PODRAVKA d.d., Koprivnica

Unconsolidated 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.

CONTENTS

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

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

The unconsolidated 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

Miroslav Klepač
Member of the Management Board

PODRAVKA
PREHRAMBENA INDUSTRIJA, d.d.
KOPRIVNICA 2

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 separate financial statements of Podravka d.d. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2013, the unconsolidated 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2013, and of its unconsolidated financial performance and its unconsolidated 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.

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

(in HRK thousand)	*Note*	2013	2012
Continuing operations			
Revenue from sales	*8*	1,755,512	1,736,968
Cost of goods sold	*11*	(1,128,208)	(1,158,503)
Gross profit		**627,304**	**578,465**
Other income	*9*	9,433	9,999
General and administrative expenses	*11*	(173,367)	(198,258)
Selling and distribution costs	*11*	(201,269)	(188,943)
Marketing expenses	*11*	(143,125)	(113,548)
Other expenses	*10*	(81,353)	(29,452)
Operating profit		**37,623**	**58,263**
Finance income	*13*	112,374	11,283
Finance expenses	*14*	(57,057)	(60,514)
Net finance income/(costs)		**55,317**	**(49,231)**
Profit before tax		**92,940**	**9,032**
Income tax	*15*	12,621	2,590
Net profit for the year from continuing operations		**105,561**	**11,622**
Discontinued operations			
Loss from discontinued operation (net of tax)	*7*	**(54,195)**	**(32,313)**
Other comprehensive income		-	-
Total comprehensive income / (loss)		**51,366**	**(20,691)**

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

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2013

(in HRK thousand)	*Note*	31.12.2013	31.12.2012
ASSETS			
Non-current assets			
Intangible assets	*16*	98,326	115,584
Property, plant and equipment	*17*	693,486	840,975
Investments in subsidiaries	*18*	375,383	440,304
Deferred tax assets	*15*	37,351	24,730
Non-current financial assets	*19*	12,428	57,457
Total non-current assets		**1,216,974**	**1,479,050**
Current assets			
Inventories	*20*	275,241	302,101
Trade and other receivables	*21*	669,730	631,716
Cash and cash equivalents	*22*	72,908	41,048
Non-current assets held for sale	*23*	164,410	63,184
Total current assets		**1,182,289**	**1,038,049**
Total assets		**2,399,263**	**2,517,099**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*24*	1,061,182	1,583,958
Reserves	*25*	21,762	29,695
Retained earnings / (Accumulated losses)	*26*	51,366	(531,825)
Total equity		**1,134,310**	**1,081,828**
Non-current liabilities			
Borrowings	*28*	527,132	683,720
Provisions	*29*	37,775	34,728
Total non-current liabilities		**564,907**	**718,448**
Current liabilities			
Trade and other payables	*30*	354,638	400,945
Financial liabilities at fair value through profit or loss	*27*	2,709	6,775
Borrowings	*28*	330,791	297,840
Provisions	*29*	11,908	11,263
Total current liabilities		**700,046**	**716,823**
Total liabilities		**1,264,953**	**1,435,271**
Total liabilities and shareholders' equity		**2,399,263**	**2,517,099**

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

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

(in HRK thousands)	Share capital	Reserve for treasury shares	Legal reserves	Other reserves	Retained earnings / (Accumulated losses)	Total
As at 1 January 2012	**1,582,088**	**21,762**	**6,849**	**1,084**	**(511,134)**	**1,100,649**
Comprehensive income						
Loss for the year	-	-	-	-	(20,691)	(20,691)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	**(20,691)**	**(20,691)**
Transactions with owners recognised directly in equity						
Fair value of share-based payment transactions	1,870	-	-	-	-	1,870
Total transactions with owners recognised directly in equity	**1,870**	-	-	-	-	**1,870**
As at 31 December 2012	**1,583,958**	**21,762**	**6,849**	**1,084**	**(531,825)**	**1,081,828**
Comprehensive income						
Profit for the year	-	-	-	-	51,366	51,366
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	**51,366**	**51,366**
Transactions with owners recognised directly in equity						
Simplified reduction of share capital (note 24)	(542,000)	-	(6,849)	(1,084)	531,825	(18,108)
Capital reserves effect of share capital decrease (note 24)	18,108	-	-	-	-	18,108
Fair value of share-based payment transactions (note 32)	1,116	-	-	-	-	1,116
Total transactions with owners recognised directly in equity	**(522,776)**	-	**(6,849)**	**(1,084)**	**531,825**	**1,116**
As at 31 December 2013	**1,061,182**	**21,762**	-	-	**51,366**	**1,134,310**

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

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

(in thousands of HRK)	*Note*	2013	2012
Profit/(loss) before tax		**38,745**	**(23,281)**
Depreciation and amortization		84,985	85,505
Impairment of property,plant,equipment and intagibles		10,971	15,892
Impairment of assets held for sale		63,561	8,585
Remeasurement of financial instruments at fair value		(4,066)	3,372
Dividend income		(100,000)	-
Share-based payment transactions		1,116	1,870
(Gain)/loss on disposal of property, plant, equipment and intangibles		(123)	2,728
Impairment losses on trade receivables		26,576	9,696
(Decrease)/increase in provisions		(832)	9,449
Interest income		(8,308)	(11,279)
Interest expense		48,811	56,287
Impairment of investments		34,271	247
Foreign exchange differences		8,246	691
Changes in working capital:		**203,953**	**159,762**
Decrease in inventories		18,535	36,942
Decrease in receivables		25,068	18,753
Increase in payables		(1,603)	(9,011)
Cash generated from operations		**245,953**	**206,446**
Interest paid		(49,913)	(59,271)
Net cash from operating activities		**196,040**	**147,175**
Cash flows from investing activities			
Incorporation of subsidiary		(20)	-
Investment in existing subsidiary		(16,775)	-
Purchase of property, plant, equipment and intangibles		(40,553)	(69,779)
Proceeds from sale of property, plant, equipment and intangibles		448	176
Net repayment of deposits and loans receivable		23,867	36,156
Recovered interest		13,178	14,384
Other cash flows from investing activities		-	61
Net cash from investing activities		**(19,855)**	**(19,002)**
Cash flows from financing activities			
Proceeds from borrowings		146,933	73,553
Repayment of borrowings		(291,258)	(229,811)
Net cash from financing activities		**(144,325)**	**(156,258)**
Net increase/(decrease) of cash and cash equivalents		**31,860**	**(28,085)**
Cash and cash equivalents at beginning of year		41,048	69,133
Cash and cash equivalents at the end of year	*22*	**72,908**	**41,048**

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

Podravka prehrambena industrija d.d., Koprivnica ('the Company'), is incorporated in the Republic of Croatia. In 1934, the brothers Wolf opened a fruit processing unit, the predecessor of the Company, a today's leading company in industry operating in the area of South-Eastern and Central and Eastern Europe. The principal activity of the Company comprises production of a wide range of foodstuffs and non-alcoholic beverages.

The Company 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 24.

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

Members of the Supervisory Board in 2013:

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

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

These financial statements represent those of the Company only. The consolidated financial statements of the Company and its subsidiaries, which the Company is also required to prepare in accordance with IFRS and Croatian law, are published as separately and issued simultaneously with these unconsolidated financial statements.

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

(ii) Basis of measurement

The financial statements of the Company have been prepared on the historical 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 financial statements are set out below. These policies have been consistently applied to all the years presented.

3.1 Investments in subsidiaries

Subsidiaries are entities in which the Company has the power, directly or indirectly, to exercise control over the operations. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment (accounting policy 3.21).

3.2 Non-current assets held for sale and discontinued operations

Non-current assets held for sale

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)

3.3 Revenue recognition

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

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

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

The Company manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Company 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 Company 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 sales of products and merchandise – retail

Sales of goods sold in retail stores are recognised when the Company 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 Company 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)

3.4 Leases

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company 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 Company are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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.

3.5 Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The cost of equity-settled transactions is 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 Company'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)

3.6 Foreign currency transactions

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).

3.7 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 Company 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)

3.8 Government grants

Government grants are not recognised until there is reasonable assurance that the Company 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 Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the 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 Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.9 Dividends

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

3.10 Segment reporting

Segment represents a separable part of the Company either as a part engaged in providing products or services (business segment) or as a part engaged in providing products or services within a particular economic environment (geographical segment) that is subject to risk and benefits that differ from those of other segments.

During 2013 the Company has changed segment reporting method. Giving that strategic decisions are made at consolidated operating programs level, that is segments, the Company no longer monitors and reports segment activities at unconsolidated level.

At the consolidated level, based on internal reporting structure, the Company monitors following segments:

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

3.11 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Taxation (continued)

(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 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 exposures

In determining the amount of current and deferred tax, the Company 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 Company 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 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)

3.12 Property, plant and equipment

Property, plant and equipment are included in the 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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the 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 Company 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 Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each 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 3.14).

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)

3.13 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.

Brands and distribution rights

Product distribution rights 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 distribution rights over their estimated useful lives estimated at 5-15 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 3.14).

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)

3.14 Impairment of property, plant, equipment and intangibles

At each reporting date, the Company 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 Company 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).

3.15 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)

3.16 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 Company 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.

3.17 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 statement of financial position.

3.18 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 Company 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 Company's equity holders.

3.19 Employee benefits

(i) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company 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 Company is not obliged to provide any other post-employment benefits.

(ii) Termination benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 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 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 Company recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability 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 Company 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 Company 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.

3.20 Provisions

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 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 Company 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 Company's documented risk management or investment strategy, and information about the Companying 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)

3.21 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 Company 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)

3.21 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 Company'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)

3.21 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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.22 Financial liabilities and equity instruments issued by the Company

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 Company 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 Company 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)

3.22 Financial liabilities and equity instruments issued by the Company

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 Company's documented risk management or investment strategy, and information about the Companying 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 Company 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 Company derecognises financial liabilities when, and only when, the Company'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 unconsolidated 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 notes 3.11 and 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 3.19 and 29).

(iii) Consequences of certain legal actions

There are a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions, and the provisions for the Company's obligations arising from these legal actions are recognised on a consistent basis (see note 3.20 and 29).

(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)

Critical judgements in applying accounting policies (continued)

(v) Impairment of non-current assets

The Company tests brands and rights for impairment on an annual basis in accordance with accounting policy 3.14. For the purposes of impairment testing, brands and rights with indefinite useful lives have been allocated to cash generating units within reported consolidated segments.

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, 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), 9.76% (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).

Based on the impairment tests performed, the Company recognised impairment losses with respect to intangible assets with indefinite useful life during 2013 in the amount of HRK 10,971 thousand (2012: HRK 10,400 thousand) - for details refer to note 16.

In the course of estimating the need for impairment based on the impairment tests performed, the Company 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 15.7% on average and would result in an additional impairment loss of approximately HRK 4.7 million.

NOTE 6 – DETERMINATING 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 23: Non-current assets held for sale
- note 27: Financial liabilities at fair value through profit and loss
- note 32: 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 and amortization 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 operation**	
	2013	**2012**
Revenue from sales	121,347	140,746
Cost of goods sold	(98,104)	(108,695)
Gross profit	**23,243**	**32,051**
Operating expenses	(48,117)	(64,364)
Other expenses	(29,321)	-
Operating loss	**(54,195)**	**(32,313)**
Loss before income tax	**(54,195)**	**(32,313)**
Income tax	-	-
Net loss for the year	**(54,195)**	**(32,313)**
Other comprehensive income	-	-
Total comprehensive loss	**(54,195)**	**(32,313)**

Statement of cash flow for discontinued operations is:

(in thousands of HRK)	**2013**	**2012**
Net cash from operating activities	(7,922)	(22,337)
Net cash from financing activities	-	-
Net cash from investing activities	(5,945)	(9,093)
	(13,867)	**(31,430)**

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.**
Investment in Studenac d.o.o.	20
Land and buildings	34,258
Equipment	41,498
Finished goods	8,325
	84,101

Due to practical reasons the Company was unable to present the liabilities of the 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 comparative type of property.

NOTE 8 – REVENUE FROM SALES

	2013	2012
	(in thousands of HRK)	
Revenue from sale of products and merchandise	1,689,662	1,666,880
Revenue from services	65,850	70,088
	1,755,512	**1,736,968**

NOTE 9 – OTHER INCOME

	2013	2012
	(in thousands of HRK)	
Grant income	1,668	3,204
Interest income relating to trade receivables	2,864	3,623
Revenue from the sale and leaseback transaction (note 16 & 17)	4,354	2,867
and intangibles	123	-
Income from reversal of legal provision	424	-
Foreign exchange gains on receivables and payables	-	305
	9,433	**9,999**

NOTE 10- OTHER EXPENSES

	2013	2012
	(in thousands of HRK)	
Write-off of related party loans	1,594	1,292
Interest expense relating to trade payables	217	730
Trade foreign exchange differences	60	-
Impairment loss on brands (note 16)	10,971	10,400
Impairment of investments (note 18)	34,271	-
Impairment loss of assets held for sale (note 23)	34,240	8,585
Impairment loss on property, plant and equipment (note 17)	-	5,492
and intangibles (note 16 and 17)	-	2,728
Other	-	225
	81,353	**29,452**

NOTE 11 – EXPENSES BY NATURE

	2013	2012
	(in thousands of HRK)	
Raw material, supplies and energy	589,947	563,177
Staff costs	390,756	403,819
Cost of goods sold	317,452	337,233
Advertising and promotion	114,833	84,366
Depreciation	72,250	73,407
Services	57,056	47,042
Changes in value of inventory	272	35,022
Rental costs	21,435	28,204
Transport	20,580	12,465
Taxes and contributions independent of operating results	7,970	8,517
Impairment of trade and other receivables	26,576	9,598
Bank charges	2,089	6,570
Packaging waste disposal fee	1,435	1,239
Daily allowances and other business travel expenses	6,687	6,005
Telecommunications	5,310	5,697
Entertainment	4,660	4,267
Litigation expenses	-	14,553
Court cases	6,661	18,071
Total costs of good sold, costs of sale and distribution, costs of marketing and general and administrative costs	**1,645,969**	**1,659,252**

NOTE 12 – STAFF COSTS

	2013	2012
	(in thousands of HRK)	
Salaries	335,982	358,600
Termination benefits	35,915	26,207
Transportation	5,821	5,492
Share options (note 32)	1,116	1,870
Other employee benefits	11,922	11,650
	390,756	**403,819**

As at 31 December 2013 the number of staff employed by Company was 3,166 (2012: 3,387).

In 2013 termination benefits were accrued and paid to 302 employees in the amount of HRK 37,536 thousand including HRK 1,621 thousand relating to termination benefits with respect to discontinued operations (2012: HRK 27,290 thousand for 227 employees including HRK 1,083 with respect to discontinued operations).

NOTE 13 – FINANCE INCOME

	2013	2012
	(in thousands of HRK)	
Interest on related party loans	7,853	10,814
Interest on deposits and trade recievables	336	463
Dividends received from related parties	100,000	-
Other interest	119	6
Unrealized gain on swap contracts	4,066	-
	112,374	**11,283**

NOTE 14 – FINANCE EXPENSES

	2013	2012
	(in thousands of HRK)	
Interest expense and similar charges	48,811	56,287
Unrealized loss on swap contracts	-	3,468
Net foreign exchange loss on borrowings	8,246	759
	57,057	**60,514**

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 28).

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

NOTE 15 – INCOME TAX

Tax income consists of:

	2013	2012
	(in thousands of HRK)	
Current income tax	-	-
Deferred tax	(12,621)	(2,590)
	(12,621)	**(2,590)**

Reconciliation of the effective tax rate

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/(Loss) before taxation	38,745	(23,281)
Tax calculated at 20% (2011:20%)	7,749	(4,656)
Non-deductible expenses and non-taxable income	(7,993)	3,763
Tax incentives	(645)	(1,210)
Temproray differences and tax losses not recognised as deferred tax assets	2,915	1,073
Utilisation of temporary differences previously not recognised as deferred tax assets	(6,878)	(1,560)
Utilisation of tax losses previously not recognised as deferred tax assets	(7,769)	-
Tax income recognised in the statement of comprehensive income	**(12,621)**	**(2,590)**
Effective tax rate	**-33%**	**11%**

In accordance with tax regulations, by the end of 2013 the Company had unused tax losses in the amount of HRK 5,166 thousand (2012: HRK 71,368 thousand). These tax losses may be carried forward for five years subsequent to the year in which they were incurred in. Amount of unused tax losses in 2013 has been recognized as a deferred tax asset in the unconsolidated statement of financial position.

Unused tax losses

	2013	2012
Unused tax losses available untill 2013	-	66,202
Unused tax losses available untill 2017	5,166	5,166
	5,166	**71,368**

NOTE 15 – INCOME TAX (continued)

2013	Opening balance	Recognised in profit or loss	Closing balance
	(in thousands of HRK)		
Intangible assets – brand	17,989	2,194	20,183
Non-current assets held for sale	-	6,273	6,273
Provisions for jubilee awards	1,617	102	1,719
Value adjustment of inventories	2,948	(416)	2,532
Provision for termination benefits	1,753	(199)	1,554
Value adjustment of investments	423	3,634	4,057
Transfered unutilised tax losses	-	1,033	1,033
	24,730	**12,621**	**37,351**

2012	Opening balance	Recognised in profit or loss	Closing balance
	(in thousands of HRK)		
Intangible assets – brand	15,909	2,080	17,989
Provisions for jubilee awards	1,470	147	1,617
Value adjustment of inventories	2,462	486	2,948
Financial assets	298	(298)	-
Provision for termination benefits	1,578	175	1,753
Value adjustment of investments	423	-	423
	22,140	**2,590**	**24,730**

NOTE 16 – INTANGIBLE ASSETS

(in thousands of HRK)	Software	Distribution rights	Brand	Investments in progress	Total
Cost					
At 1 January 2012	142,054	12,000	169,239	5,012	328,305
Additions	-	-	-	12,660	12,660
Transfers	16,504	-	-	(16,504)	-
Disposals	(5,497)	-	-	(589)	(6,086)
At 31 December 2012	**153,061**	**12,000**	**169,239**	**579**	**334,879**
Accumulated amortisation					
At 1 January 2012	(110,770)	(12,000)	(79,545)	-	(202,315)
Charge for the year	(11,497)	-	-	-	(11,497)
Disposals	4,917	-	-	-	4,917
Impairment losses	-	-	(10,400)	-	(10,400)
At 31 December 2012	**(117,350)**	**(12,000)**	**(89,945)**	**-**	**(219,295)**
Carrying amount					
As at 31 December 2012	**35,711**	**-**	**79,294**	**579**	**115,584**
Cost					
At 1 January 2013	153,061	12,000	169,239	579	334,879
Additions	-	-	-	8,084	8,084
Transfers	5,677	-	-	(5,677)	-
Transfer to property, plant and equipment	(3,164)	-	-	-	(3,164)
Disposals	(208)	-	-	-	(208)
At 31 December 2013	**155,366**	**12,000**	**169,239**	**2,986**	**339,591**
Accumulated amortisation					
At 1 January 2013	(117,350)	(12,000)	(89,945)	-	(219,295)
Charge for the year	(11,644)	-	-	-	(11,644)
Disposals	208	-	-	-	208
Transfer to property, plant and equipment	437	-	-	-	437
Impairment losses	-	-	(10,971)	-	(10,971)
At 31 December 2013	**(128,349)**	**(12,000)**	**(100,916)**	**-**	**(241,265)**
Carrying amount					
As at 31 December 2013	**27,017**	**-**	**68,323**	**2,986**	**98,326**

Impairment losses in the amount of HRK 10,971 thousand relate to impairment losses on the brand Lero (HRK 671 thousand) and brand Warzywko (HRK 10,300 thousand).

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

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment and fittings	Assets under construction	Total
Cost				
At 1 January 2012	1,385,197	990,158	41,742	2,417,097
Additions	-	3,586	53,533	57,119
Transfers	7,182	33,055	(40,237)	-
Disposals	(3,488)	(7,453)	(15)	(10,956)
At 31 December 2012	**1,388,891**	**1,019,346**	**55,023**	**2,463,260**
Accumulated depreciation				
At 1 January 2012	(808,846)	(743,160)	-	(1,552,006)
Charge for the year	(37,141)	(36,867)	-	(74,008)
Disposals	1,976	7,245	-	9,221
Impairment losses	(1,080)	(1,562)	(2,850)	(5,492)
At 31 December 2012	**(845,091)**	**(774,344)**	**(2,850)**	**(1,622,285)**
Carrying amount				
As at 31 December 2012	**543,800**	**245,002**	**52,173**	**840,975**
Cost				
At 1 January 2013	1,388,891	1,019,346	55,023	2,463,260
Additions	5	313	32,151	32,469
Transfer from intangible assets	3,164	-	-	3,164
Transfers	14,551	27,335	(41,886)	-
Transfer to non current assets held for sale (i)	(118,886)	(181,327)	-	(300,213)
Disposals	(3)	(13,517)	(35)	(13,555)
At 31 December 2013	**1,287,722**	**852,150**	**45,253**	**2,185,125**
Accumulated depreciation				
At 1 January 2013	(845,091)	(774,344)	(2,850)	(1,622,285)
Charge for the year	(34,806)	(38,535)	-	(73,341)
Transfers from intangible assets	(437)	-	-	(437)
Disposals	-	12,790	-	12,790
Transfer to non current assets held for sale (i)	55,307	135,887	-	191,194
Reversal of impairment losses	440	-	-	440
At 31 December 2013	**(824,587)**	**(664,202)**	**(2,850)**	**(1,491,639)**
Carrying amount				
As at 31 December 2013	**463,135**	**187,948**	**42,403**	**693,486**

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 109,019 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 relating to other equipment.

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Land and buildings of the Company with a carrying amount of HRK 380,984 thousand (2012: HRK 399,812 thousand) are mortgaged against the Company'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 Company 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 Company is the lessee under a finance lease comprises the following:

	2013	**2012**
	(in thousands of HRK)	
Cost of equipment under finance lease	-	65,994
Accumulated depreciation	-	(20,219)
	-	**45,775**

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 18 – INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country	Ownership interest in% 2013	Ownership interest in% 2012	Equity share in thousands of HRK 2013	Equity share in thousands of HRK 2012	Principal activity
Belupo d.d., Koprivnica	Croatia	100.00	100.00	157,830	157,830	Production and distribution of pharmaceuticals
Danica d.o.o., Koprivnica	Croatia	100.00	100.00	84,720	102,216	Meet processing and production
Ital-Ice d.o.o., Poreč	Croatia	100.00	100.00	-	47,425	Ice-cream production
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	100.00	3,328	3,328	Services
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Prodaja robe
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	68,754	68,754	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	100.00	49,717	49,717	Seasonings manufacture and sale
Podravka-International Kft, Budapest	Hungary	100.00	100.00	5,343	5,343	Sale and distribution of food and beverages
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	1,925	1,925	Sale and distribution of food and beverages
Podravka d.o.o., Beograd	Serbia	100.00	100.00	-	-	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	100.00	1,068	1,068	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100.00	100.00	1,029	1,029	Sale and distribution of food and beverages
Podravka International, Turska	Turkey	75.00	75.00	-	-	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	98.88	98.88	426	426	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100.00	100.00	-	-	Wafers
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	84	84	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia &	100.00	100.00	40	40	Sale and distribution of food and beverages
Podravka-International e.o.o.d., Sofia	Bulgaria	100.00	100.00	-	-	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100.00	100.00	3	3	Sale and distribution of food and beverages
				375,383	440,304	

NOTE 18 – INVESTMENTS IN SUBSIDIARIES (CONTINUED)

In 2013, the Company recognised an impairment loss of HRK 17,496 thousand relating to its investment in Danica d.o.o. Also, during the year the Company increased its investment in subsidiary Podravka d.o.o., Beograd in the amount of HRK 16,775 thousand for the purpose of covering accumulated losses and accordingly impaired this investment.

In 2012, the Company recognised an impairment loss of 217 thousands HRK on its investment in Sana d.o.o.Hoče, Podravka ugostiteljstvo d.o.o. in the amount of HRK 20 thousand and an impairment loss of HRK 10 thousand relating to Podravka International e.o.o.d., Sofia. These impairments resulted from the negative net assets of those companies stemming from their reported current and accumulated losses.

NOTE 19 – NON-CURRENT FINANCIAL ASSETS

	2013	2012
	(in thousands of HRK)	
Loans to related companies	7,583	53,844
Loans to third parties	6,037	4,729
Impairment loss on loans to third parties	(2,500)	(2,500)
Deposits and other	1,308	1,384
	12,428	**57,457**

Loans to related parties relate to long-term portion of loans to the company Danica d.o.o. in the amount of HRK 7,583 thousand (to the company Belupo d.d. 2012: HRK 53,844 thousand), note 33.

NOTE 20 – INVENTORIES

	2013	2012
	(in thousands of HRK)	
Raw materials and supplies	96,958	117,387
Advances given	5,441	-
Work in progress	22,928	27,473
Finished goods	93,502	102,725
Trade goods	56,412	54,516
	275,241	**302,101**

In 2013, inventory impairment provision in the amount of HRK 2,081 thousand was released (2012: inventory impairment in the amount of HRK 2,429 thousand was recorded). This expense is included in the statement of comprehensive income in line item 'Cost of goods sold'.

In 2013 'Cost of goods sold' include inventory of raw materials, finished goods and work in progress in the amount of HRK 920,527 thousand (2012: HRK 960,635 thousand).

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2013	2012
	(in thousands of HRK)	
Current receivables		
Trade receivables	273,574	258,279
Less: Provisions for impairment	(79,383)	(58,799)
Net trade receivables	**194,191**	**199,480**
Related party trade receivables	270,894	306,886
Provision for related party trade receivable	(3,043)	-
Receivable for dividend	100,000	-
Loans and interest receivable from related parties	86,711	98,088
Bills of exchange received	5,515	3,334
Prepaid expenses	8,334	10,180
Net VAT receivable	4,661	11,696
Receivables from employees	726	1,520
Other receivables	1,741	532
	669,730	**631,716**

Loans given to related parties includes short term loans and current portion of long term loans given to related parties (refer to note 33).

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

	2013	2012
	(in thousands of HRK)	
At 1 January	58,799	61,461
Increase	26,576	9,598
Amounts collected	(1,275)	(2,331)
Written off as uncollectible	(1,674)	(9,929)
At 31 December	**82,426**	**58,799**

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

Ageing analysis of trade receivables past due but not impaired:

	2013	2012
	(in thousands of HRK)	
Up to 90 days	129,591	141,163
91-180 days	24,219	42,558
181-360 days	3,807	22,300
	157,617	**206,021**

NOTE 22 – CASH AND CASH EQUIVALENTS

	2013	2012
	(in thousands of HRK)	
Cash with banks	72,853	40,974
Cash in hand	54	73
Cheques received	1	1
	72,908	**41,048**

NOTE 23– NON CURRENT ASSETS HELD FOR SALE

(in thousands of HRK)	2013	2012
Investments	75,105	59,880
Land and buildings	3,304	3,304
Equipment	1,900	-
Disposal group held for sale (*note 7*)	84,101	-
	164,410	**63,184**

Investments are classified as held for sale since their value primarily reflects net assets that these companies have held for sale, even though the companies plan to merge with the parent company during 2014.

In 2013, the Company recognised an impairment loss relating to its investment in Ital-Ice d.o.o. in the amount of HRK 26,000 thousands and in Lero d.o.o. in the amount of HRK 6,200 thousand (2012: HRK 8,585 thousand) to reflect the net assets of the respective subsidiary.

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.

During 2013, the Company has reclassified the factory Studenac Lipik in disposal group held for sale in the amount of HRK 105,077 thousand and has impaired it in the amount of HRK 29,321 thousand and has made impairment of equipment in Bakery in the amount of HRK 2,040 thousand.

The loss on the impairment of investments and properties are presented in the Statement of comprehensive income under "Other expenses" (note 10).

During the year the Company has classified beverages segment and related disposal group as discontinued operations. Details on the fair value measurement of the disposal group held for sale are disclosed in note 7.

Fair value measurement

Investments and property held for sale are 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 78,409 thousand is classified, according to inputs used in fair value measurement, as level 3 (see note 6).

NOTE 23 – NON-CURRENT ASSETS HELD FOR SALE (CONTINUED)

(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.	Average yield: 13 %
For land, the valuation model considers the real sale values achieved in the sale of comparable land at a similar location. The valuation model for investments held for sale is based on techniques and methods for fair value measurement of property as investments relate to investments in subsidiaries in which most of the asset value relates to the estimated fair value of property in their possession.	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 24 – SHARE CAPITAL

	2013	2012
	(in thousands of HRK)	
Ordinary shares	1,084,001	1,626,001
Share premium	44,785	25,561
Treasury shares	(67,604)	(67,604)
	1,061,182	**1,583,958**

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
At 1 January 2012	**5,242,492**	**1,626,001**	**23,691**	**(67,604)**	**1,582,088**
Fair value of options	-	-	1,870	-	1,870
At 31 December 2012	**5,242,492**	**1,626,001**	**25,561**	**(67,604)**	**1,583,958**
At 1 January 2013	**5,242,492**	**1,626,001**	**25,561**	**(67,604)**	**1,583,958**
Simplified reduction of share capital	-	(542,000)	-	-	(542,000)
Share based payments	-	-	1,116	-	1,116
Transfer to capital reserves	-	-	18,108	-	18,108
At 31 December 2013	**5,242,492**	**1,084,001**	**44,785**	**(67,604)**	**1,061,182**

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 32 to the unconsolidated 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**
AUDIO - Croatian Health insurance association	575,598	10.62%	575,598	10.62%
AUDIO - 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	27.91%	1,549,689	28.59%
Total	**5,420,003**	**100.00%**	**5,420,003**	**100.00%**

NOTE 25 – RESERVES

	2013	2012
	(in thousands of HRK)	
Reserves for treasury shares	21,762	21,762
Legal reserves	-	6,849
Other reserves	-	1,084
	21,762	**29,695**

(in thousands of HRK)	Reserves for treasury shares	Legal reserves	Other reserves	Total
At 1 January 2012	21,762	6,849	1,084	29,695
At 31 December 2012	**21,762**	**6,849**	**1,084**	**29,695**
At 1 January 2013	21,762	6,849	1,084	29,695
Coverage of losses	-	(6,849)	(1,084)	(7,933)
At 31 December 2013	**21,762**	**-**	**-**	**21,762**

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. Part of the Company accumulated losses for 2012 in the amount of HRK 7,933 thousand was covered by legal and other reserves.

NOTE 26 – RETAINED EARNINGS / ACCUMULATED LOSSES

	2013	2012
	(in thousands of HRK)	
Retained earnings / (Accumulated losses)	51,366	(531,825)

The movement in retained earnings / (accumulated losses) is as follows:

	2013	2012
	(in thousands of HRK)	
At 1 January	**(531,825)**	**(511,134)**
- gain/(loss) for the year	51,366	(20,691)
- coverage of accumulated losses	531,825	-
At 31 December	**51,366**	**(531,825)**

NOTE 27- 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 31/12/2012. '000 EUR	Fair value of IRS at 31/12/2012 '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 31/12/2012. '000 EUR	Fair value of IRS at 31/12/2012 '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 it entered into the interest rate swap, the Company has the obligation to comply with a defined ratio of consolidated 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 fair value hierarchy (see note 6).

NOTE 28 – BORROWINGS

	2013	2012
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	468,529	582,680
Banks in foreign countries	56,709	76,657
Finance lease	1,894	24,383
	527,132	**683,720**
Current borrowings		
Banks in Croatia	234,550	203,866
Banks in foreign countries	92,678	89,222
Finance lease	701	2,290
Related party borrowings	2,862	2,462
	330,791	**297,840**
Total borrowings	**857,923**	**981,560**

Bank borrowings in the amount of HRK 693,688 thousand (2012: HRK 975,353 thousand) are secured by mortgages over the Company land and buildings. The finance lease liabilities are as follows:

	Minimum lease payments		**Finance cost**		**Present value of min. lease payments**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
			(in thousands of HRK)			
Up to 1 year	808	3,858	(107)	(1,568)	701	2,290
Between 1 and 5 years	1,992	18,482	(98)	(5,596)	1,894	12,886
After 5 years	-	12,709	-	(1,212)	-	11,497
Total	**2,800**	**35,049**	**(205)**	**(8,376)**	**2,595**	**26,673**

Included in the financial statements within:		
Current borrowings	701	2,290
Non-current borrowings	1,894	24,383
	2,595	**26,673**

NOTE 28 – BORROWINGS (CONTINUED)

The exposures of the Company's borrowings to interest rate changes based on the contractual re-pricing dates at the reporting dates are as follows:

	2013	2012
	(in thousands of HRK)	
6 months or less	217,029	154,284
6 – 12 months	14,250	23,415
1 – 5 years	107,000	107,000
	338,279	**284,699**

If the interest rate on borrowings at variable rates increases to 5.12% (50 basis points), the liability in respect of interest would increase by HRK 4,007 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	478,199	170,936
Between 2 and 5 years	51,642	505,718
Over 5 years	-	13,841
	529,841	**690,495**

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

	2013		2012	
	HRK	EUR	HRK	EUR
Non-current borrowings				
Banks in Croatia	5.19%	4.75%	5.73%	4.82%
Banks in foreign countries	-	3.58%	-	3.95%
Finance lease	-	4.26%	-	6.65%
Current borrowings				
Banks	4.00%	3.72%	4.60%	-
Related party	7.00%	-	7.00%	-

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.

NOTE 28 – BORROWINGS (CONTINUED)

The carrying amounts of long-term borrowings approximate their fair values since all borrowings bear variable interest rates.

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 Company's borrowings (including the interest rate swap) are denominated in the following currencies:

	2013	2012
	(in thousands of HRK)	
Kune	236,341	241,181
EUR	624,291	747,154
	860,632	**988,335**

The Company has the following undrawn borrowing facilities:

	2013	2012
	(in thousands of HRK)	
Floating rate:		
-Expiring in one year	30,574	60,229
	30,574	**60,229**

These comprise unused short-term revolving facilities in the amount of HRK 20,000 thousand at Podravska banka d.d. Koprivnica and unused facilities for letters of credit for goods import with deferred payment in the amount of HRK 10,574 thousand.

NOTE 29 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Vacation accrual	Retirement benefits	Termination benefits and bonuses	Legal cases	Total
Analysis of total provisions as at 31 December 2012:						
Non-current	6,650	-	8,764	-	19,314	34,728
Current	1,435	7,141	-	2,503	184	11,263
	8,085	**7,141**	**8,764**	**2,503**	**19,498**	**45,991**
Increase in provisions	1,830	5,363	(401)	41,498	(423)	47,867
Utilised during the year	(1,320)	(7,141)	(592)	(39,032)	(614)	(48,699)
Transfer from accrued expenses	-	-	-	-	4,524	4,524
At 31 December 2013	**8,595**	**5,363**	**7,771**	**4,969**	**22,985**	**49,683**
Analysis of total provisions as at 31 December 2013:						
Non-current	7,184	-	7,771	-	22,820	37,775
Current	1,411	5,363	-	4,969	165	11,908
	8,595	**5,363**	**7,771**	**4,969**	**22,985**	**49,683**

(i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Company 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, 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 Company recognised HRK 3,962 thousand of provisions for bonuses to key management (2012: HRK 2,503 thousand). Furthermore, during 2013 based on the formal employees restructuring plan, the Company recognized an expense in the amount of HRK 37,536 thousand relating to payment for early retirement benefits to 302 employees of which HRK 1,621 thousand related to discontinued operations.

NOTE 29 – PROVISIONS (CONTINUED)

(iii) Jubilee awards and regular retirement benefits

According to the Collective Agreement the Company 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 Company 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:

	Estimate	
	2013	**2012**
Discount rate	5.40%	4.40%
Fluctuation rate	8.56%	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	16,849	15,239
Current service cost	689	690
Interest expense	803	681
Actuarial (gains) / loss	(63)	1,741
Benefits paid	(1,912)	(1,502)
At 31 December	**16,366**	**16,849**

NOTE 30 – TRADE AND OTHER PAYABLES

	2013	2012
	(in thousands of HRK)	
Trade payables	226,349	250,776
Trade payables to related parties	41,492	48,073
Other liabilities	86,797	102,096
	354,638	**400,945**

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 payables include the following:

	2013	2012
	(in thousands of HRK)	
Salaries and other benefits to employees	29,095	30,165
Deferred income (finance lease)	24,235	28,588
Other accrued expenses	20,524	19,920
Package waste disposal fee payable	2,932	12,013
Accrued interest	5,444	6,546
Taxes, contributions and other duties payable	2,099	2,759
Dividends payable	681	681
Other	1,787	1,424
	86,797	**102,096**

NOTE 31 – 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:

The gearing ratio at the reporting date was as follows:

	2013	2012
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	857,923	981,560
Cash and cash equivalents	(72,908)	(41,048)
Net debt	785,015	940,512
Equity	1,134,310	1,081,828
Net debt to equity ratio	69%	87%

Debt is defined as long- and short-term borrowings and bonds. Equity includes all capital and reserves of the Company. Besides monitoring the ratio of net debt to equity, the Company also monitors the ratio of consolidated operating profit before depreciation and amortization (EBITDA) and debt as part of its compliance with the terms of the syndicated loan agreement (see note 28). As at 31 December 2013 the Company and Group was within the defined ratio.

The Company 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 31 – 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)	749,551	726,887
Held-to-maturity bills	5,515	3,334
	755,066	**730,221**
Financial liabilities at amortised cost		
Financial lease liabilities	2,595	26,673
Borrowings	855,328	954,887
Trade and other payables	354,638	400,945
	1,212,561	**1,382,505**
Financial liabilities at fair value through profit or loss		
Interest swap	2,709	6,775

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. A large majority of the Company's borrowings are at variable rates. The Company uses the interest rate swap for managing interest rate risk (note 27).

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 Company had no significant exposure to interest rate risk as most of its borrowing with a variable interest rate are covered by the interest rate swap agreement with a fixed interest rate.

NOTE 31 – 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 Company's short, medium and long-term funding and liquidity management requirements. The Company 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 Company's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 187,494 thousand for 2013 (2012: HRK 215,244 thousand) and amounts due to employees in the amount of HRK 29,095 thousand (2012: HRK 30,165 thousand).

In 2013 there were no non-interest bearing liabilities with due period over five years. The non-interest bearing liabilities of the Company due in a period of over five years include, among others, other long-term liabilities in the amount of HRK 14,252 thousand for 2012.

Interest bearing liabilities include short-term and long-term borrowings, bonds and finance lease obligations. The following tables detail the Company'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	-	244,573	85,691	6,850	15,424	-	352,538
Interest bearing	4.5	21,000	118,559	226,926	572,084	-	938,569
		265,573	**204,250**	**233,776**	**587,508**	**-**	**1,291,107**
2012							
Non-interest bearing	-	281,962	87,919	2,583	11,469	14,252	398,185
Interest bearing	4.6	18,517	73,465	245,599	761,291	18,832	1,117,704
		300,479	**161,384**	**248,182**	**772,760**	**33,084**	**1,515,889**

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity and interest rate tables (continued)

The tables below detail the remaining contractual maturities of the Company'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	-	410,099	154,591	39,732	-	-	604,422
Interest bearing	3.46	79,763	10,008	47,718	12,664	-	150,153
		489,862	**164,599**	**87,450**	**12,664**	**-**	**754,575**
2012							
Non-interest bearing	-	378,768	144,146	35,252	-	-	558,166
Interest bearing	5.19	46,515	10,483	52,994	58,359	1,175	169,526
		425,283	**154,629**	**88,246**	**58,359**	**1,175**	**727,692**

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 the 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 31 – RISK MANAGEMENT (CONTINUED)

Operational risk management

Market risks

(i) Price risk

The Company operates internationally and finances its operations using foreign currency denominated borrowings to a significant extent. As a result, the Company 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 Company is exposed to a risk of default.

The Treasury function at Podravka provides financial services for Podravka and coordinates the financial operations of the Company 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 most significant risks, together with the methods used to manage these risks, are described below. The Company does not use any derivative instruments to manage its risks or for speculative purposes. In order to hedge against changes in variable interest rates the Company entered into a contract for Interest Rate Swap.

Volatility in food raw material prices is a pervasive element of the Company '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 31 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

(ii) Currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Company'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)	711,850	810,117	287,134	242,208
USA (USD)	6,931	6,639	11,396	10,257
Other currencies	1,712	1,418	13,202	14,840

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuations in the exchange rate of Croatian kuna to Euro and US dollar, since the most of the trading on the international market is done in Euro and US dollar.

The following table details the Company's sensitivity to a 1 % increase in Croatian kuna against the relevant foreign currencies where the Company has significant exposure (EUR, USD). 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	(4,247)	(5,679)	45	36

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

(iii) Sales function based risks

The Company generates approximately 56.8% (2012: 58.5%) of its revenue on the domestic market, whereas around 43.2% (2012: 41.5%) of the sales are generated on international markets, mainly through related entities. The Company 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 Company expects increased risks associated with maintaining market position due to the expected strengthened entry of competitors. To lessen this effect, the Company aims to further strengthen its competitiveness by increasing productivity, modernising its technology and strengthening its product brands.

The continuation of the economic crisis in the country during 2013 had a negative impact on sales growth opportunities in the domestic market, especially due to falling consumer purchasing power, and consequently increased risk of collectability of receivables.

Therefore, the Company is making efforts through harmonization and optimization of existing pricing policies and price levels for existing markets in the EU / CEE to ensure the requirements of continuing successful long-term growth and avoid decrease of profit margins.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company 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.

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.

Customers are classified mainly on the basis of official financial statements of customers, and credit ratings supplied by independent rating agencies, and the history of trading with each customer.

Podravka'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 Company transacts with a large number of customers from various industries and of various size. The major risk concentration is found in relation to retail supermarket chains.

The Company 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 32 – SHARE-BASED PAYMENTS

Employee share options

Options for the purchase of Podravka d.d. shares were granted to key management of the Company. 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 the key management			
As at 31 December 2010	8,000	Employment untill contracted vesting period	31.12.2013
	6,000	Employment untill contracted vesting period	31.12.2015
	8,000	Employment untill contracted vesting period	31.12.2016
As at 31 December 2011	8,000	Employment untill contracted vesting period	31.12.2013
	6,000	Employment untill contracted vesting period	31.12.2015
	8,000	Employment untill contracted vesting period	31.12.2016
As at 24 February 2012	27,000	Employment untill contracted vesting period	31.12.2017
As at 24 February 2012	1,000	Employment untill contracted vesting period	31.12.2016
As at 24 February 2012	1,000	Employment untill contracted vesting period	31.12.2015
As at 26 February 2013	1,000	Employment untill contracted vesting period	31.12.2017
As at 31 December 2012	2,000	Employment untill contracted vesting period	31.12.2017
As at 3 January 2013	2,000	Employment untill contracted vesting period	31.12.2015
As at 23 December 2013	28,620	Employment untill contracted vesting period	31.12.2017
As at 31 December 2013	1,000	Employment untill contracted vesting period	31.12.2015
As at 31 December 2013	1,000	Employment untill contracted vesting period	31.12.2017
Total	**108,620**		

NOTE 32 – SHARE-BASED PAYMENTS (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 in kuna	75	80
Share price in kuna at grant date	255	256
Exercise price in kuna	273	285
Expected volatility (weighted average)	27%	29%
Expected life (weighted average in years)	4.5	4.1
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds- weighted ave	5.29%	5.88%

Expense recognised in profit or loss	**2013**	**2012**
	(in HRK thousands)	
Equity-settled share-based payment transactions	1,116	1,870

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

	Number of options 2013	**Weighted average excercise price 2013**	**Number of options 2012**	**Weighted average excercise price 2012**
Outstanding at 1 January	76,000	285	40,000	305
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Transfer from Belupo d.d.	-	-	4,000	285
Granted	32,620	255	32,000	285
At 31 December	**108,620**	**273**	**76,000**	**285**
Exercisable at 31 December	**108,620**		**76,000**	

As at 31 December 2013, there are 108,620 of outstanding options (2012: 76,000 options). There were no exercised options in 2013 and 2012.

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 4.5 years at 31 December 2013 (2012: 4.1 years).

NOTE 33 – RELATED PARTY TRANSACTIONS

REVENUE

	2013	2012
	(in thousands of HRK)	
Revenue from sale of products and merchandise	616,162	617,892
Revenue from services	55,131	58,143
	671,293	**676,035**

(in thousands of HRK)	**Revenue from sale products and merchandise** 2013	2012	**Revenue from services** 2013	2012
Company:				
Podravka d.o.o., Sarajevo	154,835	151,880	1,614	1,896
Podravka d.o.o., Ljubljana	101,882	96,158	3,082	2,587
Podravka d.o.o., Belgrade	67,113	70,095	181	479
Podravka-Int.Deutschland-"Konar" GmbH	47,867	47,840	248	555
Podravka d.o.o.e.l., Skopje	42,721	43,716	485	473
Podravka-International Pty Ltd, Sydney	34,619	41,086	562	424
Podravka d.o.o., Podgorica	29,779	29,299	1,127	826
Danica d.o.o., Koprivnica	14,218	18,781	18,799	21,282
Podravka-International Inc. Wilmington	35,518	36,712	151	144
Podravka-Polska Sp.z o.o., Kostrzyn	43,616	38,842	7,822	8,182
Podravka-International kft, Budapest	14,376	13,257	975	1,017
Podravka-International s r.o., Zvolen	14,134	14,299	655	648
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	11,845	11,195	1,532	1,497
Ital-Ice d.o.o., Poreč	2,949	3,263	894	1,440
Podravka International Gida Sanayi ve Dis T	389	1,106	-	-
Belupo d.d., Koprivnica	301	363	16,882	16,553
Other companies	-	-	122	140
Total related party sales	**616,162**	**617,892**	**55,131**	**58,143**

NOTE 33 – RELATED PARTY TRANSACTIONS (CONTINUED)

Investment revenue

	2013	2012
	(in thousands of HRK)	
Interest income	7,853	10,814
Dividends from subsidiaries	100,000	-
	107,853	**10,814**

EXPENSES

Remuneration to the Management Board members and executives

	2013	2012
	(in thousands of HRK)	
Salaries	20,845	20,615
Termination benefits	265	8,464
Shae-based payments (note 33)	1,116	1,870
	22,226	**30,949**

Key management of the Company comprises the Management Board and executive directors and is consisted of 29 persons (2012: 32 persons).

During 2013 Company paid HRK 2,387 thousand to the Company Supervisory Board (2012: HRK 2,094 thousand)

LOAN RECEIVABLES

Loan receivables:

	2013	2012
	(in thousands of HRK)	
At beginning of year	141,927	179,520
Increase during the year	13,162	6,141
Repayments received	(39,280)	(42,518)
Other changes – write-offs	(26,637)	(1,216)
Foreign exchange difference	(15)	-
At end of year	**89,157**	**141,927**
Maturity: one year or less	(81,574)	(88,083)
Non-current loans receivable	**7,583**	**53,844**

NOTE 33 – RELATED PARTY TRANSACTIONS (CONTINUED)

The reported receivables from related parties include long-term loans to subsidiaries as follows:

	Interest rate	2013	2012
		(in thousands of HRK)	
Belupo d.d., Koprivnica	7% p.a.	75,810	133,919
Danica d.o.o., Koprivnica	7% p.a.	11,916	5,000
Podravka International Gida Sanayi ve Dis T	7% p.a.	-	1,475
Lero d.o.o., Rijeka	7% p.a.	633	795
Podravka-International USA Inc., Wilmington	7% p.a.	511	613
Podravka Inženjering d.o.o., Koprivnica	7% p.a.	287	125
		89,157	**141,927**

The effective interest rate is 7.00 % p.a.

The maturity of long-term borrowings is as follows:

	2013	2012
	(in thousands of HRK)	
Between 1 and 2 years	4,333	53,844
Between 2 and 5 years	3,250	-
	7,583	**53,844**

NOTE 33 – RELATED PARTY TRANSACTIONS (CONTINUED)

BORROWINGS

	Effective interest rate 2013	2012	2013	2012
			(in thousands of HRK)	
KOTI Nekretnine d.o.o., Koprivnica	7%	7%	2,630	2,245
Poni trgovina d.o.o., Koprivnica	7%	7%	232	217
			2,862	**2,462**

TRADE RECEIVABLES AND PAYABLES

	Current trade receivables 2013	2012	Current trade payables 2013	2012
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Podravka d.o.o., Sarajevo	78,053	68,972	3	-
Danica d.o.o., Koprivnica	26,362	50,701	23,518	27,175
Podravka d.o.o., Belgrade	32,676	53,252	13	328
Podravka d.o.o., Ljubljana	41,191	33,547	12	18
Belupo d.d., Koprivnica	14,226	25,479	325	791
Podravka d.o.o., Podgorica	17,825	17,055	-	-
Podravka d.o.o.e.l., Skopje	12,663	14,116	-	271
Podravka-Polska Sp.z o.o., Kostrzyn	16,725	8,624	69	579
Podravka-Int.Deutschland-„Konar“ GmbH	2,278	8,138	-	3
Podravka-International Pty Ltd, Sydney	7,859	7,145	-	-
Podravka-International Inc. Wilmington	8,928	7,496	395	304
Podravka-International kft, Budapest	3,137	4,783	-	-
Podravka-International s r.o., Zvolen	2,145	2,289	-	7
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	3,453	1,384	874	410
Podravka International Gida Sanayi ve Dis T	92	3,622	-	25
Ital-Ice d.o.o., Poreč	197	207	14,495	15,397
Podravka Inženjering d.o.o., Koprivnica	41	76	337	489
Lero d.o.o., Rijeka	-	-	1,451	2,276
Total related party receivables and payables	**267,851**	**306,886**	**41,492**	**48,073**

Receivable for dividend

	2013	2012
	(in thousands of HRK)	
Belupo d.d., Koprivnica	100,000	-
	100,000	-

NOTE 33 – RELATED PARTY TRANSACTIONS (CONTINUED)

OTHER RECEIVABLES

Other receivables from Group entities

	2013	2012
	(in thousands of HRK)	
Belupo d.d., Koprivnica	5,043	9,885
Podravka International Gida Sanayi ve Dis T	-	77
Danica d.o.o., Koprivnica	68	29
Podravka Inženjering d.o.o., Koprivnica	24	7
Lero d.o.o., Rijeka	2	7
	5,137	**10,005**

GUARANTEES AND WARRANTIES

Guarantees and warranties to related companies

	2013	2012
	(in thousands of HRK)	
Belupo d.d., Koprivnica	53,140	65,888
Danica d.o.o., Koprivnica	43,056	54,528
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	27,842	30,052
Podravka d.o.o., Ljubljana	1,757	1,735
Podravka d.o.o., Belgrade	3,038	1,509
Podravka-International S.R.L., Bucharest	1,035	1,023
Podravka d.o.o., Sarajevo	7,810	-
	137,678	**154,735**

NOTE 34 – CONTINGENT LIABILITIES

	2013	2012
	(in thousands of HRK)	
Guarantees – third parties	8,454	12,451
Guarantees – related parties	137,679	154,735
	146,133	**167,186**

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the unconsolidated 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 Company.

NOTE 35 – COMMITMENTS

In 2013, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 15,103 thousand (2012: HRK 6,595 thousand), which are not yet realised or recognised in the unconsolidated statement of financial position.

The future payments receivable 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	12,159	16,219
From 1 to 5 years	9,595	18,049
	21,754	**34,268**