

**PODRAVKA d.d. and its subsidiaries,
Koprivnica**

Annual Report and the
Consolidated Financial Statements
for the year ended
31 December 2015

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

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Podravka d.d. and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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


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

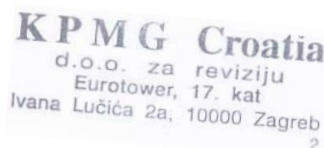
Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Pursuant to legal and regulatory requirements as applicable for reporting periods ending 31 December 2015, the management has prepared the annual report set out on pages 1 to 90. The management is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). Our responsibility is to report on the consistency of the information in the annual report with the audited financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). The information given in the accompanying annual report is consistent with the financial statements set out on pages 93 to 163.


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22 March 2016

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

AS AT 31 DECEMBER 2015

<i>(in thousands of HRK)</i>	<i>Note</i>	2015	2014
Continuing operations			
Revenues	8	3,686,343	3,412,062
Cost of goods sold	11	(2,184,171)	(1,967,609)
Gross profit		1,502,172	1,444,453
Other income	9	158,903	17,215
General and administrative expenses	11	(318,599)	(336,703)
Selling and distribution costs	11	(493,341)	(438,851)
Marketing expenses	11	(497,320)	(445,228)
Other expenses	10	(47,872)	(62,040)
Operating profit		303,943	178,846
Financial income	13	7,078	2,214
Financial expenses	14	(51,077)	(53,542)
Net finance costs		(43,999)	(51,328)
Profit before tax		259,944	127,518
Income tax	15	162,019	(9,376)
Profit for the year from continuing operations		421,963	118,142
Discontinued operations			
Loss for the year (net of tax)	7	(18,698)	(23,197)
Profit for the year		403,265	94,945
Other comprehensive income:			
Exchange differences on translation of foreign operations		1,326	(2,292)
Actuarial gains (net of deferred tax)		(225)	-
Total comprehensive income		404,366	92,653
Profit attributable to:			
Equity holders of the parent		397,310	92,459
Non-controlling interests		5,955	2,486
Total comprehensive income attributable to:			
Equity holders of the parent		398,419	90,088
Non-controlling interests		5,947	2,565
Earnings per share (in HRK):			
- Basic	16	66.35	17.64
- Diluted	16	66.35	17.61

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

<i>(in thousands of HRK)</i>	<i>Note</i>	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Goodwill	17	26,290	25,687
Intangible assets	18	284,511	244,793
Property, plant and equipment	19	1,937,978	1,202,589
Non-current financial assets	21	18,715	7,602
Deferred tax assets	15	230,946	50,169
Total non-current assets		2,498,440	1,530,840
Current assets			
Inventories	22	783,490	599,164
Trade and other receivables	23	1,113,551	924,077
Financial assets at fair value through profit and loss	24	215	59
Income tax receivable		34,617	19,520
Cash and cash equivalents	25	291,877	220,478
Non-current assets held for sale	26	223,561	214,432
Total current assets		2,447,311	1,977,730
Total assets		4,945,751	3,508,570
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	27	1,685,955	1,063,548
Reserves	28	549,840	467,540
Retained earnings	29	514,250	217,569
Attributable to equity holders of the parent		2,750,045	1,748,657
Non-controlling interests	30	67,712	36,605
Total shareholders' equity		2,817,757	1,785,262
Non-current liabilities			
Borrowings	32	752,244	749,013
Provisions	33	64,126	39,792
Other non-current liabilities	34	19,611	-
Deferred tax liability	15	56,475	5,544
Total non-current liabilities		892,456	794,349
Current liabilities			
Trade and other payables	35	731,969	563,922
Income tax payable		2,251	2,599
Financial liabilities at fair value through profit and loss	31	2,469	2,752
Borrowings	32	459,544	325,542
Provisions	33	39,305	34,144
Total current liabilities		1,235,538	928,959
Total liabilities		2,127,994	1,723,308
Total equity and liabilities		4,945,751	3,508,570

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

(in HRK thousands)

	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total
As at 1 January 2014	1,062,329	21,762	11,474	136,075	39,294	40,715	345,701	1,657,350	34,040	1,691,390
<i>Comprehensive income</i>										
Profit for the year	-	-	-	-	-	-	92,459	92,459	2,486	94,945
Other comprehensive income	-	-	-	-	-	(2,371)	-	(2,371)	79	(2,292)
Total comprehensive income	-	-	-	-	-	(2,371)	92,459	90,088	2,565	92,653
<i>Transactions with owners recognised directly in equity</i>										
Fair value of share-based payment transactions	1,219	-	-	-	-	-	-	1,219	-	1,219
Total transactions with owners recognised directly in equity	1,219	-	-	-	-	-	-	1,219	-	1,219
Allocation from retained earnings	-	45,842	5,069	-	4,662	2,955	(58,528)	-	-	-
Transfers to reinvested profit reserve	-	-	-	162,063	-	-	(162,063)	-	-	-
As at 31 December 2014	1,063,548	67,604	16,543	298,138	43,956	41,299	217,569	1,748,657	36,605	1,785,262
<i>Comprehensive income</i>										
Profit for the year	-	-	-	-	-	-	397,310	397,310	5,955	403,265
Foreign exchange differences	-	-	-	-	-	1,334	-	1,334	(8)	1,326
Actuarial losses (net of deferred tax)	-	-	-	-	-	(225)	-	(225)	-	(225)
Other comprehensive income	-	-	-	-	-	1,109	-	1,109	(8)	1,101
Total comprehensive income	-	-	-	-	-	1,109	397,310	398,419	5,947	404,366
<i>Transactions with owners and transfers recognised directly in equity</i>										
Share capital increase through issue of new shares (note 27 (i))	506,394	-	-	-	-	-	-	506,394	-	506,394
Share capital increase from reinvested profits (note 27 (ii))	108,400	-	-	(108,400)	-	-	-	-	-	-
Allocation from retained earnings (note 28)	-	80,000	14,388	-	3,051	3,190	(100,629)	-	-	-
Purchase of treasury shares	(5,899)	-	-	-	-	-	-	(5,899)	-	(5,899)
Exercise of options	3,690	-	-	-	-	-	-	3,690	-	3,690
Fair value of share-based payment transactions (note 37)	9,822	-	-	-	-	-	-	9,822	-	9,822
Acquisition of subsidiaries (note 41)	-	-	-	-	-	-	-	-	289,326	289,326
Additional acquisition of minority interests (note 30)	-	-	-	-	-	88,962	-	88,962	(264,166)	(175,204)
Total transactions with owners recognised directly in equity	622,407	80,000	14,388	(108,400)	3,051	92,152	(100,629)	602,969	25,160	628,129
As at 31 December 2015	1,685,955	147,604	30,931	189,738	47,007	134,560	514,250	2,750,045	67,712	2,817,757

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

<i>(in thousands of HRK)</i>	<i>Note</i>	2015	2014
Profit for the year		403,265	94,945
Income tax		(162,019)	9,376
Depreciation and amortization		148,314	134,796
Gain on bargain purchase	9, 41	(140,461)	-
Impairment loss on property, plant, equipment and intangibles	10	11,050	14,126
Impairment loss on assets held for sale	10	23,554	13,637
Impairment of investments		-	483
Remeasurement of financial assets and liabilities at FVTPL		(156)	(17)
Share-based payment transactions		9,822	1,219
(Gain)/loss on disposal of property, plant, equipment and intangibles		(1,345)	(910)
(Gain)/loss on disposal of assets held for sale		(864)	1,796
Impairment losses on inventory and trade receivables		8,177	12,739
Increase/(decrease) in provisions		(14,878)	2,369
Interest income		(2,247)	(2,155)
Impairment of loans given		-	1,500
Interest expense		42,831	51,871
Effect of changes in foreign exchange rates		(3,290)	1,424
		321,753	337,199
Changes in working capital:			
Increase in inventories		(30,949)	(22,301)
(Increase)/decrease in trade and other receivables		(8,360)	88,048
Increase/(decrease) in trade and other payables		55,113	(38,537)
Cash generated from operations		337,557	364,409
Income taxes paid		(20,225)	(23,532)
Interest paid		(43,106)	(54,009)
Net cash from operating activities		274,226	286,868
Cash flows from investing activities			
Purchase of equity instruments		-	(1,428)
Purchase of property, plant, equipment and intangibles		(271,238)	(163,024)
Purchase of assets held for sale		(3,733)	(81,380)
Proceeds from sale of property, plant, equipment and intangibles		5,928	5,344
Loans given		(969)	(1,210)
Proceeds from loans given		349	495
Net cash from investments in money market funds		2,318	-
Interest received		2,247	2,155
Acquisition of subsidiary, net of cash acquired	41	(410,728)	-
Net cash from investing activities		(675,826)	(239,048)
Cash flows from financing activities			
Proceeds from issue of share capital	27	506,394	-
Purchase of treasury shares		(5,899)	-
Sale of treasury shares		4,792	-
Proceeds from borrowings		480,513	1,050,845
Repayment of borrowings		(512,801)	(1,057,648)
Net cash from financing activities		472,999	(6,803)
Net increase / (decrease) of cash and cash equivalents		71,399	41,017
Cash and cash equivalents at beginning of year		220,478	179,461
Cash and cash equivalents at the end of year	25	291,877	220,478

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

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

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

These financial statements were authorised for issue by the Management Board on 22 March 2016.

(ii) Basis of measurement

The consolidated financial statements of the Group have been prepared on the cost basis, except where stated otherwise (see note 6).

(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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Podravka d.d. (“the Company”) and entities controlled by Podravka d.d. (its subsidiaries) as at and for the year ended 31 December 2015. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

(i) Subsidiaries

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

(ii) Business combinations

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

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

(iii) Transactions eliminated on consolidation

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Goodwill

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

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

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

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

3.3 Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups (which may include both non-current and current assets and liabilities directly associated with those assets) are classified in the statement of the financial position as 'held for sale' if it is highly probable that 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.

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

Discontinued operations

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Revenue recognition

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

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

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

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

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

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

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

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

(iii) Revenue from services

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

(iv) Finance income

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property and the present value of minimum lease payments. Each lease payment is allocated between the liability and finance costs 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 obtained by the Group are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Sale and leaseback transactions

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

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income in financial statements 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.

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.

(ii) Group companies

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

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

(iii) Net investment in Group companies

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

3.7 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Government grants

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

3.9 Dividends

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

3.10 Segment reporting

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

At the consolidated level, the Group internally monitors and reports the following segments:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 profit for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) *Deferred tax assets and liabilities*

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences that relate to investments in subsidiaries and joint ventures when it is probable that no significant change is expected in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

(iii) *Investment tax credits*

Investment tax credits are incentives arising from government incentive schemes which enable the Group to reduce its income tax liability or liabilities arising from other specified taxes in future periods, and are linked to the construction or acquisition of certain assets and / or performance of certain activities and / or fulfilment of certain specific conditions prescribed in the relevant regulation for investment incentives by the relevant authorities. Tax investment credits are initially recognized as a deferred tax asset and an income tax benefit in the amount equal to the lower of the maximum authorized credit and the estimated amount of credit that the Group expected it will be able to utilize until the incentive expires. Deferred tax assets recognized as a result of investment tax credits is utilized during the period of the incentive, ie until the expiration of the credits (if so specified) in accordance with and subject to the availability of tax obligations in future years against which the credits can be offset.

(iv) *Tax exposure*

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

(v) *Value added tax (VAT)*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Property, plant and equipment

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

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

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

Buildings	10 to 50 years
Equipment	3 to 30 years

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Intangible assets

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

Licences, brands, distribution rights and registration files

Product distribution rights and right over use of registration files generally have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost of licences, distribution rights and registrations over their estimated useful lives estimated from 3 to 15 years.

Rights to acquired trademarks and know-how are carried at cost and have an indefinite useful life, since based on an analysis of all of the relevant factors at the reporting date, there is no foreseeable limit to the period of time over which the 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

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 non-financial assets

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

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

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

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

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.

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).

Merchandise are carried at the lower of purchase cost and selling price (less applicable taxes and rebates).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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.

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 consolidated 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 Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the 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 Group makes payments to mandatory pension funds operated by third parties on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group is not obliged to provide any other post-employment benefits with respect to these pension schemes.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as expenses 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.

(iii) Regular retirement benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits (continued)

(iv) Long-term employee benefits

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

(v) Short-term employee benefits

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

(vi) Share-based payments

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 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) and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial assets (continued)

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 and other receivables with fixed or determinable payments 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.

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

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

3.22 Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Other financial liabilities

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

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

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

Contracts on financial guarantee

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

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

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

Derecognition of financial liabilities

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

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2015 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. It is not expected that these standards will have a significant effect on the consolidated financial statements of the Group.

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 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 more detail below.

(i) *Deferred tax assets recognition*

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see note 15). During 2015, the Group recognised deferred tax assets with respect to unused tax credits related to incentive measures the terms of which are described in more detail in note 15.

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

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

(iii) *Consequences of certain legal actions*

The Group is involved in a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions based on consultation with internal and external legal advisors taking into account the type of claim, claimed amount, likelihood of outcome and the status of the court proceedings.

The Group recognises a provision in the total expected amount of outflows of economic benefits as a result of the court case, which is generally the claim amount plus the estimated related legal costs and penalty interest (if applicable), if it is more likely than not, based on the opinion of management after consultation with legal advisers, that the outcome of the court case will be unfavourable for the Group. The Group does not recognise provisions for court cases or the expected related legal costs and penalty interest (if applicable) in cases where management estimates that an unfavourable outcome of the court case is less likely than a favourable outcome for the Group.

Where indications exist of a possible settlement in relation to a particular court case, a provision is recognised, based on the best estimate of management made in consultation with its legal advisers, in the amount of the expected settlement less any existing amounts already provided for in relation to that particular court case.

Where the Group is a plaintiff in a particular court case, any economic benefits expected to flow to the Group as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits.

Provisions for the Group's obligations arising legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.20 and 33).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

(iv) Recoverability of trade and other receivables

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

The Group regularly reviews the ageing structure of trade receivables and monitors the average collection period. In cases where debtors with extended payment periods (generally above 120 days) are identified, the Group reduces the related credit limits and payment days for future transactions and, in cases where it deems it necessary, imposes restrictions on future transactions until the outstanding balance is repaid either entirely or in part. In cases where the Group identifies receivables toward debtors which have entered into pre-bankruptcy or bankruptcy proceedings, an impairment loss is immediately recognised in full.

In the process of regulating the collection of overdue debts, the Group actively negotiates with the respective debtors taking into account expectations of future business relations, significance of exposure to an individual debtor, possibilities of compensation, exercise of instruments of security (if any) or seizure of assets etc.

(v) Impairment testing for goodwill, brands and rights

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

	Goodwil	Brands	Rights
	<i>(in thousands of HRK)</i>		
<i>Operating segment</i>			
Culinary	-	37,577	-
Sweets, snacks and beverages	-	9,622	6,031
Baby food, breakfast and other food	26,290	49,586	-
Meat and meat products	-	9,280	13,072
Bakery and milling	-	28,383	-
Pharmaceuticals	-	-	69,924
Other - unallocated	-	-	10,179
	26,290	134,448	99,206

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.

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Podravka Lagris a.s. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five year plans for sales on the Czech market and business plans of the subsidiary developed by the Group bearing in mind its corporate and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2.5%. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for goodwill as the weighted average cost of capital for the Czech market and the food industry and amounts to 7.81%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

(v) Impairment testing for goodwill, brands and rights (continued)

The Group had no impairment losses relating to goodwill during 2014 and 2015. The sensitivity analysis indicates that an impairment loss in respect of goodwill arising on acquisition of Podravka Lagris a.s. would arise in case of a decrease in the terminal growth rate by 250 basis points (assuming an unchanged weighted average cost of capital) and would amount to HRK 2,297 thousand. If the weighted average cost of capital is increased to 9.31% (assuming an unchanged terminal growth rate) an impairment loss would arise in the amount of HRK 7,072 thousand.

Brands

Brands relate to acquired rights of use of logos, trademarks and brand names which the Group allocates to business segments in accordance with internal categorisation of products to which the specific brand relates to, whereby the brand value is either allocated entirely to a specific segment or where applicable and where a brand relates to products and categories which relate to several segments, it is allocated based on the share of gross margin of the brand in each of the segments.

The Group annually performs impairment tests in order to assess whether the recoverable amount of brands indicates potential impairment of their carrying amount whereby the primary focus is on brands where the difference between the recoverable amount and the carrying amount indicates a significant sensitivity to changes in key variables used in impairment testing. The calculation of the recoverable amount of brands is based on five year plans for sales of product and categories which comprise a certain brand and which the Group developed bearing in mind its corporate and marketing strategy, trends on relevant markets where the brands are sold (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2%. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for brands as the weighted average cost of capital (WACC) for the primary market the brand is sold on and the food industry. In cases where brands are sold to a significant extent on several different markets with different risk profiles and characteristics, the cash flows from each of the relevant markets are discounted using a weighted average cost of capital applicable to each particular market.

Accordingly, the discount rate used in the impairment test amounted to 9.28% for brands where the dominant market is Poland and 10.01% for brands where the dominant market is Croatia. During the year, the Group acquired a majority shareholding and control over subsidiaries Mirna d.d. (Croatia) and Žito d.d. (Slovenia) in the course of which it also acquired a number of brands. As the fair value of the acquired brands was estimated at acquisition date, the Group performed no additional impairment tests with respect to acquired brands due to a relatively short time span from the date of acquisition and the reporting date and because management considered that no significant changes in circumstances occurred which would warrant additional impairment testing.

As a result of the impairment tests for brands, the Group incurred no impairment losses relating to brands during 2015 and 2014. An increase in WACC of 150 basis points (assuming a stable terminal growth rate) would result in an impairment of the brands in the amount of HRK 3,582 thousand while a decrease in the terminal growth rate by 100 basis points (assuming an unchanged WACC) would result in an impairment loss of HRK 825 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

(v) *Impairment testing for goodwill, brands and rights (continued)*

Rights

Rights relate to registration files (pharmaceutical segment), distribution rights relating either to a specific segment or to several segments combined and acquired rights for operating pharmacies (pharmaceutical segment). Registration files and distribution rights have finite useful lives over which they are amortised and impaired in the event circumstances arise which indicate a need for impairment in excess of the regular amortisation charge. Pharmaceutical rights relate to acquired rights to perform pharmaceutical activities that are fully allocated to the segment "Pharmaceuticals". In accordance with local legislation such rights do not expire (the Group does not expect regulatory changes in this respect). The Group annually performs impairment tests in order to assess whether the recoverable amount of pharmaceutical rights indicates potential impairment of their carrying amount. The calculation of the recoverable amount is based on five year plans for pharmacy sales based on historical data and expected market trends, particularly in relation to changes in drug prices. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2%. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test as the weighted average cost of capital (WACC) for the Croatian market and the pharmaceutical industry and amounts to 10.41%.

During 2015, the Group recognised HRK 11,050 thousand of impairment losses with respect to rights based on the impairment tests performed. The sensitivity analysis indicates that an impairment loss with respect to rights would arise if WACC is increased by 50 basis points (assuming an unchanged terminal growth rate) and would amount to HRK 2,304 thousand. The decrease of the terminal growth rate by 50 basis points (assuming an unchanged WACC) would result in an impairment of rights in the amount of HRK 2,886 thousand.

(vi) *Impairment test for property, plant and equipment and assets held for sale*

The Group annually performs impairment tests for property, plant and equipment in order to assess whether the recoverable amount indicates potential impairment of their carrying amount. All production facilities and property, plant and equipment which are held for sale or relate to discontinued operations are subject to impairment testing on an annual basis.

For production facilities i.e. factories, the calculation of the recoverable amount is based on five year sales plans from which the Group derives production plans for each factory, category and product per market and which the Group developed bearing in mind its corporate and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period ranging from 0% to 2% depending on the sales plan for products manufactured by a particular factory. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been approximated for the purposes of the impairment test as the weighted average cost of capital for the Croatian market where the majority of the production facilities are located. Generally, the recoverable amount of production facilities is defined as its value in use unless a valuation from an independent expert valuer is available which indicates that the assets fair value less costs to sell is higher than its value in use.

During 2015, the Group had no impairment losses with respect to property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

(vi) *Impairment test for property, plant and equipment and assets held for sale (continued)*

For property, plant and equipment held for sale, upon classification of such assets as held for sale the Group estimates their recoverable amount based on an independent expert valuer's estimate of the fair value of these assets less costs to sell and records these assets at the lower of their carrying amount and the recoverable amount. Generally, the Group considers with significant confidence that the recoverable amount of such assets will be realized through sale or disposal in the short term and in cases where there has been a delay in disposal due to circumstances which do not require reclassification of such assets into property, plant and equipment, the Group considers whether there have been significant changes in the circumstances and expectations related to the disposal process which would require re-assessment of their fair value. If a significant change in circumstances has not occurred, but the asset relates to property which is intended to be used until disposal (such as manufacturing plants which are part of discontinued operations), the Group approximates the possible potential impairment that could arise from the date of classification of such assets as held for sale up to the reporting date based on an updated valuation taking into account the impact of any changes in circumstances and market conditions in relation to those assets.

During 2014 the Group recognized HRK 14,126 thousand of impairment losses based on assessments of market value of property, plant and equipment (production facility in Poland related to the Culinary segment) made by an independent valuer. In 2015, this facility was classified as held for sale.

During 2015, the Group recognised impairment losses of HRK 12,100 thousand with respect to non-current assets held for sale relating to continued operations.

During 2015 the Group recognized HRK 11,454 thousand (2014: HRK 11,185 thousand) of impairment losses related to production facilities which are part of discontinued operations (the former segment "Beverages").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 6 – DETERMINATION OF FAIR VALUES

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

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

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

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

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

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

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

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

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

- note 7: Discontinued operations
- note 21: Non-current financial assets
- note 24: Financial liabilities at fair value through profit or loss
- note 26: Non-current assets available for sale
- note 31: Financial liabilities at fair value through profit or loss
- note 37: Share-based payments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 7 – DISCONTINUED OPERATIONS

By the Management Board decision from 2013, the Company announced its intention to exit the Beverages segment in order to improve business activities, reduce operating costs and strengthen innovation and competitiveness of the Company in its key business areas. At the reporting date, the Group classified the Beverages segment as discontinued operations in accordance with IFRS 5. Although at the reporting date, due to continued unfavourable market conditions, the Group has not yet managed to dispose of the assets, the Group actively continues to implement the adopted disposal plan and in order to realize the disposal as soon as possible. At the reporting date, the Group has received a binding offer relating to the disposal of the entire Beverages segment, which is under consideration at the time of the approval of the financial statements and which does not indicate an impairment of the above disposal group below the amount reported as at 31 December 2015. The Group expects to complete the disposal during 2016.

During 2015 the Group recognised an impairment loss with respect to assets which are part of discontinued operations in the amount of HRK 11,454 thousand (see note 5(vi)). This impairment loss is recognised within other expenses relating to discontinued operations.

Statement of comprehensive income for discontinued operations is as follows:

<i>(in thousands of HRK)</i>	<i>note</i>	Discontinued operations	
		2015	2014
Revenue from sale		90,873	90,553
Cost of goods sold		(57,566)	(59,081)
Gross profit		33,307	31,472
Operating expenses		(40,551)	(43,484)
Other expenses		(11,454)	(11,185)
Operating loss		(18,698)	(23,197)
Loss before tax for the year		(18,698)	(23,197)
Income tax		-	-
Loss for the year		(18,698)	(23,197)
Loss per share (in HRK)			
- Basic	<i>16</i>	(3.12)	(4.42)
- Diluted	<i>16</i>	(3.12)	(4.42)

The loss from discontinued operations of HRK 18,698 thousand (2014: HRK 23,197 thousand) is attributable entirely to the owners of the Company.

Cash flow for discontinued operations is as follows:

<i>(in thousands of HRK)</i>	2015	2014
Net cash from operating activities	(7,610)	(7,461)
Net cash from investing activities	(1,602)	(1,288)
	(9,212)	(8,749)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 7 – DISCONTINUED OPERATIONS (CONTINUED)

Disposal group held for sale

Assets of the disposal group held for sale as at 31 December 2015 are as follows:

<i>(in thousands of HRK)</i>	2015	2014
Land and buildings	29,885	32,056
Equipment	25,664	33,499
Inventories	5,239	4,720
	60,788	70,275

Due to practical reasons the Group does not present liabilities for the disposal group held for sale since raw materials purchase and crediting are performed centrally and not allocated for the purpose of segmental analysis. Also, at the reporting date there were no liabilities that would entirely belong to the discontinued operations.

Fair value measurement

Properties and buildings held for sale within the disposal group are measured at fair value less costs to sell due to the fact that their fair value was lower than the carrying amount as at the date of classification as held for sale. The Group has performed a fair valuation exercise of the disposal group as at the date of classification as held for sale and regularly estimates whether this valuation needs revising. Management believes that no new circumstances arose during 2015 which would require a new fair value measurement of the disposal group.

The fair value of the equipment is internally estimated based on used value in use and the expected net sales price.

The fair value of inventories is calculated as the expected net realizable value of inventories based on historical sales data and the expected price movements in the classification. Subsequently, the inventories are carried at cost of production or net realizable value whichever is lower.

(i) *Fair value hierarchy*

The fair value measurement of part of the disposal group relating to land and buildings of HRK 29,885 thousand is categorised, in accordance with inputs used in estimating the fair value, as level 3 (see note 6).

(ii) *Valuation techniques and significant inputs*

The following table summarizes the valuation methods and techniques used in measuring the fair value of the disposal group and significant inputs used in the valuation at the initial classification as held for sale:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 8 – SEGMENT INFORMATION

Sales revenue

	2015	2014
	<i>(in thousands of HRK)</i>	
Revenue from sale of products and merchandise	3,665,641	3,393,102
Revenue from services	20,702	18,960
	3,686,343	3,412,062

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

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

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

Segment revenues and results

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

<i>(in thousands of HRK)</i>	Segment revenues		Segment profits	
	2015	2014	2015	2014
Culinary	934,683	899,372	215,233	202,682
Sweets, snacks and beverages	231,195	171,234	23,227	21,395
Baby food, breakfast and other food	940,354	887,330	10,453	17,159
Meat and meat products	303,454	300,786	(23,123)	(16,026)
Baking and milling	174,332	-	(5,533)	-
Pharmaceutical	805,660	840,259	89,094	130,988
Other	296,665	313,081	(3,310)	(1,079)
	3,686,343	3,412,062	306,041	355,119
Financial income (note 13)			7,078	2,214
Other income (note 9)			158,903	17,215
Central administration costs			(113,129)	(131,448)
Other expenses (note 10)			(47,872)	(62,040)
Financial expenses (note 14)			(51,077)	(53,542)
Profit before tax			259,944	127,518

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (continued)

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

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

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

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

The Baking and milling segment comprises the following product groups: Bread and baked goods, Meal, Cereals and Other bakery and mill products.

The Pharmaceutical segment comprises the following: Ethical drugs (medically prescribed drugs financed by the Ministry of Health), Non Prescription Program (drugs for which no medical prescription is required). Pharmaceuticals segment is regulated by the Croatian Institute for Health Insurance, which provides drug prices with prescription and by the relevant regulatory authorities in connection with the registration of medicines in the Croatian market. Foreign markets in this segment have similar regulation characteristics.

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

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

Geographical information

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

(in thousands of HRK)

	2015	2014
Region Adria	2,614,653	2,307,581
Region Europe	733,843	730,680
Region RU, CIS and Baltic	195,049	239,330
Region New markets	142,798	134,471
	3,686,343	3,412,062

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Information about major customers

Third-party sales in Croatia account for 37% (2014: 40%) of the total revenue from external customers, whereas the remaining 63% (2014: 60%) represent foreign sales. Top 20 customers participate in 34% (2014: 42%) of the external sales. The Group has no significant exposure to an individual major customer.

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

Region Adria	Region Europe	Region Ru, CIS and B.	Region New markets
Slovenia	Germany	Russian Federation	GCC, Irak and Iran
Bosnia and Herzegovina	Austria	Ukraine	United Arab Emirates
Macedonia	Switzerland	Kazakhstan	Katar
Serbia	France	Baltic	Jemen
Montenegro	Great Britain	Estonia	Levant
Kosovo	Italy	Lithuania	Turkey
Albania	Scandinavia	Latvia	Jordan
Greece	Sweden	Moldova	Egypt
	Norway	Belarus	South African Republic
	Benelux	Armenia	Liberia
	Nederlands	Kyrgystan	Cameroon
	Ireland		USA
	Spain		Canada
	Poland		Australia
	Czech Republic		New Zealand
	Slovakia		Asia
	Hungary		China
	Romania		India
	Bulgaria		Japan
			Taiwan
			Israel

NOTE 9 – OTHER INCOME

	2015	2014
	<i>(in thousands of HRK)</i>	
Grant income	4,298	2,068
Profit on disposal of assets held for sale	864	-
Revenue from sale and leaseback transaction	8,813	8,813
Profit on disposal of property, plant, equipment and intangibles	1,345	910
Reversal of provisions	2,022	4,440
Gain on bargain purchase (note 41)	140,461	-
Other income	1,100	984
	158,903	17,215

Grant income refers to non-repayable state grants for livestock and agriculture.

Income from sale and leaseback refers production facilities in Umag with respect to which a total of HRK 6,609 thousand of deferred income was outstanding as at 31 December 2015 (2014: HRK 15,422 thousand) and which will be realised until 30 September 2016 (see note 35).

Gain on bargain purchase arose on the acquisition of majority shares in subsidiaries Mirna d.d. (in the amount of HRK 24,765 thousand) and Žito d.d. (in the amount of HRK 115,696 thousand) due to the fact that the consideration paid by the Group for the acquisition of shares was lower than the fair value of identifiable net assets of those companies at the acquisition date. For more details on the acquisition of subsidiaries see note 41.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 10 – OTHER EXPENSES

	2015	2014
	<i>(in thousands of HRK)</i>	
Interest and foreign exchange differences on trade payables	1,594	1,430
Impairment loss on intangible assets (note 18)	11,050	-
Impairment loss on assets held for sale (note 26)	12,100	2,452
Loss on disposal of assets held for sale	-	1,796
Impairment loss on property, plant and equipment (note 19)	-	14,126
Interest and foreign exchange differences on trade receivables	22,281	39,859
Other costs	847	2,377
	47,872	62,040

The increase in foreign exchange losses is mainly caused by the unfavorable exchange rate fluctuations of the Russian ruble during 2015.

NOTE 11 – EXPENSES BY NATURE

	2015	2014
	<i>(in thousands of HRK)</i>	
Raw materials and consumables used, energy and cost of goods sold including change in inventory	1,803,092	1,642,141
Staff costs (note 12)	795,470	770,229
Advertising and promotion	333,646	291,962
Services	187,827	153,996
Depreciation and amortisation	148,314	134,796
Transportation	58,676	44,179
Rental expense	40,511	44,045
Impairment of trade receivables (note 23)	8,177	12,739
Entertainment	28,723	28,016
Daily allowances and travel expenses	18,294	17,551
Taxes and contributions independent of operating results	17,354	15,696
Telecommunications	9,800	10,227
Cost of disposal of packaging, administrative fees, etc	10,829	8,677
Bank charges	5,458	5,198
Other	27,260	8,939
Total cost of goods sold, selling and distribution costs, marketing costs and general and administrative costs	3,493,431	3,188,391

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 11 – EXPENSES BY NATURE (continued)

Following tables present expenses by nature contained in cost of goods sold:

	2015	2014
	<i>(in thousands of HRK)</i>	
Raw material and supplies	1,173,030	1,030,094
Cost of goods sold	606,288	605,873
Staff costs	304,373	268,523
Depreciation and amortisation	82,248	75,296
Production services	41,386	25,385
Taxes and contributions independent of operating results	11,933	10,850
Other expenses (transport, rent, education, etc)	22,479	10,669
	2,241,737	2,026,690
Cost of goods sold - discontinued operation	(57,566)	(59,081)
Cost of goods sold - continued operation	2,184,171	1,967,609

Depreciation and amortisation allocated to each function is as follows:

	2015	2014
	<i>(in thousands of HRK)</i>	
Cost of goods sold	82,248	75,296
Marketing expenses	6,519	6,109
Selling and distribution costs	29,372	23,135
General and administrative expenses	30,175	30,256
	148,314	134,796

Staff costs allocated to each function is as follows:

	2015	2014
	<i>(in thousands of HRK)</i>	
Cost of goods sold	294,032	258,775
Marketing expenses	88,239	85,410
Selling and distribution costs	225,341	205,611
General and administrative expenses	187,858	220,433
	795,470	770,229

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**FOR THE YEAR ENDED 31 DECEMBER 2015****NOTE 12 – STAFF COSTS**

	2015	2014
	<i>(in thousands of HRK)</i>	
Salaries	714,698	676,135
Termination benefits	41,141	72,137
Transportation	11,911	9,328
Share options (note 37)	1,859	1,219
Other	25,861	11,410
	795,470	770,229

As at 31 December 2015, the number of staff employed by the Group was 6,657 (2014: 5,341).

In 2015 termination benefits of HRK 29,096 thousand were paid to 274 employees. Termination benefits of HRK 15,021 thousand were accrued and will be paid in 2016, based on a formal restructuring plan (in 2014 termination benefits in amount of HRK 72,137 thousand were paid to 559 employees).

NOTE 13 – FINANCE INCOME

	2015	2014
	<i>(in thousands of HRK)</i>	
Interest on term deposits	916	1,722
Other interest	1,331	433
Unrealised gains per interest rate swap contract	283	-
Net foreign exchange gains on borrowings	4,333	-
Remeasurement of financial instruments at fair value through profit or loss	215	59
	7,078	2,214

NOTE 14 – FINANCE EXPENSES

	2015	2014
	<i>(in thousands of HRK)</i>	
Interest expense and similar charges	43,114	51,829
Unrealised losses per interest swap contract	-	42
Net foreign exchange loss on borrowings	-	1,671
Other financial expenses	7,963	-
	51,077	53,542

During 2015 the benchmark interest rates remained at low levels, which resulted in a significant reduction in loan related interest expense.

Given the significant exposure of the Group to the interest rate risk arising from borrowings at variable interest rates, the Group actively hedges interest rate risk related to the syndicated loan through derivative financial instruments (interest rate swaps) - for details see note 31.

During 2015 and 2014, the Group had no investments for which interest expense could be capitalised.

Other financial expenses relate to the cost of share options granted via the employee stock ownership program in the process of increase of share capital by public offering of new ordinary shares. For details, see notes 27 and 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2015	2014
	<i>(in thousands of HRK)</i>	
Current income tax	5,439	10,091
Deferred tax	(167,458)	(715)
	(162,019)	9,376

Effective tax rate reconciliation

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

	2015	2014
	<i>(in thousands of HRK)</i>	
Profit before taxation	241,246	104,321
Income tax at 20% (2014: 20%)	48,249	20,864
Non-deductible expenses and non-taxable income	(27,008)	(3,465)
Non-deductible expenses and non-taxable income	7,471	26,078
Tax incentive for reinvested profit	-	(30,123)
Other tax incentives	(164,793)	(1,013)
Recognition of previously unrecognized temporary differences and tax losses as deferred tax assets	(12,294)	-
Temporary differences and tax losses not recognised as deferred tax assets	5,877	10,935
Utilisation of temporary differences previously not recognised as deferred tax asset	(1,622)	(11,767)
Utilisation of tax losses previously not recognised as deferred tax asset	(16,238)	(130)
Effect of different tax rates	(1,661)	(2,003)
Income tax	(162,019)	9,376
Effective tax rate	-67%	9%

Investment tax credit

In March 2015, pursuant to the Investment Promotion and Development of Investment Climate Act, the subsidiary Belupo d.d. became eligible to receive incentive measures related to its investment project. The Ministry of Economy approved the tax incentive measures, as a subsidy for qualifying costs of new employment linked to the investment project and an incentive for capital expenditure related to the investment project, in the form of an investment tax credit in the total approved amount of HRK 163,717 thousand for which the subsidiary will be able to reduce its future income tax liabilities and / or receive cash reimbursements as an incentive for employment related to the investment project. The subsidiary has the right to use the investment tax credit in the next 10 years from the date of approval by the relevant authorities. The execution of the investment project is subject to supervision by the relevant institutions and the subsidiary is not permitted to reduce the number of new jobs (related to the terms of the incentive measures) in addition to other conditions, throughout the period of the incentive measures, but no less than 5 years. If the conditions of the tax incentive are not met, the subsidiary would have to retroactively pay income tax inclusive of any penalty interest.

Based on the assessment of the recoverability of the tax incentive made by the management of the subsidiary and the Group, the subsidiary and Group initially recognised the entire amount of approved tax incentives as a deferred tax asset and an income tax benefit. The utilization of the deferred tax in the amount of HRK 9,370 thousand was also recognised in 2015 based on the amount of current income tax which would have been payable by the subsidiary had it not been for the tax incentive. In future years, the deferred tax asset will be utilised in accordance with the utilization of the tax incentive, i.e. in accordance with and subject to the availability of tax obligations against which the credits can be offset and / or amounts of cash reimbursements the subsidiary receives as incentives for new employment as part of the investment project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 15 – INCOME TAX (CONTINUED)

Unused tax losses

In accordance with tax regulations, as at 31 December 2015 the Group has unused tax losses in the amount of HRK 110,461 thousand (2014: HRK 104,091 thousand) which consist of tax losses in Slovenia (in the amount of HRK 52,232 thousand), Croatia (in the amount of HRK 31,088 thousand), Serbia (in the amount of HRK 7,093 thousand), Bosnia and Herzegovina (in the amount of HRK 6,224 thousand), Montenegro (in the amount of HRK 4,735 thousand), Hungary (in the amount of HRK 3,764 thousand), Tanzania (in the amount of HRK 3,172 thousand), Romania (in the amount of HRK 125 thousand) and Poland (in the amount of HRK 2,028 thousand).

Unused tax losses carried forward amounting to HRK 62,550 thousand were recognized as deferred tax assets in the amount of HRK 11,094 thousand. The Group did not recognize deferred tax assets for the remaining tax losses since it is not probable that the tax losses will be utilized. Unused tax losses (gross) at the reporting date were as follows:

	2015	2014
	<i>(in thousands of HRK)</i>	
Tax losses expiring at 31 December 2015	-	301
Tax losses expiring at 31 December 2016	2,996	-
Tax losses expiring at 31 December 2017	7,093	19,487
Tax losses expiring at 31 December 2018	16,333	37,570
Tax losses expiring at 31 December 2019	6,937	46,733
Tax losses expiring at 31 December 2020	20,981	-
Tax losses expiring at 31 December 2022	125	-
Tax losses expiring at 31 December 2025	3,764	-
Tax losses with no expiration date	52,232	-
	110,461	104,091

Deferred tax assets

Deferred tax assets arise from the following:

2015	Opening balance	Acquisitions	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>					
Basis:						
Intangible assets	22,433	-	2,363	-	-	24,796
Property, plant and equipment	10,910	-	3,025	-	-	13,935
Financial assets	-	-	505	-	-	505
Provisions	5,431	1,281	954	56	170	7,892
Share-based payments	-	-	2,809	-	-	2,809
Inventories	7,479	-	2,146	-	-	9,625
Investment tax credit	-	-	154,347	-	-	154,347
Unutilised tax losses carried forward	1,033	11,786	(1,764)	-	39	11,094
Other deferred tax assets	2,883	-	2,865	-	195	5,943
Deferred tax assets	50,169	13,067	167,250	56	404	230,946
					Foreign	
2014					exchange	
					differences	
						Closing
						balance
						<i>(in thousands of HRK)</i>
Basis:						
Government subsidies			210	(203)	(7)	-
Intangible assets			22,433	-	-	22,433
Property, plant and equipment			10,420	490	-	10,910
Provisions			5,082	438	(89)	5,431
Inventories			8,180	(701)	-	7,479
Unutilised tax losses carried forward			1,033	-	-	1,033
Other deferred tax assets			2,215	668	-	2,883
Deferred tax assets			49,573	692	(96)	50,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 15 – INCOME TAX (CONTINUED)

Deffered tax assets (continued)

During 2015, the Group re-evaluated the potential for utilization of certain existing temporary differences for which deferred tax assets had not been previously recognized based on the uncertainty of their utilization. In view of the changed circumstances, the Group recognized deferred tax assets in the amount of HRK 10,099 thousand relating to temporary differences for which deferred tax assets were not previously recognized and an additional HRK 2,196 thousand with respect to tax losses.

Deferred tax assets recognised with respect to impairment losses on intangible assets and investments do not expire as they are utilised in the moment of realisation of the respective assets. Deferred tax assets on long-term provisions for employee benefits (jubilee awards, termination benefits), as well as deferred tax assets related to tax incentives will be realised in a period longer than one year while the remainder of deferred tax assets is considered short-term deferred tax assets.

Deferred tax assets relate to the other items considered to be a short-term deferred tax assets.

During 2015, with the acquisition of the company Žito d.d., the Group acquired deferred tax assets in the amount of HRK 13,067 thousand which primarily relate to deferred tax assets arising from tax losses.

Deffered tax liability

Deferred tax liabilities arise from the following:

2015	Opening balance	Acquisitions	Recognised in profit or loss	Recognized directly in equity	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>					
Basis:						
Intangible assets	(4,187)	(11,276)	(221)	-	(49)	(15,733)
Property, plant and equipment	(1,357)	(40,356)	429	-	542	(40,742)
	(5,544)	(51,632)	208	-	493	(56,475)

2014	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
	<i>(in thousands of HRK)</i>			
Basis:				
Intangible assets	(4,612)	425	-	(4,187)
Property, plant and equipment	(965)	(402)	10	(1,357)
	(5,577)	23	10	(5,544)

Deferred tax liabilities mainly relate to temporary differences arising from the allocation of the purchase price in the course of acquisition of subsidiaries Farmavita d.o.o, Žito d.d. and Mirna d.d. and are considered long-term in nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 16 – EARNINGS/ (LOSS) PER SHARE

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share were calculated as the basic earnings per share, including the impact of the number of share options granted to employees, of which 160,391 were not exercised (2014: 164,578 options).

Basic and diluted weighted average number of shares is as follows:

	2015	2014
Ordinary shares as at 1 January	5,420,003	5,420,003
Issue of new shares	745,205	-
Effect of treasury shares	(177,511)	(177,511)
Weighted average number of shares at 31 December (basic)	5,987,697	5,242,492
Effect of share based payments	19,287	7,743
Weighted average number of shares at 31 December (diluted)	6,006,984	5,250,235

Basic and diluted earnings / (loss) per share for continued and discontinued operations and the Group as a whole was as follows:

	2015			2014		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Basic earnings / (loss) per share						
Comprehensive income/(loss) attributable to the owners of equity (in HRK thousands)	416,008	(18,698)	397,310	115,656	(23,197)	92,459
Basic earnings / (loss) per share (in HRK)	69.48	(3.12)	66.35	22.06	(4.42)	17.64
Diluted earnings / (loss) per share						
Comprehensive income/(loss) attributable to the owners of equity (in HRK thousands)	425,830	(18,698)	407,132	116,875	(23,197)	93,678
Diluted earnings / (loss) per share (in HRK)	69.48	(3.12)	66.35	22.06	(4.42)	17.64

NOTE 17 – GOODWILL

(in thousands of HRK)

	2015	2014
Cost		
At 1 January	67,304	77,666
Written off	-	(10,362)
At 31 December	67,304	67,304
Accumulated impairment losses		
At 1 January	41,617	51,785
Effect of changes in the foreign exchange rates	(603)	194
Written off	-	(10,362)
At 31 December	41,014	41,617
Carrying amount at 31 December	26,290	25,687

During 2015 and 2014 there were no impairment of goodwill. A more detailed description of the approach and method of used in impairment testing is provided in note 5(v).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 18 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Software and licences	Rights, registration files, know how	Brands	Intangible assets in progress	Total
Cost					
At 1 January 2014	187,212	199,031	179,868	25,124	591,235
Effect of foreign exchange differences	(268)	(352)	(75)	-	(695)
Additions	5	-	-	57,530	57,535
Transfers	8,644	38,975	11,789	(59,408)	-
Disposals	(160)	(375)	-	(690)	(1,225)
Transfer to tangible assets	(258)	-	-	-	(258)
At 31 December 2014	195,175	237,279	191,582	22,556	646,592
Accum. amortisation and impairments					
At 1 January 2014	(155,847)	(105,405)	(111,545)	-	(372,797)
Effect of foreign exchange differences	290	337	75	-	702
Disposals	159	271	-	-	430
Charge for the year	(13,033)	(17,143)	-	-	(30,176)
Transfer from intangible assets	42	-	-	-	42
At 31 December 2014	(168,389)	(121,940)	(111,470)	-	(401,799)
Carrying amount as at 31 Dec 2014	26,786	115,339	80,112	22,556	244,793
Cost					
At 1 January 2015	195,175	237,279	191,582	22,556	646,592
Effect of foreign exchange differences	(216)	116	242	217	359
Additions	124	-	-	20,276	20,400
Business combinations (note 41)	1,029	6,031	56,845	-	63,905
Transfers	7,768	9,025	438	(17,231)	-
Disposals	(1,915)	(179)	-	(606)	(2,700)
Transfer to tangible assets	(15)	-	-	-	(15)
At 31 December 2015	201,950	252,272	249,107	25,212	728,541
Accum. amortisation and impairments					
At 1 January 2015	(168,389)	(121,940)	(111,470)	-	(401,799)
Effect of foreign exchange differences	210	(132)	(242)	-	(164)
Disposals	1,886	162	-	-	2,048
Charge for the year	(10,027)	(20,106)	(2,947)	-	(33,080)
Impairment	-	(11,050)	-	-	(11,050)
Transfer from intangible assets	15	-	-	-	15
At 31 December 2015	(176,305)	(153,066)	(114,659)	-	(444,030)
Carrying amount as at 31 Dec 2015	25,645	99,206	134,448	25,212	284,511

Of the total amount of accumulated amortisation and impairment losses HRK 131,157 thousand relates to accumulated impairment losses (2014: 120,107 thousand).

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

In 2015 the Group recognised an impairment loss of HRK 11,050 thousand relating to rights. A more detailed description of the approach and method of used in impairment testing is provided in note 5(v). Impairment losses on intangible assets are included in „Other expenses“ as presented in note 10.

During 2014 the Group acquired the brand Piketa relating to the "Meat and meat products" segment together with the associated distribution rights which relate to the acquired brand as well as to a part of other assortment in the segment. The total value of the transaction amounted to HRK 41,199 thousand of which the Group is based on internal estimates of future cash flows and sales plans HRK 11,789 thousand allocated to the brand while HRK 29,410 thousand was allocated to the distribution right. During 2015, the Group changed the useful life of Piketa brand from indefinite to finite and accordingly recognizes amortisation over a period of four years while the distribution right continues to be amortized over the contractual life of 3 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2014	2,237,325	1,609,940	64,164	3,911,429
Effect of foreign exchange differences	(2,934)	(2,477)	36	(5,375)
Additions	-	2,414	103,032	105,446
Transfers	3,357	69,850	(73,207)	-
Disposals	(535)	(28,039)	(3,473)	(32,047)
Transfer to assets held for sale (i)	2,533	1,063	(1,288)	2,308
Transfer from intangible assets	-	258	-	258
At 31 December 2014	2,239,746	1,653,009	89,264	3,982,019
Accum. depreciation and impairments				
At 1 January 2014	(1,420,355)	(1,269,960)	(2,850)	(2,693,165)
Effect of foreign exchange differences	1,373	2,315	-	3,688
Disposals	532	27,570	2,850	30,952
Charge for the year	(50,357)	(54,263)	-	(104,620)
Transfer to assets held for sale (i)	(1,380)	(737)	-	(2,117)
Impairment	(13,950)	(176)	-	(14,126)
Transfer from intangible assets	-	(42)	-	(42)
At 31 December 2014	(1,484,137)	(1,295,293)	-	(2,779,430)
Carrying amount as at 31 Dec 2014	755,609	357,716	89,264	1,202,589
Cost				
At 1 January 2015	2,239,746	1,653,009	89,264	3,982,019
Effect of foreign exchange differences	1,130	1,049	368	2,547
Additions	5,528	12,334	232,976	250,838
Acquisition of subsidiaries (note 41)	475,638	145,434	5,815	626,887
Transfers	30,107	90,515	(120,622)	-
Disposals and retirements	(3,127)	(42,720)	(107)	(45,954)
Transfer to and from assets held for sale	(68,450)	640	(1,548)	(69,358)
Transfer from intangible assets	15	-	-	15
At 31 December 2015	2,680,587	1,860,261	206,146	4,746,994
Accum. depreciation and impairments				
At 1 January 2015	(1,484,137)	(1,295,293)	-	(2,779,430)
Effect of foreign exchange differences	(688)	(1,048)	-	(1,736)
Disposals	2,941	42,824	-	45,765
Charge for the year	(49,418)	(65,816)	-	(115,234)
Transfer to and from assets held for sale	41,922	(288)	-	41,634
Transfer from intangible assets	-	(15)	-	(15)
At 31 December 2015	(1,489,380)	(1,319,636)	-	(2,809,016)
Carrying amount as at 31 Dec 2015	1,191,207	540,625	206,146	1,937,978

Of the total amount of accumulated depreciation and impairment losses HRK 15,067 thousand relates to accumulated impairment losses (2014: HRK 15,067 thousand).

Assets under construction relate mainly to investments in modernisation of production capacities and product mix expansion.

- (i) During the year the Group transferred property, plant and equipment with a carrying amount of HRK 27,724 thousand to non-current assets held for sale (2014: 1,288 thousand). During 2014 the Group reclassified part of the assets held for sale to property, plant and equipment amounting to HRK 1,479 thousand since the circumstances indicated a reduced possibility of sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment losses

During 2015 there was no impairment loss on property, plant and equipment.

During 2014, the Group recognised HRK 14,126 thousand of impairment losses with respect to production facilities (buildings and equipment) in Poland arising from the decision of the Group to relocate a significant part of production from Poland to Croatia.

Property mortgaged

During 2014 the Group refinanced the syndicated loan facility against which property of several subsidiaries of the Group was pledged. Due to the refinancing of the syndicated loan with the new EBRD loan in the amount of HRK 559,417 thousand, collaterals under the previous syndicated loan were cancelled and the properties of Podravka d.d. and Belupo d.d. were pledged as collateral for the new loan.

Land, buildings and equipment of the Group with a carrying amount of HRK 593,840 thousand (2014: HRK 576,438 thousand) are mortgaged against the Group's borrowings.

Property which is subject to finance lease agreement

Leased property, plant and equipment where the Group is the lessee under a finance lease comprises the following:

	2015	2014
	<i>(in thousands of HRK)</i>	
Cost of capitalised finance leases	13,659	22,805
Accumulated depreciation	(6,417)	(6,910)
Carrying amount	7,242	15,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 20 – SUBSIDIARIES

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

Name of subsidiary	Country	2015	2014	Principal activity
Belupo d.d., Koprivnica	Croatia	100%	100%	Production and distribution of pharmaceuticals
Belupo doel, Skopje*	Macedonia	100%	100%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100%	100%	Sale and distribution of pharmaceuticals
Belupo Ljubljana*	Slovenia	100%	100%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm Koprivnica*	Croatia	100%	100%	Sale and distribution of pharmaceuticals
	Bosnia and			
Farmavita d.o.o. Vogošća*	Herzegovina	65%	65%	Sale and distribution of pharmaceuticals
Danica d.o.o., Koprivnica	Croatia	-	100%	Meat processing and production
Studenac d.o.o. Koprivnica	Croatia	100%	100%	Beverages production and sale
Mirna d.d. Rovinj	Croatia	84%	-	Fish processing and production
Lagris a.s., Lhota u Luhačovic	Czech Rep.	100%	100%	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100%	100%	Seasonings production and sale
Podravka-International Kft, Budapest	Hungary	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Ljubljana	Slovenia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100%	100%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –“Konar” GmbH	Germany	100%	100%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen**	Slovakia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100%	100%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	100%	99%	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100%	100%	Production of wafers
Podravka-International s.r.l., Bucharest	Romania	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100%	100%	Sale and distribution of food and beverages
	Bosnia and			
Podravka d.o.o., Sarajevo	Herzegovina	100%	100%	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Moscow	Russia	100%	-	Sale and distribution of food and beverages
Podravka International, Istanbul	Turkey	-	100%	Sale and distribution of food and beverages
Vegeta Podravka Limited, Dar es Salaam	Tanzania	85%	-	Sale and distribution
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100%	-	Sale and distribution
Žito d.d., Ljubljana	Slovenia	87%	-	Production and distribution of food
Intes Storitve d.o.o., Maribor****	Slovenia	87%	-	Production and distribution of food
Šumi bonboni d.o.o., Ljubljana****	Slovenia	87%	-	Production and distribution of food
Žito maloprodaja d.o.o., Ljubljana****	Slovenia	87%	-	Sale of food and beverages
Šumi nepremičnine d.o.o., Ljubljana****	Slovenia	87%	-	Services
Žito storitve d.o.o., Ljubljana****	Slovenia	87%	-	Services
ZIŽR g.i.z., Ljubljana****	Slovenia	87%	-	Services
LD Žito d.o.o. v likvidaciji, Zagreb****	Croatia	87%	-	Sale and distribution of food and beverages
Žito Beograd d.o.o. v likvidaciji, Beograd****	Serbia	87%	-	Sale and distribution of food and beverages
Žito Pl d.o.o.e.l. v likvidaciji, Skopje****	Macedonia	87%	-	Sale and distribution of food and beverages

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

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

***15% of ownership interest is held indirectly through the subsidiary Podravka-Int. Deutschland – “Konar“ GmbH

**** The Group holds an effective interest of 87% in these companies through its subsidiary Žito d.d. which holds 100% of ownership interests in these companies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 20 – SUBSIDIARIES (continued)

During 2014, the Company acquired shares of Mirna d.d., but due to significant legal uncertainty it had not gained control of the company. During 2015, the uncertainties were no longer in effect whereby the Company acquired control of Mirna d.d., and by the end of 2015 purchased additional shares. As at the reporting date, the Company held 84.24% of the share capital of Mirna d.d. For details, see note 41 (i).

During 2015, via two purchase transactions, the Company acquired 308,820 shares of Žito d.d., representing 86.80% of the share capital of Žito d.d. As at 31 December 2015, the Company held 86.80% of share capital and 96.44% of the voting rights, due to the fact that companies from the Žito Group hold additional 35,579 of treasury shares of Žito d.d. For details, see note 41 (ii).

Furthermore, during 2015, the Group incorporated new subsidiaries Podravka Gulf FZE with headquarter in Dubai and Podravka Vegeta Limited in Tanzania.

During 2015, the parent company Podravka d.d. merged its subsidiary Danica d.o.o.

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

	2015	2014
	<i>(in thousands of HRK)</i>	
Loans receivable	3,665	4,103
Other receivables and deposits	2,819	1,199
Investments in other equity instruments	12,231	2,300
	18,715	7,602

Loans refer to loans to related parties that carry a variable interest rate which average about 5%.

Deposit and other receivables mainly relate to lease deposits which do not bear interest.

Investments in other equity instruments mainly relate to investments in quoted equity instruments and partly to unlisted equity instruments.

Fair Value Measurement

The fair value of investments in shares of listed companies is based on stock market prices at the reporting date. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 1 (see note 6). Investments into equity instruments not listed on the stock exchange or into equity instruments quoted on the stock exchange but where there is no active market are carried at cost and tested for impairment regularly.

NOTE 22 – INVENTORIES

	2015	2014
	<i>(in thousands of HRK)</i>	
Raw materials and supplies	298,605	183,729
Work in progress	54,411	39,419
Finished goods	237,732	215,556
Merchandise	192,742	160,460
	783,490	599,164

In 2015, the Group recognised income from reversal of impairment loss with respect to inventories in the amount of HRK 10,378 thousand (2014: HRK 6,641 thousand of impairment loss) as the Group managed to sell impaired inventories at higher prices than expected. The movement in inventory impairment provision is included in the statement of comprehensive income in line item 'Cost of goods sold'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 23 – TRADE AND OTHER RECEIVABLES

	2015	2014
	<i>(in thousands of HRK)</i>	
Current receivables		
Trade receivables	1,204,310	1,022,382
Impairment allowance	(174,545)	(170,128)
Net trade receivables	1,029,765	852,254
Bills of exchange received	645	517
Advances to suppliers	38,805	37,596
Loans given	160	1,819
Net VAT receivable	16,392	12,286
Prepaid expenses	16,566	13,577
Receivables from employees	1,722	1,409
Other receivables	9,496	4,619
	1,113,551	924,077

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

	2015	2014
	<i>(in thousands of HRK)</i>	
At 1 January	170,128	166,510
Increase	15,924	15,793
Amounts collected	(7,747)	(3,054)
Written off as uncollectable	(3,760)	(9,121)
At 31 December	174,545	170,128

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

Ageing analysis of trade receivables which have not been impaired:

	2015	2014
	<i>(in thousands of HRK)</i>	
Not due	772,410	638,165
0-90 days	229,214	185,973
91-180 days	12,967	20,823
181-360 days	15,174	7,293
	1,029,765	852,254

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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

	2015	2014
	<i>(in thousands of HRK)</i>	
Forward contracts	215	59
	215	59

During 2015, the Group used forward contracts entered into with commercial banks with the intention of managing the fluctuations of the Russian ruble and the American dollar related to its balance of deposits and cash funds denominated in those currencies, and which had a positive fair value as at 31 December 2015 amounting to HRK 215 thousand (2014: HRK 59 thousand).

The nominal value of currency forwards as at 31 December 2015 amounted to HRK 5,043 thousand (2014: HRK 8,265 thousand), with the contracts maturing in the period from 5 February 2016 to 4 May 2016.

Gains and losses recognized as changes in the market value of the currency forward contracts are recorded in the statement of comprehensive income within 'net finance costs'.

Fair Value Measurement

The fair value of forward exchange contracts is based on the quotation of the exchange rate. In accordance with the used input variables, evaluation is categorized in the fair value hierarchy as level 2 (see note 6).

NOTE 25 – CASH AND CASH EQUIVALENTS

	2015	2014
	<i>(in thousands of HRK)</i>	
Cash with banks	274,042	187,301
Short-term deposits – up to 3 months	17,368	32,544
Cash in hand	467	633
	291,877	220,478

Cash with banks relates to transaction accounts at commercial banks that carry an average interest rate ranging from 0.0001% to 2.25%.

Deposits relate to deposits at commercial banks with maturity up to three months that carry a variable interest rate ranging from 0.01% to 8.06%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE

	2015	2014
	<i>(in thousands of HRK)</i>	
Land and buildings	161,376	142,116
Equipment	1,397	2,041
Disposal group held for sale (note 7)	60,788	70,275
	223,561	214,432

(i) *Land and buildings*

Of the total amount of land and buildings held for sale, HRK 134,908 thousand relates to the land and buildings in Rijeka (2014: HRK 131,175 thousand). The Group still actively seeks to realize a plan of selling the assets held for sale. The remainder of land and buildings intended for sale relate mainly to land and buildings in Poreč and in Koprivnica for which the Group is still actively looking for a buyer and to production facilities in Poland, for which the Group recognized an impairment loss of HRK 11,474 thousand in 2015.

Fair value measurement

Land and property held for sale in the amount of HRK 61,437 thousand are measured at fair value less costs of sell due to the fact that this value is lower than the carrying value prior to reclassification. The Group has made an estimation of fair value on reclassification date and regularity checks if estimation needs to be revised. During 2015, management estimated that no new circumstances occur that would require new fair value measurement of non-current assets held for sale.

Fair value measurement according to inputs used in evaluation is classified as level 3 (see note 6). The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value:

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

Land held for sale in the amount of HRK 81,492 thousand is carried at the cost of purchase incurred in 2014 since this is considered an adequate approximation of its fair value.

(ii) *Equipment held for sale*

Equipment held for sale relates to the equipment that the Group intends to sell due to the discontinuation of operations the equipment is related to. At the date of classification as assets held for sale, the Group internally estimated the amount recoverable through the sale of this equipment. During 2015 an additional impairment of equipment has been recognised in the amount HRK 626 thousand (2014: HRK 2,452 thousand). The Group expects to sell the equipment in 2016. The loss on the impairment of equipment is presented in the Statement of comprehensive income within “Other expenses” (note 10).

(iii) *Disposal group held for sale*

Disposal group held for sale relates to assets held for sale which are part of discontinued operations. During 2015, the Group recognised an impairment loss of the respective assets in the amount of HRK 11,454 thousand (2014: HRK 11,185 thousand). The Group expects to sell these assets during 2016 and at the reporting date is in process of reviewing a purchase offer which does not indicate a potential impairment. For more details on the disposal group held for sale relating to discontinued operations see note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 27– SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)	(in thousands of HRK)			
At 1 January 2014	5,242,492	1,084,001	45,932	(67,604)	1,062,329
Fair value of share based payments	-	-	1,219	-	1,219
At 31 December 2014	5,242,492	1,084,001	47,151	(67,604)	1,063,548
At 1 January 2015	5,242,492	1,084,001	47,151	(67,604)	1,063,548
Issue of new shares (i)	1,700,000	374,000	132,394	-	506,394
Increase of capital from reinvested profits (ii)	-	108,400	-	-	108,400
Purchase of treasury shares (iii)	18,000	-	-	(5,899)	(5,899)
Exercise of options (iii)	(18,000)	-	(3,104)	6,794	3,690
Fair value of share based payments (iii)	-	-	9,822	-	9,822
At 31 December 2015	6,942,492	1,566,401	186,263	(66,709)	1,685,955

As at 31 December 2015, the Company's share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 177,511 relates to treasury shares (2014: HRK 1,084,001 thousand and 5,420,003 shares out of which 177,511 related to treasury shares). Nominal value of one share amounts to HRK 220.00. All issued shares are fully paid in.

(i) *The issue of new shares*

On 3 June 2015, the General Assembly adopted a decision regarding the share capital increase and issue of ordinary shares by public offering in the Republic of Croatia. On 24 July 2015, based on the decision above, the Company issued 1,700,000 new ordinary shares with a nominal value of HRK 220.00 while the share price was set at HRK 300.00 per share thereby increasing the share capital by HRK 374,000 thousand and resulting in a share capital premium amounting to HRK 132,394 thousand (net of transaction costs).

As part of the increase of share capital, the Group launched an employee stock ownership program whereby employees of certain companies of the Podravka Group in Croatia had the right of primary subscription of share as part of the share capital increase with an option of gaining additional shares depending on meeting the conditions for holding of shares over the next three years. The employee stock ownership program is described in more detail in note 37 (i).

(ii) *Increase in capital from reinvested profits*

During 2015 the Company registered an increase of its share capital on the basis of reinvesting part of the profit from 2014 in the amount of HRK 108,400 thousand (2014: -) by means of increasing the nominal value of shares from HRK 200.00 by HRK 20.00 to HRK 220.00. If during future periods, any distributions of share capital to shareholders or any decrease of share capital created from reinvested profits should occur, this transaction would result in the cancellation of the initial tax incentive and, retroactively, a tax liability would be created as at the date when the initial tax incentive occurred.

(iii) *Share based payments*

During 2015, the Company purchased 18,000 of its own shares for allocation under the stock option plan for employees. During the year the Company also issued additional options to employees under the stock option plan for employees, but also as part of the employee stock ownership program (ESOP program) in the context of the share capital increase. The share option plan for employees and the ESOP program are described in more detail in note 37 (ii) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 27– SHARE CAPITAL (continued)

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

Structure of ownership	2015		2014	
	Number of shares	% of ownership	Number of shares	% of ownership
AZ OMF	895,953	12.58%	488,106	9.01%
PBZ Croatia osiguranje d.d. OMF	764,274	10.73%	480,921	8.87%
AUDIO - Croatian Health insurance association	727,703	10.22%	575,598	10.62%
AUDIO - Republic of Croatia	674,461	9.47%	536,259	9.89%
Erste Plavi OMF	665,166	9.34%	514,863	9.50%
Unicredit Bank Austria AG - custody account	547,341	7.69%	435,910	8.04%
Kapitalni fond d.d.	406,842	5.71%	321,804	5.94%
Raiffeisen OMF	375,448	5.27%	197,766	3.65%
AZ Profit DMO	115,779	1.63%	51,862	0.96%
Zagrebačka banka d.d. - custody account	79,849	1.12%	118,475	2.19%
Treasury account	177,511	2.49%	177,511	3.28%
Other shareholders	1,689,676	23.75%	1,520,928	28.05%
Ukupno	7,120,003	100.00%	5,420,003	100.00%

NOTE 28 – RESERVES

(in thousands of HRK)	Reserves for	Legal	Reinvested	Statutory	Other	Total
	treasury shares	reserves	profit reserve	reserves	reserves	
At 1 January 2014	21,762	11,474	136,075	39,294	40,715	249,320
Transfer from retained earnings	45,842	5,069	162,063	4,662	2,955	220,591
Exchange differences	-	-	-	-	(2,371)	(2,371)
At 31 December 2014	67,604	16,543	298,138	43,956	41,299	467,540
At 1 January 2015	67,604	16,543	298,138	43,956	41,299	467,540
Allocation of profits (i)	80,000	14,388	-	3,051	3,190	100,629
Share capital increase (note 27 (ii))	-	-	(108,400)	-	-	(108,400)
Additional purchase of NCI	-	-	-	-	88,962	88,962
Exchange differences	-	-	-	-	1,334	1,334
Actuarial losses (net of tax)	-	-	-	-	(225)	(225)
At 31 December 2015	147,604	30,931	189,738	47,007	134,560	549,840

The legal reserve is required under Croatian law according under 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, as well as reserves for reinvested profits, are non-distributable. Other reserves mainly comprise statutory reserves recorded in accordance with the Company's Articles of Association and foreign exchange translation reserves.

(i) Transfers within capital and reserves

In 2015 the General Assembly adopted a decision to allocate the Company's profit from 2014 in the amount of HRK 201,674 thousand into legal reserves in the amount of HRK 10,084 thousand, reserves for treasury shares in the amount of HRK 80,000 thousand and other reserves in the amount of HRK 3,190 thousand while the amount of reinvested profit reserve of HRK 108,400 thousand was registered as an increase in share capital from reinvested profits.

During 2015, in accordance with the decision of its General Assembly, the subsidiary Belupo d.d. transferred HRK 3,051 thousand from retained earnings to statutory reserves and HRK 4,304 thousand to legal reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 29 – RETAINED EARNINGS

Movement in retained earnings is presented as follows:

	2015	2014
	<i>(in thousands of HRK)</i>	
At 1 January	217,569	345,701
- transfer to legal and other reserves	(100,629)	(58,528)
- reinvestment of profits	-	(162,063)
- profit for the year	397,310	92,459
At 31 December	514,250	217,569

On 22 March 2016, the Management of the Company proposed a decision to allocate the profit of the Company for 2015 which amounted to HRK 156,972 thousand whereby HRK 56,821 thousand is proposed to be used to cover accumulated losses while HRK 5,007 thousand is proposed to be transferred to legal reserves. Management also proposed a dividend to the shareholders in the amount of HRK 7 per share while the remainder of the profits it to be transferred to other reserves.

NOTE 30 – NON-CONTROLLING INTERESTS

Podravka Group has non-controlling interests arising from acquisitions of 65% of ownership interest in subsidiary Farmavita d.o.o. Sarajevo in year 2008, 96.44% in the subsidiary Žito d.d., acquired during 2015 and 84.24% in the subsidiary Mirna d.d., acquired during 2015 (not deemed to be significant from the perspective of the consolidated Group). Summary financial information for the companies Farmavita d.o.o. Sarajevo and Žito d.d. Ljubljana as at 31 December 2015 (excluding consolidation eliminations) are as follows:

31 December 2015	Farmavita	Zito
<i>(in thousands of HRK)</i>		
Non-controlling interest	35.0%	3.6%
Statement of financial position		
Non-current assets	77,255	605,597
Current assets	128,712	374,473
Current liabilities	(103,930)	(113,587)
Non-current liabilities	(17,259)	(210,323)
Net assets	84,778	656,160
Statement of comprehensive income for the period		
Sales revenue	197,846	239,251
Profit after tax	12,374	13,214
Other comprehensive income	(71)	-
Total comprehensive income for the period	12,303	13,214
Statement of cash flows		
Net increase / (decrease) in cash and cash equivalents	1,158	28,477

The movement in non-controlling interest was as follows:

	2015	2014
	<i>(in thousands of HRK)</i>	
Balance at 1 January	36,605	34,040
Increase through acquisitions of subsidiaries (note 41)	289,326	-
Effect of acquiring non-controlling interests	(264,166)	-
Foreign exchange differences	(8)	79
Share in current year profit	5,955	2,486
Balance at 31 December	67,712	36,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

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

					2015	2014
					<i>(in thousands of HRK)</i>	
Interest rate swap					2,469	2,752

	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
31.12.2015							
SWAP 1 - EBRD	25,671	20,540	1,637	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
SWAP 2 - EBRD	25,671	20,540	832	06.02.2015.	16.08.2019.	3M EURIBOR	0.19%
	51,342	41,080	2,469				

	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
31.12.2014							
SWAP - Tranche A	-	-	221	16.11.2012.	16.12.2015.	3M EURIBOR	0.50%
SWAP - Tranche B	-	-	1,771	16.11.2012.	16.12.2015.	3M EURIBOR	0.63%
SWAP - EBRD (A+B)	25,671	24,645	760	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
	25,671	24,645	2,752				

The Group actively hedges against the risk of changes in interest rates on the syndicated loan and has entered into interest rate swap agreements.

During 2014 the Group entered into an interest rate swap agreement whereby it fixed the interest rate expense for 35% of the principal of the new syndicated loan from EBRD for the period from 16 December 2015 up to the maturity of the loan. During 2015, the Group entered into another interest rate swap agreement whereby it fixed interest rate expense for an additional 35% of the principal of the new syndicated loan with EBRD, therefore hedging interest rate expenses for a total of 70% of the principal of the syndicated loan as shown in the table above.

Fair value measurement

The fair value of interest rate swaps is based on projections of discontinued cash flows based on terms and maturities of underlying contracts and with market interest rate for a similar instrument at a measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate. According to inputs used, fair value measurement is classified as level 2 in the fair value hierarchy (see note 6).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 32 – BORROWINGS

	2015	2014
	<i>(in thousands of HRK)</i>	
Non-current borrowings		
Banks in Croatia	328,415	272,250
Banks abroad	422,756	474,560
Finance lease	1,073	2,203
	752,244	749,013
Current borrowings		
Banks in Croatia	211,832	150,221
Banks abroad	245,991	173,669
Finance lease	1,721	1,652
	459,544	325,542
Total borrowings	1,211,788	1,074,555

During 2014, the Group refinanced a significant portion of borrowings with the new long term syndicated loan from EBRD and three business banks in total amount of HRK 559,417 thousand maturing on 16 August 2019.

As part of the above mentioned EBRD loan agreement, the Group is obligated to comply with the following debt covenants:

- a) Debt coverage ratio (DCR). The parameter is calculated as the ratio of consolidated net debt and consolidated EBITDA. At the reporting date, the Group was in compliance with this covenant.
- b) Interest coverage ratio (ICR). The parameter is calculated as the ratio of consolidated EBITDA and consolidated interest expense for the year. At the reporting date, the Group was in compliance with this covenant.
- c) Equity ratio (ER). The parameter is calculated as the ratio of consolidated equity and consolidated total assets. At the reporting date, the Group was in compliance with this covenant.
- d) Cash flow cover ratio (CFC). The parameter is calculated as the ratio of consolidated cash flows and consolidated debt repayments. At the reporting date, the Group was in compliance with this covenant.

In case of a breach of any of the covenants, corrective compliance is possible within a 30 day period and in case the breach of the covenants continues, a part of the loan or the entire loan can mature immediately upon the bank's request.

Bank borrowings in the amount of HRK 760,500 thousand (2014: HRK 824,334 thousand) are secured by mortgages over the Group's land and buildings with a carrying value of HRK 593,840 thousand (note 19).

The finance lease liabilities of the Group are as follows:

	Minimum lease		Finance cost		Present value	
	2015	2014	2015	2014	2015	2014
	<i>(in thousands of HRK)</i>					
Up to 1 year	1,819	1,803	(98)	(151)	1,721	1,652
Between 1 and 5 years	1,112	2,292	(39)	(89)	1,073	2,203
After 5 years	-	-	-	-	-	-
Total	2,931	4,095	(137)	(240)	2,794	3,855

Included in the consolidated financial statements within:

Current borrowings	1,721	1,652
Non-current borrowings	1,073	2,203
	2,794	3,855

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 32 – BORROWINGS (CONTINUED)

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

	2015	2014
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	302,026	158,045
Between 2 and 5 years	425,830	581,583
Over 5 years	26,857	12,137
	754,713	751,765

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

	2015			2014		
	HRK	EUR	Other	HRK	EUR	Other
Non-current borrowings						
Banks in Croatia	3.92%	3.45%	-	3.97%	4.01%	-
Banks abroad	-	2.29%	5.30%	-	2.73%	5.30%
Finance leases	-	3.80%	8.10%	-	3.83%	8.38%
Current borrowings						
Banks	2.96%	1.30%	3.18%	3.71%	-	3.86%

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

	2015	2014
	<i>(in thousands of HRK)</i>	
Croatian kuna	435,745	373,398
EUR	678,372	593,753
Other currencies	100,140	110,156
	1,214,257	1,077,307

Most of the borrowings are denominated in EUR and the impact of changes in the EUR exchange rates is deemed significant as a result.

The Group has the following undrawn borrowing facilities:

	2015	2014
	<i>(in thousands of HRK)</i>	
Floating rate:		
- Expiring within one year	130,670	128,075
	130,670	128,075

These comprise unused short term revolving facilities, guarantees and letters of credit which the Group has available with several commercial banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 33 – PROVISIONS

<i>(in thousands of HRK)</i>	Jubilee awards	Vacation accruals	Retirement benefits	Termination benefits and bonuses	Legal cases	Total
As at 31 December 2014						
Non-current	10,562	-	13,116	-	16,114	39,792
Current	2,008	8,850	268	22,782	236	34,144
At 1 January 2015	12,570	8,850	13,384	22,782	16,350	73,936
Increase of provisions	2,517	11,771	2,669	29,384	8,909	55,250
Effect of acquisition of subsidiaries (note 41)	4,874	-	10,717	-	-	15,591
Utilised during the year	(3,064)	(8,190)	(1,175)	(28,471)	(446)	(41,346)
At 31 December 2015	16,897	12,431	25,595	23,695	24,813	103,431
Non-current	14,939	2	25,524	-	23,661	64,126
Current	1,958	12,429	71	23,695	1,152	39,305
	16,897	12,431	25,595	23,695	24,813	103,431

(i) *Legal cases*

Legal provisions relate to a number of legal proceedings initiated against the Group which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the consolidated statement of comprehensive income within 'Administrative expenses'. Based on the expert opinion of legal counsels, the Group's Management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2015.

(ii) *Termination benefits and bonuses*

As at 31 December 2015, the Group recognised HRK 8,674 thousand of provisions for bonuses to key management (2014: HRK 7,463 thousand). Furthermore, during 2015 the Group recognized an expense in the amount of HRK 15,021 thousand relating to payment of termination benefits to redundant employees based on a formal workforce restructuring plan.

(iii) *Jubilee awards and regular retirement benefits*

According to the Collective Labour Agreement, the Croatian based subsidiaries have an obligation to pay jubilee awards, retirement and other benefits to its employees. No other post-retirement benefits are provided. The present values of these obligations, the related current service cost and past service cost were measured using the projected credit unit method.

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

	<i>Estimate</i>	
	2015	2014
Discount rate	3,8% - 4,1%	3,8% - 4,0%
Fluctuation rate	4,36% - 9,46%	4,9% - 10,0%
Average expected remaining working lives (in years)	21	21

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

<i>(in thousands of HRK)</i>	2015		2014	
	Jubilee awards	Retirement benefits	Jubilee awards	Retirement benefits
At 1 January	12,570	13,384	13,148	14,425
Acquisition of subsidiaries	4,874	10,714	-	-
Current service cost	520	1,306	715	476
Interest expense	430	472	426	430
Actuarial gains	654	281	295	(956)
Benefits paid	(2,151)	(562)	(2,014)	(991)
At 31 December	16,897	25,595	12,570	13,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 34 – OTHER LONG TERM LIABILITIES

	2015	2014
	<i>(in thousands of HRK)</i>	
Deferred income on government incentives	19,611	-
	19,611	-

Deferred income on government grants relates to non-monetary government grant to subsidiary in Slovenia and it is based on the amount of contributions for the employment of disabled persons.

In accordance with the relevant regulations, the forementioned grant is not paid into the government budget and it can be used for the acquisition of qualifying non-current assets during three years' period. The amount of unpaid contributions is then recognized as deferred income and transferred to profit or loss on a systematic basis over the useful life of the related assets. If the grant is not used for the acquisition of non-current assets within the prescribed period, unpaid contributions become payable.

The amount of deferred income on government grants that is expected to be transferred to profit or loss in the period of up to one year on a basis of depreciation of qualifying assets, or the amount of unpaid contributions, which will not qualify as a government grant and will become payable within one year, is recognized as a current liability in trade and other payables.

NOTE 35 – TRADE AND OTHER PAYABLES

	2015	2014
	<i>(in thousands of HRK)</i>	
Trade payables	565,540	433,707
Other payables	166,429	130,215
	731,969	563,922

At 31 December 2015 and 31 December 2014, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other liabilities include the following:

	2015	2014
	<i>(in thousands of HRK)</i>	
Salaries and other benefits to employees	82,701	54,673
Accrued expenses	50,967	37,204
Deferred income (sale and leaseback)	6,609	15,422
Taxes, contributions and other duties payable	7,577	9,355
Packaging waste disposal fee payable	2,423	2,929
Accrued interest	4,259	4,251
Advances received	1,791	515
Dividends payable	1,395	677
Other payables	8,707	5,189
	166,429	130,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 36 – RISK MANAGEMENT

Categories of financial instruments are as follows:

	2015	2014
	<i>(in thousands of HRK)</i>	
Financial assets		
Long-term loans	3,665	4,103
Long-term deposits	2,819	1,199
Investments in equity instruments	12,231	2,300
Short-term loans	160	1,819
Trade receivables (including bills of exchange)	1,030,410	852,771
Cash and cash equivalents	291,877	220,478
	1,341,162	1,082,670
Financial assets at fair value through profit or loss		
Forward contracts	215	59
	215	59
Total financial assets	1,341,377	1,082,729
Financial liabilities at amortised cost		
Finance lease obligations	2,794	3,855
Borrowings	1,208,994	1,070,700
Trade payables and other liabilities	569,799	437,958
	1,781,587	1,512,513
Financial liabilities at fair value through profit or loss		
Interest rate swap	2,469	2,752
	2,469	2,752
Total financial liabilities	1,784,056	1,515,265

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

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less the portion repaid. Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation.

At the reporting date, the carrying amounts of cash and cash equivalents, short-term deposits, receivables and short-term borrowings approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates approximating market interest rates.

Financial assets arising from currency forward contracts is measured at fair value as explained in note 24. The fair value of long-term loans and deposits is approximated by its carrying amount as these assets generally carry a variable interest rate similar to market interest rates.

The Group considers that the carrying amount of investments in unquoted and quoted equity instruments with no active market approximates their fair value due to the fact that the respective instruments were acquired at a price willingly agreed by knowledgeable and unrelated parties.

The carrying amounts of finance lease liabilities and loan liabilities approximates their fair values as these liabilities bear variable interest rates or fixed interest rate approximating market interest rates.

Financial liabilities relating to the interest rate swaps are measured at fair value as explained in note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Capital risk management

The treasury of the 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:

	2015	2014
	<i>(in thousands of HRK)</i>	
Debt (non-current and current borrowings including interest rate swap)	1,214,257	1,077,307
Cash and cash equivalents	(291,877)	(220,478)
Net debt	<u>922,380</u>	<u>856,829</u>
Equity	<u>2,817,757</u>	<u>1,785,262</u>
Net debt to equity ratio	33%	48%

Debt is defined as long- and short-term borrowings and bonds. Equity includes all capital and reserves of the Group. Besides monitoring the ratio of net debt to equity, the Group also monitors the ratio of operating profit before depreciation and amortization (EBITDA) and debt as part of its compliance with the terms of the syndicated loan agreement (see note 32). As at 31 December 2015 the Group was within the defined ratio.

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

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 an upgraded “Procedure for collection of receivables that are due”, which is applied in dealing with customers and obtains sufficient collateral, where appropriate, as a means of mitigating risks of financial loss from defaults. Furthermore, the Company has secured its domestic receivables in order to reduce the risk of potential default.

Customers are classified into risk categories based on their annual turnover whereby appropriate credit risk mitigation measures are taken for each risk category.

The Group enters into cooperation with new customers and given the meeting of the Group’s credit risk parameters, maintains cooperation with the existing ones with payment delay. Receivables are analyzed on a weekly basis and a necessary measures are taken for their collection.

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

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

The Group does not have significant credit risk exposures which are not covered by instruments of insurance and which have not been reflected in its assessment of impairment allowance as at 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

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

Liquidity risk analysis

Tables below show contracted maturity of financial liabilities and financial assets of the Group stated in statement of financial position at the end of each reporting date.

The tables have been drawn up based on the undiscounted cash flows based on contracted terms at reporting date and include cash flow of interest and equity.

The Group's analysis below shows no potential deficit of short term contractual cash flows from financial instruments.

<i>as at 31 December 2015</i>	Net book value	Contracted cashflow	Up to one year	1 - 5 years	over 5 years
	<i>(in thousands of HRK)</i>				
<i>Non-interest bearing liabilities:</i>					
Interest rate swap	2,469	2,469	-	2,469	-
Trade and interest payables	569,799	569,799	566,752	2,917	130
	572,268	572,268	566,752	5,386	130
<i>Interest bearing liabilities</i>					
Financial lease liabilities	2,794	2,931	1,819	1,112	-
Borrowings	1,208,994	1,275,902	488,867	760,437	26,598
	1,211,788	1,278,833	490,686	761,549	26,598
	1,784,056	1,851,101	1,057,438	766,935	26,728
<i>Non-interest bearing assets:</i>					
Trade receivables (including bills of exchange)	1,030,410	1,030,410	1,025,444	4,966	-
Forward contracts	215	215	215	-	-
Cash and cash equivalents	291,877	291,877	291,877	-	-
	1,322,502	1,322,502	1,317,536	4,966	-
<i>Interest bearing assets:</i>					
Long-term loans	3,665	4,572	1,167	3,405	-
Long-term deposits	2,819	3,133	514	2,619	-
Short-term loans	160	160	160	-	-
	6,644	7,865	1,841	6,024	-
	1,329,146	1,330,367	1,319,377	10,990	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

<i>as at 31 December 2014</i>	Net book value	Contracted cashflow	Up to one year	1 - 5 years	over 5 years
	<i>(in thousands of HRK)</i>				
<i>Non-interest bearing liabilities:</i>					
Interest rate swap	2,752	2,752	1,992	760	-
Trade and interest payables	437,958	437,958	437,537	421	-
	440,710	440,710	439,529	1,181	-
<i>Interest bearing liabilities</i>					
Financial lease liabilities	3,855	4,095	1,803	2,292	-
Borrowings	1,070,700	1,153,225	356,653	786,103	10,469
	1,074,555	1,157,320	358,456	788,395	10,469
	1,515,265	1,598,030	797,985	789,576	10,469
<i>Non-interest bearing assets:</i>					
Trade receivables (including bills of exchange)	852,771	852,771	827,656	25,115	-
Forward contracts	59	59	59	-	-
Cash and cash equivalents	220,478	220,478	220,478	-	-
	1,073,308	1,073,308	1,048,193	25,115	-
<i>Interest bearing assets:</i>					
Long-term loans	4,103	7,245	2,747	4,498	-
Long-term deposits	1,199	1,223	-	1,223	-
Short-term loans	1,819	1,890	1,890	-	-
	7,121	10,358	4,637	5,721	-
	1,080,429	1,083,666	1,052,830	30,836	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Interest rate risk management

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

Exposure to changes in interest rates on borrowings and loans (excluding the part of loans covered with the interest rate swap agreement at the reporting date) in accordance with the agreed dates of changes in interest rates is as follows:

<i>(in thousands of HRK)</i>	2015	2014
EURIBOR based bank loans	303,399	400,535
EURIBOR based finance lease	2,595	3,619
MF bill of exchange based loans*	46,583	53,292
PRIBOR based bank loans**	39,557	31,894
	392,134	489,340

*Treasury bills issued by the Ministry of Finance

** Prague Interbank Offer Rate

Interest rate sensitivity analysis

The sensitivity analyses below is determined based on the exposure to changes in contractual interest rates at the reporting date. For floating rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on floating rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. A 50 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates. The estimated effect of the reasonably possible change in variable interest rates on the Group's result before tax for the reporting periods is as follows:

<i>as at 31 December 2015</i>	Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
	<i>(in thousands of HRK)</i>				
At current interest rates	404,469	226,718	66,223	111,528	-
At current interest rates + 50 basis points	407,137	228,128	66,925	112,084	-
Effect of increase of interest rate by 50 bp	(2,668)	(1,410)	(702)	(556)	-

<i>as at 31 December 2014</i>	Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
	<i>(in thousands of HRK)</i>				
At current interest rates	513,018	167,725	84,797	260,496	-
At current interest rates + 50 basis points	517,638	168,779	86,241	262,618	-
Effect of increase of interest rate by 50 bp	(4,620)	(1,054)	(1,444)	(2,122)	-

At the reporting date the Group's exposure to interest rate risk is not deemed to be significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Operational risk management

Market risks

(i) Price risk

The success of business of Podravka Group is dependent on adequate sources of raw materials, as well as their prices on the market, the efficiency of the production process and distribution of products to its customers.

The cost of raw materials can play a significant role in the cost of finished products it produces, therefore, it is subject to fluctuations in market prices of food raw materials, whose impact cannot always be mitigated through the sale price for the buyer.

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

Protective customs and trade mechanisms in place in the EU, on the one hand serve to protect EU producers while on the other hand present a significant risk in terms of higher customs duties (antidumping) on purchases from outside the EU. Unavailability of goods in the market resulting from market shortages due to adverse weather conditions (drought, floods), political and social unrest in certain countries or speculation with key agricultural and food products are also risks with increased impact on the Group's operations.

To minimize these impacts, the procurement function of the Company, through managing the strategic procurement categories and key suppliers, is aiming to develop partnerships with long term suppliers, as well as relationships with new suppliers on the target markets of the EU and third countries, to consolidate purchasing volumes with the aim of strengthening its market position and to reduce procurement costs fully utilising its Commodity Risk Management system and conducting tenders and using new import regulation (triangulation).

Pharmaceuticals segment is exposed to the risks of changes in prices of prescription drugs, ie, restrictions on the sale price by the regulator. In addition to the communication with the regulator and coordination with other market participants, Group is unable to actively manage this risk.

(ii) Currency risk

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

	Liabilities		Assets	
	2015	2014	2015	2014
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
European Union (EUR)	841,889	716,724	503,530	231,247
Bosnia and Herzegovina (BAM)	85,904	101,825	164,518	161,449
Poland (PLN)	19,601	22,053	61,287	44,719
Russia (RUB)	2,976	-	78,700	107,657
Czech (CZK)	52,541	45,106	19,921	19,137
Other currencies	32,544	42,103	137,801	119,909

Foreign currency sensitivity analysis

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

In addition, by defining the internal policy of foreign exchange risk associated with early warning indicators, and the starting of the project aimed at centralizing management of corporate risk management (Enterprise Risk Management) at the end of 2014, the Company has decided to proactively manage key risks (including currency risks).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

(ii) Currency risk (continued)

Exchange rate risks arise from operation of subsidiary companies in foreign markets and the purchase of food raw materials in the international market which is in Euro and US dollar. Similarly, the Podravka Group has a significant part of borrowings denominated in foreign currencies. During 2015, the Croatian Kuna exchange rate has remained stable and has stopped slowly sliding of average exchange rate to higher levels at the level of the whole year.

Pharmaceuticals segment is generating a significant portion of its revenues on the Russian market and is therefore exposed to fluctuations in exchange rates RUB, whose volatility during 2015 was extremely high with the strong depreciation pressures. From 31 December 2015 up to the date of this report, the exchange rate of the Russian ruble to the Croatian kuna weakened by approximately 20% (2014: 26%). Taking into account the current political environment in Russia and Ukraine, the Group is closely monitoring development of the situation and has implemented additional measures for currency risk management (including entering into forward agreements and price adjustments denominated in Russian ruble) in order to effectively monitor and minimize the currency risk stemming from its exposure to the Russian ruble.

The currency risk analysis is based on the official exchange rates for the above analysed currencies as per the Croatian National Bank which were as follows:

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
EUR	7.6350	7.6615
BAM	3.9037	3.9172
PLN	1.7990	1.7780
RUB	0.0957	0.1188
CZK	0.2826	0.2764

The following table details the Group's sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies where the Group has significant exposure (EUR, PLN, CZK, BAM), and to a 20% increase against the rouble in 2015. 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.

	<u>EUR exposure</u>		<u>CZK exposure</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	(3,384)	(4,855)	(326)	(260)
	<u>BAM exposure</u>		<u>PLN exposure</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Increase/(decrease) of net result	786	596	417	227
	<u>RUB exposure</u>			
	<u>2015</u>	<u>2014</u>		
	<i>(in thousands of HRK)</i>			
Increase/(decrease) of net result	15,145	32,297		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

Sales function based risks

The Group generates approximately 37% (2014: 41%) of its revenue on the domestic market, whereas around 63% (2014: 59%) of the sales are generated on international markets, mainly through related entities. The Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

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

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

NOTE 37– SHARE-BASED PAYMENT TRANSACTIONS

(i) Employee share options

Options for the purchase of Podravka d.d. shares were granted to key management of the Group. The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares as per the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the date of option contract signed. Options are acquired separately for each business year. All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, relocation within the company, etc., in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above. The following share-based payment arrangements were effective in the current and comparative reporting periods:

Date of issue	Number of options	Vesting terms	Contracted vesting period
<i>Options granted to key management of the Group</i>			
As at 31 December 2010	5,000	Service during the contracted vesting period	31.12.2015.
	8,000	Service during the contracted vesting period	31.12.2016.
As at 31 December 2011	5,000	Service during the contracted vesting period	31.12.2015.
	8,000	Service during the contracted vesting period	31.12.2016.
As at 24 February 2012	16,000	Service during the contracted vesting period	31.12.2017.
As at 24 February 2012	1,000	Service during the contracted vesting period	31.12.2016.
As at 24 February 2012	1,000	Service during the contracted vesting period	31.12.2016.
As at 23 December 2013	5,300	Service during the contracted vesting period	18.7.2017.
As at 3 January 2013	2,000	Service during the contracted vesting period	31.12.2016.
As at 9 October 2014	2,500	Service during the contracted vesting period	31.12.2018.
As at 1 January 2014	2,000	Service during the contracted vesting period	31.12.2018.
As at 23 December 2013	5,300	Service during the contracted vesting period	18.7.2017.
As at 23 December 2013	18,020	Service during the contracted vesting period	31.12.2018.
As at 25 April 2012	2,000	Service during the contracted vesting period	30.6.2016.
As at 12 February 2013	5,300	Service during the contracted vesting period	31.12.2018.
As at 28 December 2014	21,444	Service during the contracted vesting period	31.12.2019.
As at 9 October 2014	4,500	Service during the contracted vesting period	31.12.2019.
As at 3 January 2013	2,000	Service during the contracted vesting period	31.12.2017.
As at 12 February 2013	5,000	Service during the contracted vesting period	31.12.2019.
As at 25 April 2012	2,000	Service during the contracted vesting period	30.6.2017.
As at 31 December 2015	28,089	Service during the contracted vesting period	31.12.2020.
As at 31 December 2015	2,000	Service during the contracted vesting period	31.12.2018.
As at 16 July 2013	2,000	Service during the contracted vesting period	30.6.2018.
As at 24 July 2015	6,938	Service during the contracted vesting period	31.12.2020.
Total share options	160,391		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 37 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Employee share options (continued)

Fair value measurement

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

Input variables for calculation of fair value:

Share option programme for key management	2015	2014
Fair value at grant date (weighted average)	74	77
Share price at grant date (weighted average)	283	265
Exercise price (weighted average)	283	277
Expected volatility (weighted average)	23%	25%
Expected life (weighted average in years)	4.5	4.5
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds)	8.38%	5.26%

Expense recognised in profit or loss	2015	2014
	<i>(in HRK thousands)</i>	
Equity-settled share-based payment transactions	1,859	1,219

The exercise price of stock options for key management is in the range HRK 218 to HRK 319.

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

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 January	164,578	277	144,920	273
Exercised	(23,000)	-	-	-
Expired	(20,214)	-	(31,000)	-
Granted	39,027	283	50,658	265
Outstanding at 31				
December	160,391	283	164,578	277
Exercisable at 31 Dec	160,391		164,578	

As at 31 December 2015, there are 160,391 of outstanding options (2014: 164,578 options). In 2015 23,000 options was exercised. In 2014 there were no options that were exercised.

The weighted average exercise price of outstanding options at the end the year is HRK 283 (2014: HRK 277). The weighted average remaining validity of options is 4.5 years at year end (2014: 4.5 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 37 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(ii) Program of organized employee shareholding

In accordance with the decision of the General Assembly dated 3 June 2015, the Group launched an Employee Stock Ownership Programme (ESOP) for the part of the Group which consists of Podravka d.d., Danica d.o.o., Belupo d.d. and Deltis Pharm Pharmacies. ESOP includes giving rights to workers of the Company to the primary subscription and payment of shares in the share capital increase by public offering, conducted in June 2015. The program also includes a system of rewarding employees who have acquired shares in the first round of public offering in such a way that if a worker-shareholder retains all acquired shares for two years, he will receive one additional share for every ten acquired, and if shares are retained for three years, he will receive two additional shares for each ten acquired.

A total of 88,475 shares were registered in ESOP. The fair value of the shares at the date of issue amounted to HRK 300 and exercise price of additional shares was also HRK 300. The Group recognized HRK 7,963 thousand of expenses based on ESOP within other financial expenses.

NOTE 38 – RELATED PARTY TRANSACTIONS

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

Transactions with key management and Supervisory Board members

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Key management remuneration		
Salaries and severance payments	44,145	38,781
Share-based payments (note 37 (i))	1,859	1,219
	<u>46,004</u>	<u>40,000</u>

Key management of the Group comprises the Management Board and executive directors and consisted of 73 persons (2014: 51 persons).

During 2015, a total of HRK 1,474 thousand (2014: HRK 1,736 thousand) was paid as compensation to members of the Supervisory Board of the Company.

NOTE 39 – CONTINGENT LIABILITIES

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of HRK)</i>	
Guarantees and warranties given	30,968	9,964
	<u>30,968</u>	<u>9,964</u>

Guarantees and warranties mainly relate to the potential liability of Podravka d.d. on the basis of statement of joint guarantee for the obligations of the main shareholders of Žito d.d. issued in favor of minority shareholders, customs guarantees of Podravka d.d. and Belupo Group, guarantees for the Concession Contract for the extraction of drinking water, guarantees for transit procedures, and partly relate to guarantees given to customers.

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the consolidated statement of financial position as the Management Board estimated that, as at 31 December 2015 and 2014, it is not probable that they will result in liabilities for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 40 – COMMITMENTS

In 2015, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 203,254 thousand (2014: HRK 36,285 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

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

	2015	2014
	<i>(in thousands of HRK)</i>	
Up to 1 year	17,466	21,693
From 1 to 5 years	23,389	19,715
	40,855	41,408

NOTE 41 – ACQUISITION OF SUBSIDIARIES

(i) Acquisition of Mirna d.d. Rovinj

On 25 August 2014, as part of an out of court settlement procedure, Podravka d.d. acquired 198,209 shares of MIRNA d.d. through a public auction of shares via the trading system of the Zagreb Stock Exchange d.d. representing 53.9% of total issued share capital of that entity. Podravka d.d. acquired the shares of MIRNA d.d. at a price of HRK 38.02 per share totaling HRK 7.5 million. The shares of the entity were voluntarily pledged as collateral for loans which Podravka d.d. granted during 2009 and which have been written off entirely in previous years.

On 29 September 2014, due to the above acquisition of shares and in accordance with the Act on the Takeover of Joint Stock Companies, Podravka d.d. submitted an offer for the takeover of the remaining shares of MIRNA d.d., apart from those under the voluntary pledge, at a price of HRK 38.02 per share. The takeover bid was accepted by seven shareholders whereby Podravka d.d. acquired an additional 37,153 shares amounting to an additional 10.09% of the total issued share capital of MIRNA d.d. Subsequent to this, Podravka d.d. became the owner of 235,362 shares of MIRNA d.d. or 63.95% of the total issued share capital.

On 21 November 2014, the General Assembly of MIRNA d.d. was held whereby former members of the Supervisory Board of MIRNA d.d. were dismissed. Representatives of Podravka d.d. were elected as the new members of the Supervisory Board. Subsequent to the General Assembly of MIRNA d.d., a constitutive resolution of the Supervisory Board of MIRNA d.d. was reached whereby Vladimir Bunić was appointed as the sole member of the management board and the director of MIRNA d.d. while all powers of attorney of the former management board were revoked and repealed.

Subsequently, legal proceedings were initiated based on claims by third parties disputing the public auction over the shares of MIRNA d.d. and the establishment of the voluntary pledge over those shares, as well as the ownership rights over stakes in the entity Mirna Ribolov d.o.o., a subsidiary of MIRNA d.d. Furthermore, in December 2014, the management board of MIRNA d.d. filed for the initiation of a pre-bankruptcy settlement as a result of the bank accounts of MIRNA d.d. being blocked, but the notion was rejected. However, on 29 January 2015, the Commercial Court in Rijeka issued a decision to initiate the process of determining whether the conditions for initiation of bankruptcy against the company MIRNA d.d. exist whereby a temporary administrator was appointed and a hearing scheduled for 30 March 2015.

After the hearing at the Commercial Court in Rijeka, subsequent to the settlement of the significant portion of overdue receivables of Mirna d.d. and to the provision of guarantee by Podravka d.d. to cover the remainder of creditors' claims, it was determined that there were no further grounds to initiate bankruptcy proceedings over Mirna d.d. since the company became solvent and its accounts were no longer seized.

Due to the fact that at that date a significant part of the limitations related to the governing of Mirna d.d. by the Group was no longer in effect, as a result of the change in circumstances the Group considers that it acquired control over Mirna d.d. at that date. Consequently, the Group performed a first-time consolidation of Mirna d.d. on 31 March 2015 and during 2015 acquired additional 20.29% of shares for consideration of HRK 2,910 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 41 – ACQUISITION OF SUBSIDIARIES (CONTINUED)

(i) Acquisition of Mirna d.d. Rovinj (continued)

Fair value of acquired assets and liabilities at the date of acquisition was as followed:

<i>(in thousands of HRK)</i>	Carrying amount	Increase / (decrease)	Fair value
Intangible assets	144	3,300	3,444
Property, plant and equipment	13,949	95,184	109,133
Inventories	16,353	800	17,153
Trade and other receivables	3,109	-	3,109
Cash	72	-	72
Long term liabilities	(15,725)	(20,497)	(36,222)
Short term liabilities	(55,754)	-	(55,754)
Net assets acquired	(37,852)	78,787	40,935
Attributable share (63.95%)			26,178
Consideration paid			1,413
Gain from bargain purchase			24,765

Determining fair value of acquired assets and liabilities

For the purpose of initial consolidation of the company Mirna d.d., the Group recognized the acquired assets and liabilities in the consolidated statement of financial position at fair value based on the methods and valuation techniques as follows:

- *Intangible assets*

The fair value of intangible assets which mainly consist of the brands is determined on the income method based on implied royalty according to the report of an independent valuer.

- *Property, plant and equipment*

Fair values of property, plant and equipment recognized as a result of a business combination are based on fair value estimates made by an independent professional valuer (for land and buildings) and by internal valuers (for equipment).

Fair value of property is determined using the following methods:

- Residual values method for construction land: the fair value is based on future market value of developed real estate less cost of construction, fees, related costs and accrued profits.
- Income method for business premises: the fair value is based on pure achievable annual rental income from the property, less management and maintenance costs.
- Comparative transactions method for non-construction land: fair value is based on sale values achieved in the sale of comparable land in a relatively recent period using the data from the valuers' archives, specialized press, real estate agents, the State Bureau of Statistics as well as from other available sources.
- Value in use for equipment: the fair value is based on the estimate of value in use by internal valuers.
- Buildings, except those valued using the income method, are mainly related to facilities located on the construction land in the tourist or mixed-purpose building zones and the fair value of the land and related buildings is accordingly fully allocated to the value of the underlying land.

NOTE 41 – ACQUISITION OF SUBSIDIARIES (CONTINUED)

(i) Acquisition of Mirna d.d. Rovinj (continued)

Determining fair values of acquired assets and liabilities (continued)

- *Inventories*

The fair value of inventories acquired in a business combination is based on the estimated selling price of inventories in the ordinary course of business, less the estimated costs to sell the inventories.

- *Short term receivables and short term liabilities*

Trade receivables, other receivables, trade payables and other payables are carried at their nominal value less impairment losses and are approximately equal to their fair value, since they are short-term in nature.

- *Long term liabilities*

Long-term liabilities are carried at amortised cost and are approximately equal to their fair value as they mainly relate to loans that bear interest rates approximating market interest rates and to long-term provisions for employee benefits which are discounted to their present value.

Increase in long-term liabilities at acquisition is a result of recognition of deferred tax liabilities arising from temporary differences on the initial recognition of acquired net assets at fair value.

(ii) Acquisition of Žito d.d. Ljubljana

On 21 April 2015 Podravka d.d. acquired 51.5% of ordinary shares of Žito d.d. through a share purchase agreement at a price of EUR 180.1 per share totaling HRK 252,303 thousand. Subsequent to meeting the conditions precedent of the Agreement, the transaction was finalized on 5 October 2015 with KDD (Central Securities Clearing Corporation of Slovenia). Consortium of the sellers consisted of Slovenski državni holding d.d. and Modra zavarovalnica d.d., KD Kapital d.o.o., KD Skladi d.o.o., Adriatic Slovenica d.d. and NLB Skladi d.o.o.

On 22 October 2015, in accordance with the regulations of the Republic of Slovenia, Podravka d.d. announced a public offer for takeover of all of the outstanding shares of Žito d.d. with an exercise period from 23 October 2015 to 23 November 2015.

Upon completion of the public offer, Podravka acquired an additional 35.3% shares in Žito d.d. for consideration of HRK 172,294 thousand and became the owner of 86.8% of the shares of Žito d.d., thus increasing the total cost of acquisitions of ownership interests in Žito d.d. to HRK 424,597 thousand.

Since the subsidiary companies of Žito d.d. hold an additional 10% of shares of Žito d.d., i.e. treasury shares from the perspective of the Group, the effective ownership of the Group over Žito d.d. (including treasury shares) as at 31 December 2015 amounts to 96.4%.

On 19 January 2016, the General Assembly of Žito d.d. was held whereby the minority shareholders were excluded from the company and the shares were delisted from the Ljubljana Stock Exchange. By registering the decisions above in the court registry, Podravka d.d. will complete the acquisition of all of the shares of Žito d.d. during 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 41 – ACQUISITION OF SUBSIDIARIES (CONTINUED)

(ii) Acquisition of Žito d.d. Ljubljana (continued)

Fair value of acquired assets and liabilities at the date of acquisition was as followed:

<i>(in thousands HRK)</i>	Carrying amount	Increase / (decrease)	Fair value
Intangibles	908	59,553	60,461
Property, plant and equipment	469,480	48,274	517,754
Long term financial assets	12,005	878	12,883
Deferred tax assets	13,067	-	13,067
Inventories	137,446	(703)	136,743
Assets held for sale	6,899	(2,335)	4,564
Trade receivables and other receivables	197,274	(9,794)	187,480
Cash	16,379	328	16,707
Long term liabilities	(110,917)	(19,973)	(130,890)
Short term liabilities	(176,201)	-	(176,201)
Net assets acquired	566,340	76,228	642,568
Attributable share (57.27% including treasury shares)			367,999
Consideration paid			252,303
Gain from bargain purchase			115,696

Determining fair value of acquired assets and liabilities

For the purpose of the first-time consolidation of the Žito d.d., the Group recognized acquired assets and liabilities in the consolidated statement of financial position at fair value based on the methods and valuation techniques as follows:

- *Intangible assets*

Intangible assets consist of brands and distribution rights. The fair value of brands is determined using the income method based on implied royalty as estimated by an independent valuer, while the value of the distribution rights is estimated on the basis of the so-called “with or without method”, i.e. based on the projected cash flows with or without the agreement being in place.

- *Property, plant and equipment*

The fair values of property, plant and equipment and assets classified as held for sale recognized as a result of the business combination are based on the estimates of fair values as assessed by an independent expert valuer.

The fair value of property is determined using the following methods:

- Comparative method for land: fair value is based on sale values achieved in the sale of comparable land in a relatively recent period using the data from the valuers’ archives, specialized press, real estate agents, the State Bureau of Statistics as well as from other available sources.
- Income method for business premises: the fair value is based on pure achievable annual rental income from the property, less management and maintenance costs.
- The fair value of plant and equipment is determined using the depreciated replacement cost method. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence of assets being valued.

NOTE 41 – AQUISITION OF SUBSIDIARIES (CONTINUED)

(ii) Acquisition of Žito d.d. Ljubljana (continued)

- *Inventories*

The fair value of inventories acquired in a business combination is based on the estimated selling price of inventories in the ordinary course of business, less the estimated costs to sell the inventories.

- *Long term financial assets*

Long-term financial assets relate to shares in companies whose equity instruments are listed on the stock exchange and to a smaller extent, to equity stakes in companies not quoted on the stock exchange. The fair value of quoted equity instruments is determined based on quoted market prices at the date of acquisition.

The fair value of unlisted equity instruments is determined using valuation techniques based on static methods of valuation of the respective company using specific industrial multiples on income, EBITDA and other relevant parameters.

- *Short term receivables and short term liabilities*

Trade receivables, other receivables, trade payables and other liabilities are carried at their nominal value less impairment losses and are approximately equal to their fair value, since they are short-term in nature.

- *Long term liabilities*

Long-term liabilities are carried at amortised cost and are approximately equal to their fair value as they mainly relate to loans that bear interest rates approximating market interest rates and to long-term provisions for employee benefits which are discounted to their present value.

Increase in long-term liabilities at acquisition is a result of recognition of deferred tax liabilities arising from temporary differences on the initial recognition of acquired net assets at fair value.