PODRAVKA d.d., Koprivnica

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

RESPONSIBLITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The unconsolidated 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	Miroslav Klepač
President of the Management Board	*Member of the Management Board*

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 26 April 2013

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

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2012, and of its unconsolidated financial performance and its unconsolidated 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 separate 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 separate financial statements we have also audited the adjustments described in note 7. In our opinion, these adjustments have been properly applied and presented.

KPMG Croatia d.o.o. za reviziju **26 April 2013**
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

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

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011 *Restated
Revenue from sales	*8*	1,877,714	1,851,955
Cost of goods sold	*11*	(1,267,198)	(1,253,253)
Gross profit		**610,516**	**598,702**
Other income	*9*	9,999	25,684
General and administrative expenses	*11*	(207,966)	(158,756)
Selling and distribution costs	*11*	(227,937)	(233,765)
Marketing expenses	*11*	(129,210)	(132,266)
Other expenses	*10*	(29,452)	(71,549)
Operating profit		**25,950**	**28,050**
Financial income	*13*	11,283	38,519
Financail expenses	*14*	(60,514)	(92,370)
Net finance costs		**(49,231)**	**(53,851)**
Loss before income tax		**(23,281)**	**(25,801)**
Income tax	*15*	2,590	6,771
Net loss for the year		**(20,691)**	**(19,030)**
Other comprehensive income		-	-
Total comprehensive loss		**(20,691)**	**(19,030)**

* For details regarding restatements refer to note 7.

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

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2012

(in HRK thousand)	*Note*	31.12.2012	31.12.2011 *Restated	1.1.2011 *Restated
ASSETS				
Non-current assets				
Intangible assets	*16*	115,584	125,990	169,978
Property, plant and equipment	*17*	840,975	865,091	906,007
Investments in subsidiaries	*18*	440,304	440,551	532,253
Deferred tax assets	*15*	24,730	22,140	15,369
Non-current financial assets	*19*	57,457	110,517	166,851
Total non-current assets		**1,479,050**	**1,564,289**	**1,790,458**
Current assets				
Inventories	*20*	302,101	341,472	323,738
Trade and other receivables	*21*	631,716	644,162	725,583
Financial assets at fair value through profit and loss	*22*	-	59	4,792
Cash and cash equivalents	*23*	41,048	69,133	75,365
Non-current assets held for sale	*24*	63,184	71,450	5,102
Total current assets		**1,038,049**	**1,126,276**	**1,134,580**
Total assets		**2,517,099**	**2,690,565**	**2,925,038**
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	*25*	1,583,958	1,582,088	1,580,470
Reserves	*26*	29,695	29,695	29,695
Accumulated losses	*27*	(531,825)	(511,134)	(492,104)
Total equity		**1,081,828**	**1,100,649**	**1,118,061**
Non-current liabilities				
Borrowings	*29*	683,720	829,067	516,919
Provisions	*30*	34,728	21,526	20,567
Total non-current liabilities		**718,448**	**850,593**	**537,486**
Current liabilities				
Trade and other payables	*31*	400,945	412,940	517,025
Financial liabilities at fair value through profit or loss	*28*	6,775	3,307	371,100
Borrowings	*29*	297,840	308,060	368,735
Provisions	*30*	11,263	15,016	12,631
Total current liabilities		**716,823**	**739,323**	**1,269,491**
Total liabilities		**1,435,271**	**1,589,916**	**1,806,977**
Total liabilities and shareholders' equity		**2,517,099**	**2,690,565**	**2,925,038**

* For details regarding restatements refer to note 7.

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

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

(in HRK thousands)	Share capital	Reserve for treasury shares	Legal reserves	Other reserves	Accumulated losses	Total
As at 1 January 2011 (reported)	1,580,470	35,345	6,849	1,084	(454,662)	1,169,086
Restatement (note 7(ii))	-	-	-	-	(51,025)	(51,025)
Restatement (note 7(iii))	-	(13,583)	-	-	13,583	-
As at 1 January 2011 (restated)	**1,580,470**	**21,762**	**6,849**	**1,084**	**(492,104)**	**1,118,061**
Comprehensive income						
Loss for the year (restated - note 7)	-	-	-	-	(19,030)	(19,030)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**(19,030)**	**(19,030)**
Transactions with owners recognised directly in equity						
Fair value of share-based payment transactions	1,618	-	-	-	-	1,618
Total transactions with owners recognised directly in equity	**1,618**	**-**	**-**	**-**	**-**	**1,618**
As at 31 December 2011 (restated)	**1,582,088**	**21,762**	**6,849**	**1,084**	**(511,134)**	**1,100,649**
Comprehensive income						
Loss for the year	-	-	-	-	(20,691)	(20,691)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**(20,691)**	**(20,691)**
Transactions with owners recognised directly in equity						
Fair value of share-based payment transactions	1,870	-	-	-	-	1,870
Total transactions with owners recognised directly in equity	**1,870**	**-**	**-**	**-**	**-**	**1,870**
As at 31 December 2012	**1,583,958**	**21,762**	**6,849**	**1,084**	**(531,825)**	**1,081,828**

* For details regarding restatements refer to note 7.

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

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of HRK)	*Note*	2012	2011 *Restated
Loss for the year		**(23,281)**	**(25,801)**
Depreciation and amortization		85,505	91,562
Impairment of property,plant,equipment and intagibles		15,892	40,275
Impairment of assets held for sale		8,585	23,645
Remeasurement of financial instruments at fair value		3,372	2,802
Share-based payment transactions		1,870	1,618
Loss on disposal of property, plant, equipment and intangibles		2,728	3,785
Gain per options contracts	*37*	-	(16,537)
Impairment losses on inventory and trade receivables		9,696	4,422
Increase in provisions		9,449	3,344
Interest income		(11,279)	(21,748)
Interest expense		56,287	71,458
Impairment of investments		247	2,686
Foreign exchange differences		691	18,267
Changes in working capital:		**159,762**	**199,778**
(Increase)/decrease in inventories		36,942	(18,935)
Decrease in receivables		18,753	4,138
Increase in payables		(9,011)	(78,574)
Cash generated from operations		**206,446**	**106,407**
Interest paid		(59,271)	(76,840)
Net cash from operating activities		**147,175**	**29,567**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles		(69,779)	(50,276)
Proceeds from sale of property, plant, equipment and intangibles		176	374
Net repayment/(disburesment) of loans and deposits		36,156	83,060
Collection of short-term loans and deposits given	37	-	46,446
Recovered interest		14,384	21,877
Other cash flows from investing activities		61	3,756
Net cash from investing activities		**(19,002)**	**105,237**
Cash flows from financing activities			
Proceeds from borrowings		73,553	521,961
Repayment of borrowings		(229,811)	(662,997)
Net cash from financing activities		**(156,258)**	**(141,036)**
Net decrease of cash and cash equivalents		**(28,085)**	**(6,232)**
Cash and cash equivalents at beginning of year		69,133	75,365
Cash and cash equivalents at the end of year	***23***	**41,048**	**69,133**

* For details regarding restatements refer to note 7.

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

The Company is headquartered in Koprivnica, Croatia, Ante Starčevića 32. As at 31 December 2012,

The Company’s shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 25.

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

Memebers of the Supervisory Board in 2012:

President	Ljubo Jurčić *(untill 23 February 2012)*
Deputy President	Dubravko Štimac *(from 17 January until 24 February 2012)*
	Miljenko Javorović *(until 23 February 2012)*
	Karmen Antolić *(until 15 March 2012)*
	Nikola Gregur *(until 6 July 2012)*
	Ivana Matovina *(from 6 July 2012)*
	Milan Stojanović *(from 6 July 2012)*
	Petar Vlaić
	Dinko Novoselec
	Petar Miladin
	Martinka Marđetko-Vuković
President	Dubravko Štimac *(from 24 February 2012)*
Deputy President	Mato Crkvenac *(from 24 February 2012)*
	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 *(until 24 February 2012)*
Member	Marin Pucar *(until 24 February 2012)*
Member	Lidija Kljajić *(until 24 February 2012)*
Member	Krunoslav Bešvir *(until 24 February 2012)*
Member	Miroslav Repić *(until 24 February 2012)*
President	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 unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS")

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

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

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

(iv) Use of estimates and judgements

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Investments in subsidiaries

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

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

3.2 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)

3.3 Revenue recognition

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

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

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

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

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

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

(ii) Revenut from sales of products and merchandise – retail

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

(iii) Revenue from services

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

(iv) 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)

3.4 Leases

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

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

Sale and leaseback transactions

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

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

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

3.5 Share-based payments

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Foreign currency transactions

(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).

3.7 Borrowings and borrowing costs

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Government grants

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

3.9 Dividends

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

3.10 Segment reporting

The Company identifies operating segments on the basis of internal reports about components of the Company 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 financial statements.

3.11 Taxation

(i) Income tax

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

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

(ii) Deferred tax assets and liabilities

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Taxation (continued)

(iii) Tax exposures

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

(iv) Value added tax (VAT)

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

3.12 Property, plant and equipment

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

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

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

Buildings	10 to 50 years
Equipment	3 to 30 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3.14).

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Intangible assets

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

Brands and distribution rights

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

Rights to acquired trademarks and know-how are carried at cost and have an indefinite useful life, since based on an analysis of all of the relevant factors at the reporting date, there is no foreseeable limit to the period of time over which identified rights are expected to generate net cash inflows. Intangible assets with indefinite useful lives are tested annually for impairment and are stated at cost less accumulated impairment loss (note 3.14).

Computer software

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

Internally-generated intangible assets - research and development expenditure

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Impairment of property, plant, equipment and intangibles

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

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

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

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

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

3.15 Inventories

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Trade receivables

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

3.17 Cash and cash equivalents

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

3.18 Share capital

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

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

3.19 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits (continued)

(iii) Regular retirement benefits

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

(iv) Long-term employee benefits

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

(v) Short-term employee benefits

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

(vi) Share-based compensation

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

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

3.20 Provisions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial assets

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

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

Effective interest method

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial assets (continued)

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

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

Available-for-sale financial assets (AFS)

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

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

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

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

Loans and receivables

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial assets (continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

When an AFS financial asset is considered to be impaired, cumulative gains or 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)

3.21 Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

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

3.22 Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial liabilities and equity instruments issued by the Company

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

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

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

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

Other financial liabilities

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

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

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

Contracts on financial guarantee

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

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

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

Derecognition of financial liabilities

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

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2012, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company 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 Company 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 Company 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 notes 3.11 and 15).

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 3.19 and 30).

(iii) Consequences of certain legal actions

There are a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions, and the provisions for the Company’s obligations arising from these legal actions are recognised on a consistent basis (see note 3.20 and 30).

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(iv) Impairment of non-current assets

The Company tests brands and rights for impairment on an annual basis in accordance with accounting policy 3.14. For the purposes of impairment testing, brands and rights with indefinite useful lives have been allocated to cash generating units within reportable segments at their carrying amount at the reporting date as follows:

	Brand
Operating segment	*(in thousands of HRK)*
Culinary	41,500
Food	37,123
Beverages and other	671
	79,294

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, 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).

Based on the impairment tests performed, the Company recognised impairment losses with respect to intangible assets with indefinite useful life during 2012 in the amount of HRK 10,400 thousand (2011: HRK 40,725 thousand). For details refer to notes 8 and 16.

In the course of estimating the need for impairment based on the impairment tests performed, the Company also considers and analyses their sensitivity based on changes in key assumptions used. Sensitivity analysis shows that a reduction in terminal growth rate of 100 basis points and increase in weighted average cost of capital of 100 basis points would result in a decrease of the recoverable amount of cash generating units by 15.6% on average and would result in an additional impairment loss of approximately HRK 8 million.

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 Company entity and counterparty when appropriate.

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

The fair values of trade and other receivables, excluding construction work in progress, 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 Company 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 44,453 thousand is cancelled and HRK 37,684 thousand is presented as 'Financial income' while HRK 6,769 thousand is presented as 'Other income'.
- The category of 'Other loss, net' presented in the financial statements for 2011 in the amount of HRK 47,303 thousand is cancelled and HRK 18,915 thousand is presented as 'Other income', HRK 70,391 thousand is presented as 'Other expenses' while HRK 3,627 thousand is presented as 'Financial expenses'. Furthermore, a restatement in the amount of HRK 7,800 thousand has been made within the category as explained below.
- The category of 'Finance costs' presented in the financial statements for 2011 in the amount of HRK 87,908 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 correction has been made in the Company'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*, this correction has been restated in comparative information shown in these financial statements.

(i) 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 3.13), which resulted in the restatement of opening balances with respect to the revaluation of the SMS brand conducted in 2011 upon which the Company recognised one-off income from revaluation of this intangible asset.

(ii) Restatement of revaluation

In 1999, the Company revalued land and buildings, and applied the policy of revaluation. In its financial statements from1999 to 2004, the Company 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 Company 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.

In 2012, the Company 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.

(iii) 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 7ii).

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

Restatements of opening balances (continued)

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

(in HRK thousands)	**2011** Previously Reported	**Restatements** *(i)*	*(ii)*	**2011** Restated
Revenues	1,851,955	-	-	1,851,955
Cost of goods sold	(1,249,830)	-	(3,423)	(1,253,253)
Gross profit	**602,125**	**-**	**(3,423)**	**598,702**
Other income	(38,065)	(7,800)	-	(45,865)
General and administrative expenses	(157,356)	-	(1,400)	(158,756)
Selling and distribution costs	(237,079)	-	3,314	(233,765)
Marketing expenses	(132,079)	-	(187)	(132,266)
Operating profit	**37,546**	**(7,800)**	**(1,696)**	**28,050**
Financial income	38,519	-	-	38,519
Financial expenses	(92,370)	-	-	(92,370)
Net finance costs	**(53,851)**	**-**	**-**	**(53,851)**
Profit before tax	**(16,305)**	**(7,800)**	**(1,696)**	**(25,801)**
Income tax	6,771	-	-	6,771
Net profit	**(9,534)**	**(7,800)**	**(1,696)**	**(19,030)**
Other comprehensive income/(loss)	-	-	-	-
Total comprehensive income	**(9,534)**	**(7,800)**	**(1,696)**	**(19,030)**

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

Restatements of opening balances (continued)

(v) 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)*	Restated	Previously reported	*(i)*	*(ii)*	*(iii)*	Restated
Non-current assets										
Intangible assets	133,790	(7,800)	-	-	125,990	169,978	-	-	-	169,978
Property, plant and equipment	917,812	-	(52,721)	-	865,091	957,032	-	(51,025)	-	906,007
Other non-currrent assets	573,208	-	-	-	573,208	714,473	-	-	-	714,473
Total non-current assets	**1,624,810**	**(7,800)**	**(52,721)**	**-**	**1,564,289**	**1,841,483**	**-**	**(51,025)**	**-**	**1,790,458**
Total current assets	**1,126,276**	**-**	**-**	**-**	**1,126,276**	**1,134,580**	**-**	**-**	**-**	**1,134,580**
Total assets	**2,751,086**	**(7,800)**	**(52,721)**	**-**	**2,690,565**	**2,976,063**	**-**	**(51,025)**	**-**	**2,925,038**
EQUITY AND LIABILITIES										
Share capital and reserves										
Accumulated losses	(464,196)	(7,800)	(52,721)	13,583	(511,134)	(454,662)	-	(51,025)	13,583	(492,104)
Reserve for treasury shares	35,345	-	-	(13,583)	21,762	35,345	-	-	(13,583)	21,762
Other equity items	1,590,021	-	-	-	1,590,021	1,588,403	-	-	-	1,588,403
Total equity	**1,161,170**	**(7,800)**	**(52,721)**	**-**	**1,100,649**	**1,169,086**	**-**	**(51,025)**	**-**	**1,118,061**
Total liabilities	**1,589,916**	**-**	**-**	**-**	**1,589,916**	**1,806,977**	**-**	**-**	**-**	**1,806,977**
Total equity and liabilities	**2,751,086**	**(7,800)**	**(52,721)**	**-**	**2,690,565**	**2,976,063**	**-**	**(51,025)**	**-**	**2,925,038**

NOTE 8 – SEGMENT INFORMATION

	2012	2011
	(in thousands of HRK)	
Revenue from sale of products and merchandise	1,807,626	1,777,270
Revenue from services	70,088	74,685
	1,877,714	**1,851,955**

For management purposes, the Company is organised into business units based on similarity of particular product groups and for this purpose it has identified reportable segments as per the quantitative thesholds for segment reporting. The following reportable segments have been identified:

- Culinary
- Food
- Beverages and Other

The reportable segments are part of the internal financial reporting. 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 Company's revenue and results by its reporting segments, presented in accordance with IFRS 8 and also reconciliation of segment financial performance with the profit or loss before tax as stated in the unconsolidated statement of comprehensive income. The revenue presented below relates to third-party sales. Inter-segment revenues are eliminated when reporting.

	Segment revenue		**Segment profit**	
(in thousands of HRK)	**2012**	**2011**	**2012**	**2011 Restated**
Culinary	879,847	846,797	175,236	146,763
Food	656,905	662,358	13,642	21,134
Beverages and other	340,962	342,800	996	1,452
	1,877,714	**1,851,955**	**189,874**	**169,349**
Financial income (note 13)			11,283	38,519
Other income (note 9) - *restated*			9,999	25,684
Central administration costs - *restated*			(144,471)	(95,434)
Other expenses (note 10)			(29,452)	(71,549)
Financial expenses (note 14)			(60,514)	(92,370)
Loss before tax			**(23,281)**	**(25,801)**

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Segment revenue 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-alcholic beverages, Merchandise and Services (engineering, hospitality, transport).

The accounting policies of the reportable segments are the same as the Company'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, financial income and 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 intangible assets

Based on impairment testing of non-current assets described in note 5, during 2012, the Company recognised following impairment losses:

	Brands
Operating segment	*(in thousands of HRK)*
Culinary	(3,200)
Food	-
Beverages and other	(7,200)
	(10,400)

For details on impairments see note16.

NOTE 8 – SEGMENT INFORMATION (continued)

Geographical information

The Company operates in four principal geographical areas by which it reports sales, whereas all non-current assets relate to the Croatian market.

	Revenue from external customers	
	2012	**2011**
	(in thousands of HRK)	
Croatia	1,098,758	1,115,355
South-East Europe	430,390	415,456
Central and Eastern Europe	153,474	133,471
Western Europe and overseas countries	195,092	187,673
Total	**1,877,714**	**1,851,955**

Information about major customers

Revenue from external sales account for 64 % of the total revenue (2011: 66%), whereas the remaining portion represents intra-group sales. Top 20 customers account for 65 % of the external sales (2011: 65%).

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	3,204	765
Interest income relating to trade receivables	3,623	3,897
Revenue from the sale and leaseback transaction	2,867	2,867
Foreign exchange gains on receivables and payables	305	1,618
Gain on option related contracts (note 37)	-	16,537
	9,999	**25,684**

NOTE 10- OTHER EXPENSES

	2012	2011
	(in thousands of HRK)	
Write-off of related party loans	1,292	385
Interest expense relating to trade payables	730	773
Impairment loss on brands (note 16)	10,400	40,275
Impairment loss of assets held for sale (note 24)	8,585	23,645
Impairment loss on property, plant and equipment (note 17)	5,492	-
Loss on disposal of property, plant, equipment and intangibles (note 16 and 17)	2,728	3,785
Other	225	2,686
	29,452	**71,549**

NOTE 11 – EXPENSES BY NATURE

	2012	2011
	(in thousands of HRK)	
Raw material, supplies and energy	646,341	646,588
Staff costs	441,800	418,191
Cost of goods sold	339,847	368,101
Advertising and promotion	94,594	93,745
Depreciation	85,505	91,562
Services	60,839	60,366
Changes in value of inventory	39,521	(24,238)
Rental costs	34,849	39,626
Transport	21,268	17,938
Taxes and contributions independent of operating results	11,907	10,991
Impairment of trade and other receivables	9,598	13,826
Bank charges	6,867	7,941
Packaging waste disposal fee	6,604	7,007
Daily allowances and other business travel expenses	6,431	7,305
Telecommunications	6,152	6,850
Entertainment	4,627	4,696
Litigation expenses	14,553	1,011
Court cases	1,008	6,534
Total costs of good sold, costs of sale and distribution, costs of marketing and general and administrative costs	**1,832,311**	**1,778,040**

NOTE 12 – STAFF COSTS

	2012	2011
	(in thousands of HRK)	
Salaries	393,409	394,536
Termination benefits	27,290	4,208
Transportation	6,043	6,317
Share options (note 33)	1,870	1,618
Other employee benefits	13,188	11,512
	441,800	**418,191**

As at 31 December 2012 the number of staff employed by Company was 3,387 (2011: 3,568). In 2012 termination benefits were accrued in the amount of HRK 27,290 thousand and paid to 227 employees (2011: HRK 4,208 thousands paid to 41 employees).

NOTE 13 – FINANCIAL INCOME

	2012	2011
	(in thousands of HRK)	
Interest on related party loans	10,814	15,340
Interest on deposits and trade recievables	463	2,511
Dividends received	4	19,838
Other interest	2	-
Unrealized gain on swap contracts	-	830
	11,283	**38,519**

NOTE 14 – FINANCIAL EXPENSES

	2012	2011
	(in thousands of HRK)	
Interest expense	56,287	70,685
Unrealized loss on swap contracts	3,468	-
Remeasurement of financial instruments at fair value	-	3,632
Net foreign exchange loss on borrowings	759	17,763
Other	-	290
	60,514	**92,370**

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 28).

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

NOTE 15 – INCOME TAX

Tax income consists of:

	2012	2011 Restated
	(in thousands of HRK)	
Current income tax	-	-
Deferred tax	(2,590)	(6,771)
	(2,590)	**(6,771)**

Reconciliation of the effective tax rate

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

	2012	2011 Restated
	(in thousands of HRK)	
Loss before taxation	(23,281)	(25,801)
Tax calculated at 20% (2011:20%)	(4,656)	(5,160)
Non-deductible expenses and non-taxable income	3,763	4,039
Tax incentives	(1,210)	(83)
Temproray differences and tax losses not recognised as deferred tax assets	1,073	1,560
Utilisation of temporary differences previously not recognised as deferred tax assets	(1,560)	-
Utilisation of tax losses previously not recognised as deferred tax assets	-	(7,127)
Tax income recognised in the statement of comprehensive income	**(2,590)**	**(6,771)**
Effective tax rate	**11%**	**26%**

Unused tax losses

In accordance with tax regulations, by the end of 2012 the Company realised tax losses in the amount of HRK 71,368 thousand (2011: HRK 79,974 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 unconsolidated statement of financial position as it is uncertain whether future taxable profits will be available to utilise the tax losses.

	2012	2011
Unused tax losses available untill 2012	-	13,772
Unused tax losses available untill 2013	66,202	66,202
Unused tax losses available untill 2017	5,166	-
	71,368	**79,974**

NOTE 15 – INCOME TAX (continued)

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

2011	**Opening balance**	**Recognised in profit or loss *restated***	**Closing balance *restated***
	(in thousands of HRK)		
Intangible assets – brand	7,854	8,055	15,909
Provisions for jubilee awards	1,615	(145)	1,470
Value adjustment of inventories	2,222	240	2,462
Financial assets	2,233	(1,935)	298
Provision for termination benefits	1,445	133	1,578
Value adjustment of asset held for sale	-	423	423
	15,369	**6,771**	**22,140**

NOTE 16 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software**	**Distribution rights**	**Brand**	**Investments in progress**	**Total**
Cost					
At 1 January 2011	138.508	12.000	169.239	2.296	322.043
Additions (*Restated- note 7*)	-	-	-	7.354	7.354
Transfers	4.638	-	-	(4.638)	-
Disposals	(1.092)	-	-	-	(1.092)
At 31 December 2011 As restated	**142.054**	**12.000**	**169.239**	**5.012**	**328.305**
Accumulated amortisation					
At 1 January 2011	(100.795)	(12.000)	(39.270)	-	(152.065)
Charge for the year	(11.067)	-	-	-	(11.067)
Disposals	1.092	-	-	-	1.092
Impairment losses	-	-	(40.275)	-	(40.275)
At 31 December 2011	**(110.770)**	**(12.000)**	**(79.545)**	**-**	**(202.315)**
Carrying amount					
As at 31 December 2011 (*restated*)	**31.284**	**-**	**89.694**	**5.012**	**125.990**
Cost					
At 1 January 2012	142.054	12.000	169.239	5.012	328.305
Additions	-	-	-	12.660	12.660
Transfers	16.504	-	-	(16.504)	-
Disposals	(5.497)	-	-	(589)	(6.086)
At 31 December 2012	**153.061**	**12.000**	**169.239**	**579**	**334.879**
Accumulated amortisation					
At 1 January 2012	(110.770)	(12.000)	(79.545)	-	(202.315)
Charge for the year	(11.497)	-	-	-	(11.497)
Disposals	4.917	-	-	-	4.917
Impairment losses	-	-	(10.400)	-	(10.400)
At 31 December 2012	**(117.350)**	**(12.000)**	**(89.945)**	**-**	**(219.295)**
Carrying amount					
As at 31 December 2012	**35.711**	**-**	**79.294**	**579**	**115.584**

At the end of the reporting period, the Group reassessed the recoverable amount of its brands and determined impairment by HRK 10,400 thousand (of which HRK 3,200 thousand in respect of Warzywko brand and HRK 7,200 thousand in respect of Lero brand). The Company restated the opening balance of brands as shown in note 7.

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

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment and fittings	Assets under construction	Total
Cost				
At 1 January 2011 (reported)	1,271,375	964,016	43,830	2,279,221
Restatement *(note7(ii))*	111,241	-	-	111,241
At 1 January 2011 (restated)	1,382,616	964,016	43,830	2,390,462
Additions	970	346	43,507	44,823
Transfers	8,439	33,446	(41,885)	-
Disposals	(6,828)	(7,650)	(3,710)	(18,188)
At 31 December 2011	**1,385,197**	**990,158**	**41,742**	**2,417,097**
Accumulated depreciation				
At 1 January 2011 (reported)	(612,903)	(709,286)	-	(1,322,189)
Restatement *(note7(ii))*	(162,266)	-	-	(162,266)
At 1 January 2011 (restated)	(775,169)	(709,286)	-	(1,484,455)
Charge for the year (restated)	(39,196)	(41,299)	-	(80,495)
Disposals	5,519	7,425	-	12,944
At 31 December 2011	**(808,846)**	**(743,160)**	**-**	**(1,552,006)**
Carrying amount				
As at 31 December 2011	**576,351**	**246,998**	**41,742**	**865,091**
Cost				
At 1 January 2012	1,385,197	990,158	41,742	2,417,097
Additions	-	3,586	53,533	57,119
Transfers	7,182	33,055	(40,237)	-
Disposals	(3,488)	(7,453)	(15)	(10,956)
At 31 December 2012	**1,388,891**	**1,019,346**	**55,023**	**2,463,260**
Accumulated depreciation			**-**	**-**
At 1 January 2012	(808,846)	(743,160)	-	(1,552,006)
Charge for the year	(37,141)	(36,867)	-	(74,008)
Disposals	1,976	7,245	-	9,221
Impairment losses	(1,080)	(1,562)	(2,850)	(5,492)
At 31 December 2012	**(845,091)**	**(774,344)**	**(2,850)**	**(1,622,285)**
Carrying amount				
As at 31 December 2012	**543,800**	**245,002**	**52,173**	**840,975**

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

Company buildings and land with a carrying value of HRK 399,812 thousand (2011: HRK 424,840 thousand) have been mortgaged against the Company's borrowings. As at 16 December 2010, Podravka d.d. and its subsidiaries Belupo d.d., Danica d.o.o., Podravka Polska Sp.z.o.o. and Podravka Lagris as guarantors, entered into a syndicated loan contract with several banks in the amount of EUR 100 million. According to the contract, subsidiaries are guarantors and guarantee for all of Podravka d.d. obligations as per the loan agreement. As an insurance instrument with respect to the loan, the Company pledged its property, plant, equipment, receivables of Belupo d.d. and Danica d.o.o. as well as shares held by the parent company in Podravka Polska Sp.z.o.o and Podravka Lagris.

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

	2012	2011
	(in thousands of HRK)	
Cost of capitalised finance leases	65,994	62,722
Accumulated depreciation	(20,219)	(19,314)
Net book value	**45,775**	**43,408**

NOTE 18 – INVESTMENTS IN SUBSIDIARIES

		Ownership interest in%		Equity share in thousands of HRK		
Name of subsidiary	**Country**	**2012.**	**2011.**	**2012.**	**2011.**	**Principal activity**
Belupo d.d., Koprivnica	Croatia	100.00	100.00	157,830	157,830	Production and distribution of pharmaceuticals
Danica d.o.o., Koprivnica	Croatia	100.00	100.00	102,216	102,216	Meet processing and production
Lero d.o.o., Rijeka	Croatia	100.00	100.00	-	-	Fruit and vegetable juice and beverage production
Ital-Ice d.o.o., Poreč	Croatia	100.00	100.00	47,425	47,425	Ice-cream
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	100.00	3,328	3,328	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100.00	100.00	-	20	Purchase and sale of goods; catering services
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Prodaja robe
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	68,754	68,754	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	100.00	49,717	49,717	Seasonings manufacture and sale
Podravka-International Kft, Budapest	Hungary	100.00	100.00	5,343	5,343	Sale and distribution of food and beverages
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	1,925	1,925	Sale and distribution of food and beverages
Podravka d.o.o., Beograd	Serbia	100.00	100.00	-	-	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	100.00	1,068	1,068	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100.00	100.00	1,029	1,029	Sale and distribution of food and beverages
Podravka International, Turska	Turkey	75.00	75.00	-	-	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	98.88	98.88	426	426	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100.00	100.00	-	217	Wafers
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	84	84	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia & Herzegovina	100.00	100.00	40	40	Sale and distribution of food and beverages
Podravka-International e.o.o.d., Sofia	Bulgaria	100.00	100.00	-	10	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100.00	100.00	3	3	Sale and distribution of food and beverages
				440,304	**440,551**	

NOTE 18 – INVESTMENTS IN SUBSIDIARIES (CONTINUED)

In 2012, the Company recognised an impairment loss of HRK 217 thousand on its investment in Sana d.o.o. Hoče, Podravka ugostiteljstvo d.o.o. in the amount of HRK 20 thousand and an impairment loss of HRK 10 thousand relating to Podravka International e.o.o.d., Sofia (in 2011 the Company recognised an impairment loss of HRK 1,148 thousand on its investment in Podravka d.o.o. Belgrade and an impairment loss of HRK 561 thousand on its investment in Podravka International Turkey. Impairment resulted from the negative net assets of those companies, as determined on the basis of their reported current and accumulated losses.

In 2011 the investment in Lero d.o.o. was reclassified to assets held for sale, as, based under the related decision of the Management Board of Podravka d.d., the production at Lero d.o.o. was discontinued during the year with the intention to sell the assets of Lero d.d. in the near future (Note 24).

NOTE 19 – LONG TERM FINANCIAL ASSETS

	2012	**2011**
	(in thousands of HRK)	
Loans to related companies	53,844	107,689
Loans to third parties	4,729	3,649
Impairment loss on loans to third parties	(2,500)	(2,500)
Deposits and other	1,384	1,679
	57,457	**110,517**

Loans to related parties relate to long-term portion of loans to the company Belupo d.d. in the amount of HRK 53,844 thousand (2011: HRK 107,689 thousand), note 34.

NOTE 20 – INVENTORIES

	2012	**2011**
	(in thousands of HRK)	
Raw materials and supplies	117,387	112,909
Work in progress	27,473	35,584
Finished goods	102,725	134,135
Trade goods	54,516	58,844
	302,101	**341,472**

In 2012, Podravka has recorded inventory impairment in the amount of HRK 2,429 thousand (2011: HRK 1,201 thousand). This expense in included in the statement of comprehensive income in line item ‘Cost of goods sold’.

In 2012, ‘Cost of goods sold' include inventory of raw materials, finished goods and work in progress in the amount of HRK 960,635 thousand (2011: HRK 931,382 thousand).

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2012	2011
	(in thousands of HRK)	
Current receivables		
Trade receivables	258,279	282,421
Less: Provisions for impairment	(58,799)	(61,461)
Net trade receivables	**199,480**	**220,960**
Related party trade receivables	306,886	305,356
Loans and interest receivable from related parties	98,088	85,015
Bills of exchange received	3,334	7,400
Advances to suppliers	-	31
Prepaid expenses	10,180	13,062
Net VAT receivable	11,696	9,110
Receivables from employees	1,520	1,750
Other receivables	532	1,478
	631,716	**644,162**

Loans given to related parties includes short term loans and current portion of long term loans given to related parties (refer to note 34).

Pregled promjena rezervacija za obavljeni ispravak vrijednosti potraživanja od kupaca:

	2012	2011
	(in thousands of HRK)	
At 1 January	61,461	59,451
Increase	9,598	3,999
Amounts collected	(2,331)	(778)
Written off as uncollectible	(9,929)	(1,211)
At 31 December	**58,799**	**61,461**

In 2012, the impairment allowance for trade receivables and income from collection of trade receivables previously provided for is included in ‘Selling and distribution costs’.

In 2012, the impairment allowance for trade receivables amounted to HRK 9,598 thousand (2011: HRK 3,999 thousand). The Company derecognises irrecoverable receivables from customers and writes them off in full.

Ageing analysis of trade receivables past due but not impaired:

	2012	2011
	(in thousands of HRK)	
Up to 90 days	141,163	122,057
91-180 days	42,558	49,232
181-360 days	22,300	28,819
	206,021	**200,108**

NOTE 22 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2012	2011
	(in thousands of HRK)	
Investments in:		
Investment funds	-	59
	-	**59**

Movements during the year are as follows:

	2012	2011
	(in thousands of HRK)	
Opening net book value	59	4,792
Disposals	(61)	(3,756)
Effect of remeasurement at fair value	2	(977)
Closing net book value	**-**	**59**

NOTE 23 – CASH AND CASH EQUIVALENTS

	2012	2011
	(in thousands of HRK)	
Cash with banks	40,974	69,055
Cash in hand	73	77
Cheques received	1	1
	41,048	**69,133**

NOTE 24– LONG TERM ASSETS HELD FOR SALE

	2012	2011
	(in thousands of HRK)	
Investments	59,880	68,465
Properties	3,304	2,985
	63,184	**71,450**

In 2012, the Company recognised an impairment loss relating to its investment in Lero d.o.o. in the amount of HRK 8,585 thousand to reflect the net assets of the respective subsidiary.

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

NOTE 25 – SHARE CAPITAL

	2012	2011 Restated
	(in thousands of HRK)	
Ordinary shares	1,626,001	1,626,001
Share premium	25,561	23,691
Treasury shares	(67,604)	(67,604)
	1,583,958	**1,582,088**

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
At 1 January 2011 (reported)	**5,242,492**	**1,626,001**	**22,073**	**(67,604)**	**1,580,470**
Fair value of options	-	-	1,618	-	1,618
At 31 December 2011	**5,242,492**	**1,626,001**	**23,691**	**(67,604)**	**1,582,088**
At 1 January 2012	**5,242,492**	**1,626,001**	**23,691**	**(67,604)**	**1,582,088**
Fair value of options	-	-	1,870	-	1,870
At 31 December 2012	**5,242,492**	**1,626,001**	**25,561**	**(67,604)**	**1,583,958**

As at 31 December 2012, the Company'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 33 to the unconsolidated financial statements.

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

	2012		**2011**	
Structure of ownership	**Number of shares**	**% of ownership**	**Number of shares**	**% of ownership**
AUDIO - Croatian Health insurance association	575,598	10.62%	575,598	10.62%
AUDIO - Republic of Croatia	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 26 – RESERVES

	2012	2011 Restated
	(in thousands of HRK)	
Reserves for treasury shares	21,762	21,762
Legal reserves	6,849	6,849
Other reserves	1,084	1,084
	29,695	**29,695**

(in thousands of HRK)	Reserves for treasury shares	Legal reserves	Other reserves	Total
At 1 January 2011 (reported)	35,345	6,849	1,084	43,278
Restatement (note 7(iii))	(13,583)	-	-	(13,583)
At 1 January 2011 (restated)	21,762	6,849	1,084	29,695
At 31 December 2011	**21,762**	**6,849**	**1,084**	**29,695**
At 1 January 2012	21,762	6,849	1,084	29,695
At 31 December 2012	**21,762**	**6,849**	**1,084**	**29,695**

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.

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 restatement as presented in note 7, these payments were, in substance, made at the expense of accumulated losses.

NOTE 27 – ACCUMULATED LOSSES

	2012	2011 Restated
	(in thousands of HRK)	
Accumulated losses	(531,825)	(511,134)

The movement in accumulated losses is as follows:

	2012	2011 Restated
	(in thousands of HRK)	
At 1 January (as previously reported)	(464,196)	(454,662)
Restatements (note 7)	(46,938)	(37,442)
At 1 January (restated)	**(511,134)**	**(492,104)**
- loss for the year	(20,691)	(19,030)
At 31 December	**(531,825)**	**(511,134)**

NOTE 28- 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 it entered into the interest rate swap, the Company has the obligation to comply with a defined ratio of consolidated operating profit before depreciation and amortization (EBITDA) and debt. At 31 December 2012, the Group was within the defined ratio.

NOTE 29 – BORROWINGS

	2012	2011
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	582,680	636,648
Banks in foreign countries	76,657	168,964
Finance lease	24,383	23,455
	683,720	**829,067**
Current borrowings		
Banks in Croatia	203,866	216,295
Banks in foreign countries	89,222	88,208
Finance lease	2,290	1,504
Related party borrowings	2,462	2,053
	297,840	**308,060**
Total borrowings	**981,560**	**1,137,127**

Bank borrowings in the amount of HRK 975,353 thousand (2011.: HRK 1,093,423 thousand) are secured by mortgages over the Company land and buildings. The finance lease liabilities are as follows:

	Minimum lease payments		Finance cost		Present value of min. lease payments	
	2012	2011	2012	2011	2012	2011
	(in thousands of HRK)					
Up to 1 year	3,858	3,417	(1,568)	(1,913)	2,290	1,504
Between 1 and 5 years	18,482	13,652	(5,596)	(6,317)	12,886	7,335
After 5 years	12,709	19,345	(1,212)	(3,225)	11,497	16,120
Total	**35,049**	**36,414**	**(8,376)**	**(11,455)**	**26,673**	**24,959**

	2012	2011
Included in the financial statements within:		
Current borrowings	2,290	1,504
Non-current borrowings	24,383	23,455
	26,673	**24,959**

NOTE 29 – BORROWINGS (CONTINUED)

The exposures of the Company’s borrowings 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	154,284	774,897
6 – 12 months	23,415	24,959
1 – 5 years	107,000	107,000
	284,699	**906,856**

If the interest rate on borrowings at variable rates increases to 8.47 % (50 basis points), the liability in respect of interest would increase by HRK 4,403 thousand (2011.: 6.29 %, the liability in respect odf interest would increase by HRK 4,534 thousand).

The maturity of non-current borrowings is as follows:

	2012	2011
	(in thousands of HRK)	
Between 1 and 2 years	170,936	180,752
Between 2 and 5 years	505,718	635,502
Over 5 years	13,841	16,120
	690,495	**832,374**

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

	2012		2011	
	HRK	EUR	HRK	EUR
Non-current borrowings				
Banks in Croatia	5.73%	4.82%	10.00%	6.17%
Banks in foreign countries	-	3.95%	-	4.41%
Finance lease	-	6.65%	-	7.32%
Current borrowings				
Banks	4.60%	-	5.17%	-
Related party	7.00%	-	5.00%	-

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.

NOTE 29 – BORROWINGS (CONTINUED)

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

	Carrying amounts		Fair value	
	2012	**2011**	**2012**	**2011**
	(in thousands of HRK)			
Non-current borrowings				
Banks in Croatia	586,426	639,955	585,138	639,480
Foreign banks	79,686	168,964	79,686	168,964
Finance lease	24,383	23,455	24,384	23,455
	690,495	**832,374**	**689,208**	**831,899**

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.40 % (2011: 6.06%).

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

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2012	**2011**
	(in thousands of HRK)	
Kune	241,181	233,929
EUR	747,154	906,505
	988,335	**1,140,434**

The Company has the following undrawn borrowing facilities:

	2012	**2011**
	(in thousands of HRK)	
Floating rate:		
-Expiring in one year	60,229	33,106
	60,229	**33,106**

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 30 – PROVISIONS

(in thousands of HRK)	**Jubilee awards**	**Vacation accrual**	**Retirement benefits**	**Termination benefits and bonuses**	**Legal cases**	**Total**
Analysis of total provisions as at 31 December 2011:						
Non-current	5,812	-	7,888	-	7,826	21,526
Current	1,539	13,256	-	-	221	15,016
	7,351	**13,256**	**7,888**	**-**	**8,047**	**36,542**
Increase in provisions	2,225	7,141	887	29,793	14,553	54,599
Utilised during the year	(1,491)	(13,256)	(11)	(27,290)	(3,102)	(45,150)
At 31 December 2012	**8,085**	**7,141**	**8,764**	**2,503**	**19,498**	**45,991**
Analysis of total provisions as at 31 December 2012:						
Non-current	6,650	-	8,764	-	19,314	34,728
Current	1,435	7,141	-	2,503	184	11,263
	8,085	**7,141**	**8,764**	**2,503**	**19,498**	**45,991**

(i) Legal cases

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

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

(ii) Termination benefits and bonuses

As at 31 December 2012, the Company recognised HRK 2,503 thousand of provisions for bonuses to key management. Furthermore, during 2012 based on the formal workforce restructuring plan, the Company recognized an expense in the amount of HRK 27,290 thousand relating to payment for eartly retirement benefits to 227 employees.

NOTE 30 – PROVISIONS (CONTINUED)

(ii) Jubilee awards and regular retirement benefits

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

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

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

The present 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:

	Estimate	
	2012	**2011**
Discount rate	4.40%	7.20%
Fluctuation rate	11.90%	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	15,239	15,301
Current service cost	690	620
Interest expense	681	982
Actuarial (gains) / loss	1,741	(108)
Benefits paid	(1,502)	(1,556)
At 31 December	**16,849**	**15,239**

NOTE 31 – TRADE AND OTHER PAYABLES

	2012	2011
	(in thousands of HRK)	
Trade payables	250,776	271,726
Trade payables to related parties	48,073	44,305
Other liabilities	102,096	96,909
	400,945	**412,940**

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 payables include the following:

	2012	2011
	(in thousands of HRK)	
Salaries and other benefits to employees	30,165	31,578
Deferred income (finance lease)	28,588	31,456
Other accrued expenses	19,920	8,746
Package waste disposal fee payable	12,013	11,119
Accrued interest	6,546	9,530
Taxes, contributions and other duties payable	2,759	3,156
Dividends payable	681	685
Other	1,424	639
	102,096	**96,909**

NOTE 32 – RISK MANAGEMENT

Capital risk management

Net debt to equity ratio (Gearing ratio)

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

The gearing ratio at the reporting date was as follows:

	2012	**2011**
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	981,560	1,137,127
Cash and cash equivalents	(41,048)	(69,133)
Net debt	940,512	1,067,994
Equity	1,081,828	1,100,649
Net debt to equity ratio	87%	97%

Debt is defined as long- and short-term borrowings and bonds. Equity includes all capital and reserves of the Company. Besides monitoring the ratio of net debt to equity, the Company also monitors the ratio of consolidated operating profit before depreciation and amortization (EBITDA) and debt as part of its compliance with the terms of the syndicated loan agreement (see note 28). As at 31 December 2012 the Company and Group was within the defined ratio.

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

NOTE 32 – 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)	726,887	816,412
Held-to-maturity bills	3,334	7,400
At fair value through profit or loss	-	59
	730,221	**823,871**
Financial liabilities at amortised cost		
Financial lease liabilities	26,673	24,959
Borrowings	954,887	1,112,168
Trade and other payables	400,945	412,940
	1,382,505	**1,550,067**
Financial liabilities at fair value through profit or loss		
Interest swap	6,775	3,307

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. A large majority of the Company’s borrowings are at variable rates. The Company uses the interest rate swap for managing interest rate risk (note 28).

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

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

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

Liquidity and interest rate tables

The Company's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 215,244 thousand (2011: HRK 221,148 thousand) and amounts due to employees in the amount of HRK 30,165 thousand (2011: HRK 31,578 thousand).

The non-interest bearing liabilities of the Company due in a period of over five years include, among others, other long-term liabilities in the amount of HRK 14,252 thousand (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 Company's remaining contractual maturity for its financial liabilities presented in the consolidated statement of financial position at the period end.

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years.	Over 5 years	Total
	%	*(in thousands of HRK)*					
2012							
Non-interest bearing	-	281,962	87,919	2,583	11,469	14,252	398,185
Interest bearing	4.6	18,517	73,465	245,599	761,291	18,832	1,117,704
		300,479	**161,384**	**248,182**	**772,760**	**33,084**	**1,515,889**
2011							
Non-interest bearing	-	277,368	99,038	4,789	11,469	17,120	409,784
Interest bearing	6.04	16,417	98,739	248,764	1,012,619	80,089	1,456,628
		293,785	**197,777**	**253,553**	**1,024,088**	**97,209**	**1,866,412**

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity and interest rate tables (continued)

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

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years.	Over 5 years	Total
	%	*(in thousands of HRK)*					
2012							
Non-interest bearing	-	378,768	144,146	35,252	-	-	558,166
Interest bearing	5.19	46,515	10,483	52,994	58,359	1,175	169,526
		425,283	**154,629**	**88,246**	**58,359**	**1,175**	**727,692**
2011							
Non-interest bearing	-	370,085	147,030	51,930	-	-	569,045
Interest bearing	5.24	75,373	10,973	60,130	117,334	-	263,810
		445,458	**158,003**	**112,060**	**117,334**	**-**	**832,855**

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 32 – RISK MANAGEMENT (CONTINUED)

Operational risk management

Market risks

(i) Price risk

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

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

The significant risks, together with the methods used to manage these risks, are described below. The Company 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 on Interest Rate Swap.

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

The Company 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 Company.

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

(ii) Currency risk

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

	Liabilities		**Assets**	
	2012	**2011**	**2012**	**2011**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	810,117	985,418	242,208	254,881
USA (USD)	6,639	10,411	10,257	6,519
Other currencies	1,418	1,530	14,840	15,522

NOTE 33 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

(ii) Currency risk (continued)

Foreign currency sensitivity analysis

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

The following table details the Company's sensitivity to a 1 % increase in Croatian kuna against the relevant foreign currencies where the Company has 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	(5,679)	(7,305)	36	(39)

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 32 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

Sales function based risks

The Company generates approximately 58.5% (2011: 60.2%) of its revenue on the domestic market, whereas around 41.5% (2011: 39.8%) of the sales are generated on international markets, mainly through related entities. The Company determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

Following Croatia's expected entry into the EU on 1 July 2013 and its consequent departure from CEFTA, the Company and Group expect 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 Company. In order to reduce the negative impacts, the Company and Group are 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 Company expect increased risks associated with maintaining market position due to the expected strenghented entry of competitors. To lessen this effect, the Company aims to further strengthen its competitiveness by increasing productivity, modernising its technology and strengthening its product brands.

Furthermore, in the course of Croatia's accession to the EU, the Company and Group expect 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 Company and Group are 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 Company. The Company has adopted a "Credit Risk Management Procedure", which it applies in dealing with customers and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

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

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

Podravka's exposure and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least annually.

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

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

NOTE 33 – SHARE-BASED PAYMENTS

Employee share options

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

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

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

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to the key management			
As at 31 December 2010	8,000	Employment untill contracted vesting period	31/12/2013
	6,000	Employment untill contracted vesting period	31/12/2015
	8,000	Employment untill contracted vesting period	31/12/2016
	8,000	Employment untill contracted vesting period	31/12/2013
As at 31 December 2011	6,000	Employment untill contracted vesting period	31/12/2015
	8,000	Employment untill contracted vesting period	31/12/2016
As at 24 Februray 2012.	27,000	Employment untill contracted vesting period	31/12/2017
As at 24 Februray 2012.	1,000	Employment untill contracted vesting period	31/12/2016
As at 24 Februray 2012.	1,000	Employment untill contracted vesting period	31/12/2015
As at 26 June 2012	1,000	Employment untill contracted vesting period	31/12/2017
As at 31 December 2012.	2,000	Employment untill contracted vesting period	31/12/2017
Total	**76,000**		

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 in kuna	80	74
Share price in kuna at grant date	256	267
Exercise price in kuna	285	305
Expected volatility (weighted average)	29%	30%
Expected life (weighted average)	4.1 years	3.6 years
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds- weighted ave	5.88%	5.50%

NOTE 33 – SHARE-BASED PAYMENTS (CONTINUED)

Expense recognised in profit or loss	2012	2011
	(in HRK thousands)	
Equity-settled share-based payment transactions	1,870	1,618

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

	Number of options 2012	Weighted average excercise price 2012	Number of options 2011	Weighted average excercise price 2011
Outstanding at 1 January	40,000	305	24,000	317
Forfeited	-	-	(4,000)	317
Exercised	-	-	-	-
Expired	-	-	-	-
Transfer from Belupo d.d.	4,000	285	-	-
Granted	32,000	285	20,000	305
At 31 December	**76,000**		**40,000**	
Exercisable at 31 December	**76,000**		**40,000**	

As at 31 December 2012, there are 76,000 of outstanding options (2011: 40,000 options). In 2011, 4,000 options unexcersisable options were forfeited. 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 kn (2011: HRK 305 kuna).

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

NOTE 34 – RELATED PARTY TRANSACTIONS

REVENUE

	2012	2011
	(in thousands of HRK)	
Revenue from sale of products and merchandise	617,892	570,070
Revenue from services	58,143	61,556
	676,035	**631,626**

(in thousands of HRK)	Revenue from sale products and merchandise 2012	2011	Revenue from services 2012	2011
Company:				
Podravka d.o.o., Sarajevo	151,880	155,526	1,896	2,489
Podravka d.o.o., Ljubljana	96,158	94,271	2,587	3,208
Podravka d.o.o., Belgrade	70,095	63,584	479	387
Podravka-Int.Deutschland-"Konar" GmbH	47,840	46,662	555	1,401
Podravka d.o.o.e.l., Skopje	43,716	37,894	473	634
Podravka-International Pty Ltd, Sydney	41,086	34,619	424	1,448
Podravka d.o.o., Podgorica	29,299	28,976	826	1,130
Danica d.o.o., Koprivnica	18,781	22,873	21,282	21,286
Podravka-International Inc. Wilmington	36,712	21,696	144	70
Podravka-Polska Sp.z o.o., Kostrzyn	38,842	19,217	8,182	8,539
Podravka-International kft, Budapest	13,257	15,348	1,017	967
Podravka-International s r.o., Zvolen	14,299	11,908	648	628
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	11,195	10,807	1,497	1,507
Ital-Ice d.o.o., Poreč	3,263	5,640	1,440	1,465
Podravka International Gida Sanayi ve Dis T	1,106	697	-	-
Belupo d.d., Koprivnica	363	321	16,553	16,242
Lero d.o.o., Rijeka	-	31	-	-
Other companies	-	-	140	155
Total related party sales	**617,892**	**570,070**	**58,143**	**61,556**

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

Investment revenue

	2012	2011
	(in thousands of HRK)	
Interest income	10,814	15,340
Dividends from subsidiaries	-	19,836
	10,814	**35,176**

EXPENSES

Remuneration to the Management Board members and executives

	2012	2011
	(in thousands of HRK)	
Salaries	20,615	18,138
Termination benefits	8,464	-
Shae-based payments (note 33)	1,870	1,618
	30,949	**19,756**

Key management of the Company comprises the Management Board and executive directors and consisted of 32 persons (2011: 27 persons).

During 2012 Company paid HRK 2,094 thousand to the Company Supervisory Board (2011: HRK 1,803 thousand)

LOAN RECEIVABLES

Loan receivables – long-term:

	2012	2011
	(in thousands of HRK)	
At beginning of year	161,533	218,816
Repayments received	-	(3,439)
Other movements	(53,844)	(53,844)
At end of year	**107,689**	**161,533**
Maturity: one year or less	(53,845)	(53,844)
	53,844	**107,689**

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

Loan receivables – current:

	2012	2011
	(in thousands of HRK)	
At beginning of year	12,222	2,000
Increase during the year	6,141	13,226
Repayments received	(9,139)	(2,750)
Other changes – write-offs	(1,216)	(349)
Foreign exchange difference	-	95
At end of year	**8,008**	**12,222**
Maturity: one year or less	53,845	53,844
	61,853	**66,066**
Total loans receivable	**115,697**	**173,755**

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

	Interest rate	2012	2011
		(in thousands of HRK)	
Belupo d.d., Koprivnica	7% p.a.	107,689	161,533
Danica d.o.o., Koprivnica	7% p.a.	5,000	8,250
Podravka International Gida Sanayi ve Dis T	7% p.a.	1,475	1,781
Lero d.o.o., Rijeka	7% p.a.	795	1,609
Podravka-International USA Inc., Wilmington	7% p.a.	613	582
Podravka Inženjering d.o.o., Koprivnica	7% p.a.	125	-
		115,697	**173,755**

The effective interest rate is 7.00 % p.a.

The maturity of long-term borrowings is as follows:

	2012	2011
	(in thousands of HRK)	
Between 1 and 2 years	53,844	53,844
Between 2 and 5 years	-	53,845
	53,844	**107,689**

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

BORROWINGS

	Effective interest rate			
	2012	**2011**	**2012**	**2011**
			(in thousands of HRK)	
KOTI Nekretnine d.o.o., Koprivnica	7%	5%	2,245	1,847
Poni trgovina d.o.o., Koprivnica	7%	5%	217	206
			2,462	**2,053**

TRADE RECEIVABLES AND PAYABLES

	Current trade receivables		Current trade payables	
	2012	**2011**	**2012**	**2011**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Podravka d.o.o., Sarajevo	68,972	64,231	-	-
Danica d.o.o., Koprivnica	50,701	57,062	27,175	26,902
Podravka d.o.o., Belgrade	53,252	45,171	328	-
Podravka d.o.o., Ljubljana	33,547	33,342	18	24
Belupo d.d., Koprivnica	25,479	24,054	791	541
Podravka d.o.o., Podgorica	17,055	16,914	-	-
Podravka d.o.o.e.l., Skopje	14,116	13,962	271	655
Podravka-Polska Sp.z o.o., Kostrzyn	8,624	12,484	579	1,682
Podravka-Int.Deutschland-„Konar“ GmbH	8,138	11,507	3	6
Podravka-International Pty Ltd, Sydney	7,145	6,972	-	-
Podravka-International Inc. Wilmington	7,496	4,909	304	163
Podravka-International kft, Budapest	4,783	4,255	-	-
Podravka-International s r.o., Zvolen	2,289	4,158	7	-
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	1,384	3,361	410	628
Podravka International Gida Sanayi ve Dis T	3,622	2,506	25	-
Ital-Ice d.o.o., Poreč	207	411	15,397	13,384
Podravka Inženjering d.o.o., Koprivnica	76	54	489	320
KOTI Nekretnine d.o.o., Koprivnica	-	3	-	-
Lero d.o.o., Rijeka	-	-	2,276	-
Ukupna potraživanja i obveze od/prema ovisnim društvima	**306,886**	**305,356**	**48,073**	**44,305**

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

OTHER RECEIVABLES

Other receivables from Group entities

	2012	2011
	(in thousands of HRK)	
Belupo d.d., Koprivnica	36,115	18,846
Podravka International Gida Sanayi ve Dis T	77	56
Danica d.o.o., Koprivnica	29	47
Podravka Inženjering d.o.o., Koprivnica	7	-
Lero d.o.o., Rijeka	7	-
	36,235	**18,949**

GUARANTEES AND WARRANTIES

Guarantees and warranties to related companies

	2012	2011
	(in thousands of HRK)	
Belupo d.d., Koprivnica	65,888	93,050
Danica d.o.o., Koprivnica	54,528	50,711
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	30,052	51,676
Podravka d.o.o., Ljubljana	1,735	1,732
Podravka d.o.o., Belgrade	1,509	1,699
Podravka-International S.R.L., Bucharest	1,023	-
	154,735	**198,868**

NOTE 35 – CONTINGENT LIABILITIES

	2012	2011
	(in thousands of HRK)	
Guarantees – third parties	12,451	13,279
Guarantees – related parties	154,735	198,868
	167,186	**212,147**

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

NOTE 36 – COMMITMENTS

In 2012, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 6,595 thousand (2011: HRK 30,038 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

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

	2012	2011
	(in thousands of HRK)	
Up to 1 year	16,219	13,914
From 1 to 5 years	18,049	15,019
	34,268	**28,933**

NOTE 37 – 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 unconsolidated 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 the bank which expired on 30 December 2010 while the bank issued a call option to Podravka d.d. which expired on 30 September 2010. As a result of these transactions, obligations were created for the Company which resulted in the following effects presented in the financial statements relating to current and previous reporting periods:

(i) In the unconsolidated 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 the MOL Group (oil and gas industry group based in Hungary). During 2011, the Company 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 the MOL Group.

(iii) During 2011, the Company 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 Company has no knowledge of any other circumstances that would impact the financial position and future business performance of the Company, other than those presented in these financial statements.