ATLANTIC GRUPA d.d.

AUDITOR’S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2014

Independent Auditor's Report

To the Shareholders and Management of Atlantic Grupa d.d.

We have audited the accompanying consolidated financial statements of Atlantic Grupa d.d. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2014 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flows statement 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 in 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.

Auditor's 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 the auditor's 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, the auditor considers 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 31 March 2015

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Commercial Court in Zagreb, no. Tt-99/7257-2, Reg. No.: 080238978; Company ID No.: 81744835353; Founding capital: HRK 1,810,000.00, paid in full; Management Board: Hrvoje Zgombic, President; J. M. Gasparac, Member; S. Dusic, Member; T. Macasovic, Member; Giro-Account: Raiffeisenbank Austria d.d., Petrinjska 59, Zagreb, IBAN: HR8124840081105514875

ATLANTIC GRUPA d.d.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	**Note**	**2014**	**2013**
Revenues	5	5,168,639	5,039,871
Cost of trade goods sold		(1,405,210)	(1,212,561)
Change in inventories of finished goods and work in progress		29,964	4,636
Material and energy costs		(1,620,958)	(1,715,825)
Staff costs	6	(704,437)	(672,118)
Marketing and promotion costs	7	(331,605)	(310,393)
Depreciation, amortisation and impairment	2.24, 13, 14	(156,330)	(166,158)
Other operating costs	8	(545,645)	(535,295)
Other gains/(losses) - net	9	6,284	(7,538)
Operating profit		**440,702**	**424,619**
Finance income	10	16,013	46,141
Finance costs	10	(204,025)	(217,607)
Finance costs - net	10	(188,012)	(171,466)
Profit before tax		**252,690**	**253,153**
Income tax expense	11	(39,289)	(54,159)
Profit for the year		**213,401**	**198,994**
Attributable to:			
Owners of the parent		200,012	194,872
Non-controlling interests		13,389	4,122
		213,401	198,994
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		59.99	58.46
- diluted		59.99	58.46

The consolidated financial statements set out on pages 2 to 63 were approved by the Management Board of Atlantic Grupa d.d. in Zagreb on 30 March 2015.

President of the Management Board

Emil Tedeschi

The accompanying notes on pages 7 to 63 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	Note	2014	2013
Profit for the year		**213,401**	**198,994**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gains from defined benefit plan		130	2,495
		130	**2,495**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences	22	(34,064)	9,707
Cash flow hedges	22	29,544	32,332
		(4,520)	**42,039**
Other comprehensive (loss)/ income for the year, net of tax		**(4,390)**	**44,534**
Total comprehensive income for the year		**209,011**	**243,528**
Attributable to:			
Owners of the parent		195,606	239,372
Non-controlling interests		13,405	4,156
Total comprehensive income for the year		209,011	243,528

The accompanying notes on pages 7 to 63 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2014**	**31 December 2013**
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,099,289	1,060,847
Investment property		1,363	1,672
Intangible assets	14	1,804,518	1,851,023
Deferred income tax assets	25	41,224	47,912
Available-for-sale financial assets	17	942	1,072
Trade and other receivables	18	22,657	9,054
		2,969,993	2,971,580
Current assets			
Inventories	19	582,247	537,232
Trade and other receivables	18	1,169,343	1,126,410
Prepaid income tax		12,249	22,820
Derivative financial instruments	15	22,687	-
Deposits	18	275	251
Cash and cash equivalents	20	417,588	325,334
		2,204,389	2,012,047
Non-current assets held for sale	13a	99,874	99,133
Total current assets		2,304,263	2,111,180
TOTAL ASSETS		**5,274,256**	**5,082,760**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	882,576	882,597
Treasury shares	21	(78)	(16)
Reserves	22	(19,635)	(15,363)
Retained earnings		756,497	622,613
		1,752,732	1,623,203
Non-controlling interests		2,332	51,292
Total equity		1,755,064	1,674,495
Non-current liabilities			
Borrowings	24	1,776,406	1,968,950
Deferred income tax liabilities	25	181,155	181,378
Derivative financial instruments	15	8,698	9,733
Other non-current liabilities		25	143
Provisions	26	51,936	59,723
		2,018,220	2,219,927
Current liabilities			
Trade and other payables	23	881,451	736,172
Borrowings	24	578,482	387,288
Derivative financial instruments	15	4,713	18,950
Current income tax liabilities		7,675	16,213
Provisions	26	28,651	29,715
		1,500,972	1,188,338
Total liabilities		3,519,192	3,408,265
TOTAL EQUITY AND LIABILITIES		**5,274,256**	**5,082,760**

The accompanying notes on pages 7 to 63 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2013	1,016,120	(57,091)	455,201	1,414,230	47,136	1,461,366
Comprehensive income:						
Net profit for the year	-	-	194,872	194,872	4,122	198,994
Other comprehensive income	-	42,005	2,495	44,500	34	44,534
Total comprehensive income	-	42,005	197,367	239,372	4,156	243,528
Transaction with owners:						
Share based payment (Note 21)	8,896	-	(224)	8,672	-	8,672
Purchase of treasury shares (Note 21)	(9,063)	-	-	(9,063)	-	(9,063)
Transfer	-	(277)	277	-	-	-
Dividends relating to 2012 (Note 21)	-	-	(30,008)	(30,008)	-	(30,008)
Balance at 31 December 2013	**1,015,953**	**(15,363)**	**622,613**	**1,623,203**	**51,292**	**1,674,495**
Comprehensive income:						
Net profit for the year	-	-	200,012	200,012	13,389	213,401
Other comprehensive (loss)/income	-	(4,536)	130	(4,406)	16	(4,390)
Total comprehensive income	-	(4,536)	200,142	195,606	13,405	209,011
Transaction with owners:						
Acquisition of non-controlling interests (Note 28)	-	-	(30,984)	(30,984)	(62,365)	(93,349)
Share based payment (Note 21)	419	-	-	419	-	419
Purchase of treasury shares (Note 21)	(502)	-	-	(502)	-	(502)
Transfer	-	264	(264)	-	-	-
Dividends relating to 2013 (Note 21)	-	-	(35,010)	(35,010)	-	(35,010)
Balance at 31 December 2014	**1,015,870**	**(19,635)**	**756,497**	**1,752,732**	**2,332**	**1,755,064**

The accompanying notes on pages 7 to 63 are an integral part of these consolidated financial statements.

ATLANTIC GRUPA d.d.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

(all amounts expressed in thousands of HRK)	Note	2014	2013
Cash flows from operating activities:			
Cash generated from operations	29	622,107	598,423
Interest paid		(123,509)	(146,761)
Income tax paid		(52,879)	(31,417)
		445,719	420,245
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets	13, 14	(190,100)	(99,994)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		6,481	21,360
Acquisition of available-for-sale financial assets		-	(58,005)
Proceeds from sale of available-for-sale financial assets		-	58,048
Advance for acquisition of subsidiary	28	-	(6,775)
Acquisition of subsidiary – net of cash acquired	28	(5,332)	-
Loans granted and deposits placed		(49,946)	(4,328)
Repayments of loan and deposits granted		45,460	23,161
Interest received		4,511	8,189
		(188,926)	(58,344)
Cash flows used in financing activities			
Purchase of treasury shares	21	(502)	(9,063)
Proceeds from borrowings, net of fees paid	24	293,101	85,111
Repayments of borrowings	24	(322,782)	(334,591)
Acquisition of interest in a subsidiary from non-controlling interests	28	(93,349)	-
Dividends paid to Company shareholders	21	(35,010)	(30,008)
		(158,542)	(288,551)
Net increase in cash and cash equivalents		**98,251**	**73,350**
Exchange (losses)/gains on cash and cash equivalents		(5,997)	1,119
Cash and cash equivalents at beginning of year		325,334	250,865
Cash and cash equivalents at end of year	20	**417,588**	**325,334**

The accompanying notes on pages 7 to 63 are an integral part of these consolidated financial statements.

NOTE 1 – GENERAL INFORMATION

Operating as a vertically integrated multinational company, Atlantic Grupa d.d. (the Company) and its subsidiaries (as disclosed in Note 32 "the Group") have business activities that incorporate R&D, production and distribution of fast moving consumer goods in Southeast Europe, the European markets and Russia and CIS (Commonwealth of Independent States). With its modern production network, the Group stands out as one of the leading food & beverage producers in Southeast Europe with prominent coffee brands Grand Kafa and Barcaffe, a range of beverage brands Cockta, Donat Mg, Cedevita, Cedevita GO!, a portfolio of sweet and salted snacks brands Smoki, Najlepše želje and Bananica and the savoury spread brand Argeta. Additionally, the Group has a wide range of personal care product portfolio, owns the leading Croatian producer of vitamins, minerals, supplements and OTC drugs as well as the leading pharmacy chain in Croatia under the Farmacia brand. Furthermore, the Group manufactures and distributes the leading European brand in sports nutrition - Multipower and has a strong foothold on the Russian and CIS markets with its baby food portfolio under the Bebi brand. With its own distribution network in Croatia, Slovenia, Serbia and Macedonia, the Group also distributes a range of products from external partners (Unilever, Ferrero, Wrigley, Johnson & Johnson, Duracell and others). The Group has manufacturing plants in Croatia, Slovenia, Serbia, Bosnia and Herzegovina, Macedonia and Germany with firms and representative offices in 11 countries. The Group exports its products to more than 40 markets worldwide.

The Company is domiciled in Zagreb, Miramarska 23, Croatia.

The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in Note 21.

NOTE 2 – 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 periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) which were endorsed by the EU under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year which were endorsed by the EU. These standards and amendments did not have a significant impact on the Group's financial statements or performance. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014).* The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

- *IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014).* IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- *IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014).* IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

- *IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014).* IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- *IAS 28 (revised 2011) Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014).* IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

- *Amendment to IFRSs 10, 11 and 12 on Transition guidance (effective for annual periods beginning on or after 1 January 2014).* These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

- *Amendments to IFRS 10, IFRS 12 and IAS 27 – on Consolidation for Investment entities (effective for annual periods beginning 1 January 2014).* These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made to IFRS 12 to introduce disclosures that an investment entity needs to make.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendments to IAS 32 - Financial Instruments: Presentation on Financial Assets and Financial Liabilities offsetting (effective for annual periods beginning on or after 1 January 2014).* These amendments are to the application guidance in IAS 32 Financial instruments: Presentation, and clarify some of requirements for offsetting financial assets and financial liabilities on the balance sheet.

- *Amendment to IAS 36 Impairment of Assets on Recoverable Amount Disclosures (effective for annual periods beginning on or after 1 January 2014)* This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- *Amendment to IAS 39 Financial Instruments: Recognition and Measurement 'Novation of Derivatives' (effective for annual periods beginning on or after 1 January 2014)* This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.

(b) Forthcoming requirements

A number of new standards and interpretations that have been issued are not effective for annual periods beginning on 1 January 2014, but will be effective for later periods. None of these is expected to have significant effect on the consolidated financial statements of the Group and the Group plans to adopt them on their effective date as of and when endorsed by the EU.

- *Annual Improvements to IFRSs 2012 (effective for annual periods beginning on or after 1 July 2014)* The improvements amend standards from 2010 – 2012 reporting cycle and include changes to:
    - IFRS 2 - 'Share based payments,' and clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition.'
    - IFRS 3, 'Business combinations,' and clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation.' It also clarifies that all non-equity contingent consideration is measured at fair value at each reporting date, with changes in value recognised in profit and loss.
    - IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in aggregating operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.
    - IFRS 13, 'Fair value' which amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short term receivables and payables at invoice amounts where the effect of discounting is immaterial.
    - IAS 16,'Property, plant and equipment' and IAS 38,'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
    - IAS 24 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). Disclosure of the amounts charged to the reporting entity is required.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Annual Improvements to IFRSs 2013 (effective for annual periods beginning on or after 1 July 2014)* The improvements amend standards from 2011 – 2013 reporting cycle and include changes to:
    - IFRS 1, First time adoptions of IFRSs, basis of conclusions is amended to clarify that, where a new standard is not mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
    - IFRS 3, Business combinations is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11.
    - IFRS 13, Fair value measurement is amended to clarify that the portfolio exception in IFRS 13 applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.
    - IAS 40, Investment property is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. IAS 40 assists users to distinguish between investment property and owner-occupied property. Preparers also need to consider the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

- *Annual Improvements to IFRSs 2014 (effective for annual periods beginning on or after 1 July 2016)* The improvements amend standards from 2012 – 2014 reporting cycle and include changes to:
    - IFRS 5, Non-current assets held for sale and discontinued operations – The amendment clarifies that, when an asset (or disposal group) is reclassified from ‘held for sale’ to ‘held for distribution,’ or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as ‘held for sale’ or ‘held for distribution’ simply because the manner of disposal has changed. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as ‘held for sale’.
    - IFRS 7, Financial instruments: Disclosures – There are two amendments:
        - Servicing contracts – If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to IFRS 1 to give the same relief to first time adopters.
        - Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, Disclosure – Offsetting financial assets and financial liabilities is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective.
    - IAS 19, Employee benefits – The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.
    - IAS 34, Interim financial reporting – the amendment clarifies what is meant by the reference in the standard to ‘information disclosed elsewhere in the interim financial report.’ The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRS 9, Financial instruments (effective for annual periods beginning on or after 1 January 2018) Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception: Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.*
  The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.
  For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.
  IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

- *IFRS 14, Regulatory deferral accounts (effective for annual periods beginning on or after 1 January 2016)* This standard permits first-time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

- *IFRS 15, 'Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2017)* This is the converged standard on revenue recognition. It replaces IAS 11, Construction contracts, IAS 18, Revenue and related interpretations.
  Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.
  The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:
    - Step 1: Identify the contract(s) with a customer
    - Step 2: Identify the performance obligations in the contract
    - Step 3: Determine the transaction price
    - Step 4: Allocate the transaction price to the performance obligations in the contract
    - Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

  IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRIC 21 Levies (effective in EU for annual periods beginning on or after 17 June 2014)* This is an interpretation of IAS 37 Provisions, contingent liabilities and contingent assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised.

- *Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after 1 January 2016)* These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.

  A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

- *Amendment to IFRS 11, 'Joint arrangements' regarding acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016).* This amendment provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business.' The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

- *Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016).* This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances. These are where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

- *Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' regarding bearer plants (effective for annual periods beginning on or after 1 January 2016)* These amendments change the reporting for bearer plants, such as grape vines, rubber trees and oil palms. Bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. The amendments include them in the scope of IAS 16 rather than IAS 41. The produce on bearer plants will remain in the scope of IAS 41.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *Amendment to IAS 19, 'Employee benefits' regarding employee or third party contributions to defined benefit plans (effective for annual periods beginning on or after 1 July 2014).* The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over the employee's working lives.

- *Amendment to IAS 27, 'Separate financial statements' regarding the equity method (effective for annual periods beginning on or after 1 January 2016)* The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group applies the acquisition method 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 recognised amounts of identifiable acquiree's net assets.

Goodwill is initially measured as excess of the aggregate of the consideration transferred and the fair value of 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. If this is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Mergers

The predecessor method of accounting is used to account for the merger of related companies under common control. The carrying value of assets and liabilities of the predecessor entity are transferred as balances in the merged entity. On the date of the merger, inter-company transactions, balances and unrealised gains and losses on transactions between the two entities merging are eliminated, recognizing the carrying value of net assets merged within equity.

(c) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. For purchase from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiary

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Strategic Management Council.

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses related to borrowings are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) – net'.

(c) Group companies

The results and financial position of all Group entities with a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates; and
(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken into other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are reclassified from other comprehensive income to the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, if required. Historical cost includes expenditure directly attributable to the acquisition of items.

Subsequent costs are 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 income statement during the financial period in which they incurred.

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

Buildings	10 to 50 years
Plant and equipment	2 to 20 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within other gains/(losses) - net in the income statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are recognised immediately as an expense and not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from synergies of the business combination in which the goodwill arose. Goodwill is monitored at the operating segment level.

(b) Distribution rights

Separately acquired distribution rights are shown at historical cost. Distribution rights acquired in a business combination are recognised at fair value at the acquisition date. Product distribution rights have a finite useful life and are carried at cost less accumulated amortization and impairment, if any. Amortization is calculated using the straight-line method to allocate the cost of rights over their estimated useful lives (from 1.5 to 5 years).

(c) Brands

Brands acquired in a business combination are carried at initially determined fair value (recognised at acquisition date) less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of brands over their estimated useful life (15 years).

Brands with indefinite useful lives are not amortized, but are tested annually for impairment at the cash generating unit level.

(d) Computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (up to 5 years).

(e) Licences

Licences acquired in a business combination are recognized at fair value at the acquisition date. Licences have indefinite useful lives and are not amortised, but are tested annually for impairment at the cash generating unit level.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life (such as land, brands, licences and goodwill) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, available for sale and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'deposits' and 'cash and cash equivalents' in the balance sheet (Notes 2.11 and 2.12).

Loans and receivables are carried at amortised cost using the effective interest method.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose the investment within 12 months of the balance sheet date. Available-for-sale financial assets are carried at fair value, except investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, consequently, these are carried at cost.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are categorised as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Interest income and the translation differences are recognised in the income statement, whereas other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from other comprehensive income to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of receivables is described in Note 2.11.

2.9 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges in order 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 transferred to 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.

2.10 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average 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-progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Trade goods are carried at selling price less applicable taxes and margins.

Where necessary, a provision is made for damaged and expired inventories.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision and subsequent recoveries of amounts previously written off are recognised in the income statement within 'other operating expenses'.

If the collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.12 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 (excluding bills of exchange). Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity. 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. 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 any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including all directly attributable incremental transaction costs, is deducted from equity until the shares are cancelled or reissued. Where such ordinary shares are subsequently 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.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured 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.

Fees paid on the establishment of the loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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 balance sheet date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and consider establishing provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.16 Employee benefits

(a) Pension obligations and post-employment benefits

The Group makes payments to mandatory pension funds on behalf of its employees in the ordinary course of business through salary deductions, as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group has no other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits except for the one-off retirement payment as prescribed by local legislation. The liability recognised in the balance sheet in respect of one-off retirement payment is the present value of the defined benefit obligation at the end of the reporting period. This obligation is calculated annually by independent actuaries. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Interest costs/income arising from actuarial calculation are charged/credited to income statement within ‘interest expenses’.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(c) 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 benefit will be payable, estimated benefit cost and the discount rate. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged immediately or credited to the income statement within 'staff costs'. Interest costs/income arising from actuarial calculation are charged/credited to income statement within 'interest expense'.

(d) Share-based compensation

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

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

(e) Short-term employee benefits

The Group recognises a provision for bonuses and accumulating unused vacation entitlement days if contractually obliged or if there is a past practice that has created a constructive obligation.

2.17 Provisions

Provisions for termination benefits and long term employee benefits, restructuring costs, warranty claims and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

When there are number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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 presented, net of value-added tax, returns, rebates and discounts, expenses of listing the products and marketing activities that are an integral part of contracts with customers. All other marketing activities related to marketing campaigns that are not integral part of customer contract are presented within Marketing and promotion costs.

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.

(a) Sales of products and trade goods – wholesale

The Group manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Group has delivered the products to the wholesaler, the wholesaler has full discretion over the price to sell 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 have 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 have been satisfied.

Products are sold with volume discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specific in the sales contracts, net of estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts 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 up to 90 days, which is consistent with the market practice.

(b) Sales of goods - retail

The Group operates a pharmacy and specialised stores.

Sale of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. The Group operates a customer loyalty programme, allowing customers to accumulate points when they purchase products. The points can then be redeemed as discount on subsequent purchase, subject to a minimum number of points being obtained. Consideration received is allocated between the products sold and the points issued. Part of fair value of the points issued is deferred as liability in the balance sheet and recognised as revenue when the points are redeemed.

(c) Sales of services

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

(d) Interest income

Interest income arising from fixed-term bank deposits, loans granted and interest from customers is recognised on a time-proportion basis using the effective interest method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Dividend distribution

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

2.20 Value added tax

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

2.21 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.22 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of cash flow hedge derivatives is disclosed in Note 15 and changes in cash flow hedge reserves are disclosed in Note 22.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges, is recognised in other comprehensive income. The gain or loss related to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) – net'.

Amounts accumulated in equity are reclassified from other comprehensive income to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs - net'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/(losses) – net'.

When a hedging instrument expires or is sold or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred from other comprehensive income to the income statement within 'other gains/(losses) – net'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the regular operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.24 Investment property

Investment property is carried at historical cost less accumulated depreciation and provision for impairment. Investment property is derecognized when it either has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Transfers are made to or from investment property only when there is a change in use. The carrying amount approximates fair value. Investment property is held for long term rental yields and is not occupied by the Group. Depreciation expense related to investment property amounted to HRK 311 thousand in 2014 (2013: HRK 49 thousand).

2.25 Comparatives

In 2014 the classification of contracted marketing expenses has changed from “Marketing and selling expenses” to decrease in “Sales revenues”, and classification of support for contracted marketing expenses has changed from decrease in “Marketing and promotion costs” to decrease in “Cost of trade goods sold”. In accordance with these changes, sales revenue for segment information for the year ended 31 December 2013 has also been restated.

The effect of these changes on comparative figures for 2013 is as follows:

(in thousands of HRK)	2013
Decrease in sales revenues	(52,351)
Decrease in cost of trade goods sold	10,924
Decrease in marketing and promotion costs	41,427

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EURO, Serbian dinar (RSD), Russian Ruble (RUB) and to a lesser extent the US dollar (USD). The depreciation of the Serbian dinar against EURO in 2014 resulted in HRK 32,538 thousand foreign currency losses from financing activities (2013: HRK 3,742 thousand) and depreciation of Russian ruble had a direct negative impact on the Group's 2014 results of HRK 26,741 thousand (2013: nil).

Movements in exchange rates between the above mentioned currencies and Croatian kuna (HRK) may have an impact on the results of the Group's future operations and future cash flow. The amounts in the tables below represent the HRK amounts denominated in the stated currencies at the balance sheet date for major balance sheet monetary items.

31 December 2014 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	375,707	280,463	34	40,210
Cash and cash equivalents	235,693	48,215	502	6,724
Trade and other payables	(375,186)	(101,037)	(44,819)	(4,576)
Borrowings	(2,090,240)	-	(7,717)	-
Net balance sheet exposure	**(1,854,026)**	**227,641**	**(52,000)**	**42,358**

31 December 2013 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	393,240	304,130	222	31,823
Cash and cash equivalents	146,888	51,226	6,759	1,781
Trade and other payables	(287,061)	(89,362)	(31,289)	(2,135)
Borrowings	(2,100,238)	-	(6,510)	-
Net balance sheet exposure	**(1,847,171)**	**265,994**	**(30,818)**	**31,469**

Given that the Group also has subsidiaries outside of Croatia, its shareholders equity value is exposed to fluctuations in exchange rates. Equity changes caused by movements in foreign exchange rates are shown as translation differences in the Group's consolidated statement of comprehensive income.

In the event of a rise of 1% in the EUR against HRK and RSD, assuming all other variables remain constant, the profit after tax for the year would have been HRK 8,510 thousand lower (2013: HRK 7,886 thousand lower), mainly due to the EUR denominated borrowings and other comprehensive income would be HRK 14,136 thousand higher (2013: HRK 10,803 thousand higher), due to the translation differences arising on consolidation of subsidiaries whose local currency is EUR.

In the event of a rise of 1% in the RSD against HRK, assuming all other variables remain constant, the profit after tax for the year would have been HRK 110 thousand higher (2013: HRK 1,079 thousand higher) and other comprehensive income would be HRK 4,200 thousand higher (2013: HRK 3,484 thousand higher), assuming no change in other variables.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(ii) Equity securities risk

The Group is exposed to equity securities fair value and price risk with respect to investments held by the Group classified on the consolidated balance sheet as available for sale. Equity investments classified as available for sale are not listed. To manage its fair value and price risk arising from investments in equity securities, the Group monitors market transactions and performance of investment entities.

No reliable external information exists with respect to fair value. Management believes, based on internal information, that the fair value equals or exceeds carrying value. However, due to limited information available, management has not carried out a sensitivity analysis. At 31 December 2014, if the fair value of the available-for-sale investment would change, with all other variables held constant, other comprehensive income and revaluation reserves would also change by the same amount.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group’s income and operating cash flows are substantially independent of changes in market interest rates.

The Group’s interest rate risk arises from long-term borrowings and bonds issued. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable interests rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk although no borrowings are carried at fair value.

The Group analyses its interest rate changes on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. As at 31 December 2014, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2013: 100 basis points), the profit after tax would have been lower/higher by HRK 7,921 thousand (2013: HRK 7,337 thousand) mainly as a result of increased/decreased interest expense.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings with floating rates to fixed rates. The Group raised long-term borrowings at floating rates and swapped them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (quarterly and semi-annually), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group's assets, potentially subjecting the Group to concentrations of credit risk, primarily include cash, deposits and trade and other receivables. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history, within previously defined credit limits. The Group's credit risk is low, since receivables are dispersed among a large group of customers. Additionally, the Group's key customers are large retail chains, whereas dependence on these customers is reduced by developing alternative distribution channels. The Group reduces credit risk by implementing strict policies for receivables collection and goods delivery, as well as securing receivables with standard security instruments (bills of exchange and promissory notes). No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. A detailed analysis and maximum exposure to credit risk is shown in Notes 15, 16 and 18.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities when needed. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

Surplus cash held over and above the balance required for working capital management is invested in interest bearing current accounts, time deposits and cash funds, i.e. instruments with appropriate maturities or sufficient liquidity.

At 31 December 2014, the Group held cash and cash equivalents in the amount of HRK 417,588 thousand (2013: HRK 325,334 thousand) and short-term deposits in the amount of HRK 275 thousand (2013: HRK 251 thousand). These are expected to readily generate cash inflows for managing liquidity risk.

Trade and other payables, as well as short-term borrowings are due within 12 months after the balance sheet date, while the long-term borrowings' maturity is disclosed in Note 24.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

The table below analyses financial liabilities of the Group according to contracted maturities. The amounts disclosed in the table below represent the contractual undiscounted cash flows.

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Total
31 December 2014			
Trade and other payables	821,890	-	821,890
Borrowings (excluding finance lease)	647,460	1,957,520	2,604,980
Finance lease liabilities	1,341	226	1,567
Derivative financial instruments	4,713	8,698	13,411

(in thousands of HRK)	Less than 1 year	Between 1-5 years	Over 5 years	Total
31 December 2013				
Trade and other payables	691,779	-	-	691,779
Borrowings (excluding finance lease)	457,997	1,808,040	443,254	2,709,291
Finance lease liabilities	3,412	1,644	-	5,056
Derivative financial instruments	18,950	9,733	-	28,683

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including long-term and short-term borrowings, as shown in the consolidated balance sheet) plus derivative financial instruments less short-term deposits and cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

The gearing ratios were as follows:

	2014	2013
	(in thousands of HRK)	
Total borrowings (Note 24)	2,354,888	2,356,238
Derivative financial instruments (Note 15)	(9,276)	28,683
Less: Short-term deposits and Cash and cash equivalents (Note 18 and 20)	(417,863)	(325,585)
Net debt	1,927,749	2,059,336
Total equity	1,755,064	1,674,495
Total capital	**3,682,813**	**3,733,831**
Gearing ratio	**52%**	**55%**

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Comparing to previous year, gearing ratio decreased primarily as a result of increase in cash and cash equivalents.

3.3 Fair value estimation

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of derivative financial instruments and of available-for-sale financial instruments is determined based on specific valuation techniques (level 3).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Deferred income tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. 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 (Note 25).

(b) Impairment of goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment as stated in Note 2.7. Intangible assets with indefinite useful lives are tested for impairment on an individual asset basis whereas goodwill is tested based on the operating segment to which it is allocated

Goodwill and intangible assets with indefinite lives have been allocated to cash generating units within operating segments as follows:

Operating segment *(in thousands of HRK)*	**Goodwill**	**Licences**	**Brands**
SBU Beverages	91,464	-	73,800
SBU Coffee	63,229	-	248,782
SBU (Sweet and Salted) Snacks	215,529	-	143,151
SBU Savoury Spreads	128,678	-	246,132
SBU Pharma and Personal Care	198,848	160,423	-
BU Baby food	22,231	-	29,013
SDU Croatia	35,830	-	-
SDU Serbia	51,356	-	-
DU Slovenia	26,275	-	-
DU Macedonia	5,972	-	-

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES (continued)

(b) Impairment test for goodwill and intangible assets with indefinite useful lives (continued)

The recoverable amount of cash generating units is determined based on value-in-use calculations. These calculations use cash flow projections from financial forecasts approved by the management, covering a seven-year period.

Value in use calculations for goodwill were determined based on the following assumptions:

Operating segment	Pre-tax discount rate 2014	Pre-tax discount rate 2013
SBU Beverages	8.2%	10.4%
SBU Coffee	8.6%	10.9%
SBU (Sweet and Salted) Snacks	9.4%	11.6%
SBU Savoury Spreads	8.6%	10.9%
SBU Pharma and Personal Care	9.1%	9.1%
Russian market	10.8%	11.4%
SDU Croatia	8.0%	9.6%
SDU Serbia	9.4%	9.6%
DU Slovenia	6.7%	9.6%
DU Macedonia	9.6%	9.6%

The Growth rate assumptions were based on historical data and management's expectations for market development. Terminal growth rate is 2% for all Operating segments and individual asset impairment tests and it is based on management's expectations for market development. Compared to 2013, pre-tax discount rates in 2014 are lower across segments, based on changed market conditions - primarily lower risk-free rates based on reduced sovereign yields across markets.

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 18,278 thousand was recognised (2013: HRK 27,096 thousand) in respect of impairment of intangible assets with indefinite useful lives.

The sensitivity analysis of key assumptions used in the impairment testing showed that a discount rate increase by 100 basis points would result on average in an 13.4% decrease of the recoverable amount of cash generating units. Despite the decrease, the net recoverable amount of cash generating units would still exceed the carrying value.

NOTE 5 – SEGMENT INFORMATION

As of 1 January 2014, the business model of the Group is organized through six strategic business units which have been joined by business unit Baby food and five strategic distribution units, which have been joined by distribution units Slovenia and Macedonia:

- SBU Beverages,
- SBU Coffee,
- SBU (Sweet and Salted) Snacks,
- SBU Savoury Spreads,
- SBU Sports and Functional Food,
- SBU Pharma and Personal Care
- SDU Croatia,
- SDU International,
- SDU Serbia,
- SDU HoReCa,
- SDU CIS,
- BU Baby food,
- DU Slovenia,
- DU Macedonia.

The Strategic Management Council is responsible for strategic and operational issues. For more efficient management of individual strategic business and strategic distribution units, the new organizational areas unite similar business activities or products, shared markets or channels.

Due to the fact that SDU HoReCa, SDU CIS, BU Baby food and DU Macedonia do not meet quantitative thresholds required by IFRS 8 for reportable segments, they are reported within Other segments. The Other segments category comprises also of non-allocable business activities (headquarters and support functions in Serbia, Slovenia and Macedonia) which are excluded from the reportable operating segments.

The Strategic Management Council monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Group financing and income taxes are managed on the Group level and are not allocated to operating segments.

Sales of individual SBUs represents the market sales made to third parties (either directly through SBUs or through SDUs and DUs). SDU and DU sales includes sales of own products also reported as SBU sales. This double presentation of own product sales is eliminated in the “Reconciliation” line. For the purpose of segmental profit calculation, sales between operating segments are carried out at arm's length.

NOTE 5 – SEGMENT INFORMATION (continued)

Sales revenues *(in thousands of HRK)*	**2014**	**2013**
SBU Beverages	638,817	644,137
SBU Coffee	1,026,680	1,091,348
SBU (Sweet and Salted) Snacks	614,426	616,517
SBU Savoury Spreads	471,385	457,035
SBU Sports and Functional Food	779,075	781,080
SBU Pharma and Personal Care	493,344	498,939
SDU Croatia	844,252	764,849
SDU International markets	582,426	555,632
SDU Serbia	1,083,149	1,145,258
DU Slovenia	725,487	615,014
Other segments	820,505	851,106
Reconciliation	(2,961,173)	(3,021,979)
Total	**5,118,373**	**4,998,936**

Operating results	**For the year ending 31 December 2014**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	128,081	41,615	86,466
SBU Coffee	231,108	19,370	211,738
SBU (Sweet and Salted) Snacks	98,136	19,062	79,074
SBU Savoury Spreads	113,074	14,088	98,986
SBU Sports and Functional Food	16,283	4,911	11,372
SBU Pharma and Personal Care	49,925	20,196	29,729
SDU Croatia	12,214	5,722	6,492
SDU International markets	14,836	598	14,238
SDU Serbia	28,505	3,390	25,115
DU Slovenia	36,524	3,314	33,210
Other segments	(131,654)	24,064	(155,718)
Total	**597,032**	**156,330**	**440,702**

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results	**For the year ending 31 December 2013**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	118,430	40,576	77,854
SBU Coffee	237,935	27,216	210,719
SBU (Sweet and Salted) Snacks	110,398	20,920	89,478
SBU Savoury Spreads	102,408	14,025	88,383
SBU Sports and Functional Food	23,240	4,730	18,510
SBU Pharma and Personal Care	47,548	25,083	22,465
SDU Croatia	17,851	5,788	12,063
SDU International markets	15,845	941	14,904
SDU Serbia	38,341	3,438	34,903
DU Slovenia	35,794	896	34,898
Other segments	(157,013)	22,545	(179,558)
Total	**590,777**	**166,158**	**424,619**

Geographical information

The total of non-current assets other than financial instruments, deferred income tax assets and trade and other receivables is located as follows:

	2014	**2013**
	(in thousands of HRK)	
Serbia	944,960	1,004,932
Slovenia	988,634	990,665
Croatia	769,174	704,384
Other	202,402	213,561
Total geographically allocated non-current assets	**2,905,170**	**2,913,542**

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2014 (in thousands of HRK)	2014 %	2013 (in thousands of HRK)	2013 %
Croatia	1,285,068	25.1	1,209,212	24.2
Serbia	1,145,249	22.4	1,215,220	24.3
Slovenia	809,083	15.8	689,267	13.8
Bosnia and Herzegovina	357,305	7.0	364,199	7.3
Macedonia, Montenegro, Kosovo	312,745	6.1	317,072	6.3
Germany, Italy, United Kingdom	405,297	7.9	389,896	7.8
Russia and CIS countries	289,608	5.7	293,592	5.9
Other markets	514,018	10.0	520,478	10.4
Total sales by markets	**5,118,373**	**100.0**	**4,998,936**	**100.0**

Sales by geographical segments is determined by geographical location of the customer.

Analysis of revenue by category	2014 (in thousands of HRK)	2014 %	2013 (in thousands of HRK)	2013 %
Sales by type of products				
Own brands	3,430,839	66.4	3,507,508	69.6
Principal brands	921,584	17.8	722,732	14.4
Pharmacy	315,150	6.1	308,508	6.1
Private label	450,800	8.7	460,188	9.1
Total sales by type of products	**5,118,373**	**99.0**	**4,998,936**	**99.2**
Other income /i/	50,266	1.0	40,935	0.8
Total revenues	**5,168,639**	**100.0**	**5,039,871**	**100.0**

/i/ Other income mainly comprise of interest and rental income.

NOTE 6 – STAFF COSTS

	2014	2013
	(in thousands of HRK)	
Gross salaries /i/	634,801	596,715
Public transport	15,975	15,357
Termination benefits	4,676	4,664
Share options granted (Note 21)	780	5,849
Other staff costs /ii/	48,205	49,533
	704,437	**672,118**

At 31 December 2014, the full time employees number was 5,152 (2013: 4,911).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2014 amounted to HRK 97,963 thousand (2013: HRK 92,287 thousand).

/ii/ Other staff costs include bonuses, education expenses, accruals for unused vacation days and jubilee awards.

NOTE 7 – MARKETING AND PROMOTION COSTS

	2014	2013
	(in thousands of HRK)	
Marketing and promotion costs - external	271,026	242,157
Marketing and promotion costs - related parties (Note 30)	13,456	20,662
Sponsorships and donations	47,123	47,574
	331,605	**310,393**

NOTE 8 – OTHER OPERATING COSTS

	2014	2013
	(in thousands of HRK)	
Transportation costs	133,641	109,044
Maintenance	95,341	97,575
Rentals (Note 27)	88,019	79,709
Non-production material	28,708	26,831
Fuel	20,635	21,311
Provision for impairment of inventories (Note 19)	22,007	18,060
Intellectual services	20,814	17,390
Taxes and contributions not related to operating results	19,210	15,100
Travel expense and daily allowances	16,142	16,554
Non-production services	12,624	14,169
Telecommunication services	13,962	13,009
Entertainment	15,042	13,859
Bank charges	9,441	9,133
Provision for impairment of trade receivables (Note 18)	11,156	15,388
Provision for impairment of other receivables (Note 18)	613	15,542
Production services	6,821	5,737
Supervisory Board fees	1,445	1,398
Royalties	1,408	1,464
Collection of receivables previously provided for (Note 18)	(3,336)	(3,739)
Other – related parties (Note 30)	2,854	2,689
Other	29,098	45,072
	545,645	**535,295**

NOTE 9 – OTHER GAINS/(LOSSES) – NET

	2014	2013
	(in thousands of HRK)	
Gain/(loss) on sale of property, plant and equipment	947	(250)
Gain on sale of available-for-sale financial assets	-	48
Fair value gains/(losses) on financial assets	2,423	(5,846)
Foreign exchange gains/(losses) – net	2,489	(2,757)
Other gains – net	425	1,267
	6,284	**(7,538)**

NOTE 10 – FINANCE COSTS – NET

	2014	2013
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	(16,013)	(46,141)
	(16,013)	(46,141)
Finance costs		
Foreign exchange loss on borrowings	78,164	58,342
Interest expense on bank borrowings	46,918	66,722
Interest expense on bonds	8,344	8,371
Interest expense on provisions for employee benefits	1,505	1,544
Interest expense on borrowings – related parties (Note 30)	69,094	82,628
	204,025	217,607
Finance costs - net	**188,012**	**171,466**

NOTE 11 – INCOME TAX

	2014	2013
	(in thousands of HRK)	
Current income tax	42,180	42,737
Deferred tax (Note 25)	(2,891)	11,422
	39,289	**54,159**

NOTE 11 – INCOME TAX (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2014	2013
	(in thousands of HRK)	
Profit before taxation	**252,690**	**253,153**
Income tax calculated at domestic tax rates applicable to profits in the respective countries	46,339	51,580
Tax effects of: Adjustments in respect of prior years	(151)	(198)
Income not subject to tax	(11,867)	(24,751)
Expenses not deductible for tax purposes	24,219	26,451
Effect of utilized tax incentives	(3,843)	-
Utilisation of previously unrecognized tax losses	(17,452)	(21,339)
Tax losses for which no deferred tax assets were recognised	4,935	10,995
Effect of utilized tax losses	4,073	22,825
Effect of recognized tax losses	-	(2,799)
Origination and reversal of temporary tax differences	(6,964)	(8,605)
Tax expense	**39,289**	**54,159**

The weighted average effective tax rate was 15.5% (2013: 21.4%). The decrease compared to the previous year primarily arises from a different level of tax loss utilization.

During 2014, the Tax Authority performed two tax inspections in the Group’s subsidiaries. In February 2015, the Ministry of Finance issued a tax resolution for one of the subsidiaries. Currently, a tax appeal has been submitted to the second-instance body of the Ministry of Finance. At this moment it is uncertain whether any liability will be imposed to the Group.

NOTE 12 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2014	2013
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	200,012	194,872
Weighted average number of ordinary shares in issue	3,334,239	3,333,240
Basic earnings per share *(in HRK)*	59.99	58.46

Diluted earnings per share

Diluted earnings per share are the same as basic earnings per share since there were no convertible potentially dilutive ordinary shares.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land	Buildings	Plant and equipment	Assets not yet in use	Total
At 31 December 2012					
Cost	91,688	772,920	1,633,867	19,449	2,517,924
Accumulated depreciation	-	(340,812)	(1,084,004)	-	(1,424,816)
Net book amount	**91,688**	**432,108**	**549,863**	**19,449**	**1,093,108**
At 1 January 2013					
Opening net book amount	91,688	432,108	549,863	19,449	1,093,108
Additions	-	-	-	91,187	91,187
Transfer	337	11,812	70,124	(82,273)	-
Disposals	-	(839)	(2,633)	-	(3,472)
Depreciation	-	(19,452)	(106,609)	-	(126,061)
Transfer to assets held for sale	(150)		(602)		(752)
Foreign exchange differences	807	3,184	2,696	150	6,837
Closing net book amount	**92,682**	**426,813**	**512,839**	**28,513**	**1,060,847**
At 31 December 2013					
Cost	92,682	787,784	1,678,909	28,513	2,587,888
Accumulated depreciation	-	(360,971)	(1,166,070)	-	(1,527,041)
Net book amount	**92,682**	**426,813**	**512,839**	**28,513**	**1,060,847**
At 1 January 2014					
Opening net book amount	92,682	426,813	512,839	28,513	1,060,847
Additions	-	-	-	181,167	181,167
Transfer	1,117	9,469	83,910	(94,496)	-
Disposals	-	(182)	(5,351)	-	(5,533)
Depreciation	-	(20,417)	(102,805)	-	(123,222)
Transfer to assets held for sale	-	(463)	-	-	(463)
Liquidation of subsidiary	(357)	(1,619)	(449)	-	(2,425)
Foreign exchange differences	6	(3,473)	(7,039)	(576)	(11,082)
Closing net book amount	**93,448**	**410,128**	**481,105**	**114,608**	**1,099,289**
At 31 December 2014					
Cost	93,448	790,011	1,700,614	114,608	2,698,681
Accumulated depreciation	-	(379,883)	(1,219,509)	-	(1,599,392)
Net book amount	**93,448**	**410,128**	**481,105**	**114,608**	**1,099,289**

Property, plant and equipment with a net book value of HRK 283,517 thousand as at 31 December 2014 (2013: HRK 307,146 thousand), have been pledged as collateral for borrowings (Note 24).

Property, plant and equipment include assets leased under a finance lease with a net book value of HRK 23,496 thousand (2013: HRK 27,534 thousand).

NOTE 13a – NON-CURRENT ASSETS HELD FOR SALE

	2014	2013
	(in thousands of HRK)	
Opening net book amount	99,133	113,868
Classified as held for sale during the year	463	752
Disposals	-	(16,617)
Foreign exchange differences	278	1,130
Closing net book amount	**99,874**	**99,133**

Non-current assets held for sale relate to the property of Droga Kolinska d.d. and Atlantic Trade Zagreb d.o.o. An active program to complete the sale plan is in place.

Assets in the amount of HRK 82,562 thousand (2013: HRK 82,306 thousand) have been pledged as collateral for borrowings (Note 24).

NOTE 14 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Licences	Brands	Rights	Software	Total
At 31 December 2012						
Cost	864,460	204,437	820,574	-	114,711	2,004,182
Accumulated amortisation and impairment	-	(19,198)	(23,234)	-	(90,785)	(133,217)
Net book amount	**864,460**	**185,239**	**797,340**	**-**	**23,926**	**1,870,965**
At 1 January 2013						
Opening net book amount	864,460	185,239	797,340	-	23,926	1,870,965
Foreign exchange differences	3,702	-	7,474	-	140	11,316
Additions	-	-	-	-	8,807	8,807
Disposals	-	-	-	-	(17)	(17)
Amortisation	-	-	(3,761)	-	(9,191)	(12,952)
Impairment charge /i/	-	(15,028)	(12,068)	-	-	(27,096)
Closing net book amount	**868,162**	**170,211**	**788,985**	**-**	**23,665**	**1,851,023**
At 31 December 2013						
Cost	868,162	204,437	823,577	-	124,620	2,020,796
Accumulated amortisation and impairment	-	(34,226)	(34,592)	-	(100,955)	(169,773)
Net book amount	**868,162**	**170,211**	**788,985**	**-**	**23,665**	**1,851,023**
At 1 January 2014						
Opening net book amount	868,162	170,211	788,985	-	23,665	1,851,023
Foreign exchange differences	(25,576)	-	(9,935)	56	(12)	(35,467)
Additions	-	-	-	-	8,933	8,933
Acquisition of subsidiary	-	-	-	16,000	-	16,000
Liquidation of subsidiary	(3,174)	-	-	-	-	(3,174)
Amortisation	-	-	(3,726)	(2,400)	(8,393)	(14,519)
Impairment charge /i/	-	(9,788)	(8,490)	-	-	(18,278)
Closing net book amount	**839,412**	**160,423**	**766,834**	**13,656**	**24,193**	**1,804,518**
At 31 December 2014						
Cost	839,412	204,437	812,466	16,066	134,848	2,007,229
Accumulated amortisation and impairment	-	(44,014)	(45,632)	(2,410)	(110,655)	(202,711)
Net book amount	**839,412**	**160,423**	**766,834**	**13,656**	**24,193**	**1,804,518**

The disclosure on goodwill and intangible assets with indefinite useful lives impairment test is provided in Note 4 b).

/i/ The basis for impairment charge is explained in Note 4 b).

Intangible assets with a net book value of HRK 682,900 thousand as at 31 December 2014 (2013: HRK 703,618) have been pledged as collateral for borrowings (Note 24).

NOTE 15 – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	Derivatives used for hedging	Total
31 December 2014				
Financial assets				
Available-for-sale	-	942	-	**942**
Trade and other receivables	1,127,647	-	-	**1,127,647**
Short-term deposits	275	-	-	**275**
Derivative financial instruments	-	-	22,687	**22,687**
Cash and cash equivalents	417,588	-	-	**417,588**
Total	**1,545,510**	**942**	**22,687**	**1,569,139**

(in thousands of HRK)	Other financial liabilities	Finance leases	Derivatives used for hedging	Total
31 December 2014				
Financial liabilities				
Borrowings	2,353,321	-	-	**2,353,321**
Finance leases	-	1,567	-	**1,567**
Derivative financial instruments	-	-	13,411	**13,411**
Trade and other payables	821,890	-	-	**821,890**
Total	**3,175,211**	**1,567**	**13,411**	**3,190,189**

(in thousands of HRK)	Loans and receivables	Available-for-sale financial assets	Total
31 December 2013			
Financial assets			
Available-for-sale	-	1,072	**1,072**
Trade and other receivables	1,090,037	-	**1,090,037**
Short-term deposits	251	-	**251**
Cash and cash equivalents	325,334	-	**325,334**
Total	**1,415,622**	**1,072**	**1,416,694**

(in thousands of HRK)	Other financial liabilities	Finance leases	Derivatives used for hedging	Total
31 December 2013				
Financial liabilities				
Borrowings	2,351,484	-	-	**2,351,484**
Finance leases	-	4,754	-	**4,754**
Derivative financial instruments	-	-	28,683	**28,683**
Trade and other payables	691,397	-	-	**691,397**
Total	**3,042,881**	**4,754**	**28,683**	**3,076,318**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information on counterparty default rates.

As at 31 December 2014, financial assets classified as trade and other receivables and short-term deposits that are not past due amounted to HRK 929,267 thousand (2013: HRK 895,080 thousand). These receivables relate to existing customers with no defaults in the past.

External credit ratings about counterparty default rates for cash and cash equivalents are as follows:

Credit rating	**2014**	**2013**
	(in thousands of HRK)	
A-1/Stable (Standard &Poor's)	5,499	2,196
A-1/Negative (Standard &Poor's)	1,707	1,406
A-2/Negative (Standard &Poor's)	110,659	115,182
A-3/Stable (Standard &Poor's)	238,282	134,716
B/Negative (Standard &Poor's)	38,227	40,993
BA2 /Negative (Moody's)	3,037	4,232
Petty cash and other banks	20,177	26,609
	417,588	**325,334**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2014	**2013**
	(in thousands of HRK)	
Trade receivables		
Counterparties without external credit rating		
Group 1	31,628	22,991
Group 2	624,816	617,977
Group 3	192,099	214,387
Total unimpaired trade receivables	**848,543**	**855,355**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2014	2013
	(in thousands of HRK)	
Other receivables		
Counterparties without external credit rating		
Group 2	21,360	21,830
Total unimpaired other receivables	**21,360**	**21,830**

	2014	2013
	(in thousands of HRK)	
Loans and long-term deposits		
Counterparties without external credit rating		
Group 2	49,586	10,763
Group 3	9,503	6,881
	59,089	**17,644**

	2014	2013
	(in thousands of HRK)	
Short-term deposits		
A-3/Stable	275	251
	275	**251**

- Group 1 – new customers/related parties (less than 12 months)
- Group 2 – existing customers/related parties (more than 12 months) with no defaults in the past
- Group 3 – existing customers/related parties (more than 12 months) with some defaults in the past. All defaults were fully recovered.

None of the financial assets that are fully performing has been renegotiated in the last year.

NOTE 17 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

Investments in available-for-sale financial assets relate to unlisted equity instruments and are carried at cost since they do not have a quoted market price and fair value cannot be reliably measured. During 2014 and 2013, there were no impairment provisions on available-for-sale financial assets.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2014	2013
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	22,378	8,777
Other non-current receivables	279	277
	22,657	9,054
Current receivables		
Trade receivables /ii/	1,047,198	1,050,563
Loans receivable and deposits /i/	36,711	8,867
Other receivables /iii/	85,434	66,980
	1,169,343	1,126,410
Short-term deposits /v/	275	251
	1,192,275	**1,135,715**

	2014	2013
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	59,089	17,644
Trade receivables	1,047,198	1,050,563
Other receivables	21,360	21,830
Short-term deposits	275	251
	1,127,922	**1,090,288**

/i/ Loans receivable and deposits are as follows:

	2014	2013
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	1,801	1,621
Loans	45,704	9,127
Current portion	(25,127)	(1,971)
	22,378	8,777
Current receivables		
Loans – related parties (Note 30)	7,651	5,764
Loans	3,933	1,132
Current portion of non-current receivables	25,127	1,971
	36,711	8,867
	59,089	**17,644**

The fair value of loans and deposits approximates the carrying amounts.

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ Trade receivables are as follows:

	2014	2013
	(in thousands of HRK)	
Gross trade receivables	1,094,274	1,107,429
Trade receivables – related parties (Note 30)	93,396	87,442
Provision for trade receivables	(140,472)	(144,308)
	1,047,198	**1,050,563**

/iii/ Other receivables are as follows:

	2014	2013
	(in thousands of HRK)	
Receivables from government institutions	33,317	22,881
Outstanding advances	4,847	8,746
Factoring receivables	11,697	9,298
Prepaid expenses	6,363	5,673
Interest receivable	502	6
Other receivables – related parties (Note 30)	117	88
Other	28,591	20,288
	85,434	**66,980**

/iv/ Due to uncertainty in collection, other receivables of HRK 613 thousand were impaired (2013: HRK 15,542 thousand), (Note 8).

/v/ Accrued interest up to the balance sheet date is recorded within other income.

As of 31 December 2014, trade receivables in the amount of HRK 140,472 thousand (2013: HRK 144,308 thousand) were impaired and provided for. The individually impaired receivables relate to customers that are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2014	2013
	(in thousands of HRK)	
Up to 3 months	254	810
3 to 6 months	689	2,001
Over 6 months	139,529	141,497
	140,472	**144,308**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2014, trade receivables in the amount of HRK 198,655 thousand (2013: HRK 195,208 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2014	**2013**
	(in thousands of HRK)	
Up to 3 months	141,189	164,753
3 to 6 months	55,949	24,477
Over 6 months	1,517	5,978
	198,655	**195,208**

The carrying amounts of the Group's financial assets are denominated in the following currencies:

	2014	**2013**
	(in thousands of HRK)	
EUR	375,707	393,240
HRK	360,040	291,342
RSD	280,463	304,130
Other	111,712	101,576
	1,127,922	**1,090,288**

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

	2014	**2013**
	(in thousands of HRK)	
As at 1 January	144,308	138,730
Provision for receivables impairment (Note 8)	11,156	15,388
Collected amounts reversed (Note 8)	(3,336)	(3,739)
Receivables written off	(8,706)	(6,579)
Exchange differences	(2,950)	508
As at 31 December	**140,472**	**144,308**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The Group does not hold any collateral as security other than bills of exchange and promissory notes.

NOTE 19 – INVENTORIES

	2014	2013
	(in thousands of HRK)	
Raw materials and supplies	169,275	175,428
Work in progress	16,734	13,783
Finished goods	223,909	181,181
Trade goods	172,329	166,840
	582,247	**537,232**

As of 31 December 2014, inventories of HRK 22,007 thousand (2013: HRK 18,060 thousand) were impaired and fully provided for, due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2014	2013
	(in thousands of HRK)	
Current account and cash on hand	107,403	94,249
Foreign currency account	113,274	111,490
Deposits up to three months /i/	196,911	119,595
	417,588	**325,334**

/i/ Accrued interest up to the balance sheet date is recorded within other income.

Cash and cash equivalents are denominated in the following currencies:

	2014	2013
	(in thousands of HRK)	
EUR	235,693	146,888
HRK	107,508	97,190
RSD	48,215	51,226
Other	26,172	30,030
	417,588	**325,334**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2013	3,334,300	133,372	882,748	-	1,016,120
Purchase of treasury shares	(13,029)	-	-	(9,063)	(9,063)
Share based payments	13,007	-	(151)	9,047	8,896
31 December 2013	**3,334,278**	**133,372**	**882,597**	**(16)**	**1,015,953**
Purchase of treasury shares	(500)	-	-	(502)	(502)
Share based payments	445	-	(21)	440	419
31 December 2014	**3,334,223**	**133,372**	**882,576**	**(78)**	**1,015,870**

All shares issued are ordinary shares, including all relevant rights. All shares have the right to vote at the Company's General Assembly, as well as the right to dividend payment.

The ownership structure of the Company is as follows:

	31 December 2014		31 December 2013	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	324,000	9.72	323,500	9.70
EBRD	284,301	8.53	284,301	8.53
DEG	76,036	2.28	283,209	8.49
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	37,624	1.13	38,386	1,15
Other shareholders	745,287	22.35	537,907	16.14
Treasury shares	77	-	22	-
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

NOTE 21 – SHARE CAPITAL (continued)

Share based payments

According to the Company's share option programme, shares are granted to Management Board members and to top management.

One part of the share grant is subject to the Group achieving its operating profit target growth and subject to individual performance achievements. The other part is conditional on the employee completing two or more years of service (the vesting period). Furthermore, part of the programme is designated for the extraordinary performance on special projects.

Under the programme, 465 new shares have been granted in 2014 (2013: 6,254 shares).

The fair value of equity-settled share based payment transactions amounted to HRK 780 thousand (2013: HRK 6,182 thousand). The whole amount (2013: HRK 5,849 thousand) has been reported as staff costs (Note 6), relating to 465 shares for which vesting conditions were met in 2014 (2013: 5,887 shares). As at 31 December 2013 HRK 332 thousand was deferred, relating to shares for which vesting conditions will be met in 2015 (367 shares).

The fair value of the shares granted is determined as of the grant date at the estimated market price of the share of HRK 880 (2013: HRK 700).

Dividend distribution

According to the decision of the Company's General Assembly from 30 June 2014, the distribution of dividend in the amount of HRK 10.50 per share, or HRK 35,010 thousand in total was approved (2013: HRK 9.00 per share; HRK 30,008 thousand in total). Dividend was paid in July 2014.

NOTE 22 – RESERVES

(in thousands of HRK)	**Reserves /i/**	**Translation reserves /ii/**	**Cash flow hedge reserve /ii/**	**Total**
At 1 January 2013	5,984	(5,601)	(57,474)	(57,091)
Foreign exchange differences	-	9,707	-	9,707
Transfer to retained earnings	(277)	-	-	(277)
Cash flow hedge	-	-	32,298	32,298
At 31 December 2013	**5,707**	**4,106**	**(25,176)**	**(15,363)**
Foreign exchange differences	-	(34,080)	-	(34,080)
Transfer from retained earnings	264	-	-	264
Cash flow hedge	-	-	29,544	29,544
At 31 December 2014	**5,971**	**(29,974)**	**4,368**	**(19,635)**

/i/ Reserves mainly comprise statutory reserves recorded in accordance with the Company's Articles of Association. These reserves are distributable.

/ii/ Movements represent amounts attributable to the owners of the Company only.

NOTE 23 – TRADE AND OTHER PAYABLES

	2014	2013
	(in thousands of HRK)	
Trade payables	719,901	595,226
Trade payables – related parties (Note 30)	808	1,416
Other payables	160,742	139,530
	881,451	**736,172**

Other payables recorded as at 31 December are as follows:

	2014	2013
	(in thousands of HRK)	
Gross salaries payable	45,490	32,766
Liabilities to state institutions	13,219	11,920
Liabilities to Kapitalni Fond d.d.	-	22,036
Accrued expenses	60,066	41,368
Vacation accrual	15,774	14,515
Termination benefits payable	852	89
Deferred income	8,787	1,361
Dividend payable (Note 30)	112	111
Other	16,442	15,364
	160,742	**139,530**

Financial liabilities are denominated in the following currencies:

	2014	2013
	(in thousands of HRK)	
EUR	375,186	287,061
HRK	288,879	270,970
RSD	101,037	89,362
Other	56,788	44,004
	821,890	**691,397**

NOTE 24 – BORROWINGS

	2014	2013
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /i/	305,129	373,807
Related parties /ii/ (Note 30)	1,356,457	1,479,720
Bonds /iii/	114,594	113,984
Finance lease	226	1,439
Long-term debt	**1,776,406**	**1,968,950**
Short-term borrowings:		
Financial institutions /i/	315,251	184,035
Related parties /ii/ (Note 30)	260,557	198,577
Bonds /iii/	1,333	1,361
Finance lease	1,341	3,315
	578,482	**387,288**
	2,354,888	**2,356,238**

/i/ In November 2012, Atlantic Grupa signed agreements to refinance its existing loans. The Agreements were signed with the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC) and other local commercial banks. The amount of the loan package granted was EUR 307 million and was structured as such that the EBRD arranged a loan of EUR 232 million, the IFC participated in the package with a loan of EUR 50 million, while the remaining EUR 25 million were ensured by Raiffeisenbank Austria Zagreb and Zagrebačka banka. The funds from the contracted package were primarily used for restructuring of the Group's balance sheet (EUR 272 million), an additional uncommitted energy efficiency line (EUR 10 million, out of which EUR 5 million was used in 2014) and a working capital line (EUR 25 million). As at 31 December 2014, EUR 19.3 million of the committed line was unused (31 December 2013: EUR 20.7 million).

In September 2014, Atlantic Grupa signed a EUR 10 million loan agreement with EBRD to finance the construction of the energy bars production plant in Nova Gradiška. The loan will be repaid in equal semi-annual instalments with final maturity in April 2019.

/ii/ Borrowings from EBRD and DEG are disclosed separately since these financial institutions own shares of the Company (Note 21) and are therefore considered as related parties.

/iii/ Bonds were issued in September 2011 in amount of HRK 115 million at the price of 99.375% with a coupon of 6.75% per annum and final redemption on 20 September 2016.

Borrowings from financial institutions (including related parties) are secured by pledges over property, plant and equipment (Notes 13 and 13a), intangible assets (Note 14) and shares of subsidiaries (Atlantic Trade d.o.o. Zagreb, Droga Kolinska d.d., Grand Prom d.o.o. Serbia and Soko Štark d.o.o.). Furthermore, issued bonds and part of borrowings from financial institutions are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators such as total net debt cover, interest cover, cash flow cover and maximum capital expenditures. At the balance sheet date, all covenant clauses were met or waiver from the banks were obtained.

NOTE 24 – BORROWINGS (continued)

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates at the balance sheet date are as follows:

	2014	2013
	(in thousands of HRK)	
Fixed interest rate	156,352	171,461
Up to 3 months	1,284,026	1,668,810
3 to 6 months	914,510	515,967
	2,354,888	**2,356,238**

The maturity of long-term borrowings is as follows:

	2014	2013
	(in thousands of HRK)	
Between 1 and 2 years	551,989	292,769
Between 2 and 5 years	1,224,417	1,351,843
Over 5 years	-	324,338
	1,776,406	**1,968,950**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 3.80% (2013: 4.16%). The effective annual interest rate related to bonds at the balance sheet date was 7.26% (2013: 7.26%).

The carrying amounts and fair value of long-term borrowings are as follows:

	Carrying amounts		**Fair value**	
	2014	**2013**	**2014**	**2013**
	(in thousands of HRK)		*(in thousands of HRK)*	
Long-term borrowings				
Financial institutions	1,661,586	1,853,527	1,661,548	1,852,845
Bonds	114,594	113,984	122,579	119,703
Finance lease	226	1,439	226	1,439
	1,776,406	**1,968,950**	**1,784,353**	**1,973,987**

NOTE 24 – BORROWINGS (continued)

The fair values of borrowings from banks and financial institutions are based on cash flows discounted using a rate of 3.80% (2013: 4.16%).

The carrying amount of short-term borrowings approximates their fair value.

Gross finance lease liabilities – minimum lease payments:

	2014	2013
	(in thousands of HRK)	
No later than 1 year	1,341	3,412
Later than 1 year and no later than 5 years	226	1,644
	1,567	5,056
Future finance charges on finance leases	-	(302)
Present value of finance lease liabilities	**1,567**	**4,754**

The carrying value of borrowings and bonds is translated from the following currencies:

	2014	2013
	(in thousands of HRK)	
HRK	254,140	247,732
EUR	2,090,240	2,100,238
USD	7,717	6,510
Other	2,791	1,758
	2,354,888	**2,356,238**

NOTE 25 – DEFERRED INCOME TAX

	2014	2013
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	31,760	34,852
- Deferred tax assets to be recovered within 12 months	9,464	13,060
	41,224	47,912
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(176,067)	(179,792)
- Deferred tax liabilities to be recovered within 12 months	(5,088)	(1,586)
	(181,155)	(181,378)
Deferred tax liabilities - net	**(139,931)**	**(133,466)**

Deferred tax assets are recognised for tax loss carry forwards and tax credits to the extent that realisation of the related tax benefit through future taxable profits of the related Group entities is probable.

The Group did not recognise deferred income tax assets of HRK 64,788 thousand (2013: HRK 74,000 thousand) in respect of losses that arose in its subsidiaries that can be carried forward against future taxable income. Deferred tax assets have not been recognised in respect of these losses as it is not certain that future taxable profit will be available for utilisation of the temporary differences. Losses amounting to HRK 337,080 thousand (2013: HRK 407,009 thousand) expire over the next five years, while the losses in the amount of HRK 13,619 thousand (2013: HRK 8,223 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	Tax losses	Provisions	Other	Total
At 1 January 2013	29,675	7,719	34,788	72,182
(Charged)/credited to the income statement (Note 11)	(20,027)	(244)	2,214	(18,057)
(Charged)/credited to other comprehensive income	-	(71)	(5,944)	(6,015)
Other movements	-	(544)	130	(414)
Exchange differences	96	14	106	216
At 31 December 2013	**9,744**	**6,874**	**31,294**	**47,912**
At 1 January 2014	9,744	6,874	31,294	47,912
(Charged)/credited to the income statement (Note 11)	(4,443)	(284)	2,197	(2,530)
(Charged)/credited to other comprehensive income	-	(4)	(2,330)	(2,334)
Exchange differences	46	(136)	(1,734)	(1,824)
At 31 December 2014	**5,347**	**6,450**	**29,427**	**41,224**

NOTE 25 – DEFERRED INCOME TAX (continued)

Deferred tax liabilities

(in thousands of HRK)	**Fair value gains**	**Fair value uplifts of assets acquired in business combinations**	**Other**	**Total**
At 1 January 2013	88	181,515	5,352	186,955
Charged/(credited) to the income statement (Note 11)	-	(5,594)	(1,041)	(6,635)
Other movements	(88)	-	(717)	(805)
Exchange differences	-	1,834	29	1,863
At 31 December 2013	**-**	**177,755**	**3,623**	**181,378**
At 1 January 2014	-	177,755	3,623	181,378
Charged/(credited) to the income statement (Note 11)	-	(4,283)	(1,138)	(5,421)
(Charged)/credited to other comprehensive income	3,897	-	-	3,897
Acquisition of subsidiary	-	2,327	-	2,327
Exchange differences	16	(825)	(217)	(1,026)
At 31 December 2014	**3,913**	**174,974**	**2,268**	**181,155**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal proceedings**	**Warranties**	**Other provisions**	**Total**
At 31 December 2013	45,962	39,322	2,553	1,601	89,438
Analysis of total provisions:					
Non-current	30,332	27,827	-	1,564	59,723
Current	15,630	11,495	2,553	37	29,715
At 1 January 2014	**45,962**	**39,322**	**2,553**	**1,601**	**89,438**
Additions	17,065	823	2,684	283	20,855
Used during year	(8,741)	(3,302)	(2,550)	(151)	(14,744)
Liquidation of subsidiary	-	(6,272)	-	-	(6,272)
Unused amounts reversed	(8,149)	(1,274)	-	-	(9,423)
Interest expense	1,505	-	-	-	1,505
Exchange differences	(743)	33	6	(68)	(772)
At 31 December 2014	**46,899**	**29,330**	**2,693**	**1,665**	**80,587**
Analysis of total provisions:					
Non-current	31,622	18,802	-	1,512	51,936
Current	15,277	10,528	2,693	153	28,651

NOTE 26 – PROVISIONS (continued)

Legal proceedings

In the ordinary course of business, the Group is defendant and plaintiff in pending legal proceedings. In Management's opinion, the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2014.

Employee benefits

This provision comprises estimated long-term employee benefits relating to termination benefits and jubilee awards, as defined by the collective bargaining agreement and bonuses to employees. The non-current portion of the provision relates to estimated acquired rights to termination benefits and jubilee awards that will be paid after 31 December 2015. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 2,711 thousand that will be paid out within the following year from the balance sheet date.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2014 but not yet incurred amounted to HRK 20,532 thousand (2013: HRK 20,697 thousand) for property, plant and equipment and HRK 1,456 thousand for intangible assets (2013: HRK 1,745 thousand).

The Group leases various outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between three and ten years and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various property, plant and equipment under cancellable operating lease agreements. The Group is required to give three to six months' notice for the termination of these agreements.

The lease rentals charged to the income statement during the year is disclosed in Note 8.

The future aggregate minimum lease payments under non-cancellable operating leases for equipment, vehicles and business premises are as follows:

	2014	**2013**
	(in thousands of HRK)	
Not later than 1 year	47,205	47,611
Later than 1 year and not later than 5 years	85,997	79,162
Over 5 years	930	4,277
	134,132	**131,050**

NOTE 28 – BUSINESS COMBINATIONS

/i/ In December 2013, the Group signed an agreement to acquire Prodis d.o.o. in Slovenia. This transaction effectively represents the acquisition of distribution rights of one of the leading global producers of consumer goods, Unilever, for the markets of Croatia and Slovenia. In accordance with the purchase agreement, one part of the purchase consideration was paid in advance in 2013, while the remaining amount was paid in 2014, upon finalization of the acquisition process. The finalization of the acquisition process was realized in March 2014, upon obtaining the approval from the Slovenian Competition Protection Agency.

Details of the value of assets and liabilities acquired are as follows:

(in thousands of HRK)	Carrying value	Fair value of identifiable assets acquired and liabilities assumed
Distribution rights (Note 14)	-	16,000
Trade and other receivables	31,109	31,109
Trade and other payables	(19,647)	(19,647)
Deferred tax liability (Note 25)	-	(2,327)
Total identifiable net assets	**11,462**	**25,135**
Purchase consideration paid in cash in 2013		6,775
Purchase consideration paid in cash in 2014		5,332
Purchase consideration offset with receivables from sellers *(a)*		13,028
Fair value of identifiable net assets acquired		(25,135)
Goodwill from acquisition		nil

(a) Based on the agreement on assumption of debt signed, part of purchase consideration was offset with the liability which the seller had toward Prodis d.o.o..

/ii/ During the year ended 31 December 2014, the Group acquired non-controlling interests and became the sole owner of the subsidiaries Cedevita d.o.o. and Atlantic Multipower UK Ltd.

The effect of changes in ownership interest in the above mentioned subsidiaries on the equity attributable to owners of the company during the year is summarised as follows:

(in thousands of HRK)	
Carrying amount of non-controlling interests acquired	62,365
Consideration in kind, net of tax	(93,349)
Excess of consideration paid recognized in equity	**(30,984)**

/iii/ In December 2014, the Group signed an agreement for the acquisition of the company Foodland d.o.o. from Serbia, whose main activity is the production of healthy food from selected ingredients with the recognizable brand “Bakina tajna”. In January 2015, the Commission for Protection of Competition in Republic of Serbia approved the takeover of Foodland d.o.o.

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2014	2013
Net profit		**213,401**	**198,994**
Income tax	11	39,289	54,159
Depreciation, amortisation and impairment	13, 14, 2.24	156,330	166,158
(Gain)/loss on sale of property, plant and equipment	9	(947)	250
Gain on sale of available-for-sale financial assets	9	-	(48)
Provision for current assets		33,777	48,990
Foreign exchange differences - net		26,091	19,349
(Decrease) / increase in provision for risks and charges - net	26	(8,851)	9,747
Fair value (gains)/losses on financial assets	9	(2,423)	5,846
Share based payment		419	8,672
Interest income		(4,511)	(8,189)
Interest expense	10	125,861	159,265
Other non-cash items, net		4,532	(3,213)
Changes in working capital:			
Increase in inventories		(67,025)	(11,979)
Increase in current receivables		(15,553)	(1,845)
Increase/ (decrease) in current payables		121,717	(47,733)
Cash generated from operations		**622,107**	**598,423**

NOTE 30 – RELATED PARTY TRANSACTIONS

The Group enters into transactions with the following related parties: shareholders and other entities owned or controlled by shareholders ('other entities').

Related party transactions that relate to balances as at 31 December 2014 and as at 31 December 2013 and transactions recognised for years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2014	2013
RECEIVABLES			
Current receivables			
Other entities	18	101,164	93,294
LIABILITIES			
Borrowings			
Shareholders	24	1,617,014	1,678,297
Trade payables			
Shareholders	23	112	111
Other entities	23	808	1,416
		920	1,527
REVENUES			
Sales revenues			
Other entities		443,032	455,364
Other revenues			
Other entities		1,285	1,379
EXPENSES			
Marketing and promotion costs	7		
Other entities		13,456	20,662
Other operating costs	8		
Other entities		2,854	2,689
Finance cost - net	10		
Shareholder		69,094	82,628

Management board compensation

In 2014 members of the Management Board received total gross amount of HRK 10,379 thousand relating to salaries, bonuses and supervisory board compensation in respect of operating companies (2013: HRK 13,758 thousand).

NOTE 31 – AUDITORS' FEES

PricewaterhouseCoopers d.o.o., the auditor of the Group's financial statements has rendered services in the amount of HRK 2,606 thousand (2013: HRK 3,062 thousand). These services relate to the audits and reviews of the financial statements and agreed upon procedures in relation to financial covenants calculation.

NOTE 32 – SUBSIDIARIES

The Group is comprised of the Company and the following subsidiaries in which the Company has an ownership interest above 50% and exercises control:

	2014.	2013.
Cedevita d.o.o., Croatia	100%	81%
- Multivita d.o.o., Serbia (merged to Soko Štark in 2014)	-	100%
Neva d.o.o., Croatia	100%	100%
Atlantic Trade d.o.o., Croatia	100%	100%
- Droga Kolinska d.d.,Slovenia	100%	100%
- Soko Štark d.o.o., Serbia	100%	100%
- Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- o.o.o. Atlantic Brands, Russia (in 2013 o.o.o. Droga Kolinska)	100%	100%
- Grand Prom d.o.o., Serbia	100%	100%
- Unikomerc d.o.o., Serbia	100%	100%
- Grand Prom d.o.o., Bosnia and Herzegovina (in 2013 Kofikom Produkt)	100%	100%
- Droga Kolinska d.o.o.e.l., Macedonia	100%	100%
- Atlantic Brands d.o.o., Serbia	100%	100%
- Atlantic Trade d.o.o., Slovenia	100%	100%
- Atlantic Trade d.o.o., Macedonia	75%	75%
- Lasago d.o.o., Croatia (liquidated in 2014)	-	100%
- Bionatura bidon vode d.o.o., Croatia	100%	100%
- Atlantic Multipower d.o.o., Croatia	100%	100%
Fidifarm d.o.o., Croatia	100%	100%
- Atlantic Pharmacentar d.o.o., Croatia	100%	100%
- ZU Ljekarne Farmacia, Croatia	100%	100%
- Farmacia - specijalizirana prodavaonica d.o.o., Croatia	100%	100%
Montana Plus d.o.o., Croatia	100%	100%
Atlantic s.r.l., Italy (liquidation proceedings)	100%	100%
Hopen Investments, BV, Netherlands	100%	100%
- Atlantic Multipower GmbH & CO OHG, Germany	100%	100%
- Atlantic Multipower UK Ltd, Great Britain	100%	65%
- Sport Direct Ltd, Great Britain	100%	100%
- Atlantic Multipower Srl, Italy	100%	100%
- Atlantic Multipower Iberica, Spain	100%	100%
- AKTIVKOST Handelsgesellschaft mbH, Germany	100%	100%
- Atlantic Management GmbH, Germany	100%	100%