PODRAVKA d.d. and its Subsidiaries, Koprivnica

Consolidated Financial Statements
for the year ended 31 December 2013
together with Independent Auditor's Report

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

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Company together with the annual consolidated and unconsolidated financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The unconsolidated financial statements of the Company are published separately and issued simultaneously with these consolidated financial statements.

The Company separately prepares and issues its annual report in accordance with legal and regulatory requirements.

The consolidated financial statements were authorised by the Management Board on 1 April 2014 for issue to the Supervisory Board and are signed below to signify this.

Zvonimir Mršić
President of the Management Board

Zvonimir Mršić

PODRAVKA
PREHRAMBENA INDUSTRIJA, d.d.
KOPRIVNICA 2

Miroslav Klepač
Member of the Management Board

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 1 April 2014

KPMG

Independent Auditors' Report to the shareholders of Podravka d.d.

We have audited the accompanying consolidated financial statements of Podravka d.d. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other legal and regulatory requirements

We draw attention to the Statement of Management's Responsibilities on page 1 which states that the Company separately prepares and issues its annual report in accordance with legal and regulatory requirements. Accordingly, the requirements with respect to the audit of the consistency of the annual report with the accompanying financial statements are not addressed in this audit report.

KPMG

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
2

1 April 2014

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

(in thousands of HRK)	*Note*	2013	2012
Continuing operations			
Revenues	*8*	3,501,077	3,482,674
Cost of goods sold	*11*	(2,023,818)	(2,102,063)
Gross profit		**1,477,259**	**1,380,611**
Other income	*9*	9,589	17,006
General and administrative expenses	*11*	(314,126)	(338,159)
Selling and distribution costs	*11*	(471,391)	(474,158)
Marketing expenses	*11*	(452,911)	(410,849)
Other expenses	*10*	(61,474)	(37,914)
Operating profit		**186,946**	**136,537**
Financial income	*13*	5,314	1,715
Financial expenses	*14*	(66,523)	(74,901)
Net finance costs		**(61,209)**	**(73,186)**
Profit before tax		**125,737**	**63,351**
Income tax expense	*15*	(1,446)	(45,570)
Profit for the year from continuing operations		**124,291**	**17,781**
Discontinued operations			
Loss for the year (net of tax)	*7*	**(55,914)**	**(33,237)**
Other comprehensive income			
Exchange differences on translation of foreign operations		(6,138)	13,640
Total comprehensive income/(loss)		**62,239**	**(1,816)**
Profit/(loss) attributable to:			
Equity holders of the parent		66,601	(14,102)
Non-controlling interests		1,776	(1,354)
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent		60,226	(491)
Non-controlling interests		2,013	(1,325)
Earnings/(loss) per share (in HRK):			
- Basic	*16*	12.70	(2.69)
- Diluted	*16*	12.70	(2.69)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

(in thousands of HRK)	*Note*	**31.12.2013**	**31.12.2012**
ASSETS			
Non-current assets			
Goodwill	*17*	25,881	41,984
Intangible assets	*18*	218,438	237,657
Property, plant and equipment	*19*	1,218,264	1,400,740
Non-current financial assets	*21*	5,607	5,343
Deferred tax assets	*15*	49,573	35,420
Total non-current assets		**1,517,763**	**1,721,144**
Current assets			
Inventories	*22*	572,616	631,117
Trade and other receivables	*23*	1,026,635	1,074,648
Financial assets at fair value through profit and loss	*24*	-	600
Income tax receivable		6,329	7,537
Cash and cash equivalents	*25*	179,461	118,208
Non-current assets held for sale	*26*	155,354	64,418
Total current assets		**1,940,395**	**1,896,528**
Total assets		**3,458,158**	**3,617,672**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*27*	1,062,329	1,584,862
Reserves	*28*	249,320	173,503
Retained earnings/(Accumulated losses)	*29*	345,701	(162,600)
Attributable to equity holders of the parent		**1,657,350**	**1,595,765**
Non-controlling interests	*30*	34,040	32,027
Total shareholders' equity		**1,691,390**	**1,627,792**
Non-current liabilities			
Borrowings	*32*	572,872	727,255
Provisions	*33*	49,279	46,778
Deferred tax liability	*15*	5,577	6,298
Total non-current liabilities		**627,728**	**780,331**
Current liabilities			
Trade and other payables	*34*	620,781	720,111
Income tax payable		2,849	359
Financial liabilities at fair value through profit and loss	*31*	2,709	6,775
Borrowings	*32*	490,413	463,851
Provisions	*33*	22,288	18,453
Total current liabilities		**1,139,040**	**1,209,549**
Total liabilities		**1,766,768**	**1,989,880**
Total equity and liabilities		**3,458,158**	**3,617,672**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

(in HRK thousands)	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total
As at 1 January 2012	**1,582,966**	**21,762**	**18,325**	**-**	**30,707**	**34,561**	**(93,961)**	**1,594,360**	**34,787**	**1,629,147**
Comprehensive income										
Loss for the year	-	-	-	-	-	-	(14,102)	(14,102)	(1,354)	(15,456)
Other comprehensive income	-	-	-	-	-	13,611	-	13,611	29	13,640
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**13,611**	**(14,102)**	**(491)**	**(1,325)**	**(1,816)**
Transactions with owners recognised directly in equity										
Fair value of share-based payment transactions	1,896	-	-	-	-	-	-	1,896	-	1,896
Transfers	-	-	-	50,000	4,537	-	(54,537)	-	-	-
Dividends declared for non-controlling interests	-	-	-	-	-	-	-	-	(1,435)	(1,435)
Total transactions with owners recognised directly in equity	**1,896**	**-**	**-**	**50,000**	**4,537**	**-**	**(54,537)**	**1,896**	**(1,435)**	**461**
As at 31 December 2012	**1,584,862**	**21,762**	**18,325**	**50,000**	**35,244**	**48,172**	**(162,600)**	**1,595,765**	**32,027**	**1,627,792**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	66,601	66,601	1,776	68,377
Other comprehensive income	-	-	-	-	-	(6,375)	-	(6,375)	237	(6,138)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(6,375)**	**66,601**	**60,226**	**2,013**	**62,239**
Transactions with owners recognised directly in equity										
Simplified reduction of share capital (note 27)	(542,000)	-	-	-	-	-	523,892	(18,108)	-	(18,108)
Capital reserves arising from the reduction of share capital (note 27)	18,108	-	-	-	-	-	-	18,108	-	18,108
Fair value of share-based payment transactions (note 26)	1,359	-	-	-	-	-	-	1,359	-	1,359
Transfers from retained earnings (note 28)	-	-	-	86,075	-	-	(86,075)	-	-	-
Transfers from reserves	-	-	(6,851)	-	4,050	(1,082)	3,883	-	-	-
Total transactions with owners recognised directly in equity	**(522,533)**	**-**	**(6,851)**	**86,075**	**4,050**	**(1,082)**	**441,700**	**1,359**	**-**	**1,359**
As at 31 December 2013	**1,062,329**	**21,762**	**11,474**	**136,075**	**39,294**	**40,715**	**345,701**	**1,657,350**	**34,040**	**1,691,390**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

(in thousands of HRK)	*Note*	2013	2012
Profit/(loss) for the year		**68,377**	**(15,456)**
Income tax		1,446	45,570
Depreciation and amortization		148,303	153,691
Impairment loss on property, plant, equipment and intagibles		16,341	25,592
Impairment loss on assets held for sale		50,840	6,479
Impairment loss on goodwill		13,605	-
Remeasurement of financial instruments at fair value		(4,066)	3,374
Share-based payment transactions		1,359	1,896
Loss on disposal of property, plant, equipment and intangibles		61	4,054
Impairment losses on inventory and trade receivables		32,313	25,488
Increase in provisions		1,812	7,433
Interest income		(1,248)	(7,098)
Interest expense		58,616	70,325
Effect of changes in foreign exchange rates		4,762	6,573
Changes in working capital:		**392,521**	**327,921**
Decrease in inventories		47,630	46,365
Decrease / (increase) in trade receivables		17,604	(41,939)
Increase/(decrease) in trade payables		(93,877)	17,104
Cash generated from operations		**363,878**	**349,451**
Income taxes paid		(12,602)	(34,075)
Interest paid		(59,464)	(67,043)
Net cash from operating activities		**291,812**	**248,333**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles		(96,421)	(94,682)
Proceeds from sale of property, plant, equipment and intangibles		1,016	4,249
Net repayment of loans and investments		(1,398)	(967)
Collected interest		1,248	7,098
Net cash from investing activities		**(95,555)**	**(84,302)**
Cash flows from financing activities			
Dividends paid		-	(1,435)
Proceeds from borrowings		269,897	187,669
Repayment of borrowings		(404,901)	(378,017)
Net cash from financing activities		**(135,004)**	**(191,783)**
Net increase / (decrease) of cash and cash equivalents		**61,253**	**(27,752)**
Cash and cash equivalents at beginning of year		118,208	145,960
Cash and cash equivalents at the end of year	*3.18, 25*	**179,461**	**118,208**

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

Podravka prehrambena industrija d.d., Koprivnica (the Company) is incorporated in the Republic of Croatia. The principal activities of the Group comprises production of a wide range of food products and non-alcoholic beverages as well as production and distribution of drugs, pharmaceutical products, disinfection agents, cosmetics, auxiliary medical preparations and other chemicals. The Group consists of Podravka d.d. and its subsidiaries as stated in note 20.

The Group is headquartered in Koprivnica, Croatia, Ante Starčevića 32.

The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 27.

Corporate governance and management

General Assembly

The General Assembly of the Company consists of members representing the interests of Podravka d.d.:

President	Hrvoje Matić
Deputy President	Ivan Mesić

Members of the General Assembly are individual Company shareholders or their proxies.

Supervisory Board

Supervisory Board members during 2013:

President	Dubravko Štimac
Deputy President	Mato Crkvenac
Member	Ivana Matovina
Member	Milan Stojanović
Member	Petar Vlaić
Member	Dinko Novoselec
Member	Petar Miladin
Member	Martinka Marđetko-Vuković
Member	Ivo Družić

Management Board during 2013:

President	Zvonimir Mršić
Member	Jadranka Ivanković
Member	Olivija Jakupec
Member	Miroslav Klepač
Member	Jorn Pedersen
Member	Hrvoje Kolarić

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted as by the European Union ("IFRS")

Financial statements are presented for the Group. The financial statements of the Group comprise the consolidated financial statements of the Company and its subsidiaries. The unconsolidated financial statements of the Company, which the Company is also required to prepare in accordance with IFRS, are published separately and issued simultaneously with these consolidated financial statements.

These financial statements were authorised for issue by the Management Board on 1 April 2014.

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(ii) Basis of measurement

The consolidated financial statements of the Group have been prepared on the cost basis, except for financial assets and liabilities at fair value through profit and loss and derivatives measured at fair value.

(iii) Functional and presentation currency

These financial statements are prepared in the Croatian kuna ("HRK"), which is also the functional currency, rounded to the nearest thousand.

(iv) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 5.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Podravka d.d. ("the Company") and entities controlled by the Company (its subsidiaries) as at and for the year ended 31 December 2013. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of consideration transferred, the amount of any non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the statement of comprehensive income.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Company's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment loss, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.3 Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups (which may include both non-current and current assets and liabilities directly associated with those assets) are classified in the statement of the financial position as ‘held for sale’ if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date rather than through continuing use. Non-current assets classified as held for sale in the current period’s statement of the financial position are not reclassified in the comparative statement of the financial position. Non-current assets are assets that include amounts expected to be recovered or collected in no more than twelve months after the reporting date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held-for-sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amounts and fair values less costs to sell. Held-for-sale property, plant and equipment are not depreciated.

Discontinued operations

Discontinued business operations are an integral part of the Company’s operations representing a separate line of business or a separate geographical unit that is either disposed of or held for sale, or is a subsidiary acquired with a purpose to resale. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative information in the statement of comprehensive income must be restated as if the activity had been suspended since the beginning of the comparative period.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, volume rebates and trade discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(i) Revenue from sale of products and merchandise – wholesale

The Group manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Group has delivered the products to the wholesaler, there is no continuing management involvement over the goods, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

Delivery does not occur until the products have been shipped to the specified location, the risks of loss has been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance has been satisfied.

Products are sold with volume discounts and customers have a right to return products in the wholesale market in case of defects. Sales are recorded based on the price specific in the sales contracts, net of estimated volume rebates and trade discounts and returns at the time of sale. Accumulated experience is used to estimate the volume rebates and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of approximately 90 days, which is consistent with market practice.

(ii) Revenue from sale of products and merchandise – retail

Sales of goods sold in retail stores are recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in distribution costs. The Group does not operate any customer loyalty programmes.

(iii) Revenue from services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iv) Finance income

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the right to receive payment is established.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not retained by the Group are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income by a seller-lessee. Instead, it is deferred and amortised over the lease term.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

3.6 Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit recognised in profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Foreign currency transactions

(i) Transactions and balances in foreign currencies

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates ruling at the date of transaction.

As at 31 December 2013, the official exchange rate for EUR 1 and USD 1 was HRK 7.637643 and HRK 5.549000 (31 December 2012: HRK 7.545624 and HRK 5.726794, respectively).

(ii) Group companies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Croatian kuna ("HRK"), which is also the Company's functional currency.

Income and expense items and cash flows of foreign operations that have a functional currency different from the presentation currency are translated into the Company's presentation currency at rates approximating the foreign exchange rates ruling at the dates of transactions (average exchange rates for the month) and their assets and liabilities are translated at the exchange rates ruling at the year end. All resulting exchange differences are recognised in a separate component of equity.

(iii) Net investment in Group companies

Exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operation is sold, such exchange differences are released in profit or loss as part of the gain or loss on sale.

3.8 Borrowings and borrowing costs

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the statement of income in the period incurred.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions associated with them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or loss already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.10 Dividends

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

3.11 Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

During 2013, the Company changed its segment reporting. Due to the fact that strategic decisions are made at the level of consolidated business programmes (segments), the Company no longer monitors or reports segment operations on an unconsolidated level.

At the consolidated level, the Company internally monitors and reports the following segments

- Culinary
- Sweets, snacks and beverages
- Baby food, breakfast and other food
- Meat and meat products
- Pharmaceuticals

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (which was identified as being the Management Board of the Company) in order to allocate resources to the segments and to assess their performance. Details on the operating segments are disclosed in note 8 to the consolidated financial statements. Comparative information are presented using the comparability principle.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Taxation

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax assets and liabilities

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(iii) Tax exposure

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(iv) Value added tax (VAT)

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the consolidated statement of financial position on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount receivable, including VAT.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Property, plant and equipment

Property, plant and equipment are included in the consolidated statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	10 to 50 years
Equipment	3 to 30 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3.15).

Gains and losses on disposals are determined as the difference between the income from the disposal and the carrying amount of the asset disposed, and are recognised in profit or loss within other income/expenses.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Intangible assets

Intangible assets may be acquired in exchange for a non-cash asset or assets, or a combination of cash and non-cash items, whereby the cost of such intangible asset is determined at fair value unless the exchange transaction lacks commercial substance or the fair value of items received or assets disposed of cannot be reliably measured, in which case the carrying value is determined as the carrying amount of the asset disposed of.

Licences, brands, distribution rights and registration files

Product distribution rights and rights of registration files use have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost of licences and rights over their estimated useful lives estimated from 5 to 15 years.

Rights to acquired trademarks and know-how are carried at cost and have an indefinite useful life, since based on an analysis of all of the relevant factors at the reporting date, there is no foreseeable limit to the period of time over which identified rights are expected to generate net cash inflows. Intangible assets with indefinite useful lives are tested annually for impairment and are stated at cost less accumulated impairment loss (note 3.15).

Computer software

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

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment loss, on the same basis as intangible assets that are acquired separately.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Impairment of property, plant, equipment and intangibles

At each reporting date, the Group reviews the carrying amounts of its property, plant, equipment and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease in accordance with the relevant Standard containing requirements for revaluation of the underlying asset(s).

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase in accordance with the relevant Standard containing requirements for revaluation of the underlying asset(s).

3.16 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average cost method, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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

Trade goods are carried at the lower of purchase cost and selling price (less applicable taxes and margins).

Low valued inventory and tools are expensed when put into use.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Trade receivables

Trade receivables are recognised initially at cost which is equal to the fair value at the moment of recognition and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. An impairment allowance for trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable may be impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at the date of initial recognition.

3.18 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less. Bank overdrafts are included within current liabilities on the consolidated statement of financial position.

3.19 Share capital

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

Where the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

3.20 Employee benefits

(i) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Group makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group is not obliged to provide any other post-employment benefits.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Employee benefits (continued)

(iii) Regular retirement benefits

Benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

(iv) Long-term employee benefits

The Group recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

(v) Short-term employee benefits

The Group recognises a provision for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income (profit or loss), with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value of shares) and share premium (the difference between the nominal value of shares and the proceeds received) when the options are exercised.

3.21 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

Provisions for restructuring costs are recognized when the Group has a detailed formal plan for the restructuring that has been communicated to parties concerned.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial assets

Financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into as 'financial assets at fair value through profit or loss' (FVTPL), 'investments held to maturity' (HTM), 'available-for-sale financial assets' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial assets (continued)

Financial assets at fair value through profit or loss (FVTPL) (continued)

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in the statement of comprehensive income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 6.

Available-for-sale financial assets (AFS)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 6. Gains and loss arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment loss, interest calculated using the effective interest method and foreign exchange gains and loss on monetary assets, which are recognised directly in statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in statement of comprehensive income for the period.

Dividends on AFS equity instruments are recognised in statement of comprehensive income when the Company's right to receive the dividends is established.

The fair value of AFS financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and loss that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and loss are recognised in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any cumulative impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For securities classified as available for sale, significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 360 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial assets (continued)

Impairment of financial assets (continued)

In respect of AFS equity securities, impairment loss previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.23 Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Financial liabilities and equity instruments issued by the Group (continued)

Financial liabilities at fair value through profit or loss (FVTPL) (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of comprehensive income. The net gain or loss recognised in statement of comprehensive income incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 6.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Contracts on financial guarantee

Agreement on the financial guarantee is a contract under which the issuer is obligated to pay the holder a certain sum as compensation for loss suffered by the owner because the borrower has not fulfilled its obligation to pay under the terms of a debt instrument.

Financial guarantee contracts issued by the Group initially measured at fair value and subsequently, if they are not destined for at fair value through profit or loss, the higher of:

- the amount of the obligation under the contract, which is determined in accordance with IAS 37 Provisions , Contingent Liabilities and Contingent Assets ",
- original amount minus the cumulative depreciation, if any, are recognized in accordance with revenue recognition policies.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2013 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. It is not expected that these standards will have a significant effect on the consolidated financial statements of the Company.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Deferred tax assets recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see note 15).

(ii) Actuarial estimates used in determining obligations for employee benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 33).

(iii) Consequences of certain legal actions

There are a number of legal actions involving certain companies within the Group, which have arisen from the regular course of their operations. Management makes estimates of probable outcomes of the legal actions, and the provisions for the Group's obligations arising from these legal actions are recognised on a consistent basis (see note 33).

(iv) Recoverability of trade and other receivables

The recoverable amount of trade and other receivables is estimated at present value of future cash flows discounted at the market interest rate at the measurement date. Short-term receivables with no stated interest rate are measured by the amount of original invoice if the effect of discounting is not significant.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment of non-current assets, including goodwill

The Group tests goodwill, brands and rights for impairment on an annual basis in accordance with accounting policy 3.15. For the purposes of impairment testing, goodwill, brands and rights with indefinite useful lives have been allocated to cash generating units within reportable segments at their carrying amount at the reporting date as follows:

	Goodwill	Brands	Rights
Operating segment		*(in thousands of HRK)*	
Culinary	-	31,239	-
Baby food, breakfast and other food	25,881	37,084	-
Pharmaceuticals	-	-	47,075
	25,881	**68,323**	**47,075**

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial budgets approved by management and cover a period of five years.

For impairment tests with respect to intangible assets related to food and beverages segments (all segments other than Pharmaceuticals), cash flows beyond the five year period have been extrapolated with a terminal growth rate of 2% while the net present value of future cash flows was calculated using discount rates based on the weighted average cost of capital of 10.77% (for assets which generate the majority of revenue on the Croatian market), 9.74% (for assets which generate the majority of revenue on the Polish market) and 7.63% (for assets which generate the majority of revenue on the Czech market).

For impairment tests with respect to intangible assets related to the Pharmaceutical segment, cash flows beyond the five year period have been extrapolated with a terminal growth rate of 2% while the net present value of future cash flows was calculated using discount rates based on the weighted average cost of capital of 10.77% (for assets which generate the majority of revenue on the Croatian market) and 11.74% (for assets which generate the majority of revenue on the market of Bosnia and Herzegovina).

Based on the impairment tests performed, the Group recognised impairment losses with respect to intangible assets with indefinite useful life during 2013 in the amount of HRK 24,576 thousand (2012: HRK 20,100 thousand)- for details refer to notes 8, 17 and 18.

In the course of estimating the need for impairment based on the impairment tests performed, the Group also considers and analyses their sensitivity based on changes in key assumptions used. Sensitivity analysis shows that a reduction in terminal growth rate of 100 basis points and increase in weighted average cost of capital of 100 basis points would result in a decrease of the recoverable amount of cash generating units by 21.8% on average and would result in an additional impairment loss of approximately HRK 24 million (of which approximately HRK 10 million relates to brands and rights and approximately HRK 14 million relates to goodwill).

NOTE 6 – DETERMINATION OF FAIR VALUES

Effective as of the reporting date, the Company adopted IFRS 13: *Fair value measurement* which represents a single framework for measuring fair value and making disclosure about fair value measurements when such measurements are required or permitted by other IFRSs. IFRS 13 unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurement in other IFRSs. As a result the Company has included additional disclosures with respect to fair value measurement as explained below.

In accordance with the transitional provisions of IFRS 13, the Company applied the new fair value measurement guidance prospectively and has not any comparative information of new disclosures. Notwithstanding the above, the change had no significant impact on the measurement of the Company's assets and liabilities.

The Company has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and finance department in relation to the monitoring of all significant fair value measurements, consultation with external experts and the responsibility to report, with respect the above, to those charged with corporate governance.

Fair values are measured using information collected from third parties in which case the Board and the finance department assess whether the evidence collected from third parties support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified.

All significant issues related to fair values estimates are reported to the Supervisory Board and the Audit Committee.

Fair values are categorised into different level in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

If one or more significant inputs are not based on observable market data, the fair value estimate is included in level 3.

In preparing these financial statements, the Company has made the following significant fair value estimates statements as further explained in detail in following notes:

- note 7: Discontinued operations
- note 26: Non-current assets held for sale
- note 31: Financial liabilities at fair value through profit and loss
- note 36: Share-based payments

NOTE 7 – DISCONTINUED OPERATIONS

By the Management Board decision dated 20 June 2013, the Company announced its intention to exit the Beverages business segment in order to improve business activities, reduce operating costs and strengthen innovation and competitiveness of the Company in its key business areas. At the reporting date, the Company classified the Beverages segment as discontinued operations in accordance with IFRS 5.

The Company initiated the process of disposal of the Beverages segment and the underlying disposal group and expects to complete the disposal during 2014.

The Company recognised expenses in the amount of HRK 29,321 thousand relating to the write-down of the value of the disposal group to the lower of its carrying amount and its fair value less costs to sell. This impairment loss is recognised within other expenses relating to discontinued operations.

Depreciation expense relating to discontinued operations amounts to HRK 12,735 thousand (2012: HRK 12,098 thousand). The Company recognised expenses amounting to HRK 1,621 thousand (2012: HRK 1,083 thousand) in the statement of comprehensive income for discontinued operations with respect to termination benefits for employees.

Statement of comprehensive income for discontinued operations is as follows:

(in thousands of HRK)	**Discontinued operations**	
	2013	**2012**
Revenue from sale	124,934	143,992
Cost of goods sold	(99,469)	(108,884)
Gross profit	**25,465**	**35,108**
Operating expenses	(52,058)	(68,345)
Other expenses	(29,321)	-
Operating loss	**(55,914)**	**(33,237)**
Loss before tax for the year	**(55,914)**	**(33,237)**
Income tax	-	-
Loss for the year	**(55,914)**	**(33,237)**
Loss per share (in HRK)		
- Basic	(10.67)	(6.34)
- Diluted	(10.67)	(6.34)

The loss from discontinued operations of HRK 55,914 thousand (2012: HRK 33,237 thousand) is attributable entirely to the owners of the Company.

Cash flow for discontinued operations is as follows:

(in thousands of HRK)	**2013**	**2012**
Net cash from operating activities	(9,419)	(23,423)
Net cash from financing activities	-	-
Net cash from investing activities	(5,945)	(9,093)
	(15,364)	**(32,516)**

NOTE 7 – DISCONTINUED OPERATIONS (CONTINUED)

Disposal group held for sale

Assets of the disposal group held for sale as at 31 December 2013 are as follows:

(in thousands of HRK)	**2013**
Land and buildings	34,258
Equipment	41,498
Inventories	8,967
	84,723

Due to practical reasons the Group was not able to present liabilities for disposal group held for sale as at 31 December 2013.

Fair value measurement

Property within the disposal group is measured at fair value less costs to sell due to the fact that this fair value is lower than the carrying amount.

(i) Fair value hierarchy

One-off disposal group fair value measurement in the amount of HRK 34,258 thousand is categorised, in accordance with inputs used in estimating the fair value, as level 3 (see note 6).

(ii) Valuation techniques and significant inputs

The following table summarizes the valuation methods and techniques used in measuring the fair value of the disposal group and significant inputs used in the valuation.

Valuation methods and techniques	**Significant unobservable inputs**
Income capitalisation and comparable values method	Average yield: 13%
For buildings, the valuation model considers the present value of cash flows that the asset could generate from rent taking into account the expected net rent based on comparable transactions. For land, the valuation model considers the real sale values achieved in the sale of comparable land at a similar location.	Among other factors, the estimated discount rate considers the underlying quality of the property, its location and the currently realisable rent conditions for similar locations and the comparable type of property.

NOTE 8 – SEGMENT INFORMATION

Sales revenue

	2013.	2012.
	(in thousands of HRK)	
Revenue from sale of product and merchandise	3,475,790	3,446,317
Revenue from services	25,287	36,357
	3,501,077	**3,482,674**

For management purposes, the Group is organised in business units based on the similarity in the nature of individual product groups and has identified reportable segments in accordance with quantitative thresholds for segment reporting. The reportable segments of the Group are as follows:

- Culinary
- Sweets, snacks and beverages
- Baby food, breakfast and other food
- Meat and meat products
- Other
- Pharmaceuticals

The reportable segments are part of the internal financial reporting to the Management Board which was identified as the chief operating decision maker. The Management Board reviews the internal reports regularly and assesses the segment performance, and uses those reports in making operating decisions.

Segment revenues and results

Set out below is an analysis of the Group's revenue and results by its reportable segments, presented in accordance with IFRS 8 and a reconciliation of segment profits to profit or loss before tax as presented in the consolidated statement of comprehensive income. The revenue presented below relates to third-party sales. Inter-segment revenues are eliminated on consolidation.

	Segment revenues		**Segment profits**	
(in thousands of HRK)	**2013**	**2012**	**2013**	**2012**
Culinary	932,235	902,821	198,939	191,810
Sweets, snacks and beverages	174,036	165,184	12,172	9,099
Baby food, breakfast and other food	912,314	899,064	15,973	(2,553)
Meat and meat products	281,566	344,071	(6,736)	(3,373)
Other	349,656	345,818	(9,377)	(12,941)
Pharmaceutical	851,270	825,716	144,725	130,780
	3,501,077	**3,482,674**	**355,696**	**312,822**
Financial income (note 13)			5,314	1,715
Other income (note 9)			9,589	17,006
Central administration costs			(116,865)	(155,377)
Other costs (note 10)			(61,474)	(37,914)
Finance costs (note 14)			(66,523)	(74,901)
Profit before tax			**125,737**	**63,351**

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (continued)

The Culinary segment comprises the following product groups: Seasonings and bouillons, Podravka Meals and Food mixes.

The Sweets, snacks and beverages segment comprises the following product groups: Sweets, Snacks, and Beverages

The Baby food, breakfast and other food segment comprises the following product groups: Baby food, Breakfast food, Vegetables, Condiments and baking products, Mediterranean food, Frozen food.

The Meat and meat Products segment comprises the following product groups: Finished meals and meat sauces, Sausages, Pates and sliced meats and Meat.

The Other segment comprises the following product groups: Private labels, In-sourced production, Merchandise and Other (services).

The Pharmaceutical segment comprises the following: Ethical drugs (medically prescribed drugs financed by the Ministry of Health), Non Prescription Program (drugs for which no medical prescription is required).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, other income, other expenses, financial expenses, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Impairment of goodwill and intangible assets

Based on impairment tests performed for goodwill and intangible assets with indefinite useful life as described in more detail in note 5, the Group recognised impairment losses during 2013 as follows:

	Goodwill	**Brands**	**Rights**
Operating segment		*(in thousands of HRK)*	
Culinary	-	10,300	-
Sweets, snacks and beverages	-	671	-
Pharmaceutical	13,605	-	-
	13,605	**10,971**	-

For details on impairments see notes 17 and 18.

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group operates in four principal geographical areas by which it reports third-party sales.

	Revenue from external customers	
(in thousands of HRK)	**2013**	**2012**
Croatia	1,483,479	1,579,367
South-East Europe	916,122	877,709
Central and Eastern Europe	788,673	727,922
Western Europe and overseas countries	312,803	297,676
	3,501,077	**3,482,674**

Information about major customers

Third-party sales in Croatia account for 44% (2012: 47%) of the total revenue from external customers, whereas the remaining 56% (2012: 53%) represent foreign sales. Top 20 customers participate for 43% (2012: 42%) of the external sales. The Group has no significant exposure to an individual major customer.

Below is a more detailed overview of countries by geographical area:

Southeast Europe	Central Europe	Eastern Europe	Western Europe	Overseas countries	New markets
Albania	Bulgaria	Armenia	Austria	Argentina	Egypt
Bosnia and Herzegovina	Czech Republic	Belarus	France	Australia	Jordan
Montenegro	Hungary	Kazakhstan	Italy	Canada	Liberia
Kosovo	Poland	Kyrgystan	Nederlands	New Zealand	Turkey
Macedonia	Romania	Latvia	Germany	USA	Un. Ar. Emirates
Slovenia	Slovakia	Lithuania	Sweden		
Serbia		Russian Federation	Switzerland		
		Turkmenistan	Great Britain		
		Ukraine			

NOTE 9 – OTHER INCOME

	2013	2012
	(in thousands of HRK)	
Grant income	2,113	6,122
Revenue from sale and leaseback transaction	5,120	2,867
Interest and foreign exchange differences on trade receivables	-	5,477
Other	2,356	2,540
	9,589	17,006

NOTE 10 – OTHER EXPENSES

	2013	2012
	(in thousands of HRK)	
Interest expense relating to trade payables	1,437	1,767
Impairment loss on brands (note 18)	10,971	10,400
Impairment loss on assets held for sale (note 26)	21,519	6,479
Impairment loss on pharmaceutical rights (note 18)	-	9,700
Impairment loss on goodwill (note 17)	13,605	-
Impairment loss on property, plant and equipment (note 19)	5,370	5,492
Loss on disposal of property, plant, equipment and intangibles	61	4,054
Interest and foreign exchange differences on trade receivables	8,505	-
Other	6	22
	61,474	37,914

NOTE 11 – EXPENSES BY NATURE

	2013	2012
	(in thousands of HRK)	
Raw materials and consumables used, energy and cost of goods sold including change in inventory	1,674,379	1,730,220
Staff costs (note 12)	773,681	799,657
Advertising and promotion	297,427	261,075
Services	145,275	136,140
Depreciation	135,568	141,593
Transportation	50,901	41,482
Rental expense	47,535	55,149
Impairment of trade receivables	30,409	22,196
Entertainment	29,723	29,187
Daily allownaces and travel expenses	16,926	16,172
Taxes and contributions independent of operating results	16,324	15,934
Telecommunications	11,701	12,440
Cost of disposal of packaging, administrative fees, etc	6,918	6,901
Bank charges	5,624	10,894
Litigation expenses	1,732	15,048
Other	18,123	31,141
Total costs in goods, selling and distribution costs, marketing costs and administrative costs	**3,262,246**	**3,325,229**

NOTE 12 – STAFF COSTS

	2013	2012
	(in thousands of HRK)	
Salaries	696,944	735,315
Termination benefits	53,082	40,201
Transportation	10,245	9,939
Share options (note 36)	1,359	1,896
Other	12,051	12,306
	773,681	**799,657**

As at 31 December 2013, the number of staff employed by the Group was 5,717 (2012: 6,115).

In 2013 termination benefits in the amount of HRK 54,703 thousand were accrued and paid to 456 employees including HRK 1,621 thousand relating to termination benefits with respect to discontinued operations (2012: HRK 41,284 thousand relating to 328 employees including HRK 1,083 with respect to discontinued operations).

NOTE 13 – FINANCE INCOME

	2013	2012
	(in thousands of HRK)	
Interest on term deposits	810	796
Other interest	438	825
Unrealised gains per interest rate swap contract	4,066	-
through profit or loss	-	94
	5,314	**1,715**

NOTE 14 – FINANCIAL EXPENSES

	2013	2012
	(in thousands of HRK)	
Interest expense and similar charges	58,616	70,325
Unrealised losses per interest swap contract	-	3,468
Net foreign exchange loss on borrowings	7,907	1,108
	66,523	**74,901**

In 2013, the benchmark interest rates remained at low levels, which, along with regular loan repayments, resulted in a significant reduction in loan related interest expense.

Furthermore, on 16 November 2012 Podravka d.d. entered into an Interest Rate Swap (IRS) agreement relating to its foreign currency denominated syndicated loan, whereby the contracting parties hedged the obligation at a variable interest rate (3M EURIBOR) with a fixed interest rate of 0.499% for Tranche A and 0.625% for tranche B and 2.46% for Erste Group tranche. The IRS agreement is valid until 16 December 2015 and 9 October 2014 (for details see note 31).

During 2013 and 2012, the Group had no investments for which interest expense could be capitalised.

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2013	2012
	(in thousands of HRK)	
Current income tax	16,300	18,649
Deferred tax	(14,854)	26,921
	1,446	**45,570**

Effective tax rate reconciliation

A reconciliation of tax expense per the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

	2013	2012
	(in thousands of HRK)	
Profit before taxation	**69,823**	**30,114**
Income tax at 20% (2012: 20%)	13,965	6,023
Non-deductible expenses and non-taxable income	19,442	12,867
Tax incentive for reinvested profit	(17,215)	(10,000)
Other tax incentives	(1,673)	(3,473)
Temporary differences and tax losses not recognised as deferred tax assets	6,602	9,857
Derecognition of temporary differences previously recognised as deferred tax assets	-	31,004
Utilisation of temporary differences previously not recognised as deferred tax asset	(6,878)	-
Utilisation of tax losses previously not recognised as deferred tax asset	(13,427)	-
Effect of different tax rates	630	(708)
Income tax	**1,446**	**45,570**
Effective tax rate	2%	151%

Unused tax losses

In accordance with tax regulations, by the end of 2013 Group realised tax losses in the amount of HRK 70,566 thousand (2012: HRK 93,856 thousand) which consist of tax losses in Croatia (in the amount of HRK 54,437 thousand), Bosnia and Herzegovina (in the amount of HRK 5,448 thousand) and Serbia (in the amount of HRK 10,681 thousand). These tax losses may be carried forward for five years subsequent to the year in which they were incurred in.

	2013	2012
	(in thousands of HRK)	
Up to 2013	-	66,277
Up to 2014	403	403
Up to 2015	301	301
Up to 2016	6,279	6,279
Up to 2017	20,596	20,596
Up to 2018	42,987	-
	70,566	93,856

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets arise from the following:

2013	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
Temporary differences:				
Government subsidies	211	-	(1)	210
Property, plant and equipment	481	9,939	-	10,420
Intangibles	17,989	2,199	-	20,188
Jubilee awards	2,460	31	-	2,491
Termination benefits	2,822	(252)	21	2,591
Vacation accrual	182	(182)	-	-
Impairment allowance on inventories	4,192	385	-	4,577
Other deferred tax assets	3,439	2,054	-	5,493
Inventory	3,644	(41)	-	3,603
Deferred tax assets	**35,420**	**14,133**	**20**	**49,573**

2012	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
Temporary differences:				
Government subsidies	28,570	(30,771)	2,412	211
Assets under financial lease	346	(346)	-	-
Property, plant and equipment	498	(11)	(6)	481
Intangibles	15,909	2,080	-	17,989
Jubilee awards	2,250	210	-	2,460
Termination benefits	2,587	235	-	2,822
Vacation accrual	170	11	1	182
Impairment allowance on inventories	3,996	196	-	4,192
Other deferred tax assets	1,696	1,743	-	3,439
Inventory	4,611	(967)	-	3,644
Deferred tax assets	**60,633**	**(27,620)**	**2,407**	**35,420**

Deferred tax liabilities arise from the following:

2013	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
Temporary differences:				
Adjustments to non-current assets	(1,158)	193	-	(965)
Adjustment of assets at fair value	(5,140)	528	-	(4,612)
	(6,298)	**721**	**-**	**(5,577)**

2012	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
Temporary differences:				
Adjustments to non-current assets	(1,124)	(34)	-	(1,158)
Adjustment of assets at fair value	(5,873)	733	-	(5,140)
	(6,997)	**699**	**-**	**(6,298)**

NOTE 16 – EARNINGS/ (LOSS) PER SHARE

Basic earnings per share

Basic earnings per share are determined by dividing the Group's net earnings or losses with the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

Diluted earnings per share

Diluted earnings per share were calculated as the basic earnings per share, including the impact of the number of share options granted to employees, of which 144,920 were not exercised (2012: 91,000 options).

	2013	2012
Ordinary shares as at 1 January	5,242,492	5,242,492
Effect of share based payments	46,334	3,310
Weighted average number of shares	**5,288,826**	**5,245,802**

	2013			2012		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Basic earnings / (loss) per share						
Comprehensive income/(loss) attributable to the owners of equity (in HRK thousands)	122,515	(55,914)	**66,601**	19,135	(33,237)	**(14,102)**
Basic earnings / (loss) per share (in HRK)	23.37	(10.67)	**12.70**	3.65	(6.34)	**(2.69)**
Diluted earnings / (loss) per share						
Comprehensive income/(loss) attributable to the owners of equity (in HRK thousands)	123,874	(55,914)	**67,960**	19,135	(33,237)	**(14,102)**
Diluted earnings / (loss) per share (in HRK)	23.37	(10.67)	**12.70**	3.65	(6.34)	**(2.69)**

NOTE 17 - GOODWILL

(in thousands of HRK)	**2013**	**2012**
Cost		
At 1 January	77,666	77,666
At 31 December	**77,666**	**77,666**
Accumulated impairment losses		
At 1 January	35,682	36,537
Impairment	13,605	-
Effect of changes in the foreign exchange rates	2,498	(855)
At 31 December	**51,785**	**35,682**
Carrying amount at 31 December	**25,881**	**41,984**

The goodwill impairment in respect of the Belupo Group comprises the impairment of the goodwill recognized on the acquisition of Farmavita in the amount of HRK 8,485 thousand, Pharmacies Koprivnica in the amount of HRK 1,094 thousand, Pharmacies Crikvenica in the amount of HRK 329 thousand and Pharmacies Agram in the amount of HRK 3,697 thousand.

A more detailed description of the approach and method of used in impairment testing is provided in note 5(v). Impairment losses on goodwill are included in 'Other expenses' presented in note 10.

NOTE 18 – INTANGIBLE ASSETS

(in thousands of HRK)	Software and licences	Pharmaceutical rights	Rights, registration files, know how	Brand	Intangible assets in progress	Total
Cost						
At 1 January 2012	173,813	59,065	127,143	180,392	20,714	561,127
Effect of foreign exchange differences	641	-	996	327	(1)	1,963
Additions	7,610	-	(7,449)	-	23,479	23,640
Transfers	18,972	-	3,758	-	(22,730)	-
Disposals	(7,088)	-	(1,092)	-	(589)	(8,769)
Transfer to asset held for sale	(523)	-	-	-	-	(523)
At 31 December 2012	**193,425**	**59,065**	**123,356**	**180,719**	**20,873**	**577,438**
Accumulated depreciation						
At 1 January 2012	(137,051)	(2,290)	(68,090)	(90,698)	-	(298,129)
Effect of foreign exchange differences	(6,710)	-	5,255	(327)	-	(1,782)
Disposals	6,212	-	18	-	-	6,230
Charge for the year	(14,240)	-	(11,875)	-	-	(26,115)
Impairment	-	(9,700)	-	(10,400)	-	(20,100)
Transfer to asset held for sale	115	-	-	-	-	115
At 31 December 2012	**(151,674)**	**(11,990)**	**(74,692)**	**(101,425)**	**-**	**(339,781)**
Carrying amount						
as at 31 December 2012	**41,751**	**47,075**	**48,664**	**79,294**	**20,873**	**237,657**
Cost						
At 1 January 2013	193,425	59,065	123,356	180,719	20,873	577,438
Effect of foreign exchange differences	(124)	-	(3)	(851)	10	(968)
Additions	93	-	-	-	19,216	19,309
Transfers	5,066	-	9,909	-	(14,975)	-
Disposals	(971)	-	-	-	-	(971)
Transfer to asset held for sale	(409)	-	-	-	-	(409)
Transfer to tangible assets	(3,164)	-	-	-	-	(3,164)
At 31 December 2013	**193,916**	**59,065**	**133,262**	**179,868**	**25,124**	**591,235**
Accumulated depreciation						
At 1 January 2013	(151,674)	(11,990)	(74,692)	(101,425)	-	(339,781)
Effect of foreign exchange differences	124	-	42	851	-	1,017
Disposals	648	-	-	-	-	648
Charge for the year	(9,718)	-	(14,838)	-	-	(24,556)
Impairment	-	-	-	(10,971)	-	(10,971)
Transfer to asset held for sale	409	-	-	-	-	409
Transfer to tangible assets	437	-	-	-	-	437
At 31 December 2013	**(159,774)**	**(11,990)**	**(89,488)**	**(111,545)**	**-**	**(372,797)**
Carrying amount						
as at 31 December 2013	**34,142**	**47,075**	**43,774**	**68,323**	**25,124**	**218,438**

At the end of the reporting period, the Group reassessed the recoverable amount of its brands and rights and recognised an impairment loss of HRK 10,971 thousand for brands (HRK 10,300 thousand for Warzywko brand and HRK 671 thousand for Lero brand).

A more detailed description of the approach and method of used in impairment testing is provided in note 5(v). Impairment losses on intangible assets are included in „Other expenses“ presented in note 10.

Intangible assets under construction relate to capitalised development expenses and purchased registration files for which health and regulatory approval has not yet been received.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2012	2,342,227	1,773,061	54,880	4,170,168
Effect of foreign exchange differences	6,934	4,881	8	11,823
Additions	329	2,283	68,430	71,042
Transfers	9,528	43,470	(52,998)	-
Disposals	(3,488)	(27,436)	849	(30,075)
Transfer to assets held for sale	-	(16,190)	-	(16,190)
At 31 December 2012	**2,355,530**	**1,780,069**	**71,169**	**4,206,768**
Accumulated depreciation				
At 1 January 2012	(1,362,483)	(1,331,678)	-	(2,694,161)
Effect of foreign exchange differences	(2,162)	(4,625)	-	(6,787)
Additions	1,980	22,331	-	24,311
Charge for the year	(62,818)	(64,758)	-	(127,576)
Transfer to assets held for sale	-	3,677	-	3,677
Impairment	(1,080)	(1,562)	(2,850)	(5,492)
At 31 December 2012	**(1,426,563)**	**(1,376,615)**	**(2,850)**	**(2,806,028)**
Carrying amount as at 31 December 2012	**928,967**	**403,454**	**68,319**	**1,400,740**
Cost				
At 1 January 2013	2,355,530	1,780,069	71,169	4,206,768
Effect of foreign exchange differences	(1,549)	(2,324)	2	(3,871)
Additions	13	1,587	75,512	77,112
Transfers	36,401	46,402	(82,803)	-
Disposals and retirements	(3)	(22,463)	284	(22,182)
Transfer to assets held for sale (i)	(156,231)	(193,331)	-	(349,562)
Transfer from intangible assets	3,164	-	-	3,164
At 31 December 2013	**2,237,325**	**1,609,940**	**64,164**	**3,911,429**
Accumulated depreciation				
At 1 January 2013	(1,426,563)	(1,376,615)	(2,850)	(2,806,028)
Effect of foreign exchange differences	336	2,377	-	2,713
Disposals	-	21,428	-	21,428
Charge for the year	(60,105)	(63,642)	-	(123,747)
Transfer to assets held for sale (i)	71,784	146,492	-	218,276
Impairment	(5,370)	-	-	(5,370)
Transfer from intangible assets	(437)	-	-	(437)
At 31 December 2013	**(1,420,355)**	**(1,269,960)**	**(2,850)**	**(2,693,165)**
Carrying amount as at 31 December 2013	**816,970**	**339,980**	**61,314**	**1,218,264**

Assets under construction relate mainly to investments in modernisation of production capacities.

(i) During the year the Company transferred property, plant and equipment with a carrying amount of HRK 131,286 thousand to non-current assets held for sale out of which HRK 105,077 thousand relates to the carrying amount of assets of the disposal group held for sale while the remainder relates to other equipment.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Land and buildings of the Group with a carrying amount as at 31 December 2013 of HRK 645,501 thousand (2012: HRK 685,457 thousand) are mortgaged against the Group's borrowings.

As at 16 December 2010, Podravka d.d. and its subsidiaries Belupo d.d., Danica d.o.o., Podravka Polska Sp.z.o.o. and Podravka Lagris as guarantors, entered into a syndicated loan contract with several banks in the amount of EUR 100 million. According to the contract, subsidiaries are guarantors and guarantee for all of Podravka d.d. obligations as per the loan agreement. As an insurance instrument with respect to the loan, the Group pledged its property, plant, equipment, receivables of Belupo d.d. and Danica d.o.o. as well as shares held by the parent company in Podravka Polska Sp.z.o.o and Podravka Lagris.

Leased equipment where the Group is the lessee under a finance lease comprises the following:

	2013	2012
	(in thousands of HRK)	
Cost of capitalised finance leases	27,295	87,708
Accumulated depreciation	(7,593)	(24,535)
Carrying amount	**19,702**	**63,173**

During the year the Management Board of Podravka d.d. made a decision with respect to early termination of the finance lease agreement for the property in Umag. As a result, the Company paid the present value of outstanding liabilities under the finance lease in the amount of EUR 2,946 thousand and applicable termination charges. As at the date of termination, the carrying value of the property was HRK 36,437 thousand.

NOTE 20 – SUBSIDIARIES

Group consists of the Company and the following subsidiaries in which the Company has an ownership interest above 50% and control:

Name of subsidiary	Country	2013	2012	Principal activity
Belupo d.d., Koprivnica	Croatia	100%	100%	Production and distribution of pharmaceuticals
Belupo doel, Skopje*	Macedonia	100%	100%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100%	100%	Sale and distribution of pharmaceuticals
Belupo Ljubljana*	Slovenia	100%	100%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm Koprivnica*	Croatia	100%	100%	Sale and distribution of pharmaceuticals
Farmavita d.o.o. Vogošća*	Bosnia and Herzegovina	65%	65%	Proizvodnja i distribucija lijekova
Danica d.o.o., Koprivnica	Croatia	100%	100%	Meet processing and production
Lero d.o.o., Rijeka	Croatia	100%	100%	Beverage production
Ital-Ice d.o.o., Poreč	Croatia	100%	100%	Ice cream production
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100%	100%	Services
Podravka Inženjering d.o.o., Koprivnica	Croatia	100%	100%	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100%	100%	Sale of merchandise
Studenac d.o.o. Koprivnica	Croatia	100%	0%	Beverages production and sale
Lagris a.s., Lhota u Luhačovic	Czech Rep.	100%	100%	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100%	100%	Seasonings production and sale
Podravka-International Kft, Budapest	Hungary	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Ljubljana	Slovenia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100%	100%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100%	100%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen**	Slovakia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100%	100%	Sale and distribution of food and beverages
Podravka International, Turkey***	Turkey	100%	100%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	99%	99%	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100%	100%	Production of wafers
Podravka-International s.r.l., Bucharest	Romania	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100%	100%	Sale and distribution of food and beverages
Podravka-International e.o.o.d., Sofia	Bulgaria	100%	100%	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100%	100%	Sale and distribution of food and beverages

*The Group hold these ownership interests indirectly through its subsidiary Belupo d.d.

**25% of ownership interest is held indirectly through the subsidiary Lagris a.s., Lhota u Luhačovic

*** 25% of ownership interest is held indirectly through the subsidiary Danica d.o.o., Koprivnica

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

	2013	2012
	(in thousands of HRK)	
Loans receivable	6,037	4,729
Impairment allowance on loans receivable	(2,500)	(2,500)
Other receivables and deposits	2,070	3,114
	5,607	**5,343**

The fair value of non-current receivables approximates their carrying amount as the contracted interest rates reflect commercial market rates.

NOTE 22 – INVENTORIES

	2013	2012
	(in thousands of HRK)	
Raw materials and supplies	176,250	225,187
Work in progress	31,985	40,021
Finished goods	199,921	213,453
Merchandise	164,460	152,456
	572,616	**631,117**

In 2013, the Group recognised an impairment loss with respect to inventories in the amount of HRK 1,904 thousand (2012: HRK 3,292 thousand decrease in impairment allowance). This impairment loss is included within 'Cost of goods sold'.

In 2013, 'Cost of goods sold' include inventory of raw materials used in production of finished goods, and work in progress and the cost of merchandise in the amount of HRK 1,594,342 thousand (2012: HRK 1,662,504 thousand).

NOTE 23 – TRADE AND OTHER RECEIVABLES

	2013	2012
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,145,524	1,148,794
Impairment allowance	(166,510)	(137,692)
Net trade receivables	**979,014**	**1,011,102**
Bills of exchange received	5,575	3,402
Advances to suppliers	2,350	1,358
Net VAT receivable	16,645	36,044
Prepaid expenses	16,774	14,950
Receivables from employees	1,682	2,569
Other receivables	4,595	5,223
	1,026,635	**1,074,648**

Movements in the impairment allowance for trade receivables are as follows:

	2013	2012
	(in thousands of HRK)	
At 1 January	137,692	124,798
Increase	34,585	25,916
Amounts collected	(4,176)	(3,720)
Written off as uncollectible	(1,591)	(9,302)
At 31 December	**166,510**	**137,692**

Impairment losses on trade receivables and subsequent collections are included in 'Selling and distribution expenses'.

Ageing analysis of trade receivables past due but not impaired:

	2013	2012
	(in thousands of HRK)	
0-90 days	240,901	242,701
91-180 days	37,103	69,674
181-360 days	23,389	21,767
	301,393	**334,142**

NOTE 24– FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2013	2012
	(in thousands of HRK)	
Investments in:		
Investment funds	-	600
	-	**600**

Movements during the year are as follows :

	2013	2012
	(in thousands of HRK)	
Opening carrying amount	600	559
Additions	-	100
Disposals	(600)	(61)
Effect of remeasurement at fair value	-	2
Closing carrying amount	**-**	**600**

NOTE 25 – CASH AND CASH EQUIVALENTS

	2013	2012
	(in thousands of HRK)	
Cash with banks	145,972	104,890
Short-term deposits – up to 3 months	32,972	6,989
Cash in hand	417	539
Cheques, deposits and securities	100	111
Restricted cash	-	5,679
	179,461	**118,208**

NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE

	2013	2012
	(in thousands of HRK)	
Land and buildings	64,192	57,882
Equipment	6,439	6,536
Disposal group held for sale (note 7)	84,723	-
	155,354	**64,418**

In 2013 the entire long-term assets of Ital -Ice d.o.o. Poreč were reclassified to non-current assets held for sale upon which an impairment was recognised in the amount of HRK 13,230 thousand.

In 2013, the Group recognised an impairment loss with respect to the assets of Lero d.o.o. which are held for sale in the amount of HRK 4,940 thousand.

During 2013 in Podravka d.o.o. Podgorica recognised an impairment loss with respect to property held for sale in the amount of HRK 690 thousand.

During 2013 the subsidiary Podravka Kft Budapest recognised an impairment loss with respect to buildings held for sale in the amount of HRK 617 thousand.

During 2013, Podravka d.d. reclassified part of non-current assets of Bakery factory and the entire assets of the Studenac factory in Lipik (discontinued operations of the Beverage segment) to non-current assets held for sale in the amount of HRK 109,019 thousand upon which an impairment was recognised in the amount of HRK 31,363 thousand. Details of fair value measurement of disposal group held for sale is disclosed in more detail in *Note 7.*

The impairment loss with respect to assets held for sale is presented in the statement of comprehensive income under "Other expenses" (note 10).

Due to unfavourable real estate market conditions, the Company has not completed the sale of real estate classified as held for sale in previous periods.

Fair value measurement

Property held for sale is measured at fair value less costs to sell due to the fact that this value is lower than the carrying value.

(i) *Fair value hierarchy*

One-off fair value measurement in the amount of HRK 70,631 thousand is classified, according to inputs used in fair value measurement, as level 3 (see note 6).

(ii) *Valuation techniques and significant inputs*

The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value:

Valuation methods and techniques	Significant unobservable inputs
Property For buildings, the valuation model considers the present value of cash flows that asset could generate from rents taking into account the expected net rent based on comparable transactions. For land, the valuation model considers the real sale values achieved in the sale of comparable land at a similar location.	Average yield: 13 % Among other factors, the estimated discount rate considers the underlying quality of the property, its location and the currently realisable rent conditions for similar locations and the comparative type of property.

NOTE 27– SHARE CAPITAL

	2013	2012
	(in thousands of HRK)	
Ordinary shares	1,084,001	1,626,001
Share premium	45,932	26,465
Treasury shares	(67,604)	(67,604)
	1,062,329	1,584,862

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pieces)	*(in thousands of HRK)*			
At 1 January 2012	5,242,492	1,626,001	24,569	(67,604)	1,582,966
Fair value of share based payments	-	-	1,896	-	1,896
At 31 December 2012	5,242,492	1,626,001	26,465	(67,604)	1,584,862
At 1 January 2013	5,242,492	1,626,001	26,465	(67,604)	1,584,862
Simplified reduction of share capital	-	(542,000)	-	-	(542,000)
Transfer to capital reserves	-	-	18,108	-	18,108
Fair value of share based payments	-	-	1,359	-	1,359
At 31 December 2013	5,242,492	1,084,001	45,932	(67,604)	1,062,329

As at 31 December 2013, the Company's share capital amounted to HRK 1,084,001 thousand, distributed among 5,420,003 shares (2012: HRK 1,626,001 thousand and 5,420,003 shares)out of which 177,511 relates to treasury shares. Nominal value of one share amounts to HRK 200 (2012: HRK 300). All issued shares are fully paid in.

Based on the General Assembly decision from 20 June 2013 regarding simplified reduction of share capital of the Company for the purpose of covering losses, share capital was reduced in the amount of HRK 542,000 thousand by reducing the nominal value of each share from HRK 300 to HRK 200. Simplified share capital reduction was used to cover accumulated losses in the amount of HRK 523,892 thousand, with the remaining amount of HRK 18,108 thousand being distributed to capital reserves.

The Employee Share Option Plan is described in detail in note 36 to the consolidated financial statements.

The shareholder structure as at the reporting date was as follows:

	2013		2012	
Structure of ownership	**Number of shares**	**% of ownership**	**Number of shares**	**% of ownership**
DUUDI/Croatian Pension Insurance Institute	575,598	10.62%	575,598	10.62%
DUUDI/Republic of Croatia	536,160	9.89%	535,629	9.88%
Erste Plavi OMF	514,863	9.50%	514,863	9.50%
AZ OMF	488,106	9.01%	488,106	9.01%
PBZ Croatia osiguranje d.d. OMF	477,957	8.82%	477,957	8.82%
Unicredit Bank Austria AG - custody account	426,041	7.86%	407,744	7.52%
Kapitalni fond d.d.	321,804	5.94%	321,804	5.94%
Raiffeisen OMF	203,266	3.75%	201,369	3.72%
PBZ d.d. - custody account	98,891	1.82%	96,492	1.78%
PBZ d.d. / custody account	87,103	1.61%	73,241	1.35%
Treasury account	177,511	3.28%	177,511	3.28%
Other shareholders	1,512,703	27.90%	1,549,689	28.58%
Total	**5,420,003**	**100.00%**	**5,420,003**	**100.00%**

NOTE 28 – RESERVES

	2013	2012
	(in thousands of HRK)	
Reserves for treasury shares	21,762	21,762
Legal reserves	11,474	18,325
Statutory reservs	39,294	35,244
Reinvested profit reserves	136,075	50,000
Other reserves	40,715	48,172
	249,320	**173,503**

(in thousands of HRK)	**Reserves for treasury shares**	**Legal reserves**	**Reinvested profit reserve**	**Statutory reserves**	**Other reserves**	**Total**
At 1 January 2012.	21,762	18,325	-	30,707	34,561	105,355
Transfer from retained earnings	-	-	50,000	4,537	-	54,537
Exchange differences	-	-	-	-	13,611	13,611
At 31 December 2012	**21,762**	**18,325**	**50,000**	**35,244**	**48,172**	**173,503**
At 1 January 2013	21,762	18,325	50,000	35,244	48,172	173,503
Transfer from legal and other reserves	-	(6,851)	-	4,050	(1,082)	(3,883)
Transfer from retained earnings	-	-	86,075	-	-	86,075
Exchange differences	-	-	-	-	(6,375)	(6,375)
At 31 December 2013	**21,762**	**11,474**	**136,075**	**39,294**	**40,715**	**249,320**

The legal reserve is required under Croatian law according to which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares are non-distributable. Other reserves mainly comprise statutory reserves recorded in accordance with the Company's Articles of Association and foreign exchange translation reserves.

As part of the simplified reduction of share capital for the purpose of covering losses, part of the accumulated losses of Podravka d.d. in the amount of HRK 7,933 thousand was covered from legal and other reserves.

In 2013, by the decision of its General Assembly the subsidiary Belupo d.d. transferred HRK 4,050 thousand from retained earnings to statutory reserves.

NOTE 28 – RESERVES (CONTINUED)

Reinvested profit reserve

The subsidiary Belupo d.d. made a profit before tax for the year ended 31 December 2013 amounting to HRK 99,936 thousand (2012: HRK 93,413 thousand). On 18 December 2013, the Supervisory Board of Belupo d.d. reached a unanimous decision to reinvest a portion of its profits for the purpose of capital investments in production capacities in the amount of HRK 86,075 thousand (2012: HRK 50,000 thousand) for which an equivalent increase in share capital of the subsidiary is to be registered in 2014. In accordance with currently applicable tax regulation, the subsidiary recognized the amount of reinvested profits as a corporate profit tax incentive resulting in a reduction of current tax expense in the amount of HRK 17,215 thousand (2012: HRK 10,000 thousand). If the increase of share capital is not registered by 31 October 2014, the tax incentive will be cancelled in accordance with the applicable tax regulation resulting in a tax expense in the amount of HRK 17,215 thousand and applicable interest. If during future periods, any distributions to shareholders out of these reserves or any reduction of share capital created from reinvested profits should occur, this transaction would result in cancellation of the initial tax incentive and, retroactively, a tax liability would be created as at the date when the initial tax incentive occurred.

During 2013, an increase in share capital of Belupo d.d. was registered based on reinvestment of part of the subsidiary's profit from 2012 in accordance with the decision of the General Assembly of the subsidiary to reinvest profits.

NOTE 29 – RETAINED EARNINGS / (ACCUMULATED LOSSES)

	31.12.2013.	**31.12.2012.**
	(in thousands of HRK)	
Retained earnings / (Accumulated losses)	345,701	(162,600)

Movement in retained earnings (accumulated losses) is presented as follows:

	2013	**2012**
At 1 January	**(162,600)**	**(93,961)**
- simplified share capital decrease	523,892	-
- transfer to legal and other reserves	(82,192)	(54,537)
- profit/(loss) for the year	66,601	(14,102)
At 31 December	**345,701**	**(162,600)**

NOTE 30 – NON-CONTROLLING INTERESTS

	2013	**2012**
	(in thousands of HRK)	
Balance at 1 January	32,027	34,787
Exchange differences	237	29
Share in the profit/(loss) for the year	1,776	(1,354)
Dividend paid to minority shareholder	-	(1,435)
Balance at 31 December	**34,040**	**32,027**

NOTE 31 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

	2013	2012
	(in thousands of HRK)	
Interest rate swap	2,709	6,775

2013

Loan	Nominal amount of loan '000 EUR	Credit liability at 31/12/2013. '000 EUR	Fair value of IRS at 31/12/2013 '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part od interest rate per IRS
Tranche A	42,500	17,454	283	16.11.2012.	16.12.2015.	3M EURIBOR	0.50%
Tranche B	42,500	39,525	1,555	16.11.2012.	16.12.2015.	3M EURIBOR	0.63%
Erste Group	40,000	8,421	871	09.07.2009.	09.10.2014.	3M EURIBOR	2.46%
	125,000	**65,400**	**2,709**				

2012

Loan	Nominal amount of loan '000 EUR	Credit liability at 31/12/2013. '000 EUR	Fair value of IRS at 31/12/2013 '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part od interest rate per IRS
Tranche A	42.500	29.079	858	16.11.2012.	16.12.2015.	3M EURIBOR	0,50%
Tranche B	42.500	42.500	2.888	16.11.2012.	16.12.2015.	3M EURIBOR	0,63%
Erste Group	40.000	16.842	3.029	09.07.2009.	09.10.2014.	3M EURIBOR	2,46%
	125.000	**88.421**	**6.775**				

As part of its syndicated loan agreement for which the Group entered into the interest rate swap, the Group has the obligation to comply with a defined ratio of operating profit before depreciation and amortization (EBITDA) and debt. At 31 December 2013, the Group was within the defined ratio.

Fair value measurement

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of underlying contracts and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company entity and counterparty when appropriate. According to inputs used, fair value measurement is classified as Level 2 in the fair value hierarchy (see note 6).

NOTE 32 – BORROWINGS

	2013	2012
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	488,733	599,014
Banks abroad	81,153	101,235
Finance lease	2,986	27,006
	572,872	**727,255**
Current borrowings		
Banks in Croatia	304,393	283,863
Banks abroad	183,243	174,810
Finance lease	2,777	5,178
	490,413	**463,851**
Total borrowings	**1,063,285**	**1,191,106**

Bank borrowings in the amount of HRK 730,349 thousand (2012: HRK 1,089,869 thousand) are secured by mortgages over the Group land and buildings (note 19).

The finance lease liabilities of the Group are as follows:

	Minimum lease payments		Finance cost		Present value of minimum lease payments	
	2013	2012	2013	2012	2013	2012
			(in thousands of HRK)			
Up to 1 year	2,961	7,388	(184)	(2,210)	2,777	5,178
Between 1 and 5 years	3,126	21,353	(140)	(6,070)	2,986	15,283
After 5 years	-	14,703	-	(2,980)	-	11,723
Total	**6,087**	**43,444**	**(324)**	**(11,260)**	**5,763**	**32,184**

	2013	2012
Included in the consolidated financial statements within:		
Current borrowings	2,777	5,178
Non-current borrowings	2,986	27,006
	5,763	**32,184**

NOTE 32 – BORROWINGS (CONTINUED)

The exposure to changes in interest rates on borrowings (including the interest rate swap) based on the contractual re-pricing dates at the reporting dates is as follows:

	2013	2012
	(in thousands of HRK)	
6 months or less	301,865	231,206
6 – 12 months	54,410	52,502
1 – 5 years	167,000	147,000
	523,275	**430,708**

If the interest rate on loans with variable interest rates increases to an average of 5.04% (50 basis points), the liability for interest would increase by HRK 4,849 thousand.

The maturity of non-current borrowings (including the interest rate swap) is as follows:

	2013	2012
	(in thousands of HRK)	
Between 1 and 2 years	487,279	189,342
Between 2 and 5 years	77,182	528,745
Over 5 years	11,120	15,943
	575,581	**734,030**

The effective interest rates at the reporting date were as follows:

	2013			2012		
	HRK	EUR	Other	HRK	EUR	Other
Non-current borrowings						
Banks in Croatia	5.15%	4.79%	-	6.02%	4.83%	-
Banks in foreign countries	-	3.56%	4.96%	-	3.88%	4.91%
Finance lease	-	4.23%	8.50%	-	6.53%	8.46%
Current borrowings						
Banks	4.00%	3.72%	4.24%	4.75%	-	3.60%

In July 2013 the Group was granted a loan from EBRD (European Bank for Reconstruction and Development) in the amount of EUR 9.9 million. The loan will be used to finance own energy efficiency improvements. In addition, during 2013 the Company entered into The Exporters Loan programme financed by IBRD (International Bank for Reconstruction and Development) and, through Raiffeisenbank Austria d.d., withdrew a loan in HRK with a currency clause in the amount of EUR 3 million and a short-term foreign currency loan at the same bank in the amount of EUR 4.7 million to finance the employee redundancy program.

In April 2013, Belupo d.d. withdrew a short-term loan denominated in HRK in the amount of HRK 20,000 thousand for financing of working capital requirements and payment of severances.

Danica d.o.o. withdrew a long-term loan from HBOR and OTP banka Hrvatska d.d. in the amount of HRK 23,750 thousand to be used for acquisition of a new pate production line.

NOTE 32 – BORROWINGS (CONTINUED)

The carrying amount of long-term loans for working capital financing and long-term loans for fixed assets approximate their fair values given that all loans have a variable interest rate.

The carrying amounts of short-term borrowings approximate their fair values, and the discounting effect is not significant because of the short-term nature of the borrowings.

The carrying amounts of the Group's borrowings (including the interest rate swap) are denominated in the following currencies:

	2013	2012
	(in thousands of HRK)	
HRK	303,806	317,597
EUR	646,980	777,405
Other currencies	115,208	102,879
	1,065,994	**1,197,881**

Most of the borrowings are EUR denominated. Therefore, the effect of changes in the foreign exchange rates impacts the amount of borrowings.

The Company has the following undrawn borrowing facilities:

	2013	2012
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	91,254	112,475
	91,254	**112,475**

These comprise unused short-term revolving facilities in the amount of HRK 20,000 thousand, unused overdrafts in the amount of HRK 20,000 thousand, unused long-terms in the amount of HRK 16,029 thousand and unused facilities for letters of credit for goods import with deferred payment.

NOTE 33 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Vacation accruals	Regular termination benefits	Termination benefits and bonuses	Legal cases	Total
Analysis of total provisions as at 31 December 2012						
Non-current	11,131	-	14,707	-	20,940	46,778
Current	2,022	10,383	206	3,673	2,169	18,453
At 1 January 2013	**13,153**	**10,383**	**14,913**	**3,673**	**23,109**	**65,231**
Charged/(credited) to profit or loss:						
Increase of provisions	1,993	7,673	112	61,112	1,732	72,622
Utilised during the year	(1,998)	(9,201)	(600)	(57,365)	(1,646)	(70,810)
Transfer from accruals	-	-	-	-	4,524	4,524
At 31 December 2013	**13,148**	**8,855**	**14,425**	**7,420**	**27,719**	**71,567**
Analysis of total provisions as at 31 December 2013						
Non-current	11,223	-	13,126	-	24,930	49,279
Current	1,925	8,855	1,299	7,420	2,789	22,288
	13,148	**8,855**	**14,425**	**7,420**	**27,719**	**71,567**

(i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Group which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the consolidated statement of comprehensive income within 'Administrative expenses'.

Based on the expert opinion of legal counsels, the Group's Management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2013.

(ii) Termination benefits and bonuses

As at 31 December 2013, the Group recognised HRK 6,409 thousand of provisions for bonuses to key management. Furthermore, during 2013 based on the formal workforce restructuring plan, the Group recognized an expense in the amount of HRK 54,703 thousand relating to payment for early retirement benefits to 456 employees of which HRK 1,621 thousand related to discontinued operations.

NOTE 33 – PROVISIONS (CONTINUED)

(ii) Jubilee awards and regular retirement benefits

According to the Collective Agreement the Group has an obligation to pay jubilee awards, retirement and other benefits to employees. In accordance with the respective agreement, the employees are entitled to a regular retirement benefit (without stimulating retirement benefit) in the net amount of HRK 10 thousand, of which HRK 2 thousand are taxable. No other post-retirement benefits are provided. Jubilee awards are paid out according to the Collective Agreement, in the following net amounts and at the following anniversary dates:

- HRK 1,200 for 10 years of continuous service
- HRK 1,600 for 15 years of continuous service
- HRK 2,000 for 20 years of continuous service
- HRK 2,500 for 25 years of continuous service
- HRK 3,000 for 30 years of continuous service
- HRK 3,500 for 35 years of continuous service
- HRK 4,000 for 40 years of continuous service.

The Group pays pension contributions on behalf of its employees in accordance with applicable legal regulations. These contributions form the basis of social benefits payable out of the Croatian national pension fund to Croatian employees upon their retirement.

The present values of these obligations, the related current service cost and past service cost were measured using the Projected Credit Unit Method.

The actuarial estimates have been derived on the basis of the following key assumptions:

	2013	**2012**
Discount rate	5.4%	4.4%
Fluctuation rate	4,10%-10,0%	4,25 - 11,90%
Average expected remaining working lives (in years)	21	21

Changes in the present value of the defined benefit obligation during the period:

	2013	**2012**
	(in thousands of HRK)	
At 1 January	28,068	25,693
Current service cost	2,097	1,112
Interest expense	1,170	1,027
Actuarial losses	(1,227)	2,371
Benefits paid	(2,535)	(2,135)
At 31 December	**27,573**	**28,068**

NOTE 34 – TRADE AND OTHER PAYABLES

	2013	2012
	(in thousands of HRK)	
Trade payables	467,521	546,407
Other payables	153,260	173,704
	620,781	**720,111**

At 31 December 2013 and 31 December 2012, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other liabilities include the following:

	2013	2012
	(in thousands of HRK)	
Salaries and other benefits to employees	54,521	55,816
Accrued expenses	50,517	56,236
Deferred income (finance lease)	24,235	28,588
Taxes, contributions and other duties payable	7,530	4,051
Packaging waste disposal fee payable	2,931	12,036
Accrued interest	6,389	7,237
Advances received	1,719	3,158
Dividends payable	681	681
Other liabilities	4,737	5,901
	153,260	**173,704**

NOTE 35 – RISK MANAGEMENT

Capital risk management

Net debt to equity ratio (Gearing ratio)

The Treasury of Podravka d.d. and the Podravka Group reviews the capital structure on a semi-annual basis. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the reporting date was as follows:

	2013	2012
	(in thousands of HRK)	
Debt (non-current and current borrowings)	1,065,994	1,197,881
Cash and cash equivalents	(179,461)	(118,208)
Net debt	886,533	1,079,673
Equity	1,691,390	1,627,792
Net debt to equity ratio	52%	66%

Debt is defined as long- and short-term borrowings and bonds. Equity includes all capital and reserves of the Group. Besides monitoring the ratio of net debt to equity, the Group also monitors the ratio of operating profit before depreciation and amortization (EBITDA) and debt as part of its compliance with the terms of the syndicated loan agreement (see note 31). As at 31 December 2013 the Group was within the defined ratio.

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Financial risk management

Categories of financial instruments are as follows:

	2013	2012
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,172,709	1,143,803
Held-to-maturity investments (bills of exchange)	5,575	3,402
Financial assets at fair value through profit or loss	-	600
	1,178,284	**1,147,805**
Financial liabilities at amortised cost		
Finance lease obligations	5,763	32,184
Borrowings	1,057,522	1,158,922
Trade payables and other liabilities	562,734	659,824
	1,626,019	**1,850,930**
Financial liabilities at fair value through profit or loss		
Interest rate swap liabilities	2,709	6,775

Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. A large majority of the Group's borrowings are at variable rates. The Group uses the interest rate swap for managing interest rate risk (note 31).

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

As at 31 December 2013, the Group had no significant exposure to interest rate risk as most of its borrowings with a variable interest rate are covered by the interest rate swap agreement with a fixed interest rate.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and credit lines, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest rate tables

The Group's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 334,872 thousand (2012: HRK 416,532 thousand) and amounts due to employees in the amount of HRK 54,521 thousand (2012: HRK 55,816 thousand).

The non-interest bearing liabilities of the Group due in a period of over five years include, among others, other long-term liabilities in the amount of HRK 4 thousand (2012: HRK 14,252 thousand).

Interest bearing liabilities include short-term and long-term borrowings, bonds and finance lease obligations. The following tables detail the Group's remaining contractual maturity for its financial liabilities presented in the consolidated statement of financial position at the period end.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities on maturity. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%			(in thousands of HRK)			
2013							
Non-interest bearing	-	447,695	122,592	24,900	15,357	4	610,548
Interest bearing	4.60	20,437	167,553	341,655	623,266	9,148	1,162,059
		468,132	**290,145**	**366,555**	**638,623**	**9,152**	**1,772,607**
2012							
Non-interest bearing	-	544,522	121,129	18,996	11,416	14,252	710,315
Interest bearing	4.84	22,757	101,617	388,285	808,995	18,832	1,340,486
		567,279	**222,746**	**407,281**	**820,411**	**33,084**	**2,050,801**

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity and interest rate tables (continued)

The tables below detail the remaining contractual maturities of the Group's assets presented on the consolidated statement of the financial position at the period end.

The tables have been drawn up based on the undiscounted cash flows of financial assets on maturity. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%			*(in thousands of HRK)*			
2013							
Non-interest bearing		584,611	294,801	128,728	689	-	1,008,829
Interest bearing	0.88	179,407	434	1,374	4,764	-	185,979
		764,018	**295,235**	**130,102**	**5,453**	**-**	**1,194,808**
2012							
Non-interest bearing		610,214	262,887	162,926	2,576	-	1,038,603
Interest bearing	0.25	115,220	3033	1090	3,634	1175	124,152
		725,434	**265,920**	**164,016**	**6,210**	**1,175**	**1,162,755**

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less portion repaid.

Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation. The fair value of financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.

At 31 December 2013, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their market value due to the short-term nature of those assets and liabilities.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Operational risk management

Market risks

(i) Price risk

The Group operates internationally and finances its operations using foreign currency denominated borrowings to a significant extent. As a result, the Group is exposed to the effect of changes in market prices of food material and of exchange differences and changes in interest rates. In addition, due to credit terms extended to its customers, the Group is exposed to a risk of default.

The Treasury function at Podravka provides financial services for Podravka and coordinates the financial operations of the Group on the domestic and international markets, and monitors and manages the financial risks relating to the operations of Podravka. The principal risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The significant risks, together with the methods used to manage these risks, are described below. The Group does not use any derivatives to manage its risks or for speculative purposes. The Company is in compliance with the changes in variable interest rates entered into a contract for the Interest Rate Swap.

Volatility in food material prices is a pervasive element of the Group's business environment.

Most of the Company's raw material purchases are made on the domestic market while most of its foreign purchases are made with EU suppliers.

With Croatia joining the EU, significant benefits were accomplished regarding easier access to markets of EU and suspension of custom charges which resulted in lower purchase prices for strategic raw materials.

The most significant risks of the procurement function are, in nature, financial risks caused by the increase in prices of agricultural – food products on the global market (long lasting trend) but also by the currency risk. Protective customs and trade mechanisms in place in the EU, on the one hand serve to protect EU producers while on the other hand present a significant risk in terms of higher customs duties (antidumping) on purchases from outside the EU. Unavailability of goods in the market resulting from market shortages due to adverse weather conditions (drought, floods), political and social unrest in certain countries (Egypt, Turkey) or speculation with key agricultural and food products are also risks with increased impact on the Company's operations.

To minimize these impacts, the procurement function of the Company, through managing the strategic procurement categories and key suppliers, is aiming to develop partnerships with long term suppliers, as well as relationships with new suppliers on the target markets of the EU and third countries, to consolidate purchasing volumes with the aim of strengthening its market position and to reduce procurement costs fully utilising its Commodity Risk Management system and conducting tenders and using new import regulation (triangulation). The Company does not use forward contracts to manage risk of price changes for food raw materials.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

(ii) Currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2013	2012	2013	2012
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	834,218	911,671	236,497	151,238
Bosnia and Herzegovina (BAM)	105,593	91,477	153,063	142,569
Poland (PLN)	26,755	31,066	65,127	60,203
USA (USD)	11,769	15,963	14,993	9,651
Russia (RUB)	649	83	115,594	84,314
Other currencies	75,995	80,748	94,272	117,063

Foreign currency sensitivity analysis

The Group is mainly exposed to fluctuations in the exchange rate of Croatian kuna to EUR, RUB and USD, since most of the trading with food raw materials on the international market is done in EUR and USD while exposure toward RUB stems from the pharmaceutical segment operations on the Russian market.

From 31 December 2013 until the date of this report, the exchange rate of the Russian rouble to the Croatian kuna weakened by approximately 7%. Taking into account the current political environment in Ukraine, the Group is closely monitoring development of the situation and has implemented additional measures for currency risk management (including entering into forward agreements) in order to effectively monitor and minimize the currency risk stemming from its exposure to the Russian rouble.

The following table details the Group's sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies where the Group has significant exposure (EUR, PLN, USD and BAM). The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR exposure		USD exposure	
	2013	2012	2013	2012
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	(5,977)	(7,604)	32	(63)

	BAM exposure		PLN exposure	
	2013	2012	2013	2012
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	475	511	384	291

	RUB exposure	
	2013	2012
	(in thousands of HRK)	
Increase/(decrease) of net result	1,149	842

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

Sales function based risks

The Group generates approximately 44% (2012: 47%) of its revenue on the domestic market, whereas around 56% (2012: 53%) of the sales are generated on international markets, mainly through related entities. The Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

As for domestic operations, the Group expects increased risks associated with maintaining market position due to the expected strengthened entry of competitors. To lessen this effect, the Group aims to further strengthen its competitiveness by increasing productivity, modernising its technology and strengthening its product brands.

The continuation of the domestic economic crisis in 2013 had a negative impact on sales growth opportunities on the domestic market, especially as a result of reduced consumer purchasing power and, consequently, increased receivables collection risk.

The Group is making efforts in terms of harmonisation and optimisation of existing pricing policies and levels on existing EU and CEE markets in order to ensure a basis for successful long-term growth and to avoid profit margin erosion.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a "Credit Risk Management Procedure", which it applies in dealing with customers and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Also, the Group is in the process of selection of an insurance company in order to mitigate credit risk.

Customers are classified into risk groupings based on the financial indicators and own trading records, and appropriate credit risk mitigation measures are taken for each risk class.

Risk mitigation instruments are defined based on the financial performance ratios for individual customers collected from several sources (financial statements, credit ratings etc.). The Group's exposure and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least annually.

The Group transacts with a large number of customers from various industries and of various size. The major risk concentration is found in relation to shopping malls.

The Group has no significant credit exposures that would not be covered by collateral and which have not been assessed for impairment indicators as at 31 December 2013.

NOTE 36 – SHARE-BASED PAYMENT TRANSACTIONS

Employee share options

Options for the purchase of Podravka d.d. shares were granted to key management of the Group. The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares as per the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the date of option contract signed. Options are acquired separately for each business year.

All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, relocation within the company, etc., in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above.

The following share-based payment arrangements were effective in the current and comparative reporting periods:

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to key management of the Group			
As at 31 December 2010	8,000	Service during the contracted vesting period	31.12.2013.
	11,000	Service during the contracted vesting period	31.12.2015.
	8,000	Service during the contracted vesting period	31.12.2016.
As at 31 December 2011	8,000	Service during the contracted vesting period	31.12.2013.
	11,000	Service during the contracted vesting period	31.12.2015.
	8,000	Service during the contracted vesting period	31.12.2016.
As at 24 Februray 2012	27,000	Service during the contracted vesting period	31.12.2017.
As at 24 Februray 2012	1,000	Service during the contracted vesting period	31.12.2016.
As at 24 Februray 2012	1,000	Service during the contracted vesting period	31.12.2015.
As at 26 June 2012	1,000	Service during the contracted vesting period	31.12.2017.
As at 31 December 2012	5,000	Service during the contracted vesting period	30.06.2015.
As at 31 December 2012	2,000	Service during the contracted vesting period	31.12.2017.
As at 31 December 2013	1,000	Service during the contracted vesting period	31.12.2015.
As at 3 January 2013	2,000	Service during the contracted vesting period	31.12.2015.
As at 12 February 2013	15,300	Service during the contracted vesting period	30.06.2016.
As at 16 July 2013	6,000	Service during the contracted vesting period	31.12.2018.
As at 23 December 2013	28,620	Service during the contracted vesting period	31.12.2017.
As at 31 December 2013	1,000	Service during the contracted vesting period	31.12.2017.
Total share options	**144,920**		-

NOTE 36 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Employee share options (continued)

Fair value measurement

The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Input variables for calculation of fair value:

Share option programme for key management	2013	2012
Fair value at grant date	75	80
Share price at grant date	255	256
Exercise price	273	285
Expected volatility (weighted average)	27%	29%
Expected life (weighted average in years)	4.4	4.1
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds)	5.29%	5.88%

Expense recognised in profit or loss	2013	2012
	(in HRK thousands)	
Equity-settled share-based payment transactions	1,359	1,896

Movement in number of share options and respective exercise prices is as follows:

	Number of options 2013	Weighted average excersize price 2013	Number of options 2012	Weighted average excersize price 2012
Outstanding at 1 January	91,000	285	54,000	305
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Granted	53,920	255	37,000	256
Outstanding at 31 December	**144,920**	**273**	**91,000**	**285**
Exercisable at 31 December	**144,920**		**91,000**	

As at 31 December 2013, there are 144,920 of outstanding options (2012: 91,000 options). In 2013 and 2012, there were no options that were exercised.

The weighted average exercise price of outstanding options at the year end is HRK 273 (2012: HRK 285).

The weighted average remaining validity of options is 4.4 years at 31 December 2013 (2012: 4.1 years).

NOTE 37 – RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries are eliminated through consolidation and are not presented in this note.

EXPENSES	2013	2012
	(in thousands of HRK)	
Key management remuneration		
Salaries and severance payments	46,032	60,102
Share-based payments (note 36)	1,359	1,896
	47,391	61,998

Key management of the Group comprises the Management Board and executive directors and consisted of 110 persons (2012: 119 persons).

During 2013, a total of HRK 2,367 thousand (2012: 2,094 thousand) was paid as compensation to members of the Supervisory Board of the Company.

NOTE 38 – CONTINGENT LIABILITIES

	2013	2012
	(in thousands of HRK)	
Guarantees and warranties given	15,655	17,251

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the consolidated statement of financial position as the Management Board estimated that, as at 31 December 2013 and 2012, it is not probable that they will result in liabilities for the Group.

NOTE 39 – COMMITMENTS

In 2013, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 31,359 thousand (2012: HRK 20,669 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

The future payments under operating leases for the usage of vehicles, forklift trucks, refrigerator show-cases and IT equipment are as follows:

	2013	2012
	(in thousands of HRK)	
Up to 1 year	16,934	27,682
From 1 to 5 years	16,102	36,699
	33,036	64,381