PODRAVKA d.d. and Its Subsidiaries, Koprivnica

Consolidated Financial Statements
for the year ended 31 December 2012
together with Independent Auditor's Report

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

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RESPONSIBLITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The consolidated financial statements were authorised by the Management Board on 26 April 2013 for issue to the Supervisory Board and are signed below to signify this.

Zvonimir Mršić
President of the Management Board

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, 26 April 2013

KPMG

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

We have audited the accompanying consolidated financial statements of Podravka d.d. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we note that the corresponding figures presented, excluding the adjustments described in note 7, are based on the consolidated financial statements as at and for the year ended 31 December 2011, which were audited by another auditor who expressed an unmodified opinion on those financial statements on 21 March 2012. As part of our audit of the consolidated financial statements we have also audited the adjustments described in note 7. In our opinion, these adjustments have been properly applied and presented.

KPMG

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Croatian Certified Auditors
Eurotower, 17th floor
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26 April 2013

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of HRK)	*Note*	2012	2011 *Restated
Revenues	*8*	3,626,666	3,625,162
Cost of goods sold	*11*	(2,210,947)	(2,200,158)
Gross profit		**1,415,719**	**1,425,004**
Other income	*9*	17,006	34,682
General and administrative expenses	*11*	(347,072)	(273,626)
Selling and distribution costs	*11*	(516,453)	(524,623)
Marketing expenses	*11*	(427,986)	(426,496)
Other expenses	*10*	(37,914)	(67,119)
Operating profit		103,300	167,822
Financial income	*13*	1,715	4,364
Financial expenses	*14*	(74,901)	(112,509)
Net finance costs		**(73,186)**	**(108,145)**
Profit before tax		**30,114**	**59,677**
Income tax expense	*15*	(45,570)	(19,060)
Profit/(loss) for the year		**(15,456)**	**40,617**
Other comprehensive income			
Exchange differences on translation of foreign operations		13,640	(10,693)
Total comprehensive income/(loss)		**(1,816)**	**29,924**
Profit/(loss) attributable to:			
Equity holders of the parent		(14,102)	40,469
Non-controlling interests		(1,354)	148
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent		(491)	29,484
Non-controlling interests		(1,325)	440
Earnings/(loss) per share (in HRK):			
- Basic	*16*	(2.69)	7.72
- Diluted	*16*	(2.69)	7.70

* For details regarding restatements refer to note 7

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

(in thousands of HRK)	*Note*	31.12.2012	31.12.2011 *Restated	1.1.2011 *Restated
ASSETS				
Non-current assets				
Goodwill	*17*	41,984	41,129	44,293
Intangible assets	*18*	237,657	262,998	308,040
Property, plant and equipment	*19*	1,400,740	1,476,007	1,601,501
Non-current financial assets	*21*	5,343	4,323	9,142
Deferred tax assets	*15*	35,420	60,633	57,023
Total non-current assets		**1,721,144**	**1,845,090**	**2,019,999**
Current assets				
Inventories	*22*	631,117	680,774	671,915
Trade and other receivables	*23*	1,074,648	1,055,224	1,080,176
Financial assets at fair value through profit and loss	*24*	600	559	38,519
Income tax receivable		7,537	2,816	3,367
Cash and cash equivalents	*25*	118,208	145,960	152,363
Non-current assets held for sale	*26*	64,418	57,657	8,768
Total current assets		**1,896,528**	**1,942,990**	**1,955,108**
Total assets		**3,617,672**	**3,788,080**	**3,975,107**
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	*27*	1,584,862	1,582,966	1,580,734
Reserves	*28*	173,503	105,355	112,647
Accumulated losses	*29*	(162,600)	(93,961)	(130,737)
Attributable to equity holders of the parent		**1,595,765**	**1,594,360**	**1,562,644**
Non-controlling interests	*30*	32,027	34,787	34,347
Total shareholders' equity		**1,627,792**	**1,629,147**	**1,596,991**
Non-current liabilities				
Borrowings	*32*	727,255	894,309	558,957
Provisions	*33*	46,778	34,326	30,037
Deferred tax liability	*15*	6,298	6,997	11,886
Total non-current liabilities		**780,331**	**935,632**	**600,880**
Current liabilities				
Trade and other payables	*34*	720,111	699,725	798,428
Income tax payable		359	11,064	2,162
Financial liabilities at fair value through profit and loss	*31*	6,775	3,307	371,100
Borrowings	*32*	463,851	485,733	581,692
Provisions	*33*	18,453	23,472	23,854
Total current liabilities		**1,209,549**	**1,223,301**	**1,777,236**
Total liabilities		**1,989,880**	**2,158,933**	**2,378,116**
Total equity and liabilities		**3,617,672**	**3,788,080**	**3,975,107**

* For details regarding restatements refer to note 7

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

(in HRK thousands)	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Accumulated losses	Total	Non-controlling interests	Total
As at 1 January 2011 (previously reported)	**1,580,734**	**35,345**	**17,302**	**-**	**28,037**	**46,253**	**(107,200)**	**1,600,471**	**34,347**	**1,634,818**
Restatements:										
Restatement of reserves (note7(v))	-	(13,583)	-	-	-	-	13,583	-	-	-
Restatement of revaluation (note7(iv))	-	-	-	-	-	(707)	(40,612)	(41,319)	-	(41,319)
Recognition of financial asset (note 7(i))	-	-	-	-	-	-	18,978	18,978	-	18,978
Elimination of intra-group profit (note 7(iii))	-	-	-	-	-	-	(15,486)	(15,486)	-	(15,486)
As at 1 January 2011 (*restated)	**1,580,734**	**21,762**	**17,302**	**-**	**28,037**	**45,546**	**(130,737)**	**1,562,644**	**34,347**	**1,596,991**
Comprehensive income										
Profit for the year (*restated)	-	-	-	-	-	-	40,469	40,469	148	40,617
Other comprehensive income	-	-	-	-	-	(10,985)	-	(10,985)	292	(10,693)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(10,985)**	**40,469**	**29,484**	**440**	**29,924**
Transactions with owners recognised directly in equity										
Fair value of share-based payment transactions	2,232	-	-	-	-	-	-	2,232	-	2,232
Transfers	-	-	1,023	-	2,670	-	(3,693)	-	-	-
Total transactions with owners recognised directly in equity	**2,232**	**-**	**1,023**	**-**	**2,670**	**-**	**(3,693)**	**2,232**	**-**	**2,232**
As at 31 December 2011 (*restated)	**1,582,966**	**21,762**	**18,325**	**-**	**30,707**	**34,561**	**(93,961)**	**1,594,360**	**34,787**	**1,629,147**
Comprehensive income										
Loss for the year	-	-	-	-	-	-	(14,102)	(14,102)	(1,354)	(15,456)
Other comprehensive income	-	-	-	-	-	13,611	-	13,611	29	13,640
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**13,611**	**(14,102)**	**(491)**	**(1,325)**	**(1,816)**
Transactions with owners recognised directly in equity										
Fair value of share-based payment transactions	1,896	-	-	-	-	-	-	1,896	-	1,896
Transfers	-	-	-	50,000	4,537	-	(54,537)	-	-	-
Dividends declared for non-controlling interests	-	-	-	-	-	-	-	-	(1,435)	(1,435)
Total transactions with owners recognised directly in equity	**1,896**	**-**	**-**	**50,000**	**4,537**	**-**	**(54,537)**	**1,896**	**(1,435)**	**461**
As at 31 December 2012	**1,584,862**	**21,762**	**18,325**	**50,000**	**35,244**	**48,172**	**(162,600)**	**1,595,765**	**32,027**	**1,627,792**

*For details regarding restatements refer to note 7

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

(in thousands of HRK)	*Note*	2012	2011 *Restated
Profit/(loss) for the year		**(15,456)**	**40,617**
Income tax		45,570	19,060
Depreciation and amortization (*restated-note 7(iv))		153,691	159,811
Impairment loss on property,plant,equipment and intagibles		25,592	41,041
Impairment loss on assets held for sale		6,479	16,642
Impairment loss on goodwill		-	7,134
Remeasurement of financial instruments at fair value		3,374	6,302
Share-based payment transactions		1,896	2,232
Loss on disposal of property, plant, equipment and intangibles		4,054	384
Gain per options contracts	*40*	-	(16,537)
Impairment losses on inventory and trade receivables		25,488	5,322
Increase in provisions		7,433	(838)
Interest income		(7,098)	(9,216)
Interest expense		70,325	84,485
Effect of changes in foreign exchange rates		6,573	15,860
Changes in working capital:		**327,921**	**372,299**
(Increase)/decrease in inventories (*restated-note 7(iii))		46,365	(7,741)
Increase in trade receivables		(41,939)	(26,809)
Increase/(decrease) in trade payables		17,104	(68,894)
Cash generated from operations		**349,451**	**268,855**
Income taxes paid		(34,075)	(21,118)
Interest paid		(67,043)	(95,444)
Net cash from operating activities		**248,333**	**152,293**
Cash flows from investing activities			
Proceeds from financial assets (*restated-note 7(i))		-	23,723
Purchase of property, plant, equipment and intangibles		(94,682)	(102,249)
Proceeds from sale of property, plant, equipment and intangibles		4,249	8,249
Net repayment/(disburesment) of loans and investments		(967)	17,740
Collection of short-term deposits given	*40*	-	46,446
Collected interest		7,098	9,237
Acquisition of subsidiary net of cash		-	(6,843)
Net cash from investing activities		**(84,302)**	**(3,697)**
Cash flows from financing activities			
Dividends paid		(1,435)	-
Proceeds from borrowings		187,669	679,468
Repayment of borrowings		(378,017)	(834,467)
Net cash from financing activities		**(191,783)**	**(154,999)**
Net decrease of cash and cash equivalents		**(27,752)**	**(6,403)**
Cash and cash equivalents at beginning of year		145,960	152,363
Cash and cash equivalents at the end of year	***3.18, 25***	**118,208**	**145,960**

* For details regarding restatements refer to note 7

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

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

Corporate governance and management

General Assembly

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

President	Hrvoje Matić
Deputy President	Ivan Mesić

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

Supervisory Board

Supervisory Board members during 2012:

President	Ljubo Jurčić *(till 23 February 2012.)*
Deputy President	Dubravko Štimac *(from 17 January till 24 February 2012.)*
Member	Miljenko Javorović *(till 23 February 2012.)*
Member	Karmen Antolić *(till 15 March 2012.)*
Member	Nikola Gregur *(till 6. July 2012.)*
Member	Ivana Matovina *(from 6 July 2012.)*
Member	Milan Stojanović *(from 6 July 2012.)*
Member	Petar Vlaić
Member	Dinko Novoselec
Member	Petar Miladin
Member	Martinka Marđetko-Vuković
President	Dubravko Štimac *(from 24 February 2012)*
Deputy President	Mato Crkvenac *(from 24 February 2012)*
Member	Ivo Družić *(from 24 February 2012)*

- On 23 February 2012, the State Property Management Agency recalled then active members of the Supervisory Board of Podravka d.d. Ljubo Jurčić and Miljenko Javorović and appointed Mato Crkvenac and Ivo Družić as new members of the Supervisory Board of Podravka d.d.

- The Supervisory Board of Podravka d.d. adopted in its meeting held on 24 February 2012 a decision to appoint Dubravko Štimac as President and Mato Crkvenac as Deputy President of the Supervisory Board od Podravka d.d.

NOTE 1 – GENERAL INFORMATION (CONTINUED)

Corporate governance and management (continued)

Management Board during 2012:

President	Miroslav Vitković *(till 24 February 2012)*
Member	Marin Pucar *(till 24 February 2012)*
Member	Lidija Kljajić *(till 24 February 2012)*
Member	Krunoslav Bešvir *(till 24 February 2012)*
Member	Miroslav Repić *(till 24 February 2012)*
Predsjednik	Zvonimir Mršić *(from 24 February 2012)*
Member	Jadranka Ivanković *(from 24 February 2012)*
Member	Olivija Jakupec *(from 24 February 2012)*
Member	Miroslav Klepač *(from 24 February 2012)*
Member	Jorn Pedersen *(from 24 February 2012)*
Member	Hrvoje Kolarić *(from 20 December 2012)*

- In the Meeting of the Supervisory Board of Podravka d.d. held on 24 February 2012, President of the Management Board Miroslav Vitković and Management Board Members Marin Pucar, Lidija Kljajić, Krunoslav Bešvir and Miroslav Repić filed their resignations and thus their membership on the Management Board of Podravka d.d. ceased. In the same meeting, the Supervisory Board appointed Zvonimir Mršić as the new President of the Management Board and Jadranka Ivanković, Olivija Jakupec, Miroslav Klepač and Jorn Pedersen as the new members of the Board for a term of 5 years, which starts running from the date of the adoption of the underlying decision.

- On 20 December 2012, the Supervisory Board of Podravka d.d. appointed Hrvoje Kolarić as a Management Board member for the duration of the current Management Board term in office.

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS")

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

These financial statements were authorised for issue by the Management Board on 26 April 2013.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

(iv) Use of estimates and judgements

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except for the effects stated in note 7.

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Podravka d.d. ("the Company") and entities controlled by the Company (its subsidiaries) as at and for the year ended 31 December 2012. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

(i) Subsidiaries

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

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

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

(ii) Transactions eliminated on consolidation

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Goodwill

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

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

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

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

3.3 Non-current assets held for sale

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 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Revenue recognition

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

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

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

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

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

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

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

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

(iii) Revenue from services

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

(iv) Financial income

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases

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

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

Sale and leaseback transactions

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

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

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

3.6 Share-based payments

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Foreign currency transactions

(i) Transactions and balances in foreign currencies

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

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

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

As at 31 December 2012, the official exchange rate for EUR 1 and USD 1 was HRK 7.545624 and HRK 5.726794 (31 December 2011: HRK 7.530420 and HRK 5.819940, respectively).

(ii) Group companies

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

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

(iii) Net investment in Group companies

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

3.8 Borrowings and borrowing costs

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Government grants

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

3.10 Dividends

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

3.11 Segment reporting

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

3.12 Taxation

(i) Income tax

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

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

(ii) Deferred tax assets and liabilities

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Taxation (continued)

(iii) Tax exposure

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

(iv) Value added tax (VAT)

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

3.13 Property, plant and equipment

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

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

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

Buildings	10 to 50 years
Equipment	3 to 30 years

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Intangible assets

Intangible assets may be acquired in exchange for a non-cash asset or assets, or a combination of cash and non-cash items, whereby the cost of such intangible asset is determined at fair value unless the exchange transaction lacks commercial substance or the fair value of items received or assets disposed of canot be reliably measured, in which case the carrying value is determined as the carrying amount of the asset disposed of.

Licences, brands, distribution rights and registration files

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

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

Computer software

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

Internally-generated intangible assets - research and development expenditure

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Impairment of property, plant, equipment and intangibles

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

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

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

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

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

3.16 Inventories

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Trade receivables

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

3.18 Cash and cash equivalents

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

3.19 Share capital

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

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

3.20 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Employee benefits (continued)

(iii) Regular retirement benefits

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

(iv) Long-term employee benefits

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

(v) Short-term employee benefits

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

(vi) Share-based compensation

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

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

3.21 Provisions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial assets

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

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

Effective interest method

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial assets (continued)

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

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

Available-for-sale financial assets (AFS)

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

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

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

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

Loans and receivables

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial assets (continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

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

3.23 Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Other financial liabilities

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

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

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

Contracts on financial guarantee

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

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

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

Derecognition of financial liabilities

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

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2012, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) IFRS 9 Financial instruments

IFRS 9 Financial instruments (the complete version of this standard has not yet been adopted and the IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting), replaces IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 is obligatory for financial statements for periods beginning on or after 1 January 2015 with earlier adoption permitted. The standard introduces significant changes in terms of the classification and measurement of financial assets. The Group has not yet determined the date of the first adoption of IFRS 9 nor has it fully analysed the effects of its adoption.

(ii) IFRS 13 Fair value measurement

IFRS 13 is mandatory for financial statements for periods from 1 January 2013, with possible usage in earlier periods. It provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Group will apply IFRS 13 beginning from 1 January 2013, and considers that no significant changes will occur.

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 income tax assets recognition

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

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

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

(iii) Consequences of certain legal actions

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

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

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

	Goodwill	Brands	Rights
Operating segment		*(in thousands of HRK)*	
Culinary	-	41,500	-
Food	28,040	21,623	-
Beverages and other	-	671	-
Meat and fish products	-	15,500	-
Pharmaceuticals	13,944	-	47,075
	41,984	79,294	47,075

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

For impairment tests with respect to intangible assets related to food and beverages segments (all segments other than Pharmaceutical), 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 10.84% (for assets which generate the majority of revenue on the Croatian market), 9.36% (for assets which generate the majority of revenue on the Polish market) and 9.21% (for assets which generate the majority of revenue on the Czech market).

For impairment tests with respect to intangible assets related to the Pharmaceutical segment, cash flows beyond the five year period have been extrapolated with a terminal growth rate of 2% while the net present value of future cash flows was calculated using discount rates based on the weighted average cost of capital of 9.67% (for assets which generate the majority of revenue on the Croatian market) and 15.9% (for assets which generate the majority of revenue on the market of Bosnia and Herzegovina).

Based on the impairment tests performed, the Group recognised impairment losses with respect to intangible assets with indefinite useful life during 2012 in the amount of HRK 20,100 thousand (2011: HRK 41,041 thousand). For details refer to notes 8, 17 and 18.

In the course of estimating the need for impairment based on the impairment tests performed, the Group also considers and analyses their sensitivity based on changes in key assumptions used. Sensitivity analysis shows that a reduction in terminal growth rate of 100 basis points and increase in weighted average cost of capital of 100 basis points would result in a decrease of the recoverable amount of cash generating units by 20.4% on average and would result in an additional impairment loss of approximately HRK 39 million (of which approximately HRK 13 million relates to brands and rights and approximately HRK 26 million relates to goodwill).

NOTE 6 – DETERMINATION OF FAIR VALUES

(i) Share-based payment transactions

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.

(ii) Interest rate swap

The fair values of interest rate swaps are 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 Group entity and counterparty when appropriate.

(iii) Trade and other receivables / trade and other payables

The fair values of trade and other receivables, are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

(iv) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(v) Investments in equity or debt instruments

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. The fair value of held-to maturity investments is determined for disclosure purposes only.

NOTE 7 – COMPARATIVES AND RESTATEMENT OF OPENING BALANCES

Change in presentation of the statement of comprehensive income

During 2012,the Group changed the presentation of the statement of comprehensive income. The effect of the resulting reclassifications on comparative information for 2011 is as follows:

- The category of 'Investment income' presented in the financial statements for 2011 in the amount of HRK 13,334 thousand is cancelled and HRK 3,534 thousand is presented as 'Financial income' while HRK 9,800 thousand is presented as 'Other income'.

- The category of 'Other loss, net' presented in the financial statements for 2011 in the amount of HRK 20,465 thousand is cancelled and HRK 65,201thousand is presented as 'Other expenses', HRK 11,669 thousand is presented as 'Financial expenses' while HRK 24,882 thousand is presented as 'Other income'. Furthermore, restatements in the amount of HRK 23,723 thousand (note 7(i)) and HRK 7,800 thousand (note 7(ii)) have been made within the category.

- The category of 'Finance costs' presented in the financial statements for 2011 in the amount of HRK 100,840 thousand was renamed into 'Financial expenses' and increased by HRK 830 thousand which is presented as 'Financial income'

Restatements of opening balances

During 2012, a certain number of corrections have been made in the Group's financial statements for the year ended 31 December 2011. In accordance with the requirements of International Accounting Standard ("IAS") 8 Accounting *Policies, Changes in Accounting Estimates and Errors*, these corrections have been restated in comparative information shown in these financial statements.

(i) Insurance income

During previous reporting periods, the Group paid annual life insurance premiums for its employees and recognised them as insurance expenses in profit or loss instead of recognising an investment in financial assets. In early 2011, the Group recognised the maturity of the insurance policy as income instead oft he return from investment in financial assets. In 2012, the Group made a restatement of opening balances with respect to this insurance policy based on alignment with its accounting policy according to which life insurance policies with a savings component are classified as financial assets at amortized cost using the effective interest rate.

(ii) SMS brand revaluation

During 2012, the Group amended its accounting policy for recognition and measurement of intangible assets acquired in exchange for irrecoverable debts with the requirements of IAS 38 *Intangible Assets*, under which intangible assets are valued at the carrying amount of the asset disposed of (note 3.14), which resulted in the restatement of opening balances with respect to the revaluation of the SMS brand conducted in 2011 upon which teh Group recognised a one-off income from revaluation of this intangible asset.

(iii) Elimination of unrealized intra-group profits from inventory

During 2012, the Group reviewed the average margin used in eliminating intra-group profits from inventory where it previously used the average difference between the intra-group sales margin and the external sales margin instead of the average intra-group margin. This resulted in the restatement of opening balances in accordance with the accounting policies and basis of consolidation as described in note 3.1.

NOTE 7 – COMPARATIVES AND RESTATEMENT OF OPENING BALANCES (CONTINUED)

Restatements of opening balances (continued)

(iv) Restatement of revaluation

In 1999, the Group revalued land and buildings, and applied the policy of revaluation. In its financial statements from1999 to 2004, the Group applied the accounting policy of revaluation whereby land and buildings were carried at a revalued amount less accumulated depreciation and impairment losses. During 2005, the Group ceased the revaluation policy for land and buildings and reclassified the revaluation reserve to other reserves but did not, as required by International Accounting Standard ("IAS") 8: *Accounting policies, changes in accounting estimates and errors,* retroactively eliminate the effects of this revaluation.

The 2012, the Group made a restatement of land, buildings and equity in relation to the this revaluation, and aligned the accounting treatment of land and buildings with the accounting policy 3.13, which states that property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

(v) Restatement of reserves for treasury shares

A review of historical movements within equity of the Company carried out during 2012 revealed that the Company formed part of its reserves for treasury shares in the amount of HRK 13,583 thousand from other reserves created from revaluation reserves when the Company changed its revaluation policy for land and buildings. Upon the change of this accounting policy the revaluation reserves should have been derecognised at the expense of retained earnings or accumulated losses and, as such, could not have been the source for formation of reserves for treasury shares. During 2012, the Company restated the opening balances of reserves for treasury shares in accordance with the restatement of the revaluation (see note 7iv).

NOTE 7 – COMPARATIVES AND RESTATEMENT OF OPENING BALANCES (CONTINUED)

(vi) Retrospective overview of restatements in the statement of comprehensive income:

(in HRK thousands)	2011 Previously Reported	Restatements *(i)*	*(ii)*	*(iii)*	*(iv)*	2011 Restated
Revenues	3,625,162	-	-	-	-	3,625,162
Cost of goods sold	(2,196,530)	-	-	370	(3,998)	(2,200,158)
Gross profit	**1,428,632**	-	-	**370**	**(3,998)**	**1,425,004**
Other income	(914)	(23,723)	(7,800)	-	-	(32,437)
General and administrative expenses	(272,215)	-	-	-	(1,411)	(273,626)
Selling and distribution costs	(527,896)	-	-	-	3,273	(524,623)
Marketing expenses	(426,309)	-	-	-	(187)	(426,496)
Operating profit	**201,298**	**(23,723)**	**(7,800)**	**370**	**(2,323)**	**167,822**
Financial income	4,364	-	-	-	-	4,364
Financial expenses	(112,509)	-	-	-	-	(112,509)
Net finance costs	**(108,145)**	-	-	-	-	**(108,145)**
Profit before tax	**93,153**	**(23,723)**	**(7,800)**	**370**	**(2,323)**	**59,677**
Income tax	(23,724)	4,745	-	(81)	-	(19,060)
Net profit	**69,429**	**(18,978)**	**(7,800)**	**289**	**(2,323)**	**40,617**
Other comprehensive income/(loss)	(10,693)	-	-	-	-	(10,693)
Total comprehensive income	**58,736**	**(18,978)**	**(7,800)**	**289**	**(2,323)**	**29,924**

(vii) Retrospective overview of restatements in the statement of cash flows:

(in thousands of HRK)	**2011 Previously Reported**	**Effect of restatements**	**2011 Restated**
Net cash from operating activities	153,271	978	152,293
Net cash used in investing activities	(4,675)	(978)	(3,697)

NOTE 7 – COMPARATIVES AND RESTATEMENT OF OPENING BALANCES (CONTINUED)

(viii) Retrospective overview of restatements in the statement of financial position:

(in HRK thousands)	31.12.2011.	Restatements					31.12.2011.	1.1.2011.	Restatements					1.1.2011.
ASSETS	Previously reported	*(i)*	*(ii)*	*(iii)*	*(iv)*	*(v)*	Restated	Previously reported	*(i)*	*(ii)*	*(iii)*	*(iv)*	*(v)*	Restated
Non-current assets														
Intangible assets	270,798	-	(7,800)	-	-	-	262,998	308,040	-	-	-	-	-	308,040
Goodwill	41,129	-	-	-	-	-	41,129	44,293	-	-	-	-	-	44,293
Deferred tax asset	56,022	-	-	4,611	-	-	60,633	52,330	-	-	4,693	-	-	57,023
Property, plant and equipment	1,519,649	-	-	-	(43,642)	-	1,476,007	1,642,820	-	-	-	(41,319)	-	1,601,501
Other non-currrent assets	4,323	-	-	-	-	-	4,323	9,142	-	-	-	-	-	9,142
Total non-current assets	**1,891,921**	**-**	**(7,800)**	**4,611**	**(43,642)**	**-**	**1,845,090**	**2,056,625**	**-**	**-**	**4,693**	**(41,319)**	**-**	**2,019,999**
Current assets														
Inventory	700,583	-	-	(19,809)	-	-	680,774	692,094	-	-	(20,179)	-	-	671,915
Financial assets	559	-	-	-	-	-	559	14,796	23,723	-	-	-	-	38,519
Other current assets	1,261,657	-	-	-	-	-	1,261,657	1,244,674	-	-	-	-	-	1,244,674
Total current assets	**1,962,799**	**-**	**-**	**(19,809)**	**-**	**-**	**1,942,990**	**1,951,564**	**23,723**	**-**	**(20,179)**	**-**	**-**	**1,955,108**
Total assets	**3,854,720**	**-**	**(7,800)**	**(15,198)**	**(43,642)**	**-**	**3,788,080**	**4,008,189**	**23,723**	**-**	**(15,486)**	**(41,319)**	**-**	**3,975,107**
EQUITY AND LIABILITIES														
Share capital and reserves														
Accumulated losses	(41,611)	-	(7,800)	(15,198)	(42,935)	13,583	(93,961)	(107,200)	18,978	-	(15,486)	(40,612)	13,583	(130,737)
Other reserves	35,268	-	-	-	(707)	-	34,561	46,253	-	-	-	(707)	-	45,546
Reserve for treasury shares	35,345	-	-	-	-	(13,583)	21,762	35,345	-	-	-	-	(13,583)	21,762
Other equity items	1,666,785	-	-	-	-	-	1,666,785	1,660,420	-	-	-	-	-	1,660,420
Total equity	**1,695,787**	**-**	**(7,800)**	**(15,198)**	**(43,642)**	**-**	**1,629,147**	**1,634,818**	**18,978**	**-**	**(15,486)**	**(41,319)**	**-**	**1,596,991**
Non-current liabilities														
Deferred tax liability	6,997	-	-	-	-	-	6,997	7,141	4,745	-	-	-	-	11,886
Other non-current liabilities	928,635	-	-	-	-	-	928,635	588,994	-	-	-	-	-	588,994
Total non-current liabilities	**935,632**	**-**	**-**	**-**	**-**	**-**	**935,632**	**596,135**	**4,745**	**-**	**-**	**-**	**-**	**600,880**
Total current liabilities	**1,223,301**	**-**	**-**	**-**	**-**	**-**	**1,223,301**	**1,777,236**	**-**	**-**	**-**	**-**	**-**	**1,777,236**
Total liabilities	**2,158,933**	**-**	**-**	**-**	**-**	**-**	**2,158,933**	**2,373,371**	**4,745**	**-**	**-**	**-**	**-**	**2,378,116**
Total equity and liabilities	**3,854,720**	**-**	**(7,800)**	**(15,198)**	**(43,642)**	**-**	**3,788,080**	**4,008,189**	**23,723**	**-**	**(15,486)**	**(41,319)**	**-**	**3,975,107**

NOTE 8 – SEGMENT INFORMATION

Sales revenue

	2012	2011
	(in thousands of HRK)	
Revenue from sale of product and merchandise	3,590,309	3,587,891
Revenue from services	36,357	37,271
	3,626,666	**3,625,162**

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

- Culinary
- Food
- Meat and fish products
- Beverages and other
- Pharmaceuticals

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

Segment revenues and results

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

	Segment revenues		**Segment profits**	
(in thousands of HRK)	**2012**	**2011**	**2012**	**2011 Restated**
Culinary	1,169,936	1,182,819	133,939	135,002
Food	795,519	790,701	32,273	37,563
Meat and fish products	491,970	514,029	(1,947)	1,610
Beverages and other	343,525	342,811	(10,401)	(8,914)
Pharmaceutical	825,716	794,802	130,780	130,448
	3,626,666	**3,625,162**	**284,644**	**295,709**
Financial income (note 13)			1,715	4,364
Other income (note 9) - restated			17,006	34,682
Central administration costs - restated			(160,436)	(95,450)
Other costs (note 10)			(37,914)	(67,119)
Finance costs (note 14)			(74,901)	(112,509)
Profit before tax			**30,114**	**59,677**

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (continued)

The Culinary segment comprises the following product groups: Food Seasoning, Podravka Meals, Condiments, Vegetable Products, and Tomato Products.

The Food segment comprises the following product groups: Baby Food, Spreads, Sweet Products, Snacks, Cereals, Fruit Products, Bakery and Mill Products, Frozen Products, Rice, Grains and Other Products.

The 'Beverages and Other' segment comprises the following product groups: Non-alcoholic beverages, Merchandise, and Services (engineering, hospitality and transport).

The Meat and Fish Products segment comprises the following product groups: Meat products and Eva fish products.

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

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

Impairment of goodwill and intangible assets

Based on impariment tests performed for goodwill and intangible assets with indefinite useful life as described in more detail in note 5, the Group recognised impairment losses during 2012 as follows:

	Goodwill	Brands	Rights
Operating segment		*(in thousands of HRK)*	
Culinary	-	3,200	-
Food	-	-	-
Beverages and other	-	7,200	-
Meat and fish products	-	-	-
Pharmaceuticals	-	-	9,700
	-	**10,400**	**9,700**

For details on impairments see notes 17 and 18.

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group operates in four principal geographical areas by which it reports third-party sales, together with the non-current asset disclosures.

(in thousands of HRK)	**Revenue from external customers** 2012	2011
Croatia	1,707,314	1,741,824
South-East Europe	893,389	877,265
Central and Eastern Europe	727,922	714,640
Western Europe and overseas countries	298,041	291,433
	3,626,666	**3,625,162**

Information about major customers

Third-party sales in Croatia account for 47% (2011: 48%) of the total revenue from external customers, whereas the remaining 53% (2011: 52%) represent foreign sales. Top 20 customers account for 42% (2011: 42%) of the external sales. The Group has no significant exposure to an individual major customer.

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

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

NOTE 9 – OTHER INCOME

	2012	2011 Restated
	(in thousands of HRK)	
Grant income	6,122	3,981
Gain on options contracts (note 40)	-	16,537
Revenue from sale and leaseback transaction	2,867	2,867
Interest and foreign exchange differences on trade receivables	5,477	5,682
Other	2,540	5,615
	17,006	**34,682**

NOTE 10 – OTHER EXPENSES

	2012	2011 Restated
	(in thousands of HRK)	
Interest expense relating to trade payables	1,767	1,827
Impairment loss on brands (note 18)	10,400	40,275
Impairment loss on assets held for sale (note 26)	6,479	16,642
Impairment loss on pharmaceutical rights (note 18)	9,700	766
Impairment loss on goodwill (note 17)	-	7,134
Impairment loss on property, plant and equipment (note 19)	5,492	-
Loss on disposal of property, plant, equipment and intangibles	4,054	384
Other	22	91
	37,914	**67,119**

NOTE 11 – EXPENSES BY NATURE

	2012	2011 Restated
	(in thousands of HRK)	
Raw materials and consumables used, energy and cost of goods sold including change in inventory	1,820,810	1,776,919
Staff costs	837,777	806,116
Advertising and promotion	272,662	272,637
Depreciation	153,691	159,811
Services	150,991	151,948
Rental expense	61,376	68,139
Transportation	52,096	48,412
Entertainment	29,568	34,292
Impairment of trade receivables	22,196	5,520
Taxes and contributions independent of operating results	19,339	18,945
Daily allownaces and travel expenses	16,640	17,360
Cost of disposal of packaging, administrative fees, etc	12,266	14,335
Telecommunications	12,921	14,008
Bank charges	11,181	12,988
Litigation expenses	15,048	3,209
Other	13,896	20,264
Total costs in goods, selling and distribution costs, marketing costs and administrative costs	**3,502,458**	**3,424,903**

NOTE 12 – STAFF COSTS

	2012	2011
	(in thousands of HRK)	
Salaries	771,526	774,643
Termination benefits	41,284	8,623
Transportation	10,500	10,819
Share options (note 36)	1,896	2,232
Other	12,571	9,799
	837,777	**806,116**

As at 31 December 2012, the number of staff employed by the Group was 6,115 (2011: 6,377).
In 2012 termination benefits were accrued in the amount of HRK 41,284 thousand and paid to 328 employees (for details refer to note 33). In 2011 termination benefits were accrued in the amount of HRK 8,623 thousand and paid to 143 employees.

NOTE 13 – FINANCIAL INCOME

	2012	2011
	(in thousands of HRK)	
Interest on term deposits	796	2,947
Other interest	825	587
Unrealised gains loss per interest swap contract	-	830
through profit or loss	94	-
	1,715	**4,364**

NOTE 14 – FINANCIAL EXPENSES

	2012	2011
	(in thousands of HRK)	
Interest expense	70,325	87,024
Unrealised losses per interest swap contract	3,468	-
Remeasurement financial instruments at fair value	-	7,132
Net foreign exchange loss on borrowings	1,108	18,063
Other	-	290
	74,901	**112,509**

In 2012, the benchmark interest rates remained at low levels, which, along with regular loan repayments, resulted in a significant reduction in loan related interest expense.

Futhermore, 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. The IRS agreement is valid until 16 December 2015 (for details see note 31).

During 2012 and 2011, the Group had no investments for which interest expense could be capitalised.

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2012	2011 Restated
	(in thousands of HRK)	
Current income tax	18,649	30,309
Deferred tax	26,921	(11,249)
	45,570	**19,060**

Effective tax rate reconciliation

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

	2012	2011 Restated
	(in thousands of HRK)	
Profit before taxation	**30,114**	**59,677**
Income tax at 20% (2011: 20%)	6,023	11,935
Non-deductible expenses and non-taxable income	12,867	9,680
Tax incentives	(13,473)	(2,641)
Temporary differences and tax losses not recognised as deferred tax assets	9,857	6,243
Derecognition of temporary differences previously recognised as deferred tax assets	31,004	-
Utilisation of tax losses previously not recognised as deferred tax asset	-	(7,127)
Effect of different tax rates	(708)	970
Income tax	**45,570**	**19,060**
Effective tax rate	151%	32%

Unused tax losses

In accordance with tax regulations, by the end of 2012 Group realised tax losses in the amount of HRK 93,856 thousand (2011: HRK 90,855 thousand) which mainly consist of tax losses in Croatia (in the amount of HRK 84,262 thousand), Bosnia and Herzegovina (in the amount of HRK 3,499 thousand) and Poland (in the amount of HRK 5,984 thousand). These tax losses may be carried forward for five years subsequent to the year in which they were incurred in. Unused tax losses are not recognized as deffered tax asset in the consolidated statement of financial position as it is uncertain whether future taxable profits will be available to utilise the tax losses.

	2012	2011
	(in thousands of HRK)	
Up to 2012	-	16,477
Up to 2013	66,277	66,987
Up to 2014	403	4,272
Up to 2015	301	1,549
Up to 2016	6,279	1,570
Up to 2017	20,596	-
	93,856	**90,855**

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets arise from the following:

2012	Opening balance *restated*	Recognised in profit or loss	Foreign exchange differences	Closing balance
Temporary differences:				
Government subsidies	28,570	(30,771)	2,412	211
Assets under financial lease	346	(346)	-	-
Property, plant and equipment	498	(11)	(6)	481
Intangibles	15,909	2,080	-	17,989
Jubilee awards	2,250	210	-	2,460
Termination benefits	2,587	235	-	2,822
Vacation accrual	170	11	1	182
Impairment allowance on inventories	3,996	196	-	4,192
Other deferred tax assets	1,696	1,743	-	3,439
Inventory - restated (note 7(iii))	4,611	(967)	-	3,644
Deferred tax assets	**60,633**	**(27,620)**	**2,407**	**35,420**

2011	Opening balance *Restated*	Recognised in profit or loss	Foreign exchange differences	Closing balance *Restated*
Temporary differences:				
Government subsidies	32,825	(1,497)	(2,758)	28,570
Assets under financial lease	348	(2)	-	346
Property, plant and equipment	89	409	-	498
Intangibles	7,854	8,055	-	15,909
Jubilee awards	2,395	(145)	-	2,250
Termination benefits	2,357	226	4	2,587
Vacation accrual	144	21	5	170
Impairment allowance on inventories	4,065	(69)	-	3,996
Other deferred tax assets	2,253	(557)	-	1,696
Inventory - restated (note 7(iii))	4,693	(81)	(1)	4,611
Deferred tax assets	**57,023**	**6,360**	**(2,750)**	**60,633**

Deferred tax liabilities arise from the following:

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

2011	Opening balance *Restated*	Recognised in profit or loss	Foreign exchange differences	Closing balance
Temporary differences:				
Adjustments to non-current assets	(535)	(589)	-	(1,124)
Adjustment of assets at fair value - restated *(note 7(i))*	(11,351)	5,478	-	(5,873)
	(11,886)	**4,889**	-	**(6,997)**

NOTE 16 – EARNINGS/(LOSS) PER SHARE

Basic earnings per share

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

	2012	2011 Restated
Profit/(loss) attributable to equity holders of the parent (in thousands of HRK)	(14,102)	40,469
Weighted average number of shares	5,242,492	5,242,492
Basic earnings/(loss) per share in HRK	**(2.69)**	**7.72**

Diluted earnings per share

Diluted earnings per share were calculated as the basic earnings per share, including the impact of the number of share options granted to employees, of which 91,000 were not exercised (2011: 54,000 options).

	2012	2011 Restated
Profit/(loss) attributable to equity holders of the parent (in thousands of HRK)	(14,102)	40,469
Weighted average number of shares	5,245,802	5,258,307
Diluted earnings/(loss) per share in HRK	**(2.69)**	**7.70**

NOTE 17 - GOODWILL

(in thousands of HRK)	2012	2011
Cost		
At 1 January	77,666	73,969
Additions	-	3,697
At 31 December	**77,666**	**77,666**
Accumulated impairment losses		
At 1 January	36,537	29,676
Impairment loss	-	7,134
Effect of changes in the foreign exchange rates	(855)	(273)
At 31 December	**35,682**	**36,537**
Carrying amount at 31 December	**41,984**	**41,129**

The increase in goodwill in the amount of HRK 3,697 thousand in 2011 arose on the acquisition of Agram Pharmacy. In 2011, the Group recognised goodwill impairment in the amount of HRK 7,134 thousand based on annual impairment tests. The impairment related to Ital-Ice d.o.o. in the amount of HRK 2,218 thousand, Lero d.o.o. in the amount of HRK 1,324 thousand, Podravka Lagris a.s. in the amount of HRK 1,354 and Belupo Group in the amount of HRK 2,238 thousand.

The goodwill impairment in respect of the Belupo Group comprises the impairment of the entire goodwill recognized on the acquisition of Derjanović Pharmacy in the amount of HRK 1,829 thousand and a part of goodwill recognized on the acquisition of Kuruc Pharmacy, Koprivnica, and Pharmacy in Crikvenica in the amount of HRK 300 thousand and HRK 109 thousand, respectively.

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

NOTE 18 – INTANGIBLE ASSETS

(u tisućama kuna)	Software and licences	Pharmaceu-tical rights	Rights, registration files, know how	Brand	Intangible assets in progress	Total
Cost						
At 1 January 2011	168,202	55,858	119,802	180,410	18,617	542,889
Effect of foreign exchange differences	(489)	-	(1,048)	(18)	(103)	(1,658)
Additions (restated-note 7(ii))	173	-	-	-	17,460	17,633
Acquisition of subsidiaries	283	3,207	-	-	-	3,490
Transfers	6,871	-	8,389	-	(15,260)	-
Disposals	(1,227)	-	-	-	-	(1,227)
At 31 December 2011 (restated)	**173,813**	**59,065**	**127,143**	**180,392**	**20,714**	**561,127**
Accumulated depreciation						
At 1 January 2011	(125,298)	(1,524)	(57,587)	(50,440)	-	(234,849)
Effect of foreign exchange differences	595	-	804	17	-	1,416
Disposals	1,207	-	-	-	-	1,207
Charge for the year	(13,555)	-	(11,307)	-	-	(24,862)
Impairment	-	(766)	-	(40,275)	-	(41,041)
At 31 December 2012	**(137,051)**	**(2,290)**	**(68,090)**	**(90,698)**	-	**(298,129)**
Carrying amount as at 31 December 2011 (restated)	**36,762**	**56,775**	**59,053**	**89,694**	**20,714**	**262,998**
Cost						
At 1 January 2012	173,813	59,065	127,143	180,392	20,714	561,127
Effect of foreign exchange differences	641	-	996	327	(1)	1,963
Additions (restated-note 7(ii))	7,610	-	(7,449)	-	23,479	23,640
Transfers	18,972	-	3,758	-	(22,730)	-
Disposals	(7,088)	-	(1,092)	-	(589)	(8,769)
Transfer to asset held for sale	(523)	-	-	-	-	(523)
At 31 December 2012	**193,425**	**59,065**	**123,356**	**180,719**	**20,873**	**577,438**
Accumulated depreciation						
At 1 January 2012	(137,051)	(2,290)	(68,090)	(90,698)	-	(298,129)
Effect of foreign exchange differences	(6,710)	-	5,255	(327)	-	(1,782)
Disposals	6,212	-	18	-	-	6,230
Charge for the year	(14,240)	-	(11,875)	-	-	(26,115)
Impairment	-	(9,700)	-	(10,400)	-	(20,100)
Transfer to asset held for sale	115	-	-	-	-	115
At 31 December 2012	**(151,674)**	**(11,990)**	**(74,692)**	**(101,425)**	-	**(339,781)**
Carrying amount as at 31 December 2012	**41,751**	**47,075**	**48,664**	**79,294**	**20,873**	**237,657**

At the end of the reporting period, the Group reassessed the recoverable amount of its brands and rights and reocgnised an impairment loss of HRK 10,400 thousand for brands (HRK 3,200 thousand for Warzywko brand and HRK 7,200 thousand for Lero brand) and HRK 9,700 thousand for pharmaceutical rights. Furthermore, the Group restated the opening balance of its brands as decribed in note 7(ii).

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

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

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2011 (reported)	2,185,785	1,728,759	53,907	3,968,451
Restatement (note7(iv))	222,581	-	-	222,581
At 1 January 2011 (restated)	2,408,366	1,728,759	53,907	4,191,032
Effect of foreign exchange differences	(5,139)	(3,540)	6	(8,673)
Additions	1,711	10,344	79,682	91,737
Acquisition of subsidiaries	-	591	-	591
Transfers	11,555	63,602	(75,157)	-
Disposals	(7,794)	(26,695)	(3,558)	(38,047)
Transfer to assets held for sale	(66,472)	-	-	(66,472)
At 31 December 2011	**2,342,227**	**1,773,061**	**54,880**	**4,170,168**
Accumulated depreciation				
At 1 January 2011 (reported)	(1,042,948)	(1,282,683)	-	(2,325,631)
Restatement (note7(iv))	(263,900)	-	-	(263,900)
At 1 January 2011 (restated)	(1,306,848)	(1,282,683)	-	(2,589,531)
Effect of foreign exchange differences	1,626	3,811	-	5,437
Disposals	5,519	17,215	-	22,734
Charge for the year (restated)	(64,928)	(70,021)	-	(134,949)
Transfer to assets held for sale	2,148	-	-	2,148
At 31 December 2011	**(1,362,483)**	**(1,331,678)**	**-**	**(2,694,161)**
Carrying amount as at 31 December 2011	**979,744**	**441,383**	**54,880**	**1,476,007**
Cost				
At 1 January 2012	2,342,227	1,773,061	54,880	4,170,168
Effect of foreign exchange differences	6,934	4,881	8	11,823
Additions	329	2,283	68,430	71,042
Transfers	9,528	43,470	(52,998)	-
Disposals and retirements	(3,488)	(27,436)	849	(30,075)
Transfer to assets held for sale	-	(16,190)	-	(16,190)
At 31 December 2012	**2,355,530**	**1,780,069**	**71,169**	**4,206,768**
Accumulated depreciation				
At 1 January 2012	(1,362,483)	(1,331,678)	-	(2,694,161)
Effect of foreign exchange differences	(2,162)	(4,625)	-	(6,787)
Disposals	1,980	22,331	-	24,311
Charge for the year	(62,818)	(64,758)	-	(127,576)
Transfer to assets held for sale	-	3,677	-	3,677
Impairment	(1,080)	(1,562)	(2,850)	(5,492)
At 31 December 2012	**(1,426,563)**	**(1,376,615)**	**(2,850)**	**(2,806,028)**
Carrying amount as at 31 December 2012	**928,967**	**403,454**	**68,319**	**1,400,740**

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

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Land and buildings of the Group with a carrying amount as at 31 December 2012 of HRK 685,457 thousand (2011: HRK 719,284 thousand) have been mortgaged against the Group borrowings.

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

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

	2012	2011
	(in thousands of HRK)	
Cost of capitalised finance leases	87,708	82,318
Accumulated depreciation	(24,535)	(21,292)
Carrying amount	**63,173**	**61,026**

NOTE 20 – SUBSIDIARIES

Group consists of Company and following subsidiaries in which Group has owneship above 50% of shares and control:

Name of subsidiary	Country	2012	2011	Principal activity
Belupo d.d., Koprivnica	Croatia	100%	100%	Production and distribution of pharmaceuticals
Belupo doel, Skopje*	Macedonia	100%	100%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100%	100%	Sale and distribution of pharmaceuticals
Belupo Ljubljana*	Slovenia	100%	100%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm Koprivnica*	Croatia	100%	100%	Sale and distribution of pharmaceuticals
Farmavita d.o.o. Vogošća*	Bosnia and Herzegovina	65%	65%	Proizvodnja i distribucija lijekova
Danica d.o.o., Koprivnica	Croatia	100%	100%	Meet processing and production
Lero d.o.o., Rijeka	Croatia	100%	100%	Beverage production
Ital-Ice d.o.o., Poreč	Croatia	100%	100%	Ice cream production
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100%	100%	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	0%	100%	Purchase and sale of goods, catering services
Podravka Inženjering d.o.o., Koprivnica	Croatia	100%	100%	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100%	100%	Sale of merchandise
Lagris a.s., Lhota u Luhačovic	Czech Rep.	100%	100%	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100%	100%	Seasonings production and sale
Podravka-International Kft, Budapest	Hungary	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Ljubljana	Slovenia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100%	100%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100%	100%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen**	Slovakia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100%	100%	Sale and distribution of food and beverages
Podravka International, Turkey***	Turkey	100%	100%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	99%	99%	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100%	100%	Production of wafers
Podravka-International s.r.l., Bucharest	Romania	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100%	100%	Sale and distribution of food and beverages
Podravka-International e.o.o.d., Sofia	Bulgaria	100%	100%	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100%	100%	Sale and distribution of food and beverages

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

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

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

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

	2012	2011
	(in thousands of HRK)	
Loans receivable	4,729	3,674
Impairment allowance on loans receivable	(2,500)	(2,500)
Other receivables and deposits	3,114	3,149
	5,343	**4,323**

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

NOTE 22 – INVENTORIES

	2012	2011 Restated
	(in thousands of HRK)	
Raw materials and supplies	225,187	213,147
Work in progress	40,021	50,870
Finished goods	213,453	255,608
Merchandise	152,456	161,149
	631,117	**680,774**

In 2012, the Group recognised an impairment loss with respect to inventories in the amount of HRK 3,292 thousand (2011: HRK 198 thousand decrease in impairment allowance). This impairment loss is included within 'Cost of goods sold'.

In 2012, 'Cost of goods sold' include inventory of raw materials used in production of finished goods, and work in progress and the cost of mechandise in the amount of HRK 1,662,504 thousand (2011: HRK 1,627,003 thousand).

During 2012, the Group restated its opening balance of inventory as explained in note 7(iii).

NOTE 23 – TRADE AND OTHER RECEIVABLES

	2012	2011
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,148,794	1,097,799
Less: Provisions for impairment	(137,692)	(124,798)
Net trade receivables	**1,011,102**	**973,001**
Bills of exchange received	3,402	12,162
Advances to suppliers	1,358	1,697
Net VAT receivable	36,044	34,940
Prepaid expenses	14,950	23,528
Receivables from employees	2,569	2,706
Other receivables	5,223	7,190
	1,074,648	**1,055,224**

Movements in the provision for impairment of trade receivables are as follows:

	2012	2011
	(in thousands of HRK)	
At 1 January	124,798	125,924
Increase	25,916	13,230
Amounts collected	(3,720)	(7,710)
Written off as uncollectible	(9,302)	(6,646)
At 31 December	**137,692**	**124,798**

Impairment allowance for trade receivables and subsequent collections at Group level are included in 'Selling and distribution expenses'.

Ageing analysis of trade receivables past due but not impaired:

	2012	2011
	(in thousands of HRK)	
0-90 days	242,701	235,665
91-180 days	69,674	52,416
181-360 days	21,767	28,891
	334,142	**316,972**

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

	2012	2011
	(in thousands of HRK)	
Investments in:		
Investment funds	600	559
	600	**559**

Movements during the year are as follows :

	2012	2011
	(in thousands of HRK)	
Opening carrying amount	559	14,796
Additions	100	-
Disposals	(61)	(13,260)
Effect of remeasurement at fair value	2	(977)
Closing carrying amount	**600**	**559**

NOTE 25 – CASH AND CASH EQUIVALENTS

	2012	2011
	(in thousands of HRK)	
Cash with banks	104,890	120,339
Short-term deposits – up to 3 months	6,989	17,045
Cash in hand	539	625
Cheques, deposits and securities	111	132
Restricted cash	5,679	7,819
	118,208	**145,960**

The restricted cash balance in the amount of HRK 5,679 thousand (2011: HRK 7,819 thousand) relates to cash paid to the Croatian Health Insurance Fund (HZZO) in respect of advertising ethics insurance. Pursuant to the Agreement on Ethical Advertising of Pharmaceuticals, HZZO undertakes to refund the cash after Belupo d.d. has reported all the costs incurred in the promotion and advertising of pharmaceuticals.

NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE

	2012	2011
	(in thousands of HRK)	
Land	17,826	17,571
Other real-estate	46,592	40,086
	64,418	**57,657**

In 2012 the long-term assets of Lero d.o.o. were reclassified to non-current assets held for sale in the amount of HRK 12,921 thousand, upon which impairment was recognised in the amount of HRK 6,385 thousand.

During 2012 in Podravka d.o.o. Podgorica impairment loss on property in the amount of HRK 64 thousand.

During 2012 subsidiary Podravka Kft Budapest has impaired building sin the amount of HRK 30 thousand.

During 2012, the Company took over a construction property as compensation for uncollected receivables for goods sold and interest receivable from the customer Erman Komerc Žminj. The construction property is in the business zone Žminj and was reclassified to assets held for sale in the amount of HRK 319 thousand.

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

NOTE 27– SHARE CAPITAL

	2012	2011 Restated
	(in thousands of HRK)	
Ordinary shares	1,626,001	1,626,001
Share premium	26,465	24,569
Treasury shares	(67,604)	(67,604)
	1,584,862	**1,582,966**

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pieces)	*(in thousands of HRK)*			
At 1 January 2011	**5,242,492**	**1,626,001**	**22,337**	**(67,604)**	**1,580,734**
Fair value of share based payments	-	-	2,232	-	2,232
At 31 December 2011	**5,242,492**	**1,626,001**	**24,569**	**(67,604)**	**1,582,966**
At 1 January 2012	**5,242,492**	**1,626,001**	**24,569**	**(67,604)**	**1,582,966**
Fair value of share based payments	-	-	1,896	-	1,896
At 31 December 2012	**5,242,492**	**1,626,001**	**26,465**	**(67,604)**	**1,584,862**

As at 31 December 2012, the Group's share capital amounted to HRK 1,626,001 thousand, distributed among 5,420,003 shares (2011: HRK 1,626,001 thousand and 5,420,003 shares out of which 177,511 relates to treasury shares). The nominal value amounted to HRK 300 per share. All issued shares are fully paid in.

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

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

Structure of ownership	**2012** Number of shares	**2012** % of ownership	**2011** Number of shares	**2011** % of ownership
AUDIO - Croatian Health insurance association	575,598	10.62%	575,598	10.62%
AUDIO - Republic of Croatia	535,629	9.88%	535,170	9.87%
Erste Plavi OMF	514,863	9.50%	514,863	9.50%
AZ OMF	488,106	9.01%	479,532	8.85%
PBZ Croatia osiguranje d.d. OMF	477,957	8.82%	474,607	8.76%
Unicredit Bank Austria AG - custody account	407,744	7.52%	434,035	8.01%
Kapitalni fond d.d.	321,804	5.94%	321,804	5.94%
Raiffeisen OMF	201,369	3.72%	185,531	3.42%
PBZ d.d. - custody account	96,492	1.78%	100,771	1.86%
PBZ d.d. / State street client account	73,241	1.35%	50,335	0.93%
Treasury account	177,511	3.28%	177,511	3.28%
Other shareholders	1,549,689	28.58%	1,570,246	28.96%
Total	**5,420,003**	**100.00%**	**5,420,003**	**100.00%**

NOTE 28 – RESERVES

	2012	2011 Restated
	(in thousands of HRK)	
Reserves for treasury shares	21,762	21,762
Legal reserves	18,325	18,325
Statutory reservs	35,244	30,707
Reinvested profit reserves	50,000	-
Other reserves	48,172	34,561
	173,503	**105,355**

(in thousands of HRK)	Reserves for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Total
At 1 January 2011 (as previously reported)	35,345	17,302	-	28,037	46,253	126,937
Restatement (note 7(iv,v))	(13,583)	-	-	-	(707)	(14,290)
At 1 January 2011 (restated)	21,762	17,302	-	28,037	45,546	112,647
Transfer from retained earnings	-	1,023	-	2,670	-	3,693
Exchange differences	-	-	-	-	(10,985)	(10,985)
At 31 December 2011	**21,762**	**18,325**	**-**	**30,707**	**34,561**	**105,355**
At 1 January 2012	21,762	18,325	-	30,707	34,561	105,355
Transfer from retained earnings	-	-	50,000	4,537	-	54,537
Exchange differences	-	-	-	-	13,611	13,611
At 31 December 2012	**21,762**	**18,325**	**50,000**	**35,244**	**48,172**	**173,503**

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

In 2012, by the decision of its General Assembly the subsidiary Belupo d.d. transferred HRK 4,537 thousand from retained earnings to statutory reserves. According to the decision of the General Assemblies in 2011, HRK 1,023 thousand were transferred to legal reserves while an amount of HRK 2,670 thousand was transferred to other reserves.

Review of historical movements within equity

A review of historical movements within equity of the Company carried out during 2012 revealed that balances of reserves available for distribution to shareholders in 2006 and 2007 was insufficient to cover the dividends paid out at that time in accordance with the decisions of the Assembly and which amounted to HRK 27,042 thousand and HRK 27,009 thousand and related to dividends for 2005 and 2006, respectively.

Out of the total of these dividends, HRK 25,704 thousand was paid at the expense of non-distributable reserves formed from revaluation reserves which were non-distributable and not avaialble for payment to shareholders. The amount of HRK 19,921 thousand was paid at the expense of reserves for treasury shares which, according to the then applicable Companies Law, could also not be used for distribution to shareholders. In accordance with the restatements as presented in note 7, these payments were, in substance, made at the expense of accumulated losses.

NOTE 28 – RESERVES (CONTINUED)

Reinvested profit reserve

The subsidiary Belupo d.d. made a profit before tax for the year ended 31 December 2012 amounting to HRK 93,413 thousand. On 12 February 2013, the Management Board of the subsidiary reached a decision to reinvest a portion of its profits for the purpose of capital investments in production capacities in the amount of HRK 50,000 thousand for which an equivalent increase in share capital of the subsidiary is to be registered in 2013. In accordance with currently applicable tax regulation, the subsidiary recognized the amount of reinvested profits as a corporate profit tax incentive resulting in a reduction of current tax expense in the amount of HRK 10,000 thousand.In case this increase of share capital is not registered by 31 October 2013, the tax incentive will be cancelled, in accordance with the currently applicable tax regulations, resulting in a tax expense of HRK 10,000 thousand plus applicable interest.

The decision to reinvest the portion of profits and the consequent increase in share capital of the subsidiary is subject to final approval by the General Assembly of the subsidiary. Management of the Group, as the 100% owner of the subsidiary, considers it likely that the decision of the Management Board of the subsidiary will be approved at the General Assembly of the subsidiary. Accordingly, amount of profit to be reinvested is presented separately, until the decision of the General Assembly is reached, and is comprised of the portion of profits relating to 2012 to be reinvested and registered as share capital of the subsidiary and is, as such, not considered distributable to shareholders. Following the execution of this decision and the registration of the increase in share capital of the subsidiary expected in 2013, the amount of HRK 50,000 thousand will be transferred from the Group's reinvested profit reserve in other reserves.

NOTE 29 – ACCUMULATED LOSSES

	31.12.2012.	31.12.2011. Restated
	(in thousands of HRK)	
Accumulated loss	(162,600)	(93,961)

Movement in accumulated losses is presented as follows:

	2012	2011
At 1 January (as previously reported)	(41,611)	(107,200)
Restatements (note 7)	(52,350)	(23,537)
At 1 January (restated)	**(93,961)**	**(130,737)**
- transfer to legal and other reserves	(54,537)	(3,693)
- profit/(loss) for the year	(14,102)	40,469
At 31 December	**(162,600)**	**(93,961)**

NOTE 30 – NON-CONTROLLING INTERESTS

	2012	2011
	(in thousands of HRK)	
Balance at 1 January	34,787	34,347
Exchange differences	29	292
Share in the profit/(loss) for the year	(1,354)	148
Dividend paid to minority shareholder	(1,435)	-
Balance at 31 December	**32,027**	**34,787**

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

	2012	2011
	(in thousands of HRK)	
Interest rate swap	6,775	3,307

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
Tranša A	42,500	29,079	858	16.11.2012.	16.12.2015.	3M EURIBOR	0.50%
Tranša B	42,500	42,500	2,888	16.11.2012.	16.12.2015.	3M EURIBOR	0.63%
Erste Group	40,000	16,842	3,029	09.07.2009.	09.10.2014.	3M EURIBOR	2.46%
	125,000	**88,421**	**6,775**				

As part of its syndicated loan agreement for which the Group entered into the interest rate swap, the Group has the obligation to comply with a defined ratio of operating profit before depreciation and amortization (EBITDA) and debt. At 31 December 2012, the Group was within the defined ratio.

NOTE 32 – BORROWINGS

	2012	2011
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	599,014	662,817
Banks abroad	101,235	202,938
Finance lease	27,006	28,554
	727,255	**894,309**
Current borrowings		
Banks in Croatia	283,863	309,083
Banks abroad	174,810	172,347
Finance lease	5,178	4,303
	463,851	**485,733**
Total borrowings	**1,191,106**	**1,380,042**

Bank borrowings in the amount of HRK 1,089,869 thousand (2011: HRK 1,226,893 thousand) are secured by mortgages over the Group land and buildings (note 19).

The finance lease liabilities of the Group are as follows:

	Minimum lease payments		**Finance cost**		**Present value of minimum lease payments**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
			(in thousands of HRK)			
Up to 1 year	7,388	6,830	(2,210)	(2,527)	5,178	4,303
Between 1 and 5 years	21,353	19,094	(6,070)	(6,660)	15,283	12,434
After 5 years	14,703	19,345	(2,980)	(3,225)	11,723	16,120
Total	**43,444**	**45,269**	**(11,260)**	**(12,412)**	**32,184**	**32,857**
Included in the consolidated financial statements within:						
Current borrowings					5,178	4,303
Non-current borrowings					27,006	28,554
					32,184	**32,857**

NOTE 32 – BORROWINGS (CONTINUED)

The exposure of the Group's borrowings (interest rate swap) to interest rate changes based on the contractual repricing dates at the reporting dates are as follows:

	2012	2011
	(in thousands of HRK)	
6 months or less	231,206	851,743
6 – 12 months	52,502	64,149
1 – 5 years	147,000	147,000
	430,708	**1,062,892**

If the interest rate on borrowings at variable rates increases to 8.03% on average, the liability in respect of interest would increase by HRK 5,018 thousand (2011: for an interest rate of 6.09%, the interest payable would increase by HRK 5,255 thousand).

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

	2012	2011
	(in thousands of HRK)	
Between 1 and 2 years	189,342	216,910
Between 2 and 5 years	528,745	658,296
Over 5 years	15,943	22,410
	734,030	**897,616**

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

	2012			2011		
	HRK	EUR	Other	HRK	EUR	Other
Non-current borrowings						
Banks in Croatia	6.02%	4.83%	-	8.80%	6.19%	-
Banks in foreign countries	-	3.88%	4.91%	-	4.35%	9.00%
Finance lease	-	6.53%	8.46%	-	7.32%	4.39%
Current borrowings						
Banks	4.75%	-	3.60%	5.79%	-	4.33%

During 2012 Podravka d.d used the club's long-term loan in the amount of HRK 38,000 thousand. The loan was approved based on the Program for Economic Development to finance working capital which includes settlement of liabilities towards suppliers, financial institutions, government and other creditors. The loan was granted for a period of 36 months and is repayable in 12 equal consecutive quarterly installments, first of which is due on 30 June 2013. Loan facilitators participate proportionately 50%: 50%. Regular interest rate on HBOR's share of the loan is 1.8% per annum fixed and the interest rate for the share of Zagrebačka banka d.d. is calculated on the basis of 12M T-bills of the Croatian Ministry of Finance plus a margin at the level of 2.6 pp year.

In February 2012 Belupo used a second tranche of long-term loans for working capital in the amount of HRK 20,000 thousand. Loan is repayable in four equal 6 monthly installments, the first installment is overdue 30 June 2012. and the last instalment is due 31 December 2013. In December 2012 Danica d.o.o. used a long term loan in the amount of 2,700 thousand euros, whose purpose was solely to close existing credit lines and settlement of liabilities. Loan is repayable in twenty quarterly installments and due on 11 December 2017.

NOTE 32 – BORROWINGS (CONTINUED)

The carrying amounts and fair values of non-current borrowings (including the interest rate swap) are as follows:

	Carrying value		Fair value	
	2012	2011	2012	2011
	(in thousands of HRK)			
Non-current borrowings				
Banks in Croatia	605,789	666,124	604,408	666,041
Banks in foreign countries	101,235	202,938	101,235	202,938
Finance lease	27,006	28,554	27,006	28,554
	734,030	**897,616**	**732,649**	**897,533**

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.16 % (2011: 6.08%).

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

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

	2012	2011
	(in thousands of HRK)	
HRK	317,597	346,345
EUR	777,405	929,697
Other currencies	102,879	107,307
	1,197,881	**1,383,349**

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

The Company has the following undrawn borrowing facilities:

	2012	2011
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	112,475	110,801
	112,475	**110,801**

These comprise unused short-term revolving facitlities in the amount of EUR 20,000 thousand and EUR 3,000 thousand at Podravska banka d.d. Koprivnica, unused overdraft in the amount of HRK 20,000 thousand and unused facilities for letter of credit for goods import with deferred payment.

NOTE 33 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Vacation accruals	Regular termination benefits	Termination benefits and bonuses	Legal cases	Total
Analysis of total provisions as at 31 December 2011						
Non-current	9,814	-	13,521	-	10,991	34,326
Current	2,190	16,966	168	1,538	2,610	23,472
At 1 January 2011	**12,004**	**16,966**	**13,689**	**1,538**	**13,601**	**57,798**
Charged/(credited) to profit or loss:						
Increase of provisions	3,293	7,885	1,010	43,693	15,048	70,929
Utilised during the year	(2,144)	(14,468)	214	(41,558)	(5,540)	(63,496)
At 31 December 2012	**13,153**	**10,383**	**14,913**	**3,673**	**23,109**	**65,231**
Analysis of total provisions as at 31 December 2012						
Non-current	11,131	-	14,707	-	20,940	46,778
Current	2,022	10,383	206	3,673	2,169	18,453
	13,153	**10,383**	**14,913**	**3,673**	**23,109**	**65,231**

(i) Legal cases

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

Based on the expert opinion of legal counsels, the Group's Management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2012.

(ii) Termination benefits and bonuses

As at 31 December 2012, the Group recognised HRK 3,673 thousand of provisions for bonuses to key management. Furthermore, during 2012 based on the formal workforce restructuring plan, the Group recognized an expense in the amount of HRK 41,284 thousand relating to payment for eartly retirement benefits to 328 employees.

NOTE 33 – PROVISIONS (CONTINUED)

(ii) Jubilee awards and regular retirement benefits

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

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

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

The present value 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:

	2012	2011
Discount rate	4.4%	7.2%
Fluctuation rate	4,25 - 11,90%	1,56 - 12,98%
Average expected remaining working lives (in years)	21	21

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

	2012	2011
	(in thousands of HRK)	
At 1 January	25,693	24,764
Current service cost	1,112	1,003
Interest expense	1,027	1,508
Actuarial losses	2,371	557
Benefits paid	(2,135)	(2,139)
At 31 December	**28,068**	**25,693**

NOTE 34 – TRADE AND OTHER PAYABLES

	2012	2011
	(in thousands of HRK)	
Trade payables	546,407	535,729
Other payables	173,704	163,996
	720,111	**699,725**

At 31 December 2012 and 31 December 2011, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other liabilities include the following:

	2012	2011
	(in thousands of HRK)	
Salaries and other benefits to employees	55,816	59,019
Accrued expenses	56,236	39,700
Deferred income (finance lease)	28,588	31,456
Taxes, contributions and other duties payable	4,051	4,919
Packaging waste disposal fee payable	12,036	11,160
Accrued interest	7,237	10,519
Advances received	3,158	2,509
Dividends payable	681	685
Other liabilities	5,901	4,029
	173,704	**163,996**

NOTE 35 – RISK MANAGEMENT

Capital risk management

Net debt to equity ratio (Gearing ratio)

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

	2012	**2011 Restated**
	(in thousands of HRK)	
Debt (non-current and current borrowings)	1,197,881	1,383,349
Cash and cash equivalents	(118,208)	(145,960)
Net debt	1,079,673	1,237,389
Equity	1,627,792	1,629,147
Net debt to equity ratio	66%	76%

Debt is defined as long- and short-term borrowings and bonds. Equity includes all capital and reserves of the Group. Besides monitoring the ratio of net debt to equity, the Group also monitors the ratio of operating profit before depreciation and amortization (EBITDA) and debt as part of its compliance with the terms of the syndicated loan agreement (see note 31). As at 31 December 2012 the Group was within the defined ratio.

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

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Financial risk management

Categories of financial instruments asre as follows:

	2012	2011
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,143,803	1,134,877
Held-to-maturity investments (bills of exchange)	3,402	12,162
Financial assets at fair value through profit or loss	600	559
	1,147,805	**1,147,598**
Financial liabilities at amortised cost		
Finance lease obligations	32,184	32,857
Borrowings	1,158,922	1,347,185
Trade payables and other liabilities	659,824	655,106
	1,850,930	**2,035,148**
Financial liabilities at fair value through profit or loss		
Interest rate swap liabilities	6,775	3,307

Interest rate risk management

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

Interest rate sensitivity analysis

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

As at 31 December 2012, the Group had no significant exposure to interest rate risk as most of its borrowings with a variable interest rate are covered by the interest rate swap agreement with a fixed interest rate.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

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

Liquidity and interest rate tables

The Group's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 416,532 thousand (2011: HRK 378,443 thousand) and amounts due to employees in the amount of HRK 55,703 thousand (2011: HRK 59,000 thousand).

The non-interest bearing liabilities of the Group due in a period of over five years include, among others, other long-term liabilities in the amount of HRK 14,252 thousand (2011: HRK 17,120 thousand).

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

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

	Weighted average effective interest rate	Less than 1 month	1-3 months do 3 mj.	3 months to 1 year	1-5 years do 5 g.	Over 5 years 5 g.	Total
	%	*(in thousands of HRK)*					
2012							
Non-interest bearing	-	544,522	121,129	18,996	11,416	14,252	710,315
Interest bearing	4.84	22,757	101,617	388,285	808,995	18,832	1,340,486
		567,279	**222,746**	**407,281**	**820,411**	**33,084**	**2,050,801**
2011							
Non-interest bearing	-	491,742	152,939	15,261	12,247	17,120	689,309
Interest bearing	5.95	20,642	124,790	404,014	1,077,710	82,206	1,709,362
		512,384	**277,729**	**419,275**	**1,089,957**	**99,326**	**2,398,671**

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity and interest rate tables (continued)

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

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

	Weighted average effective interest rate	Less than 1 month	1-3 months do 3 mj.	3 months to 1 year	1-5 years do 5 g.	Over 5 years 5 g.	Total
	%			(in thousands of HRK)			
2012							
Non-interest bearing		610,214	262,887	162,926	2,576	-	1,038,603
Interest bearing	0.25	115,220	3,033	1,090	3,634	1,175	124,152
		725,434	**265,920**	**164,016**	**6,210**	**1,175**	**1,162,755**
2011							
Non-interest bearing	-	744,292	135,536	105,592	34,820	-	1,020,240
Interest bearing	0.77	147,181	15	455	3,236	-	150,887
		891,473	**135,551**	**106,047**	**38,056**	-	**1,171,127**

Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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

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

At 31 December 2012, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their market value due to the short-term nature of those assets and liabilities.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Operational risk management

Market risks

(i) Price risk

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

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

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

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

The Group operates a centralised Purchase function. Fixed rate, long-term framework agreements are entered into, with the terms and conditions defined in line with the market trends. Thus, the Purchase function monitors regularly the global trends on commodity exchanges and uses regular market reports provided by strategic suppliers, which serves as the basis to respond on the spot market whenever a certain commodity has reached a favourable price for the Group.

The Group does not use any forward agreements to manage its exposure to the risk of fluctuation in food material prices.

(ii) Currency risk

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

	Liabilities		**Assets**	
	2012	**2011**	**2012**	**2011**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	911,671	1,122,180	151,238	158,898
Bosnia and Herzegovina (BAM)	91,477	97,804	142,569	141,477
Poland (PLN)	31,066	20,734	60,203	59,009
USA (USD)	15,963	14,787	9,651	7,063
Other currencies	80,831	81,164	201,377	171,833

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

(ii) Currency risk (continued)

Foreign currency sensitivity analysis

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

	EUR exposure		**USD exposure**	
	2012	**2011**	**2012**	**2011**
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	(7,604)	(9,633)	(63)	(77)

	BAM exposure		**PLN exposure**	
	2012	**2011**	**2012**	**2011**
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	511	437	291	383

The exposure to the fluctuations in exchange rates is mainly attributable to borrowings, trade payables and trade receivables denominated in Euro (EUR), Polish Zloty (PLN), Convertible Marks (BAM) and US Dollars (USD).

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

Sales function based risks

The Group generates approximately 47.0% (2011: 48%) of its revenue on the domestic market, whereas around 53.0% (2011: 52%) of the sales are generated on international markets, mainly through related entities. The Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

Following Croatia's expected entry into the EU on 1 July 2013 and its consequent departure from CEFTA, the Group expects challenges that will affect operations not only in Croatia but also in the region. The increase in tariffs in the meat products segment is of most significance to the Group. In order to reduce the negative impacts, the Group is in the process of considering options to relocate or outsource part of its production of the underlying portfolio to some of the CEFTA based market.

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

Furthermore, in the course of Croatia's accession to the EU, the Group expects to benefit in terms of easier access to EU markets, markets that have signed a preferential trade agreement with the EU, and also expects to benefit from a more favorable raw material import from the EU and WTO member countries. The Group is already largely prepared for entry to the EU market group as it has operated on those markets for a number of years with products that meet the highest criteria and the required quality standards.

Credit risk management

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

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

The Group has no significant credit exposures that would not be covered by collateral and which have not been assessed for impairment indicators as at 31 December 2012.

NOTE 36 – SHARE-BASED PAYMENT TRANSACTIONS

Employee share options

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

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

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

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to key management of the Group			
As at 31 December 2010	8,000	Service during the contracted vesting period	31.12.2013.
	11,000	Service during the contracted vesting period	31.12.2015.
	8,000	Service during the contracted vesting period	31.12.2016.
As at 31 December 2011	8,000	Service during the contracted vesting period	31.12.2013.
	11,000	Service during the contracted vesting period	31.12.2015.
	8,000	Service during the contracted vesting period	31.12.2016.
As at 24 Februray 2012.	27,000	Service during the contracted vesting period	31.12.2017.
As at 24 Februray 2012.	1,000	Service during the contracted vesting period	31.12.2016.
As at 24 Februray 2012.	1,000	Service during the contracted vesting period	31.12.2015.
As at 26 June 2012	1,000	Service during the contracted vesting period	31.12.2017.
As at 31 December 2012.	5,000	Service during the contracted vesting period	30.6.2015.
As at 31 December 2012.	2,000	Service during the contracted vesting period	31.12.2017.
Total share options	**91,000**		

Input variables for calculation of fair value as per note 6(i):

Share option programme for key management	2012	2011
Fair value at grant date	80	75
Share price at grant date	256	301
Exercise price	285	305
Expected volatility (weighted average)	29%	30%
Expected life (weighted average)	4.1 years	3.6 years
Expected dividends	0.00%	0.00%
Risk-free interest rate (based on government bonds)	5.88%	5.50%

NOTE 36 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Expense recognised in profit or loss	*Note*	2012	2011
		(in HRK thousands)	
Equity-settled share-based payment transactions		1,896	2,232

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

	Number of options 2012	Weighted average excersize price 2012	Number of options 2011	Weighted average excersize price 2011
Outstanding at 1 January	54,000	305	31,000	315
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	(4,000)	361
Granted	37,000	256	27,000	301
Outstanding at 31 December	**91,000**	**285**	**54,000**	**305**
Exercisable at 31 December	**91,000**		**54,000**	

As at 31 December 2012, there are 91,000 of outstanding options (2011: 54,000 options). In 2012, there were no exercisable options that are not exercised (2011: 4,000 options). There were no exercised options in 2012 (2011: 0 options).

The weighted average exercise price of outstanding options at the year end is HRK 285 (2011: HRK 305).

The weighted average remaining validity of options is 4.1 years at 31 December 2012 (2011: 3.6 years).

NOTE 37 – RELATED PARTY TRANSACTIONS

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

EXPENSES	2012	2011
	(in thousands of HRK)	
Key management remuneration		
Salaries and severance payments	60,102	50,705
Share-based payments (note 36)	1,896	2,232
	61,998	**52,937**

Key management of the Group comprises the Management Board and executive directors and consisted of 119 persons (2011: 105 persons).

During 2012, a total of HRK 2,094 thousand (2011: 1,803 thousand) was paid as compensation to members of the Supervisory Board of the Company.

NOTE 38 – CONTINGENT LIABILITIES

	2012	2011
	(in thousands of HRK)	
Guarantees and warranties given	17,251	14,559

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the consolidated statement of financial position as the Management Board estimated that, as at 31 December 2012 and 2011, it is not probable that they will result in liabilities for the Group.

NOTE 39 – COMMITMENTS

In 2012, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 20,669 thousand (2011: HRK 36,366 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

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

	2012	2011
	(in thousands of HRK)	
Up to 1 year	27,682	22,550
From 1 to 5 years	36,699	27,023
	64,381	**49,573**

NOTE 40 – FORMAL INVESTIGATIONS

In January 2011, formal investigations by various authorities of the Republic of Croatia regarding various business and financial transactions that individual members of the former Management Board, during their mandate, carried out beyond the provision of the Company's Statute and its Management Board decisions have been completed. Management of the Company has examined the risks and the effects resulting from these risks that may arise from financial and business transactions that were the subject of these investigations, and has appropriately reflected the effects of these risks in the consolidated financial statements of the Company.

The nature of transactions which subject to the investigations related to sale and purchase transactions and option contracts the underlying basis of which were the shares of Podravka d.d. Specifically, Podravka d.d. entered into several contracts in 2009. relating to loans, deposits and options. The subject of these agreements was a package of 576,880 ordinary shares issued by Podravka d.d. in relation to which Podravka d.d. issued a put option to a bank which expired on 30 December 2010 while the bank issued a call option to Podravka dd which expired on 30 September 2010. As a result of these transactions, obligations were created for the Group and the company Podravka d.d. which resulted in the following effects presented in the financial statements relating to current and previous reporting periods:

(i) In the consolidated financial statements for 2010, Management recorded a liability of Podravka d.d. towards the bank in the amount of HRK 113,940 thousand representing the difference between the market price of the shares and the exercise price (strike price) at 31 December 2010. Of the total liabilities to the bank HRK 92,932 thousand related to 2009 while HRK 21,008 thousand related to 2010.

(ii) During 2011, with the consent of the Supervisory Board, on 23 November 2011 the Management Board concluded a Settlement agreement with the parties involved in the business transactions whereby Podravka d.d. paid an additional HRK 49,269 thousand to MOL Group (oil and gas industry group based in Hungary). During 2011, the Group also utilised a deposit in the amount of HRK 46,446 thousand (and the related interest accrued) for the purpose of settling its liabilities toward MOL Group.

(iii) During 2011, the Group recognized gains on option contracts in the amount of HRK 16,537 thousand incurred as a positive difference between the liabilities with respect to these transactions recognised in 2010 and the liabilities eventually settled pursuant to the Settlement agreement between Podravka d.d., OTP and MOL concluded in 2011.

The details regarding these transactions are still a subject of legal actions that have resulted from the conducted investigations. These financial statements include all known effects arising from these transactions.

The Management of the Group has no knowledge of any other circumstances that would impact the financial position and future business performance of Podravka Group, other than those presented in these financial statements.

NOTE 41 – SUBSEQUENT EVENTS

On 12 February 2013, the Management Board of the subsidiary Belupo d.d. made a decision to reinvest part of the profit relating to 2012 for the purpose of capital investments in production capacities in the amount of HRK 50,000 thousand the equivalent of which will be registered as an increase in share capital of the subsidiary during 2013, that is, other non-distributable reserves of the Group.