ATLANTIC GRUPA d.d.

AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

ATLANTIC GRUPA d.d.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts expressed in thousands of HRK)	**Note**	**2015**	**2014**
Revenues	5	5,450,955	5,168,639
Cost of trade goods sold		(1,483,783)	(1,405,210)
Change in inventories of finished goods and work in progress		(1,166)	29,964
Material and energy costs		(1,791,442)	(1,620,958)
Staff costs	6	(767,779)	(704,437)
Marketing and promotion costs	7	(332,773)	(331,605)
Depreciation, amortisation and impairment	2.24, 13, 13a, 14	(163,297)	(156,330)
Other operating costs	8	(570,722)	(545,645)
Other gains/(losses) - net	9	63,986	6,284
Operating profit		**403,979**	**440,702**
Finance income	10	84,287	16,013
Finance costs	10	(199,170)	(204,025)
Finance costs - net	10	(114,883)	(188,012)
Profit before tax		**289,096**	**252,690**
Income tax expense	11	(46,573)	(39,289)
Profit for the year		**242,523**	**213,401**
Attributable to:			
Owners of the parent		242,291	200,012
Non-controlling interests		232	13,389
		242,523	213,401
Earnings per share for profit attributable to the equity holders of the Company during the year (in HRK)	12		
- basic		72.67	59.99
- diluted		72.67	59.99

The consolidated financial statements were approved by the Management Board of Atlantic Grupa d.d. in Zagreb on 30 March 2016.

President of the Management Board

Emil Tedeschi

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

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts expressed in thousands of HRK)	**Note**	**2015**	**2014**
Profit for the year		**242,523**	**213,401**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/ gains from defined benefit plan		(1,260)	130
		(1,260)	**130**
Items that may be subsequently reclassified to profit of loss			
Currency translation differences	22	(7,777)	(34,064)
Cash flow hedges	22	(2,052)	29,544
		(9,829)	**(4,520)**
Other comprehensive loss for the year, net of tax		**(11,089)**	**(4,390)**
Total comprehensive income for the year		**231,434**	**209,011**
Attributable to:			
Owners of the parent		231,208	195,606
Non-controlling interests		226	13,405
Total comprehensive income for the year		231,434	209,011

ATLANTIC GRUPA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2015

(all amounts expressed in thousands of HRK)	**Note**	**31 December 2015**	**31 December 2014**
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,083,566	1,099,289
Investment property		1,748	1,363
Intangible assets	14	1,797,791	1,804,518
Deferred income tax assets	25	37,066	41,224
Available-for-sale financial assets	17	959	942
Trade and other receivables	18	83,695	22,657
		3,004,825	2,969,993
Current assets			
Inventories	19	603,491	582,247
Trade and other receivables	18	1,192,314	1,169,343
Prepaid income tax		16,018	12,249
Derivative financial instruments	15	12,728	22,687
Deposits	18	305	275
Cash and cash equivalents	20	365,692	417,588
		2,190,548	2,204,389
Non-current assets held for sale	13a	99,196	99,874
Total current assets		2,289,744	2,304,263
TOTAL ASSETS		**5,294,569**	**5,274,256**
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the Company			
Share capital	21	133,372	133,372
Share premium	21	881,515	882,576
Treasury shares	21	(198)	(78)
Reserves	22	(26,264)	(19,635)
Retained earnings		954,325	756,497
		1,942,750	1,752,732
Non-controlling interests		2,558	2,332
Total equity		1,945,308	1,755,064
Non-current liabilities			
Borrowings	24	1,309,180	1,776,406
Deferred income tax liabilities	25	176,677	181,155
Derivative financial instruments	15	472	8,698
Other non-current liabilities		3,460	25
Provisions	26	54,475	51,936
		1,544,264	2,018,220
Current liabilities			
Trade and other payables	23	988,554	881,451
Borrowings	24	742,032	578,482
Derivative financial instruments	15	5,091	4,713
Current income tax liabilities		17,034	7,675
Provisions	26	52,286	28,651
		1,804,997	1,500,972
Total liabilities		3,349,261	3,519,192
TOTAL EQUITY AND LIABILITIES		**5,294,569**	**5,274,256**

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

ATLANTIC GRUPA d.d.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to owners of the Company					
(in thousands of HRK)	**Share Capital**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2014	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**
Comprehensive income:						
Net profit for the year	-	-	242,291	242,291	232	242,523
Other comprehensive (loss)/income	-	(9,823)	(1,260)	(11,083)	(6)	(11,089)
Total comprehensive income	-	(9,823)	241,031	231,208	226	231,434
Transaction with owners:						
Share based payment (Note 21)	3,123	-	-	3,123	-	3,123
Purchase of treasury shares (Note 21)	(4,304)	-	-	(4,304)	-	(4,304)
Transfer	-	3,194	(3,194)	-	-	-
Dividends relating to 2014 (Note 21)	-	-	(40,009)	(40,009)	-	(40,009)
Balance at 31 December 2015	**1,014,689**	**(26,264)**	**954,325**	**1,942,750**	**2,558**	**1,945,308**

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

(all amounts expressed in thousands of HRK)	Note	2015	2014
Cash flows from operating activities:			
Cash generated from operations	29	616,475	622,107
Interest paid		(102,705)	(123,509)
Income tax paid		(42,949)	(52,879)
		470,821	445,719
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets		(115,534)	(190,100)
Proceeds from sale of property, plant and equipment and non-current assets held for sale		4,470	6,481
Proceeds from sale of available-for-sale financial assets		3,785	-
Acquisition of subsidiary – net of cash acquired	28	(5,295)	(5,332)
Loans granted and deposits placed		(37,629)	(49,946)
Repayments of loan and deposits granted		6,161	45,460
Interest received		4,637	4,511
		(139,405)	(188,926)
Cash flows used in financing activities			
Purchase of treasury shares	21	(4,304)	(502)
Proceeds from borrowings, net of fees paid		125,532	293,101
Repayments of borrowings		(462,186)	(322,782)
Acquisition of interest in a subsidiary from non-controlling interests	28	-	(93,349)
Dividends paid to Company shareholders	21	(40,009)	(35,010)
		(380,967)	(158,542)
Net (decrease)/ increase in cash and cash equivalents		**(49,551)**	**98,251**
Exchange losses on cash and cash equivalents		(2,345)	(5,997)
Cash and cash equivalents at beginning of year		417,588	325,334
Cash and cash equivalents at end of year	20	**365,692**	**417,588**

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, a portfolio of sweet and salted snacks brands Smoki, Chipsos, Najlepše želje and Bananica and the savoury spread brands Argeta and Granny's secret. 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 12 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 European Union (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 standards for annual reporting period commencing 1 January 2015 which were endorsed by the EU and which are relevant for the Group's financial statements:

- Annual Improvements to IFRSs – 2010 – 2012 Cycle comprising changes to seven standards (IFRS 1, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38).
- Annual Improvements to IFRSs – 2011 – 2013 Cycle comprising changes to four standards (IFRS 2, IFRS 3, IFRS 13 and IAS 40)
- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19

The adoption of new and amended standards did not have material impact on the current period or any prior period and it is not likely to affect future periods.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Group. None of these is expected to have significant effect on the consolidated financial statements of the Group, except for the standards stated below. The Group plans to adopt new standards on their effective date as of and when endorsed by the EU.

- *IFRS 9, Financial instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)*

  IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

  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.

  During 2015, the Group has performed high-level impact assessment and expects no impact from the new classification, measurement and de-recognition rules on its financial assets and liabilities. The Group expects to apply simplified approach and record lifetime expected impairment losses on all trade receivables.

  The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRS 15, 'Revenue from contracts with customers and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)* The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.
  The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.
  Key changes to current practice are:
  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements;
  - Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal);
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa;
  - There are new specific rules on licenses, warranties, non- refundable upfront fees and, consignment arrangements, to name a few; and
  - As with any new standard, there are also increased disclosures.

  Entities will have a choice of full retrospective application, or prospective application with additional disclosures.
  Management is currently assessing the impact of the new rules of IFRS 15 and has identified the following areas that are likely to be affected:
  - Consignment sales where recognition of revenue will depend on the passing of control rather than the passing of risks and rewards
  - The balance sheet presentation of rights of return, which will have to be grossed up in the future (separate recognition of the right to recover the goods from the customer and the refund obligation).

  At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. More detailed assessments of the impact will be made over the next twelve months.

- *IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)*
  The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases of finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its 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 52 thousand in 2015 (2014: HRK 311 thousand).

2.25 Comparatives

In order to ensure comparability, operating results of segments for the year ended 31 December 2014 have been restated according reporting logic applied in 2015.

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 2015 resulted in HRK 3,226 thousand foreign currency losses from financing activities (2014: HRK 32,538 thousand) and depreciation of Russian ruble had a direct negative impact on the Group's 2015 results of HRK 10,050 thousand (2014: HRK 26,741 thousand).

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 2015 *(in thousands of HRK)*	**EUR**	**RSD**	**USD**	**RUB**
Trade and other receivables	411,234	342,703	56	40,787
Cash and cash equivalents	130,711	87,382	7,449	6,204
Trade and other payables	(420,658)	(134,645)	(59,789)	(5,473)
Borrowings	(1,773,869)	(34)	(8,872)	-
Net balance sheet exposure	**(1,652,582)**	**295,406**	**(61,156)**	**41,518**

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**

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 9,067 thousand lower (2014: HRK 8,510 thousand lower), mainly due to the EUR denominated borrowings, and other comprehensive income would be HRK 14,521 thousand higher (2014: HRK 14,136 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 185 thousand lower (2014: HRK 110 thousand higher) and other comprehensive income would be HRK 4,928 thousand higher (2014: HRK 4,200 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 2015, 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 2015, if the effective interest rate on borrowings increased/decreased by 100 basis points on an annual level (2014: 100 basis points), the profit after tax would have been lower/higher by HRK 8,643 thousand (2014: HRK 7,921 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 2015, the Group held cash and cash equivalents in the amount of HRK 365,692 thousand (2014: HRK 417,588 thousand) and short-term deposits in the amount of HRK 305 thousand (2014: HRK 275 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 2015			
Trade and other payables	928,651	-	928,651
Borrowings (excluding finance lease)	799,461	1,410,337	2,209,798
Finance lease liabilities	417	-	417
Derivative financial instruments	5,091	472	5,563

(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

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:

	2015	2014
	(in thousands of HRK)	
Total borrowings (Note 24)	2,051,212	2,354,888
Derivative financial instruments (Note 15)	(7,165)	(9,276)
Less: Short-term deposits and Cash and cash equivalents (Note 18 and 20)	(365,997)	(417,863)
Net debt	1,678,050	1,927,749
Total equity	1,945,308	1,755,064
Total capital	**3,623,358**	**3,682,813**
Gearing ratio	**46%**	**52%**

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 decrease in total borrowings.

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	91,119	-	72,510
SBU Coffee	62,665	-	239,599
SBU (Sweet and Salted) Snacks	213,066	-	139,678
SBU Savoury Spreads	140,596	-	248,495
SBU Pharma and Personal Care	198,848	158,082	-
BU Baby food	22,154	-	28,915
SDU Croatia	35,516	-	-
SDU Serbia	50,907	-	-
DU Slovenia	26,045	-	-
DU Macedonia	5,919	-	-
	846,835	**158,082**	**729,197**

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	**After-tax discount rate 2015**	**After-tax discount rate 2014**
SBU Beverages	7.5%	8.2%
SBU Coffee	8.0%	8.6%
SBU (Sweet and Salted) Snacks	8.9%	9.4%
SBU Savoury Spreads	8.4%	8.6%
SBU Pharma and Personal Care	8.0%	9.1%
BU Baby food	9.5%	10.8%
SDU Croatia	7.7%	8.0%
SDU Serbia	9.2%	9.4%
DU Slovenia	5.7%	6.7%
DU Macedonia	10.3%	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 2014, after-tax discount rates in 2015 are lower across segments, based on changed market conditions - primarily lower risk-free rates based on reduced sovereign yields across markets.

The Royalty rate assumptions used for impairment tests of brands and licences are based on independent valuator's researches:

	2015	**2014**
Barcaffe	5.0%	4.0%
Grand Kafa	5.0%	4.0%
Najlepše želje	6.0%	8.0%
Bananica	5.0%	5.0%
Smoki	7.0%	8.0%
Argeta	8.0%	8.0%
Donat	8.0%	8.0%
Cockta	5.0%	5.0%
Bebi	3.0%	3.0%
Bakina tajna	3.0%	-
Licences	4.5%	4.8%

Based on impairment tests performed at the balance sheet date, an impairment loss of HRK 13,795 thousand was recognised (2014: HRK 18,278 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 15.2% 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

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 EBITDA (earnings before interest taxes, depreciation, amortisation and impairment) and 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)*	**2015**	**2014**
SBU Beverages	666,075	638,817
SBU Coffee	1,084,926	1,026,680
SBU (Sweet and Salted) Snacks	631,553	614,426
SBU Savoury Spreads	538,231	471,385
SBU Sports and Functional Food	768,428	779,075
SBU Pharma and Personal Care	509,615	493,344
SDU Croatia	938,311	844,252
SDU International markets	589,913	582,426
SDU Serbia	1,175,100	1,083,149
DU Slovenia	761,868	725,487
Other segments	780,058	820,505
Reconciliation	(3,038,766)	(2,961,173)
Total	**5,405,312**	**5,118,373**

Operating results	**For the year ending 31 December 2015**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	156,350	39,077	117,273
SBU Coffee	211,416	22,520	188,896
SBU (Sweet and Salted) Snacks	97,918	22,250	75,668
SBU Savoury Spreads	99,614	17,384	82,230
SBU Sports and Functional Food	(11,372)	9,333	(20,705)
SBU Pharma and Personal Care	42,770	12,690	30,080
SDU Croatia	23,183	6,275	16,908
SDU International markets	4,276	593	3,683
SDU Serbia	31,765	2,734	29,031
DU Slovenia	42,086	4,157	37,929
Other segments	(130,730)	26,284	(157,014)
Total	**567,276**	**163,297**	**403,979**

NOTE 5 – SEGMENT INFORMATION (continued)

Operating results	**For the year ending 31 December 2014**		
(in thousands of HRK)	**EBITDA**	**Depreciation, Amortization and Impairment**	**EBIT**
SBU Beverages	126,720	41,615	85,105
SBU Coffee	225,809	19,370	206,439
SBU (Sweet and Salted) Snacks	98,469	19,062	79,407
SBU Savoury Spreads	105,942	14,088	91,854
SBU Sports and Functional Food	15,985	4,911	11,074
SBU Pharma and Personal Care	48,988	20,196	28,792
SDU Croatia	15,565	5,722	9,843
SDU International markets	14,795	598	14,197
SDU Serbia	28,393	3,390	25,003
DU Slovenia	36,379	3,314	33,065
Other segments	(120,013)	24,064	(144,077)
Total	**597,032**	**156,330**	**440,702**

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:

	2015	**2014**
	(in thousands of HRK)	
Serbia	969,944	944,960
Slovenia	962,849	988,634
Croatia	764,432	769,174
Other	185,880	202,402
Total geographically allocated non-current assets	**2,883,105**	**2,905,170**

NOTE 5 – SEGMENT INFORMATION (continued)

Sales by markets	2015 (in thousands of HRK)	2015 %	2014 (in thousands of HRK)	2014 %
Croatia	1,408,968	26.1	1,285,068	25.1
Serbia	1,256,268	23.2	1,145,249	22.4
Slovenia	855,040	15.8	809,083	15.8
Bosnia and Herzegovina	381,733	7.1	357,305	7.0
Macedonia, Montenegro, Kosovo	325,165	6.0	312,745	6.1
Germany, Italy, United Kingdom	396,752	7.3	405,297	7.9
Russia and CIS countries	237,115	4.4	289,608	5.7
Other markets	544,271	10.1	514,018	10.0
Total sales by markets	**5,405,312**	**100.0**	**5,118,373**	**100.0**

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

Analysis of revenue by category	2015 (in thousands of HRK)	2015 %	2014 (in thousands of HRK)	2014 %
Sales by type of products				
Own brands	3,529,320	64.7	3,430,839	66.4
Principal brands	1,066,789	19.6	921,584	17.8
Pharmacy	336,424	6.2	315,150	6.1
Private label	472,779	8.7	450,800	8.7
Total sales by type of products	**5,405,312**	**99.2**	**5,118,373**	**99.0**
Other income /i/	45,643	0.8	50,266	1.0
Total revenues	**5,450,955**	**100.0**	**5,168,639**	**100.0**

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

NOTE 6 – STAFF COSTS

	2015	2014
	(in thousands of HRK)	
Gross salaries /i/	682,950	634,801
Public transport	17,031	15,975
Termination benefits	3,394	4,676
Share options granted (Note 21)	1,498	780
Other staff costs /ii/	62,906	48,205
	767,779	**704,437**

At 31 December 2015, the average employees number was 5,285 (2014: 5,152).

/i/ Pension contributions that the Group calculated for payment to mandatory pension funds for the year ended 31 December 2015 amounted to HRK 104,516 thousand (2014: HRK 97,963 thousand).

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

NOTE 7 – MARKETING AND PROMOTION COSTS

	2015	2014
	(in thousands of HRK)	
Marketing and promotion costs - external	282,541	271,026
Marketing and promotion costs - related parties (Note 30)	13,966	13,456
Sponsorships and donations	36,266	47,123
	332,773	**331,605**

NOTE 8 – OTHER OPERATING COSTS

	2015	2014
	(in thousands of HRK)	
Transportation costs	132,688	133,641
Maintenance	97,474	95,341
Rentals (Note 27)	96,572	88,019
Non-production material	27,772	28,708
Fuel	18,360	20,635
Provision for impairment of inventories (Note 19)	27,571	22,007
Intellectual services	21,186	20,814
Taxes and contributions not related to operating results	17,218	19,210
Travel expense and daily allowances	18,675	16,142
Non-production services	14,390	12,624
Telecommunication services	12,353	13,962
Entertainment	17,106	15,042
Bank charges	9,770	9,441
Provision for impairment of trade receivables (Note 18)	20,603	11,156
Provision for impairment of other receivables (Note 18)	381	613
Production services	8,362	6,821
Supervisory Board fees	1,513	1,445
Royalties	1,520	1,408
Collection of receivables previously provided for (Note 18)	(12,589)	(3,336)
Other – related parties (Note 30)	2,532	2,854
Other	37,265	29,098
	570,722	**545,645**

NOTE 9 – OTHER GAINS/(LOSSES) – NET

	2015	2014
	(in thousands of HRK)	
Gain/(loss) on sale of property, plant and equipment	1,005	947
Gain on sale of available-for-sale financial assets	7,523	-
Fair value gains/(losses) on financial assets	42,257	2,423
Gain on sale of tea business	23,782	-
Foreign exchange gains/(losses) – net	(5,418)	2,489
Other gains/ (losses) – net	(5,163)	425
	63,986	**6,284**

NOTE 10 – FINANCE COSTS – NET

	2015	2014
	(in thousands of HRK)	
Finance income		
Foreign exchange gains on borrowings	84,287	16,013
	84,287	16,013
Finance costs		
Foreign exchange loss on borrowings	(93,506)	(78,164)
Interest expense on bank borrowings	(39,038)	(46,918)
Interest expense on bonds	(8,373)	(8,344)
Interest expense on provisions for employee benefits	(1,218)	(1,505)
Interest expense on borrowings – related parties (Note 30)	(57,035)	(69,094)
	(199,170)	(204,025)
Finance costs - net	**(114,883)**	**(188,012)**

NOTE 11 – INCOME TAX

	2015	2014
	(in thousands of HRK)	
Current income tax	47,947	42,180
Deferred tax (Note 25)	(1,374)	(2,891)
	46,573	**39,289**

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:

	2015	2014
	(in thousands of HRK)	
Profit before taxation	**289,096**	**252,690**
Income tax calculated at domestic tax rates applicable to profits in the respective countries	87,517	46,339
Tax effects of:		
Adjustments in respect of prior years	(32)	(151)
Income not subject to tax	(43,589)	(11,867)
Expenses not deductible for tax purposes	24,485	24,219
Effect of utilized tax incentives	(9,391)	(3,843)
Utilisation of previously unrecognized tax losses	(12,809)	(17,452)
Tax losses for which no deferred tax assets were recognised	1,766	4,935
Effect of utilized tax losses	2,933	4,073
Effect of tax rate change	21	-
Origination and reversal of temporary tax differences	(4,328)	(6,964)
Tax expense	**46,573**	**39,289**

The weighted average effective tax rate was 16.1% (2014: 15.5%). The increase compared to the previous year primarily arises from a different level of tax loss utilization.

During 2015, the Tax Authority continued to perform two tax inspections in the Group’s subsidiaries.
In February 2015, the Ministry of Finance, Tax Authorities issued a tax resolution for one of the subsidiaries. Currently, litigation process is under way in this case at the Administrative Court who made a resolution to suspend the enforcement until the procedure before the Administrative Court is complete. Management is of the view that it has a strong case against the Tax Authorities in this matter.
In January 2016, the Ministry of Finance, Tax Authorities issued a tax resolution for the second 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.
In both cases described above, the Management considers these events as contingent liabilities. The most likely outcome is that they will not result in outflows of economic benefits for the Group. However, based on the complexity of the litigation, there are uncertainties relating to the amount and timing. The maximum exposure that the Group could be expected to settle if legal proceeding would be unfavorable amounts to HRK 28,900 thousand.

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.

	2015	**2014**
Net profit attributable to shareholders of the Company *(in thousands of HRK)*	242,291	200,012
Weighted average number of ordinary shares in issue	3,334,053	3,334,239
Basic earnings per share *(in HRK)*	72.67	59.99

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 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**
At 1 January 2015					
Opening net book amount	93,448	410,128	481,105	114,608	1,099,289
Additions	-	-	-	92,212	92,212
Transfer	731	61,898	106,983	(169,612)	-
Disposals	-	(1,785)	(1,660)	-	(3,445)
Depreciation	-	(23,673)	(107,474)	-	(131,147)
Transfer to assets held for sale	-	(1,406)	-	-	(1,406)
Transfer to investment property	(420)	(13)	-	-	(433)
Acquisition of subsidiary	3,412	25,731	4,914	-	34,057
Foreign exchange differences	(329)	(1,822)	(2,608)	(802)	(5,561)
Closing net book amount	**96,842**	**469,058**	**481,260**	**36,406**	**1,083,566**
At 31 December 2015					
Cost	96,842	862,741	1,768,925	36,406	2,764,914
Accumulated depreciation	-	(393,683)	(1,287,665)	-	(1,681,348)
Net book amount	**96,842**	**469,058**	**481,260**	**36,406**	**1,083,566**

Property, plant and equipment with a net book value of HRK 248,952 thousand as at 31 December 2015 (2014: HRK 277,677 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 2,184 thousand (2014: HRK 23,496 thousand).

NOTE 13a – NON-CURRENT ASSETS HELD FOR SALE

	2015	2014
	(in thousands of HRK)	
Opening net book amount	99,874	99,133
Classified as held for sale during the year	1,406	463
Impairment charge	(1,770)	-
Foreign exchange differences	(314)	278
Closing net book amount	**99,196**	**99,874**

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. Part of assets was sold in January 2016, which resulted in impairment charge to the assets fair value less cost to sell amount.

Assets in the amount of HRK 87,733 thousand (2014: HRK 88,402 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 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**
At 1 January 2015						
Opening net book amount	839,412	160,423	766,834	13,656	24,193	1,804,518
Foreign exchange differences	(4,929)	-	(3,813)	(55)	545	(8,252)
Additions	-	-	-	837	14,850	15,687
Acquisition of subsidiary	12,352	288	3,224	-	302	16,166
Amortisation	-	-	(3,688)	(3,192)	(9,653)	(16,533)
Impairment charge /i/	-	(2,629)	(11,166)	-	-	(13,795)
Closing net book amount	**846,835**	**158,082**	**751,391**	**11,246**	**30,237**	**1,797,791**
At 31 December 2015						
Cost	846,835	204,725	811,655	16,851	144,391	2,024,457
Accumulated amortisation and impairment	-	(46,643)	(60,264)	(5,605)	(114,154)	(226,666)
Net book amount	**846,835**	**158,082**	**751,391**	**11,246**	**30,237**	**1,797,791**

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 665,732 thousand as at 31 December 2015 (2014: HRK 682,900) 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:

	2015	2014
	(in thousands of HRK)	
Loans and receivables		
Trade and other receivables	1,212,288	1,127,647
Short-term deposits	305	275
Cash and cash equivalents	365,692	417,588
	1,578,285	1,545,510
Available-for-sale financial assets		
Available-for-sale financial assets	959	942
Derivatives used for hedging		
Derivative financial instruments	12,728	22,687
Total financial assets	**1,591,972**	**1,569,139**
Total current	1,507,318	1,545,540
Total non-current	84,654	23,599
Other financial liabilities		
Borrowings	2,050,795	2,353,321
Trade and other payables	927,506	821,890
	2,978,301	3,175,211
Finance leases		
Finance leases	417	1,567
Derivatives used for hedging		
Derivative financial instruments	5,563	13,411
Financial liabilities at fair value through profit or loss		
Contingent consideration	4,581	-
Total financial liabilities	**2,988,862**	**3,190,189**
Total current	1,675,774	1,405,085
Total non-current	1,313,088	1,785,104

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 2015, financial assets classified as trade and other receivables and short-term deposits that are not past due amounted to HRK 1,054,087 thousand (2014: HRK 929,267 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	**2015**	**2014**
	(in thousands of HRK)	
A-1/Stable (Standard &Poor's)	7,770	7,304
A-2/Negative (Standard &Poor's)	154,043	110,659
A-3/Stable (Standard &Poor's)	161,377	238,282
B/Stable (Standard &Poor's)	6,468	31,676
B/Negative (Standard &Poor's)	5,365	6,551
BA2 /Stable (Moody's)	23,724	3,037
Petty cash and other banks	6,945	20,079
	365,692	**417,588**

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:

	2015	**2014**
	(in thousands of HRK)	
Trade receivables		
Counterparties without external credit rating*		
Group 1	19,632	31,628
Group 2	733,943	624,816
Group 3	170,975	192,099
Total unimpaired trade receivables	**924,550**	**848,543**

NOTE 16 – CREDIT QUALITY OF FINANCIAL ASSETS (continued)

	2015	2014
	(in thousands of HRK)	
Other receivables		
Counterparties without external credit rating*		
Group 2	52,638	21,360
Total unimpaired other receivables	**52,638**	**21,360**

	2015	2014
	(in thousands of HRK)	
Loans and long-term deposits		
Counterparties without external credit rating*		
Group 1	3,591	-
Group 2	55,441	49,586
Group 3	17,562	9,503
	76,594	**59,089**

	2015	2014
	(in thousands of HRK)	
Short-term deposits		
A-3/Stable	305	275
	305	**275**

***** Counterparties without external credit rating
- 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 2015 and 2014, there were no impairment provisions on available-for-sale financial assets.

NOTE 18 – TRADE AND OTHER RECEIVABLES

	2015	2014
	(in thousands of HRK)	
Non-current receivables		
Loans receivable and deposits /i/	59,513	22,378
Other non-current receivables	24,182	279
	83,695	22,657
Current receivables		
Trade receivables /ii/	1,083,056	1,047,198
Loans receivable and deposits /i/	17,081	36,711
Other receivables /iii/	92,177	85,434
	1,192,314	1,169,343
Short-term deposits /v/	305	275
	1,276,314	**1,192,275**

	2015	2014
Financial assets	*(in thousands of HRK)*	
Category: Trade and other receivables		
Loans and deposits	76,594	59,089
Trade receivables	1,083,056	1,047,198
Other receivables	52,638	21,360
Short-term deposits	305	275
	1,212,593	**1,127,922**

/i/ Loans receivable and deposits are as follows:

	2015	2014
	(in thousands of HRK)	
Non-current receivables		
Operating lease deposits	2,323	1,801
Loans	69,272	45,704
Current portion	(12,082)	(25,127)
	59,513	22,378
Current receivables		
Loans – related parties (Note 30)	1,210	7,651
Loans	3,789	3,933
Current portion of non-current receivables	12,082	25,127
	17,081	36,711
	76,594	**59,089**

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

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

/ii/ Trade receivables are as follows:

	2015	2014
	(in thousands of HRK)	
Gross trade receivables	1,089,043	1,094,274
Trade receivables – related parties (Note 30)	90,761	93,396
Provision for trade receivables	(96,748)	(140,472)
	1,083,056	**1,047,198**

/iii/ Other receivables are as follows:

	2015	2014
	(in thousands of HRK)	
Receivables from government institutions	37,716	33,317
Outstanding advances	2,603	4,847
Factoring receivables	9,001	11,697
Prepaid expenses	9,879	6,363
Interest receivable	137	502
Receivables from the sale of available-for-sale financial assets	3,800	-
Other receivables – related parties (Note 30)	86	117
Other	28,955	28,591
	92,177	**85,434**

/iv/ Due to uncertainty in collection, other receivables of HRK 381 thousand were impaired (2014: HRK 613 thousand), (Note 8).

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

As of 31 December 2015, trade receivables in the amount of HRK 96,748 thousand (2014: HRK 140,472 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:

	2015	2014
	(in thousands of HRK)	
Up to 3 months	4,321	254
3 to 6 months	766	689
Over 6 months	91,661	139,529
	96,748	**140,472**

NOTE 18 – TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2015, trade receivables in the amount of HRK 158,506 thousand (2014: HRK 198,655 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

	2015	2014
	(in thousands of HRK)	
Up to 3 months	133,584	141,189
3 to 6 months	14,288	55,949
Over 6 months	10,634	1,517
	158,506	**198,655**

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

	2015	2014
	(in thousands of HRK)	
EUR	411,234	375,707
HRK	343,649	360,040
RSD	342,703	280,463
Other	115,007	111,712
	1,212,593	**1,127,922**

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

	2015	2014
	(in thousands of HRK)	
As at 1 January	140,472	144,308
Acquisition of subsidiary	2,667	-
Provision for receivables impairment (Note 8)	20,603	11,156
Collected amounts reversed (Note 8)	(12,589)	(3,336)
Receivables written off	(53,790)	(8,706)
Exchange differences	(615)	(2,950)
As at 31 December	**96,748**	**140,472**

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

Other long-term receivables in the amount of HRK 23,901 thousand relate to consideration receivable from the sale of tea business. These are secured with pledge on trademarks sold. Other than that, trade and other receivables are not secured by any collateral except with bills of exchange and promissory notes.

NOTE 19 – INVENTORIES

	2015	2014
	(in thousands of HRK)	
Raw materials and supplies	179,544	169,275
Work in progress	18,472	16,734
Finished goods	219,013	223,909
Trade goods	186,462	172,329
	603,491	**582,247**

As of 31 December 2015, inventories of HRK 27,571 thousand (2014: HRK 22,007 thousand) were impaired and fully provided for, due to the adjustment to net realisable value (Note 8).

NOTE 20 – CASH AND CASH EQUIVALENTS

	2015	2014
	(in thousands of HRK)	
Current account and cash on hand	97,569	107,403
Foreign currency account	219,457	113,274
Deposits up to three months /i/	48,666	196,911
	365,692	**417,588**

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

Cash and cash equivalents are denominated in the following currencies:

	2015	2014
	(in thousands of HRK)	
EUR	130,711	235,693
HRK	97,689	107,508
RSD	87,382	48,215
Other	49,910	26,172
	365,692	**417,588**

NOTE 21 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
1 January 2014	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**
Purchase of treasury shares	(4,743)	-	-	(4,304)	(4,304)
Share based payments	4,593	-	(1,061)	4,184	3,123
31 December 2015	**3,334,073**	**133,372**	**881,515**	**(198)**	**1,014,689**

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 2015		31 December 2014	
	Number of shares	%	Number of shares	%
Emil Tedeschi	1,673,819	50.20	1,673,819	50.20
Raiffeisen Obligatory pension fund	325,759	9.77	324,000	9.72
EBRD	199,301	5.98	284,301	8.53
Erste Plavi Obligatory pension fund	198,178	5.94	111,560	3.35
Lada Tedeschi Fiorio	193,156	5.79	193,156	5.79
Management of the Company	38,331	1.15	37,624	1.13
Other shareholders	705,529	21.16	709,763	21.28
Treasury shares	227	0.01	77	-
Total	**3,334,300**	**100.00**	**3,334,300**	**100.00**

Dividend distribution

According to the decision of the Company's General Assembly from 18 June 2015, the distribution of dividend in the amount of HRK 12.00 per share, or HRK 40,009 thousand in total was approved. Dividend was paid in July 2015.

In 2014 the distribution of dividend in the amount of HRK 10.50 per share, or HRK 35,010 thousand in total was approved. Dividend was paid in July 2014.

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, 1,331 new shares have been granted in 2015 (2014: 465 shares) relating to the achievement of operating profit target growth, individual performance achievements and completing of necessary period of service.

The fair value of equity-settled share based payment transactions amounted to HRK 2,079 thousand (2014: HRK 780 thousand). Of that amount, HRK 1,498 thousand (2014: HRK 780 thousand) has been reported as staff costs (Note 6), relating to 996 shares for which vesting conditions were met in 2015 (2014: 465 shares) and HRK 581 thousand was deferred, relating to shares for which vesting which vesting conditions will be met in the next two years (335 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 805.22 (2014: HRK 880.00).

In 2015 Management Board members and top management have received 4,593 shares in total. Out of this number, 3,650 shares related to award for the extraordinary performance on special projects subject to specific restrictions which include restriction to trade the shares within 5 years from the grant date and vesting condition which includes 5 years of service within the Group. The fair value of one share at the award grant date amounted to HRK 630.00 and it has been determined based on external valuation report, taking into consideration trading restriction of the shares as described above. The rest of shares related to shares granted in 2014 and 2013. In 2014 Management Board members and top management have received 445 shares relating to shares granted in 2012.

NOTE 22 – RESERVES

(in thousands of HRK)	Reserves /i/	Translation reserves /ii/	Cash flow hedge reserve /ii/	Total
At 1 January 2014	**5,707**	**4,106**	**(25,176)**	**(15,363)**
Foreign exchange differences	-	(34,080)	-	(34,080)
Transfer to retained earnings	264	-	-	264
Cash flow hedge	-	-	29,544	29,544
At 31 December 2014	**5,971**	**(29,974)**	**4,368**	**(19,635)**
Foreign exchange differences	-	(7,771)	-	(7,771)
Transfer from retained earnings	3,194	-	-	3,194
Cash flow hedge	-	-	(2,052)	(2,052)
At 31 December 2015	**9,165**	**(37,745)**	**2,316**	**(26,264)**

/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

	2015	2014
	(in thousands of HRK)	
Trade payables	797,560	719,901
Trade payables – related parties (Note 30)	5,645	808
Other payables	185,349	160,742
	988,554	**881,451**

Other payables recorded as at 31 December are as follows:

	2015	2014
	(in thousands of HRK)	
Gross salaries payable	49,771	45,490
Liabilities to state institutions	9,618	13,219
Accrued expenses	75,494	60,066
Vacation accrual	15,864	15,774
Termination benefits payable	514	852
Deferred income	8,359	8,787
Dividend payable (Note 30)	146	112
Other	25,583	16,442
	185,349	**160,742**

Financial liabilities are denominated in the following currencies:

	2015	2014
	(in thousands of HRK)	
EUR	420,658	375,186
HRK	293,199	288,879
RSD	134,645	101,037
Other	80,149	56,788
	928,651	**821,890**

NOTE 24 – BORROWINGS

	2015	2014
	(in thousands of HRK)	
Long-term borrowings:		
Financial institutions /i/	279,041	305,129
Related parties /ii/ (Note 30)	1,030,139	1,356,457
Bonds /iii/	-	114,594
Finance lease	-	226
Long-term debt	**1,309,180**	**1,776,406**
Short-term borrowings:		
Financial institutions /i/	331,480	315,251
Related parties /ii/ (Note 30)	293,598	260,557
Bonds /iii/	116,537	1,333
Finance lease	417	1,341
	742,032	**578,482**
	2,051,212	**2,354,888**

/i/ The loan package of EUR 307 million was granted in November 2012 by the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), Raiffeisenbank Austria Zagreb and Zagrebačka banka. The arrangement 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 local commercial banks. 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 2015, EUR 16.6 million of the committed line was unused (31 December 2014: EUR 19.3 million).

Additional EUR 10 million loan agreement was signed with EBRD in September 2014, to finance the construction of the energy bars production plant in Nova Gradiška.

/ii/ Borrowings from EBRD (2014: EBRD and DEG) are disclosed separately since this financial institution own shares of the Company (Note 21) and is therefore considered as related party.

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

Borrowings from financial institutions (including related party) 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 was 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:

	2015	2014
	(in thousands of HRK)	
Fixed interest rate	144,457	156,352
Up to 3 months	1,129,189	1,284,026
3 to 6 months	777,566	914,510
	2,051,212	**2,354,888**

The maturity of long-term borrowings is as follows:

	2015	2014
	(in thousands of HRK)	
Between 1 and 2 years	516,490	551,989
Between 2 and 5 years	792,690	1,224,417
	1,309,180	**1,776,406**

The average effective annual interest rate related to borrowings from financial institutions at the balance sheet date was 3.65% (2014: 3.80%). The effective annual interest rate related to bonds at the balance sheet date was 7.28% (2014: 7.26%).

The fair value of long-term borrowings as at 31 December 2015 approximates the carrying amounts.

The carrying amounts and fair value of long-term borrowings as at 31 December 2014 were as follows:

	Carrying amounts	Fair value
	(in thousands of HRK)	
Long-term borrowings		
Financial institutions	1,661,586	1,661,548
Bonds	114,594	122,579
Finance lease	226	226
	1,776,406	**1,784,353**

The fair values of borrowings from banks and financial institutions were based on cash flows discounted using a rate of 3.80%.

NOTE 24 – BORROWINGS (continued)

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

Gross finance lease liabilities – minimum lease payments:

	2015	2014
	(in thousands of HRK)	
No later than 1 year	417	1,341
Later than 1 year and no later than 5 years	-	226
	417	1,567
Present value of finance lease liabilities	**417**	**1,567**

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

	2015	2014
	(in thousands of HRK)	
HRK	268,261	254,140
EUR	1,773,869	2,090,240
USD	8,872	7,717
Other	210	2,791
	2,051,212	**2,354,888**

NOTE 25 – DEFERRED INCOME TAX

	2015	2014
	(in thousands of HRK)	
Deferred tax assets:		
- Deferred tax assets to be recovered after 12 months	23,232	31,760
- Deferred tax assets to be recovered within 12 months	13,834	9,464
	37,066	41,224
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after 12 months	(173,521)	(176,067)
- Deferred tax liabilities to be recovered within 12 months	(3,156)	(5,088)
	(176,677)	(181,155)
Deferred tax liabilities - net	**(139,611)**	**(139,931)**

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 63,069 thousand (2014: HRK 64,788 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 296,439 thousand (2014: HRK 337,080 thousand) expire over the next five years, while the losses in the amount of HRK 18,908 thousand (2014: HRK 13,619 thousand) do not expire.

Deferred tax assets

(in thousands of HRK)	**Tax losses**	**Provisions**	**Other**	**Total**
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**
(Charged)/credited to the income statement (Note 11)	1,002	1,209	(4,603)	(2,392)
(Charged)/credited to other comprehensive income	-	77	(923)	(846)
Exchange differences	(180)	(30)	(710)	(920)
At 31 December 2015	**6,169**	**7,706**	**23,191**	**37,066**

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 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**
Charged/(credited) to the income statement (Note 11)	-	(2,223)	(1,543)	(3,766)
(Charged)/credited to other comprehensive income	(1,729)	-	-	(1,729)
Acquisition of subsidiary	-	477	1,230	1,707
Exchange differences	(13)	(696)	19	(690)
At 31 December 2015	**2,171**	**172,532**	**1,974**	**176,677**

NOTE 26 – PROVISIONS

(in thousands of HRK)	**Employee benefits**	**Legal proceedings**	**Warranties**	**Other provisions**	**Total**
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
At 1 January 2015	**46,899**	**29,330**	**2,693**	**1,665**	**80,587**
Additions	35,613	3,138	2,660	9,967	51,378
Used during year	(14,268)	(2,322)	(2,686)	(322)	(19,598)
Acquisition of subsidiary	597	406	-	-	1,003
Unused amounts reversed	(6,814)	(604)	-	-	(7,418)
Interest expense	1,218	-	-	-	1,218
Exchange differences	(307)	(81)	(9)	(12)	(409)
At 31 December 2015	**62,938**	**29,867**	**2,658**	**11,298**	**106,761**
Analysis of total provisions:					
Non-current	32,397	20,575	-	1,503	54,475
Current	30,541	9,292	2,658	9,795	52,286

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 2015.

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 2016. The current amount of employee benefits includes annual bonuses to employees and part of jubilee awards and termination benefits in the amount of HRK 2,080 thousand that will be paid out within the following year from the balance sheet date.

NOTE 27 – COMMITMENTS

Capital expenditure contracted at 31 December 2015 but not yet incurred amounted to HRK 23,855 thousand (2014: HRK 20,532 thousand) for property, plant and equipment and HRK 3,741 thousand for intangible assets (2014: HRK 1,456 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:

	2015	**2014**
	(in thousands of HRK)	
Not later than 1 year	44,869	47,205
Later than 1 year and not later than 5 years	102,531	85,997
Over 5 years	1,665	930
	149,065	**134,132**

NOTE 28 – BUSINESS COMBINATIONS

/i/ 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.

Details of the net assets acquired, goodwill and purchase consideration are as follows:

Net assets acquired:

(in thousands of HRK)	Fair value recognised on acquisition
Property, plant and equipment (Note 13)	34,057
Brand (Note 14)	3,224
Software (Note 14)	284
Inventories	10,832
Trade and other receivables	16,312
Cash and cash equivalents	1,194
Borrowings	(41,757)
Trade and other payables	(22,982)
Provisions (Note 26)	(1,003)
Deferred tax liability (Note 25)	(1,707)
Total identifiable net assets acquired	**(1,546)**
Add: goodwill (Note 14)	12,352
Net assets acquired	**10,806**

Purchase consideration:

(in thousands of HRK)	
Cash paid	6,225
Contingent consideration	4,581
Total purchase consideration	**10,806**

Cash flow on acquisition:

(in thousands of HRK)	
Net cash acquired with the subsidiary	1,194
Cash paid	(6,225)
Net cash flow on acquisition	**(5,031)**

As part of an agreement for the acquisition, a contingent consideration has been agreed. There will be additional cash payments to previous owner of Foodland d.o.o. if sales targets in following three years are achieved. As at reporting date, the fair value of contingent consideration was determined based on discounted cash flows taking into consideration the probability of meeting performance targets.
The non-current part of contingent consideration (HRK 3,436 thousand) is classified as Other non-current liabilities and current part (HRK 1,145 thousand) is classified as Trade and other payables.

Foodland d.o.o. contributed HRK 42,624 thousand of revenues and HRK 6,182 thousand of loss to the Group for the period from 1 January to 31 December 2015.

NOTE 28 – BUSINESS COMBINATIONS (continued)

/ii/ In September 2015 the Group acquired 100% interest and obtained control over the company Salubritas d.o.o., Split, Croatia. Upon acquisition, the acquired company was merged to subsidiary Farmacia - specijalizirana prodavaonica d.o.o.

The fair value of the identifiable assets and liabilities as at the date of acquisition were:

(in thousands of HRK)	Fair value recognised on acquisition
Licences (Note 14)	288
Software (Note 14)	18
Trade and other payables	(42)
Total identifiable net assets acquired	**264**
Add: goodwill (Note 14)	nil
Net assets acquired	**264**

Cash flow on acquisition:

(in thousands of HRK)	
Net cash acquired with the subsidiary	-
Cash paid	(264)
Net cash flow on acquisition	**(264)**

There would be no effect on consolidated financial statements had the acquisition taken place at the beginning of 2015, since the company acquired had no operations and was acquired solely for the purpose of obtaining the licence to open the specialized shop.

/iii/ 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)**

NOTE 29 – CASH GENERATED FROM OPERATIONS

	Note	2015	2014
Net profit		**242,523**	**213,401**
Income tax	11	46,573	39,289
Depreciation, amortisation and impairment	13, 13a, 14, 2.24	163,297	156,330
Gain on sale of property, plant and equipment	9	(1,005)	(947)
Gain on sale of available-for-sale financial assets	9	(7,523)	-
Gain on sale of tea business	9	(23,782)	-
Provision for current assets		48,555	33,777
Foreign exchange differences - net		41,676	26,091
Increase/ (decrease) in provision for risks and charges - net	26	26,174	(8,851)
Fair value (gains)/losses on financial assets	9	(42,257)	(2,423)
Share based payment	21	3,123	419
Interest income		(4,637)	(4,511)
Interest expense	10	105,664	125,861
Other non-cash items, net		5,591	4,532
Changes in working capital:			
Increase in inventories		(39,049)	(67,025)
Increase in current receivables		(38,153)	(15,553)
Increase in current payables		89,705	121,717
Cash generated from operations		**616,475**	**622,107**

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 2015 and as at 31 December 2014 and transactions recognised for years then ended, are as follows:

(all amounts expressed in thousands of HRK)	Note	2015	2014
RECEIVABLES			
Current receivables			
Other entities	18	92,057	101,164
LIABILITIES			
Borrowings			
Shareholders	24	1,323,737	1,617,014
Trade payables			
Shareholders	23	146	112
Other entities	23	5,645	808
		5,791	920
REVENUES			
Sales revenues			
Other entities		465,682	443,032
Other revenues			
Other entities		1,277	1,285
EXPENSES			
Marketing and promotion costs	7		
Other entities		13,966	13,456
Other operating costs	8		
Other entities		2,532	2,854
Finance cost - net	10		
Shareholder		57,035	69,094
Purchases of property, plant and equipment			
Other entities		11,000	-

Management board compensation

In 2015 members of the Management Board received total gross amount of HRK 15,970 thousand relating to salaries, bonuses and supervisory board compensation in respect of operating companies (2014: HRK 10,379 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 3,942 thousand (2014: HRK 3,255 thousand). These services relate to the audits and reviews of the financial statements, consultancy services 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:

	2015	**2014**
Cedevita d.o.o., Croatia	100%	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%
- Foodland d.o.o., Serbia (acquired in 2015)	100%	-
- Argeta d.o.o., Bosnia and Herzegovina	100%	100%
- o.o.o. Atlantic Brands, Russia	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	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%
- 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 (liquidated in 2015)	-	100%
Hopen Investments, BV, Netherlands	100%	100%
- Atlantic Multipower GmbH & CO OHG, Germany	100%	100%
- Atlantic Multipower UK Ltd, Great Britain	100%	100%
- 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%
Atlantic Brands GmbH, Germany (founded in 2015)	100%	-
Atlantic Brands GmbH, Austria (founded in 2015)	100%	-