Human Resources are focused on realising the corporate strategy, solving of specific company challenges, quality, overall organisational efficacy and particularly on individual development.

Human Resources function as a central corporate function with the total of ten employees, of which seven people at the central office in Zagreb and three at the location of our company MUP Germany in Hamburg.

Based on the defined strategy and with constant efforts in implementing the work performance management system (U2), Human Resources in 2009 realised numerous objectives in several key areas:

- The process of systematization of work positions at the level of Atlantic Grupa has been started

The dynamics and the way of Atlantic Grupa's growth and development in the last few years have generated numerous specificities characteristic for individual divisions; new jobs, new work positions and the need to harmonise the titles of work positions with actual jobs and competences which developed since the last systematization. During the last year, integrated foundations were prepared on which basis the preparation of relevant data for each individual work position within Atlantic Grupa in Croatia has started. The proposals of new titles for a large number of work positions were prepared, taking into account to use same titles for same jobs in

different divisions. Additionally, generic descriptions of managerial positions were defined on the level of each division and on the level of corporate functions.

Furthermore, jobs were categorised according to the criterion of complexity into high-complexity jobs and medium-complexity jobs, which for each work position involves the range of potential career levels: from a trainee to an expert for high-complexity jobs, or from a trainee to a specialist for medium-complexity jobs. This method ensures the transparency in evaluating employees in the same work positions. An important part of the preparations for systematization review was related to the inclusion and negotiations with the Syndicates within the Sports and Functional Food Division with the aim of transferring from the coefficient system to the system of a basic contracted salary with pay grades according to the career levels, on the basis of which we have reached an agreement regarding the transfer to the new system and salary calculation method.

- The competence development management system was improved

In 2009, Human Resources also worked on developing the AG's competence model and defined specific contents for the development of professional, social and business competences. The model has been fully harmonised with the employee performance management system and with the documents related to the work position systematization, considering that the competence development level required for employees is also evaluated within the performance evaluation (U2) and, likewise, the list and description of competences are an integral part of the description of operational structure of an individual organisational unit and the job itself. During the year, 40 different internal and external trainings were organised for employees in the segment of sales, trade marketing and key client management. In the beginning of 2009, Human Resources designed and, in cooperation with colleagues from Corporate Security, initiated our own programme for educating and introducing new employees to the company. In addition to its informative and educational character, this programme also aims to strengthen the sense of belonging and cooperation, encourage thinking about a broader perspective with regard to Atlantic Grupa's business activities, facilitate easier orientation within the organisation and have an impact on motivation and work productivity of new employees.

- The system for managing corporate management candidates was developed and implemented - *Succession planning*

The process of managing corporate management candidates was created and established, It includes recruiting, identifying, developing and keeping high-potential employees with the purpose of supporting and encouraging organisational changes through the development of current and future managers at different levels, as well as the development of current and future specialists. The identification process implies that the person has an above-average work performance identified through the performance management system, has a high work motivation and he/she was highly evaluated on the scales of the so called individual characteristics which cover the following concepts: Perspective, Self-respect, People-orientation and Result-orientation.

- The work on implementing the HR information system - project AtlantIS

At the end of October 2009, in cooperation with the ITC Department, Human Resources initiated a major project of standardizing HR business processes through the development of an integrated tool for the management of

human resources and introducing an integrated salary calculation system for all members of Atlantic Grupa in Croatia under the name Atlant/S.

The aim of this project is to establish a single personnel administration, reduce costs, standardize reporting, review and compare personnel data according to the same criteria, increase data quality and accuracy and integrate and standardize all existing HR applications on the Group's level, including the salary calculation system.

In 2009, Atlantic Grupa confirmed its high standards in human resources management and by recertification of the *Employer Partner* status demonstrated the quality of HR processes. Out of the potential 100% points, Atlantic Grupa achieved 94% and it is evaluated as above average in all evaluated fields: HR Strategy; Recruitment and Selection; Motivation and Remuneration; Employee Relations; Training and Development.

RECRUITMENT AND EMPLOYMENT

Atlantic Grupa entered 2009 with 1,677 employees and, in the first few months experienced a rapid increase of employees as the result of acquiring Karolina, preparations in the cosmetics production due to the relocation of Neva's plant, establishment of the wholesale drugstore within Fidifarm and further growth in the pharmacy business and, by mid-year, the number of employees increased by nearly 11%. Until the end of the year, the number of employees was stabilised by dynamic business restructuring and by the end of 2009 reached the number of 1,719 employees which is an increase of 3.12% in relation to the previous year.

The stable sociodemographic structure was maintained with an almost equal share of female and male employees, of which 30% has college or university degrees and with an equal share of men and women in the management structure. Regarding the age structure, over 40% of employees are under 40 years of age.

CORPORATE AND SOCIAL RESPONSIBILITY

SPONSORSHIPS AND DONATIONS

As a part of wider community in which it functions, Atlantic Grupa is aware of the importance and need for making its own impact on improving general social conditions, promoting the right values and ultimately the need to invest a part of its own profits back into the community. Apart from a wide range of donation projects, its sponsorship activities are also significant, primarily focusing on the promotion of sports where the largest funds and efforts are invested in supporting projects such as the basketball club Cedevita, Duje Draganja – a proven Croatian swimmer, Croatian Olympic Committee, German national handball team and the bicycling team Milram. Atlantic Grupa is also an active participant and organiser of a number of humanitarian actions and it systematically supports a whole series of organisations and associations dealing in protection and assistance to vulnerable social groups.

SPORTS

- BC Cedevita
- Duje Draganja – swimmer
- Mario Todorović - swimmer
- Zlatni medvjed – swimming meeting
- DHB – German handball association
- FC Hajduk
- FC Bjelovar
- Beach volleyball
- Bridge association
- Max Longree – triathlete
- Fitness Academy
- Hamburg Hockey Club Freezers
- Croatian Olympic Committee
- Assembly of Sports Journalists of the Croatian Journalists Association

BASKETBALL

The basketball club Cedevita is still the forbearer of all Atlantic's sponsorships. Atlantic Grupa is actively involved in the promotion of basketball as an important sport of national interest through the hiring of increasingly better players and coaches as well as through the promotion of the Cedevita brand according to which the club is named. What is especially important and represents the foundation for this project's success is the special support of Atlantic Grupa in financing, organisation and management of the **Club's basketball academy** with over 400 children. The Club and the Academy actively function in 11 basketball schools organised in Zagreb's elementary schools in which training is currently provided for approximately 200 children thus equally ensuring the future of this sport and the option of a healthy and useful leisure activity. Owing to the sponsorship of Atlantic Grupa as well as efforts made in gathering other sponsors around BC Cedevita, the club is presently one of the most perspective teams in the Croatian A1 league with a season played in the regional NLB league and qualifying for Euroleague in the season 2010/2011. The company's engagement through encouraging the audience to support the players, with the purpose of achieving the best possible sport results, resulted in the media's increased interest for basketball events while significant efforts were also invested in popularizing this sport in the wider public. In that sense Atlantic also sponsor the **Croatian Women's Regional Basketball League** in which it provides an additional impulse for its strengthening and recognisability with its brand Multipower.

SWIMMING

Duje Draganja and Mario Todorović are successful Croatian swimmers whose swimming careers are already for years sponsored by Atlantic's Cedevita which is aware that these perspective athletes will, through their sporting achievements, admirably represent Atlantic as the leading European producer of instant vitamin drinks and sports food and as the company which promotes a healthy and sportive lifestyle. In 2009 a sponsorship contract was renewed with Duje Draganja who, by winning numerous medals in previous years, warranted the

company's trust in his sport potential. Mario Todorović continues his successes as the Atlantic's scholar showing his readiness to eventually become Duje's worthy successor.

In addition to recognising individual swimming potentials, Atlantic is dedicated to promoting swimming as a sport in Croatia which won many trophies. In that way Atlantic's Cedevita gave its contribution to promoting this sport by sponsoring the organisation of **Zlatni Medvjed** (Golden Bear) – Zagreb's traditional swimming meeting hosting a respectable number of the world's swimming stars.

GERMANY (HANDBALL AND BICYCLING, HOCKEY AND TRIATHLON)

Atlantic Grupa understands its socially responsible actions as the principle practiced in all the countries in which it is present with its business entities. This results in Atlantic's significant sponsorship activities in Germany, which is an important market in which the company realises a significant portion of its total revenues. This is the reason why Atlantic Multipower is a long-standing sponsor of the **German national handball team** (DHB), as well as the traditional sponsor of one of the most well-known professional bicycling team – **Milram**, consisting of great German bicyclists such as Zabel, Petacchi and fourteen other professional German bicyclists.

Atlantic provides its support also to individual athletes like the German triathlete **Max Longree** who is already for years placed among the best ten competitors in Iron Man races, at the same time not forgetting somewhat less popular group sports like hockey, so Atlantic with its brand Multipower sponsors the German hockey team **Hamburg Freezers** in the town where the headquarters of Atlantic Multipower are located. To raise the awareness of the need for active spending of free time and recreation, Atlantic sponsors the largest fitness chain in Germany and beyond – **Fitness First**.

FOOTBALL

As a sport whose global popularity is noted in Croatia as well, football is in constant focus of Atlantic Grupa through various club sponsorships and identification with Atlantic's well-known sports food brand Multipower. In 2009, Atlantic sponsored **football clubs Hajduk and Bjelovar**.

ASSOCIATIONS

By recognising the importance of sports in their entirety, Atlantic sponsors various associations which promote sports or contribute to their development. In that way, already for the second year in a row, Atlantic is special partner of the **Croatian Olympic Committee** for which it is the exclusive supplier of sports food and food supplements used by all Croatian Olympic athletes in their competitions and training. The traditional partnership of Multipower with the **Olympic Centre Rhein-Ruhr** must also be mentioned as an important partnership and reputation capital in the sporting life of Germany. Additionally, by recognising the importance of promoting sports

in the public, Atlantic provided its support also to sports journalists by sponsoring the awards of the **Assembly of Sports Journalists**.

PHARMACEUTICS

- Croatian Medical Association
- Croatian Osteoporosis Society
- League against Rheumatism
- Medical Faculty
- General Hospital Bjelovar

MEDICINE AND HEALTH

Through the Pharma Division's activities, Atlantic Grupa, as the leading subject in the pharmacy market in Croatia, is an important sponsor of students of the **Pharmaceutical Biochemistry Faculty** at the University of Zagreb, as well as of the Faculty itself through financial support to the renovation of faculty infrastructure, thus confirming its dedication to development of the pharmacy profession through multiple investments into the development of future pharmacy personnel. Aware of the fact that the future of pharmacy lies primarily in professional development and education of personnel and ensuring a sufficient number of pharmacists on the market, Atlantic Grupa in cooperation with the Faculty developed a sponsorship programme for best pharmacy students with guaranteed employment within the company. In addition, Atlantic Grupa invested considerable funds into the establishment and development of the Education Centre **Atlantic Farmacia** with programmes developed in cooperation with FIP, WHO and UNESCO in which pharmacists will acquire not only the required additional professional knowledge, but also communication and presentation skills and knowledge in the field of finances.

In the promotion of health, Atlantic recognises the importance of investing in medical science as well as the need for education and information about the latest medical achievements. For that reason, through a series of donations and sponsorships of the **Croatian Medical Association, Medical Faculty, Croatian Osteoporosis Society and League against Rheumatism**, Atlantic supported the organisation of a number of professional meetings whose goal is to improve the knowledge of medical workers and ultimately improve the life and treatment of their patients.

Aware of the moment in which the world and state economy are, as well as the insufficient funds for the functioning of individual medical units, Atlantic Grupa supported the work of the **General Hospital Bjelovar**.

CULTURE AND KNOWLEDGE

- Jewish Film Festival
- Sarajevo Film Festival
- books for Split school children
- MedILS

In its capacity as the sponsor of culture, Atlantic traditionally supports the organisation of the **Sarajevo Film Festival** by sponsoring this most influential regional film manifestation. In recent years Atlantic and one of its strongest regional brands, Cedevita, supported the organisation and activities of SFF including, among others, children's' programme held during the festival. Atlantic Grupa with its brands participates as the main partner of the **Sarajevo City of Film** manifestation happening within the framework of SFF and as the sponsor of the award Atlantic Talent given to the best movie made in this year within SFF. With this engagement, Atlantic exhibits how in its sponsor activities it selects development projects that ensure sustainability and long-term success of cultural projects it supports and which also benefit the wider community in which the activities are carried out. Apart from SFF, in this context Atlantic Grupa also sponsors the **Jewish Film Festival** as one of the most prominent film festivals held in Zagreb with the purpose of promoting not only quality films, but also multiculturalism, tolerance and respect among different nations. This year Atlantic gave its contribution to the promotion of knowledge through the action of collecting funds for the purchase of **books for Split school children** organised by the City of Split as well as through the already traditional support of the work of **MedILS** (Mediterranean Institute For Life Sciences), an original concept of an university with the aim of producing specially educated generations of young scientists – creative and multidisciplinary professionals.

SOCIALLY VULNERABLE GROUPS

- Centre for Education Dubrava
- Association of Disabled Persons Đurđevac
- Step in Life
- Terry Fox Run
- All for Her

Also in 2009, Atlantic Grupa continued its cooperation with the **Centre for Education Dubrava**. Already for four consecutive years, Atlantic invests in the reconstruction of the Centre and has until now reconstructed a number of sport facilities including the Centre's sport hall and swimming hall. With the purpose of facilitating the everyday life of children with developmental problems, Atlantic donated the funds for reconstructing the Centre's rehabilitation facilities and for necessary education equipment.

Additionally, Atlantic Grupa actively participated in the humanitarian action "**Step in Life**", whose goal is to help the young protégés of homes for abandoned children who turned 18 and wish to continue their education by entering a university, and it is the traditional sponsor of the **Terry Fox Run**.

CORPORATE GOVERNANCE

Since its foundation and listing on the Zagreb Stock Exchange, Atlantic Grupa based its business activities on the Code of Corporate Governance with which the standards of business transparency in line with the European Union directives and relevant Croatian legislation have been significantly improved. With the given Code, Atlantic Grupa defined the procedures for the functioning of the Supervisory Board, Management Board and other bodies and structures responsible for decision-making, ensuring the avoidance of conflicts of interest, efficient internal control and an effective responsibility system. The Code also prescribes the obligation of publishing data belonging to categories of price-sensitive information, all in an effort to ensure equal treatment of shareholders and information transparency for present and future investors. In line with consistent implementation of the Code's principles, Atlantic Grupa d.d. develops and operates in accordance with the good corporate governance practice and strives to contribute with its business strategy, business policy, key internal acts and business practice to transparent and efficient business operations and quality relations with the business environment in which it operates.

In addition to the above, Atlantic Grupa is a signatory of the Code of Ethics in Business initiated by the Croatian Chamber of Economy. The listed Code lays down guidelines for ethical behaviour of business subjects in the Croatian economy. Such definition of ethical criteria contributes to more transparent and efficient business operations and high quality relations between economic subjects in Croatia and the business environment in which they operate. By signing the Code of Ethics, its parties are obliged to responsible and ethical behaviour towards the other companies on the market as well as the development of high quality relations and loyal competition.

In accordance with relevant regulations, Atlantic Grupa in 2009 issued the Statement of Application of the Code of Corporate Governance, thereby confirming its actions and development in accordance with the good corporate governance practice in all business segments. The Statement of Application of the Code of Corporate Governance has been published on the Company's webpage - www.atlantic.hr - as well as on the official webpage of the Zagreb Stock Exchange.

ECOLOGY AND SUSTAINABLE DEVELOPMENT

Atlantic Grupa continued to support and promote the principles of sustainable development in all its business activities throughout 2009. This was primarily achieved by economically successful, environmentally acceptable and socially responsible business conduct. As a member of the Croatian Business Council for Sustainable Development, Atlantic Grupa pays great attention to employee relations, environmental protection and social responsibility in all its business operations. The Atlantic Grupa's Social Responsibility Committee monitors and

encourages the implementation of principles of sustainable development in the company's everyday business activities and starts initiatives for the improvement of socially responsible business conduct.

In 2007, Atlantic Grupa joined the global initiative for socially responsible business conduct under the patronage of the United Nations entitled the Global Compact Initiative. Participation in this Initiative includes adjustment of all business activities with the requirements of socially responsible conduct which are based on the principles of the listed Initiative. All members of the Initiative are obliged to prepare an annual report describing the adjustment and status of compliance with the obligations to which Atlantic Grupa committed itself by signing the Global Compact contract, particularly the method in which it integrated the 10 prescribed principles of responsible conduct, such as: the freedom of association and the effective recognition of the right to collective bargaining, elimination of all forms of forced or compulsory labour, effective abolition of all forms of child labour, environmental protection, encouraging the development and diffusion of environmentally friendly technologies and the fight against corruption in all its forms, which Atlantic Grupa did for the year 2009 as well and the report is available on the Company's web pages.

Integrated system of quality, environmental and food safety management

After the successful line of certifications of Cedevita and recertification of Neva and Montana plus in the Consumer Health Care Division according to ISO 9001:2000 and HACCP standards (Cedevita, Montana plus) in 2005, ISO 14001:2004 in 2006 and Cedevita's IFS (Version 4) certificate in 2007 and IFS (Version 5) certificate in 2008 as well as Cedevita's and Neva's recertification in accordance with ISO 9001:2000 and HACCP standards and Montana's successful completion of its periodic audits according to ISO 9001:2000 and HACCP standards, an equally successful continuance followed also in 2009.

The basis for the process management system in the Consumer Health Care Division consists of preconditioned programmes (Good Hygiene Practice, Good Manufacturing Practice, Good Laboratory Practice, Good Storage Practice). At the beginning of 2009, Cedevita renewed its Licence for manufacturing medicines according to the GMP requirements (Good Manufacturing Practice).

In mid-October 2009, the successful IFS audit was carried out in Cedevita, on the basis of which Cedevita again received a **higher level** of the International Food Standard certificate for the production of instant vitamin drinks and vitamin and peppermint candies, and this year the scope of certification also included Cedevita GO. The holding of the IFS certificate paves the way for Cedevita to international markets, since Cedevita was placed on the list of certified producers in the IFS Audit-portal (<http://www.food-care.info/>), the official webpage of the HDE (Hauptverband des Deutschen Einzelhandels).

In December, Neva and Cedevida successfully completed their periodic audits according to the standard ISO 9001 and the recertification audit according to the standard ISO 14001.

The audits were successfully completed thus taking Neva into its 4th, and Cedevida into its 2nd three-year certification cycle according to ISO 14001, while the transition of both companies to the new version of ISO 9001:2008 was carried out.

In December, Neva also successfully underwent the audit of its client Mibella from Switzerland, after which their orders continued.

Among other benefits, the transfer of Neva's production to a new production plant resulted in improved relations to the environment while all the environmental management objectives set by Neva for 2009 were realised.

The integrated process management system includes:

- ISO 9001:2008 (Quality Management System) jointly implemented in Neva and Cedevida and separately in Montana plus (ISO 9001:2000)
- HACCP (Hazard Analysis and Critical Control Point) implemented in the food segment as specific requirements for ensuring food safety
- ISO 14001:2004 (Environmental Management System) implemented in Neva and Cedevida
- IFS (Cedevida – production of instant vitamin drinks, instant “ready to use” drinks and vitamin and peppermint candies)
- GMP (Good Manufacturing Practice) – requirements implemented in Cedevida and Neva

RESEARCH AND DEVELOPMENT

One of the key functions on which the Consumer Health Care Division's strategy is based is definitely Research and Development. With the imperative “consumer satisfaction”, a multidisciplinary team of experts is focused on developing and improving products which have to meet the increasingly more complex and specific consumer demands. Health and nutrition-aware consumers dictate the development of new products intended for preserving health, looks and physical condition. Increasingly growing impacts on the development of new products are made by young, modern, urban consumers who want healthy, practical, tasty and trendy products. For that reason, timely analyses of the market and consumption trends represent the foundation for the development of new and improvement of existing products.

As an answer to extremely complex consumer demands, primarily related to young consumers burdened by the modern pace of life, the product Cedevida GO was successfully launched on the market in two flavours – lemon and

orange. This only partially completes the development of Atlantic Grupa's most significant project for Research and Development, leaving for the future the development of new flavours and new products suitable for this concept.

In the past year, the product offer of instant vitamin drinks, which includes Cedevita GO, was expanded with a new lime flavour released in two formats – 200g and 15g.

Instant vitamin drinks belong to the category of products with a complex production using extremely expensive and sophisticated technologies. The last year's investments in equipment and production lines created the preconditions for not only successful production of the Cedevita brand, but also for products under the brand Multivita. At the beginning of 2009, the transfer of technology and production of 5 products from the group of Multivita instant vitamin drinks was successfully carried out. Multivitamin-multimineral effervescent tablets for health preservation were also realised under the Multivita brand.

In the candy category, several new flavours were launched: pomegranate, watermelon-mint, kiwi-mint and peppermint-orange. The existing modern capacities of production lines for packaging candies in our own production were used and, with certain packaging modifications, the candy packaging was relocated from Germany to Croatia. For the brand Peppermint, the packaging format was modified – small boxes. This provided consumers with an easier and simpler opening of the product.

In the last year, Cedevita teas were "refreshed" by introducing new flavours and a complete redesign of their packaging. Within the line of Naturavita teas a new mint-flavoured Uvin instant tea was launched. Considering that this is a specific-purpose product, the required notification of the Croatian Ministry of Health was successfully carried out.

Within Montana's product offer, the selection of sandwiches was augmented, a mini format was introduced and the assortment was expanded to new product categories within the pastry group: pies and cakes, with fruit and chocolate filling.

A very important task of the research and development experts is to observe the product safety protocols, from the selection of starting materials (raw materials and packaging), preparation of formulations, process selection and control to producing product labels. All products of the Consumer Health Care Division are labelled in accordance with labelling regulations of the Republic of Croatia, EU and other countries where the products are sold.

In 2009, Research and Development of cosmetic products continued their intense activities on reformulating and innovating products in order to achieve increased rationalisation and improved market competitiveness.

The laboratories for formulation development have completed and introduced into regular production eight innovated products in the Soleval sun care product line. High protection factors, from SPF 15 to SPF 50, as well as sun care products for children and after sun care products demonstrate the care for consumer safety by offering them efficient protection from harmful sun radiation.

Four lip balms under the brand Bellecare were developed for the German market. Their formulations meet the requirements of the German eco-test criteria, which surpass even the already strict requirements of EU directives

for cosmetic products. The ingredients of Bellecare lip balms are of natural and high-quality character, harmless and with low allergenic potential.

The successful development in accordance with the requirements of foreign markets is also reflected in creating formulations of 4 products for Israel, two lip balms and two toothpastes.

The compliance of all products with the newly released Croatian regulations for cosmetic and biocidal products as well as with new amendments to the EU Cosmetics Directive was ensured.

BUSINESS RISK FACTORS

Business environment risk

The business environment risk is determined by political, macroeconomic and social risks with a direct impact on business activities in all the markets in which the company operates, while the company cannot individually influence any of them. A political risk includes all the risks associated with a possible political instability of any individual state, while in its extreme it also involves the survival of the state itself. Taking into consideration the current internal and external political affairs, Croatia operates as a stable parliamentary democracy whose main foreign policy goal is its successful accession to the European Union. In order to achieve the above goal, a considerable part of Croatia's activities is focused on the reforms necessary for successful harmonisation with the EU legislation (*acquis communautaire*), as well as on developing and maintaining partner relations with Member States of the European Union. Considering that the political and general social risk is inherent to all parts of the society and, it cannot be individually influenced by any single person.

Taking into account that a part of Atlantic Grupa's business operations takes place in the EU market, whereby four key EU markets (Germany, Slovenia, Great Britain and Italy) in which Atlantic Grupa operates make up for 20% of the company's sales revenues, Atlantic Grupa does not expect disturbances in its business performance resulting from Croatia's integration into the EU. In fact, the geographical profile of Atlantic Grupa shows the company's international feature of realising its business activities through operating companies in Ljubljana (Slovenia), London (Great Britain), Treviso (Italy) and Hamburg (Germany). Furthermore, Atlantic Grupa is already focused on developing standards in accordance with European legislation in order to adjust to technical and technological requirements of EU markets and in that way achieve a more successful market competition. In conclusion, it should be mentioned that Atlantic Grupa's pan European strategy is reflected in the combination of recognisable European brands in the segment of sports and functional food with the most well-known brand Multipower and regional brands in the segment of vitamin drinks, personal care products and vitamins, minerals and supplements from the product assortments of Cedevida, Neva, Dietpharm, Multivita, etc.

As it was previously stated, political and general social risk is inherent to all components of one society and therefore cannot be individually influenced by any single company. International companies which operate in more

countries can diversify the listed risk whether positively or negatively, which primarily depends on individual risks of the states in which such companies operate. The companies which operate in regional markets i.e. the area of former Yugoslavia should bear in mind the political and general social risk considering that those countries are still in the process of political transition. Therefore, each investor should be aware of the political and general social risk inherent to the markets in which the company operates.

Business operations of any company are subject to macroeconomic risks, but the extent of their impact depends primarily on the level of cyclicity of the industry in which the company operates. Despite its relatively diversified business model, Atlantic Grupa operates in a stable non-cyclic consumer health care industry. Considering that the sales of Atlantic Grupa's production and distribution portfolio are influenced by macroeconomic variables like personal consumption, the level of available personal income and trends in retail trade, the company continuously monitors the aforementioned macroeconomic factors while at the same time not underestimating the still unfavourable macroeconomic trends for 2010. The latter are elaborated in the segment Outlook for 2010.

Industry and Competition Risks

Fast moving consumer goods industry

Despite the adverse macroeconomic trends in 2009, the industry of consumer goods in the segment of food products in Croatia is considered interesting, primarily due to inelastic demand for products since they are required to meet the basic living requirements. In the development of the consumer goods industry, it was exactly liberalisation and globalisation that resulted in the entry of global producers as well as retail chains which in the end had a two-direction impact. The entry of global producers with extensive product ranges and significant marketing budgets on one hand resulted in a stronger market competition, and on the other hand resulted in a larger and more diverse product offer, an increase of product quality and the establishment of global production standards. However, the entry of foreign retail chains as well as the expansion of domestic retail chains enabled the opening of new distribution channels resulting in an increased and easier distribution of consumer goods. Under such conditions, manufacturers may compete only by continuously investing in research and development of new product lines, technological development and marketing focused on strengthening brand recognisability and human resources.

As an important component of the Croatian economy, the consumer goods industry in the segment of food products is protected by the Government with various duties on imported products or direct subsidies. However, it should be considered that the opening of chapters which require harmonisation with EU policies and legislation may require additional material investments in order to achieve competitiveness with foreign producers.

Macroeconomic conditions, GDP fluctuation dynamics, which include personal consumption as a component of the GDP, fluctuation of the available personal income and the development of the living standard of consumers,

largely dictate the trends in the consumption goods industry. In addition to the above, the development of the industry of consumer goods is also characterised by the ability of companies to constantly adjust to consumer wishes and market trends, which in turn requires investments in research and development, marketing and technology. Consequently, main risks of this industry include limited growth rates in line with macroeconomic conditions and the need for significant investments with the purpose of achieving competitive advantages in relation to local and global producers.

The consumer goods industry is strongly standardised by regulations and, at the same time, supervised by the regulatory authorities, primarily because it has a direct impact on the health of consumers. This exposes this industry to the risk of uncertainty from the introduction of new, more stringent standards which may also require additional material costs.

Certain segments of the consumer goods industry, particularly the segment of food products, are influenced by factors which companies cannot control, like weather conditions or the tourist season efficacy. In line with that, certain segments of this industry are characterised by seasonal operations, which makes quality management of working capital an extremely important component of ensuring regular business operations of companies. Additionally, the relatively low level of cyclicity of the consumer goods industry makes it attractive to a large number of companies, which in turn results in increasing the number of competitors in the market and makes the industry even more diversified. In addition, considering the non-existence of a more significant market leader, there is the risk of entry of new competitors.

Atlantic Grupa currently operates in the segment of the consumer goods industry which includes food products i.e. food products with added value. The listed sub-segment takes about 8% of the total market of food products and as a market niche carries higher profitability than the industry average. For example, in the sub-segment of instant vitamin drinks under the brand Cedevita, Atlantic Grupa holds over 90% of the market and has no significant competitors in the domestic market, apart from one domestic manufacturer and private label products, whose product quality, design and packaging quality are far behind the quality standards implemented in Atlantic Grupa. In addition to the listed factors, Atlantic Grupa mostly used activities like investments in research and development, investments in technology and close monitoring of market trends as well as consumer preferences to preserve its high market shares in the listed sub-segment. Atlantic Grupa' business model is organised in a way that the company mostly operates in the health food segment with a significant development potential due to the change of consumer habits towards a healthy lifestyle and therefore health food as well.

The sub-segment of personal care products depends in large measure on the buying power of consumers and, consequently, on GDP fluctuations. This sub-segment is characterised by strong competition pressures by multinational companies which have a variety of resources at their disposal, including modern technology, aggressive pricing policy, aggressive and frequent marketing campaigns, research and development investments and fast adaptability to changing market trends. All of the above presents a significant challenge for domestic

producers in this sub-segment, requiring significant financial investments in order to preserve market competitiveness.

Pharmacy business

After entering the segment of the pharmacy business in 2008 and further expansion of the pharmacy chain Farmacia in 2009, Atlantic Grupa now owns a pharmacy chain with a national distribution of its pharmacy units. Among the main risks in this business, three risks should be pointed out. The first one refers to the risk of uncertainty from the introduction of new and potentially stricter regulations the pharmacy units must comply with since pharmacy as an industry is strictly standardized by regulations and also supervised by regulatory bodies. The second risk refers to the changeability of prices on the principal and supplemental list of medicines which must be complied with by pharmacies as subjects contracted by the Croatian Institute for Health Insurance (HZZO). Thirdly, in addition to the changeability of price lists, a significant risk also arises from the risk of delayed payment of receivables by HZZO, which as a result aggravates quality and perceptive management of working capital. However, Atlantic Grupa uses particular activities with which it aims to decrease the listed risks, such as the focus on increasing the share of over-the-counter medicines and food supplements in the product portfolio of pharmacy units, opening of specialised stores (with the portfolio of over-the-counter medicines and food supplements) which are regulated by the Agency for Medicinal Products and Medical Devices and, finally, exploring synergies across the company's distribution and production portfolio. And what is equally important, the company sees pharmacy units as the new distribution channel for other products from Atlantic Grupa's production and distribution portfolio.

Competition Risk

Subsequently to the harmonisation of legislations of candidate countries for accession to the European Union with the *acquis communautaire*, new standards and norms are established and, at the same time, final obstacles for the completely free competition are removed as a consequence of the gradual accession of these markets to the internal market of the European Union. In line with the mentioned processes, on one hand local companies are becoming increasingly exposed to international competition and on the other hand are seeing the opening of new business opportunities in foreign markets. In recent years, local companies have focused their efforts on the business expansion in regional markets that are generally characterised by the increasing demand for consumer goods and at the same time the increasing recognisability of Croatian brands.

Foreign food competitors have the advantage over local companies with regard to their technological infrastructure, possibility of investing in research and development, financial power, marketing budget size and the global recognisability of their brands resulting from their long standing business tradition. In addition to all of the above, the strong competition of established global brands comes also from the increased domestic demand due to the poor offer of foreign products in the past. However, the Croatian market as well as regional markets are also characterised by high loyalty to tradition as well as to the previously acquired consumer habits, thus inducing

the demand for domestic products. It is exactly the brand recognisability of the products Atlantic Grupa manufactures and/or distributes coupled with their high market shares that emerges as the main comparative advantage of Atlantic Grupa's production/distribution portfolio. With the strategic focus on the development of strong and market-recognised brands, Atlantic Grupa aims to reduce the risks brought on by the competition. Examples of such Company's focus are evident from the last year's launching of Cedevita GO! with which the Cedevita instant vitamin drink entered into a new distribution channel - consumption on-the-go. Atlantic Grupa also finds new distribution channels, like the HoReCa channel, characterised by lower competition pressures in relation to the traditional retail channel, whose potential of further growth arises from the tourist potential of both Croatia and the region.

Atlantic Grupa is facing strong foreign competition in the segment of personal care products and cosmetics, but the expansion of the product offer, quality retention, marketing support, brand recognisability and distribution support provided by the Distribution Division facilitate the consumption of products from this segment with well-known brands like Plidenta, Rosal and Melem.

Competition in the pharmacy segment comes primarily from city and county pharmacies and small private pharmacies owned by natural persons, and in lesser extent also from wholesale drugstore chains and generic pharmaceutical companies which also operate in the pharmacy segment. Atlantic Grupa aims to ensure its competitive advantage over the existing competitors by combining several key factors related to: continuous expansion of the pharmacy chain, national distribution of pharmacy units, opening of specialised stores which represent an upgrade and development of the pharmacy business, managing the pharmacy business operations in line with the best pharmacy practices and focusing on the education and competence development of pharmacy personnel with the goal of achieving the highest quality of pharmacy service.

Business Risk

Business risk refers to the risks present in the company's day-to-day activities which in turn directly influence the keeping of the company's competitive position as well as the stability of the company's regular business operations. Subsequent to the above, business risk is determined by the business environment in which the company operates, cyclicity level of the industry to which the company belongs as well as its own regular business policies and decisions.

Impact of individual products and business partners on business performance

In previous years Atlantic Grupa has given significant attention to the diversification and expansion of its production as well as distribution portfolio with the strategic objective of reducing its dependence on the sales of any individual product and thus also the volatility in the realisation of sales results, particularly during the changes of macroeconomic cycles.

In line with the listed diversification in its production and distribution portfolios, changes in the business environment relating to either a specific production segment or a specific partner will not jeopardize the overall business operations of Atlantic Grupa.

Product dependence

Resulting from the significant expansion and diversification of the production and distribution portfolio in previous years, today Atlantic Grupa's regular business operations do not depend significantly on any individual product. At the same time, the most prominent product category consists of consumer goods in the segment of health food.

In the course of previous years, Atlantic Grupa combined acquisition activities, innovative approach to the development of new products and conclusion of new distribution contracts in the diversification of its production as well as distribution portfolio. In 2009, this innovative approach to developing new products was primarily reflected in extending the product offer under the brand Cedevita vitamin instant drink – the launching of Cedevita GO! in the Consumer Health Care Division, the launching of the new endurance line for athletes in the Sports and Functional Food Division and the launching of new products in the VMS segment in the Pharma Division.

Business partnership dependence

In previous years Atlantic Grupa developed strong partnerships with both domestic and international producers of brands within the distribution portfolio of Atlantic Grupa and continues to realise good collaboration with principals of the new brands in the company's distribution portfolio. Although a loss of exclusive distribution rights to a particular product would have a certain impact on the Distribution Division's business performance, the risk of that happening has been significantly reduced in recent years due to the significant expansion of the distribution portfolio, which in turn results in a low dependence on any individual business partner. In fact, only in 2009 Atlantic Grupa expanded its distribution product mix to four new distribution categories, while in 2010 it also added a new distribution category and extended two distribution categories to new markets or new distribution channels. In the course of 2009, Atlantic Grupa also terminated one business partnership – with Nestle Purina Pet Care, but that did not have a more significant impact on the Distribution Division's business operations when taking account that it posted a sales growth in 2009. It should be mentioned that, in the case of terminating partnership with one of the principals, the existing contractual relations with key partners allow for appropriate "transitional" periods so the company would have enough time to adjust to new circumstances.

As the new distribution categories introduced in 2009 and 2010 indicate, Atlantic Grupa is continually monitoring developments in the brand market with the purpose of concluding new business partnerships. The continuous expansion of the distribution portfolio enables the company to quickly adjust to new conditions in the case of termination of cooperation with any of its present partners.

Close business cooperation with the leading domestic retail chains is in the essential nature of distribution activities. The dependence of distributors on major retail chains may result in additional costs of retaining the

partnership in the form of additional discounts, longer payment terms and similar activities. Although Atlantic Grupa has developed good business cooperation with a majority of domestic retail chains which are also major clients of the company, its dependence on any individual client is at the appropriate level. In the case of termination of partnership, or bankruptcy of one of the important clients, there could be a significant impact on the business results of the Distribution Division. However, with the continuous monitoring of the clients' risk level and the payment process and the resulting limitation of exposure to clients assessed as a risk, the company tries to reduce the risk to its own business in the case of termination of partnership, or bankruptcy of one of the more important clients. This was proven as necessary particularly in 2009, when one of the larger clients declared bankruptcy. Moreover, Atlantic Grupa strives to reduce the dependence of distributors on retail chains by developing the "alternative distribution channels" characterised by lower competition pressures. This, for instance, refers to the HoReCa channel (catering), outlets for sales of technical goods and pharmacy channels. For example, the 2009 sales in the HoReCa channel accounted for around 10% of the Distribution Division's sales revenues.

Financial Risks

Atlantic Grupa's business activities are exposed to financial risks, including the risks related to significant price changes, currency risks, interest risks, loan risks and liquidity and solvency risks. The listed risks are described in more detail in the consolidated financial statements of Atlantic Grupa which form a constituent part of this report.

Share Related Risks

As the riskiest asset category, market price of shares can be extremely volatile in character under the effect of volatility of the whole capital market, macroeconomic trends in the company's markets, changes in dividend policy, activities in the segment of mergers, acquisitions and conclusion of strategic partnerships, cyclicity level of the industry, instability of the company's business model as well as fluctuations in the company's financial results. If the listed factors have negative implications, there is a risk of a significant fall of the market price of shares.

IMPORTANT CORPORATE EVENTS WHICH OCCURRED AFTER THE END OF THE BUSINESS YEAR 2009

From other events which occurred after the business year 2009, it should be pointed out that in April 2010 Atlantic Grupa submitted a non-binding offer to acquire the Slovenian company Droga Kolinska d.d. Ljubljana, which is majority owned by the company Istrabenz d.d., Kopar. Droga Kolinska is the owner of strong regional brands which are leaders in their respective market categories including, among others, brands Argeta, Barcaffè/Grand Kafa, Cockta, Donat Mg, Smoki and Soko Štark. This is a potential acquisition with which Atlantic Grupa would become one of the leading food companies in the region of South East Europe with more than € 650 million in turnover and 4,300 employees.