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kofola 

CONSOLIDATED ANNUAL REPORT

kofola s.a. group

for the year 2012

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1.1 Letter from the Chairman of the Management Board

Dear Shareholders,

The year 2012 turned out to be very demanding for the entire food industry, especially for beverage production as it was marked by high prices of raw materials and a decrease in the buying power of the population in the countries in which we operate. The deterioration of the economic situation was reflected by the ongoing consolidation of the distribution sector and commercial networks which put additional pressure on sales prices and led to the deterioration of the financial position of distributors, many of which had to face bankruptcy.

Despite the ongoing difficult conditions, as compared to 2011, we were able to increase revenues by 4% to PLN 1 023 mil., adjusted operating profit by 8.5% (to PLN 56 mil), adjusted EBITDA by 8.5% (to PLN 130 mil.) and adjusted net profit by 13.6% to the level of PLN 30.6 mil.

We achieved a huge sales success in the HoReCa sector which is crucial for us, achieving sales growth in the falling Czech and Slovak markets. The increase in sales of carbonated beverages in the Czech Republic would have been even higher if the prohibition lasting several weeks due to alcohol poisoning cases had not been introduced in the autumn.

As the Board of Directors, we are pleased with the gradual increase in revenues in all markets, oscillating between 2.8% and 14.0%. The results stated above would have been better if the increase in prices had been introduced earlier in the shopping networks.

In 2012 we became a business partner to several federal shopping networks in Russia which resulted in the dynamic sales of water (doubling sales) and beverages for children (tripling sales) which compensated for the worse sales of non-carbonated beverages.

During the period of decrease, the best results were, as usual, achieved by the syrup sector, with the carbonated beverages sector coming next, with the leading position belonging to our cola-type beverages. The water sector recorded a small increase but the non-carbonated beverages segment dropped, as usual, however, the decline seems to be decelerating.

Thanks to the improvement in the operating result and the good management of working capital with the lowest investments in fixed assets over the past few years, we were able to reduce financial indebtedness from continuing operations towards banks, bondholders and leasing companies by PLN 71 mln. As a result, our net debt as a multiple of adjusted EBITDA has dropped below 2.0 at the end of 2012, which is the lowest since 2009.

Price pressure and high commodity prices caused a decline in the gross margin from sales from 35.9% in 2011 to 33.9% last year. We were able to compensate for this decrease with more than PLN 9.8 mil. in savings in operating costs (including General Administrative costs for PLN 2.2 mil.), which, at the increase in sales, resulted in an improvement in operating profit, EBITDA and profitability EBITDA from 12.2% to 12.7%, year-on-year. The reduction in operating costs was possible by, e.g., increasing the efficiency of logistics processes, including significant reduction in operating costs of direct distribution in Slovakia and better allocation of production to individual plants which prevented frequent inter-warehouse transfers. We introduced a number of new products last year, many of which were very successful. It is worth mentioning here the new line of Jupí syrups, Rajec Infant water, new Rajec water flavours, Kofola with guava or guarana 0.25l canned beverages, including Hoop Cola, Kofola, Pickwick teas, Vinea, Kofola with guava or guarana or alcohol-free ginger beer and Chito lemonade. The Grodziska water, reintroduced in 2011, was also selling well. Newly-introduced products, which are mainly impulse-volume (i.e. volumes of less than 1 litre), allowed us to slow the gross margin on sales decline process. We will continue to focus on innovations especially in relation to these volumes.

In the fourth quarter of the last year, we introduced Natelo - a completely new line of hot fruit flavoured beverages. We believe that this completely unique concept will find its faithful consumers across all our markets, especially in the winter season.

In order to expand our activity in the healthy beverages market, in December 2012, we acquired a package of 75% shares in the following Czech entities, UGO Juice s.r.o. and UGO Trade s.r.o. which run bars located in shopping centres that serve freshly squeezed juice and ice-cream made from natural fruit juices. We hope for fast growth of this chain in the following years. The acquisition will allow us to strengthen our position in the quickly developing category of healthy beverages.

In addition to the purchase of the UGO Group companies shares, our investments in 2012 focused on improving the HoReCa segment service (refrigerators, taps for kegs, 20-litre kegs and heaters for Natelo), as well as improving the quality of water in all CEE countries, completion of the HotFill line equipment, and a new line for fresh juice HPP treatment.

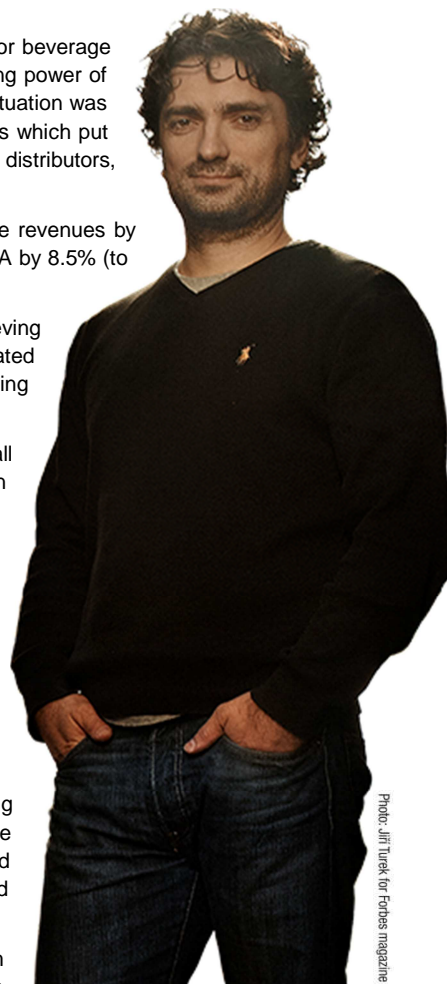


Photo: Jiří Turek for Forbes magazine

At the end of 2012 the agreement with the shareholders of OOO Megapack, giving KOFOLA S.A. the right to have the deciding vote in the selection of the General Director of the Megapack Group expired. As a result, we discontinued consolidation of the Megapack Group using acquisition accounting by the end of last year. Due to the above, the method of presenting the Megapack Group results in this report is of temporary character and, in accordance with IFRS 5, is treated as a result from operations of discontinued consolidation. According to IAS 31, beginning from 2013, the Megapack Group will be consolidated using the equity method.

During the past year, we continued to organise KOFOLA Group. KOFOLA S.A. purchased all the production assets from Kofola Sp. z o.o. (mainly the production line for PET bottled beverages) in June and contributed them in kind to Hoop Polska. The liquidation of the Hungarian company was completed in August 2012, and the cross-border merger of Kofola Sp. z o.o. and Kofola ČeskoSlovensko a.s. was started in September which was later completed on 29 December 2012.

In order to better integrate the Czech and Slovak teams, we changed the company name of Kofola Holding a.s. to Kofola ČeskoSlovensko a.s. on 1 April 2012.

Although a preliminary agreement on the sale of the closed-down Tychy plant had been signed in October, the sale was not completed in 2012. We believe this transaction will be completed in 2013 and the funds received could be utilised for business development.

We took advantage of the improving situation to diversify the Group's funding sources. In February 2012, we completed a bond issue programme that raised PLN 16.85 million. Our bonds were traded on the Catalyst and BondSpot markets beginning from March and the A² and A³ series were merged on 3 July 2012 (series with the same tenor and coupon rate).

Similar to previous years, the stable financial position of the Group together with the declining debt allowed us pay out a PLN 23.3 million dividend, which equals PLN 0.89 per share. We believe that the results generated will let us share our profit with the shareholders in the future.

As part of our CSR (Corporate Social Responsibility) activity, we managed to reduce the consumption of PET pellets by reducing the weight of the majority of bottles being used. Moreover, we established "Paproc" (eng. "Fern") foundation which promotes environmental concerns in order to preserve its heritage for future generations.

In December 2012, we completed the share buy-back program, to which we were obliged by the General meeting of Shareholders held on 25 June 2012.

We begin the new year with expensive raw materials while we are probably in the middle of an economic slowdown, which will be reflected in the pressure on our products' prices and continuously decreasing consumption among the catering business. We are facing another increase in VAT tax rate in the Czech Republic (this time by only 1%), increase of CIT tax rate in Slovakia to 23%, further excise tax increases for alcoholic beverages in Russia as well as the prohibition on selling alcohol beverages in roadside shops across Russia. However, enriched by the experience of the past two years, with a richer product portfolio, new products and a team focused on expanding sales channels, we hope for a further increase in sales and profit compared to last year. We will not, however, avoid a further increase in prices of our products, which will allow us to rebuild gross margin which was at a historically low level last year. We believe that customers shopping from their local shops will again help us achieve that, as shown last year for the first time.

We will continue to search for savings in raw material prices, to optimise production and logistics processes and to focus on the effectiveness of the sales department.

We continuously plan to improve our beverages so they become even more natural and healthier. This will require a further investment into the modification of our production lines. We believe in the success of the innovations implemented in 2012, such as Natelo, UGO, new Kofola, Hoop Cola, Semtex or Rajec water flavours.

At this occasion I would like to thank all our employees, for without their involvement we would not achieve such good results in these difficult market conditions. I hope that this year they continue to reach for further success that will result in further increases in the value of our Group.

In conclusion I would like to thank the Members of the Supervisory Board for their support in building KOFOLA S.A. Group's strategy and I hope this excellent cooperation will continue.


CHAIRMAN OF THE MANAGEMENT BOARD
KOFOLA S.A.

1.2 Description of the KOFOLA S.A. Group

The **KOFOLA S.A. GROUP** is one of the leading producers of non-alcoholic beverages in Central Europe. The Group operates in the Czech Republic, Slovakia, Poland and in Russia.



OUR MISSION AND OUR GOAL

We are Kofola. With enthusiasm we strive for what is truly important in life: to love, to live healthily and always look for new ways.

1. THE DIRECTOR'S REPORT ON THE ACTIVITIES OF THE KOFOLA S.A. GROUP

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2012 AWARDS

Janis Samaras, Chairman of the Management Board of KOFOLA S.A. was chosen **Entrepreneur of the Year 2011** in the Czech Republic in the contest organised since 2000 by Ernst&Young.

Czech TOP 100 – Kofola a.s., the fifth most admired company in the Czech Republic in 2011.

Syrup line Paola was chosen **Product of 2012** by consumers and received the title Consumer Choice - Product of the Year - Innovation 2012.

Marek Kmiecik, marketing director of Hoop Polska Sp. z o.o., won in the competition **Marketing Director 2011**.

The company Hoop Polska Sp. z o. o, was honoured with the title **Responsible Employer 2012**, taking its prestigious place in the HR Leader group.

Jupik Aqua Sport **Hit of the Year 2012** in FMCG sector.

The new line of syrups Jupí Superhusty was chosen by consumers **Product of the Year 2012** in the Czech Republic and received the title of Consumer Choice.

Marek Kmiecik, marketing director of Hoop Polska Sp. z o.o. – **Marketing and sales Man of Brief 2012**.

The Czech Company Kofola a.s. received the award **RHODOS** - the company with the most impressive image in the category of manufacturers and suppliers of beverages.



WE ARE PROUD OF OUR SUCCESSES...



COMPANIES OF KOFOLA S.A. GROUP as at 31 December 2012

Holding companies:

KOFOLA S.A. – Kutno (PL)

Kofola ČeskoSlovensko a.s. – Ostrava (CZ)

UGO Juice s.r.o. – Krnov (CZ)

Production and trading companies:

Kofola a.s. – Krnov, Mnichovo Hradiště, Prague (CZ)

Kofola a.s. – Rajecká Lesná, Bratislava (SK)

Hoop Polska Sp. z o.o. – Warsaw, Kutno, Bielsk Podlaski, Grodzisk Wielkopolski (PL)

OOO Megapack – Moscow, Widnoje, Moscow Region (RU)

Pinelli spol. s r.o. – Krnov (CZ)

UGO Trade s.r.o. – Krnov (CZ)

Distribution companies:

OOO Trading House Megapack – Moscow, Widnoje, Moscow Region (RU)

PCD Hoop Sp. z o. o. – Koszalin (PL)

STEEL INVEST Sp. z o. o. – Kutno (PL)

Transport companies:

Santa-Trans s. r. o. – Krnov (CZ)

Santa-Trans.SK s. r. o. – Rajec (SK)

Transport Spedycja Handel Sulich Sp. z o. o. – Bielsk Podlaski (PL)

OUR BRANDS IN 2012

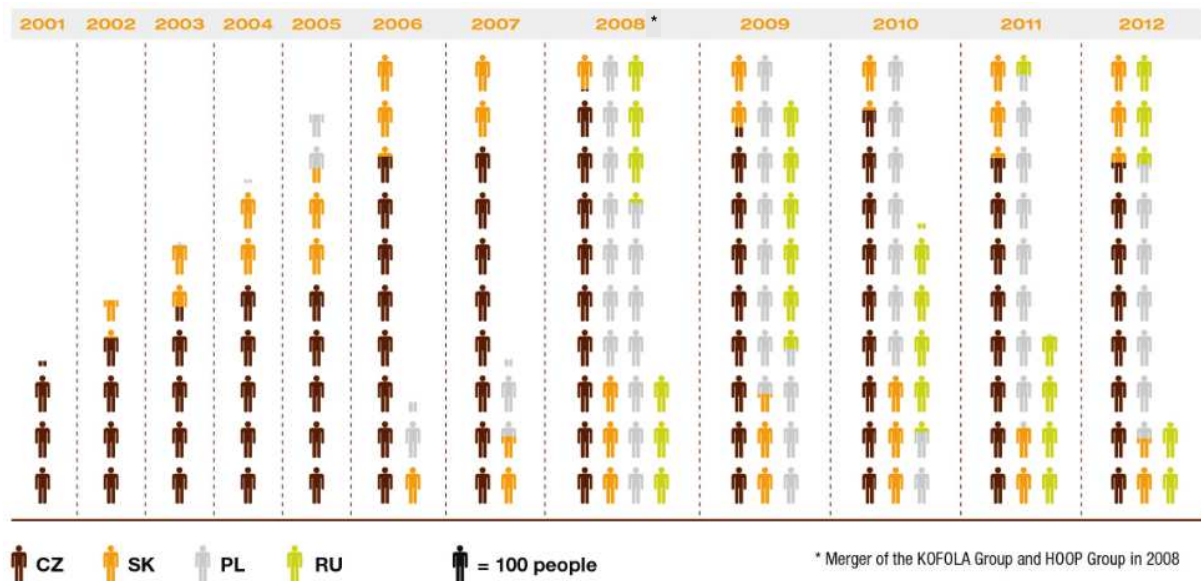


- CZ + SK
- PL
- RU

PEOPLE ARE OUR STRENGTH

We understand that, in today's knowledge-based economy, in order to maintain a competitive edge it is necessary to continually acquire talents and to invest in people to allow them to add to their qualifications. We believe that by skilfully managing the potential of our employees we can directly impact our financial results.

For this reason we continue to improve working conditions, give our employees the opportunity to add to their qualifications through internal and external training. All of our employees are covered by an incentive program that conditions the amount of their bonus on the realisation of their individual goals and on the financial results achieved by the companies at which they are employed. Our employees are covered by an annual evaluation system that enabled the verification of their achievements in the past year and helping them identify the areas of further development.



From 1 September 2011, changes in the organisational structures in the Czech Republic and Slovakia were implemented, involving the creation of a joint management team. The main objective is to manage Kofola Holding and Kofola Czech and Slovakia as a single unit operating in the Czech and Slovak markets. The consolidation of the organisation will allow better focus on key areas of our business, more dynamic management, will contribute to simpler and more effective communication and will accelerate and improve all processes to enhance the effectiveness of our actions. Average annual employment in KOFOLA S.A. Group decreased from 2 376 persons in 2011 to 2 192 people in 2012.

Merging the teams of three companies and related staff reductions brought us savings in the amount of nearly PLN 13 million in 2012.

THE GROUP'S STRUCTURE AND CHANGES THEREIN IN THE REPORTING PERIOD

As at 31 December 2012 the Group comprised the following entities:

	Company name	Headquarters	Range of activity	Consolidation method	% part in share capital	% part in voting rights
1.	KOFOLA S.A.	Poland, Kutno	holding	acquisition accounting		
2.	Kofola ČeskoSlovensko a.s.	Czech Republic, Ostrava	holding	acquisition accounting	100,00%	100,00%
3.	Hoop Polska Sp. z o.o.	Poland, Kutno	production of non-alcoholic beverages	acquisition accounting	100,00%	100,00%
4.	Kofola a.s.	Czech Republic, Krnov	production and distribution of non-alcoholic beverages	acquisition accounting	100,00%	100,00%
5.	Kofola a.s.	Slovakia, Rajecká Lesná	production and distribution of non-alcoholic beverages	acquisition accounting	100,00%	100,00%
6.	Santa-Trans s.r.o.	Czech Republic, Krnov	road cargo transport, dispatch services	acquisition accounting	100,00%	100,00%
7.	Santa-Trans.SK s.r.o.	Slovakia, Rajec	road cargo transport, dispatch services	acquisition accounting	100,00%	100,00%
8.	OOO Megapack	Russia, Widnoje	production of non-alcoholic and low-alcoholic beverages	acquisition accounting	50,00%	50,00%
9.	OOO Trading House Megapack	Russia, Widnoje	sale and distribution of non-alcoholic and low-alcoholic beverages	acquisition accounting	50,00%	50,00%
10.	Pomorskie Centrum Dystrybucji HOOP Sp. z o.o.	Poland, Koszalin	wholesale of alcoholic and non-alcoholic beverages, activity extinguished in 2011	acquisition accounting	100,00%	100,00%
11.	Transport Spedycja Handel Sulich Sp. z o.o.	Poland, Bielsk Podlaski	road cargo transport, dispatch services	equity accounting	50,00%	50,00%
12.	PINELLI spol. s r.o.	Czech Republic, Krnov	trademark licensing	acquisition accounting	100,00%	100,00%
13.	UGO Trade s.r.o.	Czech Republic, Krnov	production of non-alcoholic beverages	acquisition accounting	75,00%	75,00%
14.	UGO Juice s.r.o.	Czech Republic, Krnov	holding	acquisition accounting	75,00%	75,00%
15.	STEEL INVEST Sp. z o.o.	Poland, Warsaw	inactive	acquisition accounting	100,00%	100,00%

The holding company – **KOFOLA S.A.** (“the Company”, “the Issuer”) with its registered office in Kutno, 99-300, ul. Wschodnia 5. The Company formed as a result of the 30 May 2008 merger of HOOP S.A. and Kofola SPV Sp. z o.o. Effective with the merger's registration, the name HOOP S.A. was changed to KOFOLA - HOOP S.A. and since 24 December 2008 to KOFOLA S.A. At this time the Company's functions consist primarily of management and ownership of all of the entities belonging to the KOFOLA S.A. Group.

The subsidiary – **Hoop Polska Sp. z o.o.** until 31 January 2012 with its registered office in Warsaw, 01-102, ul. Jana Olbrachta 94, currently its registered office is in Kutno 99-300, ul. Wschodnia 5, of which KOFOLA S.A. holds 100% of shares. The company's main area of activities is the production and sale of non-alcoholic beverages.

The subsidiary – **Kofola ČeskoSlovensko a.s.** (until 30 March 2012 as Kofola Holding a.s.) is the company that manages the Group and at the same time the holding company of Kofola ČeskoSlovensko a.s. Group, with its registered office in Ostrava, Nad Porubkou 2278/31A, 708 00 Ostrava - Poruba, the Czech Republic, of which KOFOLA S.A. holds 100% of shares in the share capital.

The Kofola ČeskoSlovensko a.s. Group comprises the following entities:

- Kofola ČeskoSlovensko a.s. – the holding company – registered in the Czech Republic performing management and control of the other entities comprising KOFOLA S.A. Group,
- Kofola a.s. (CZ) – a company registered in the Czech Republic, with main activities consisting of the production and distribution of beverages on the territory of the Czech Republic,
- Kofola a.s. (SK) – a company registered in Slovakia, with main activities consisting of the production and distribution,
- Santa-Trans s.r.o. (CZ) – a company registered in the Czech Republic, with main activities consisting of road cargo transport provided mainly to Kofola a.s. (Czech Republic),
- Santa-Trans.SK s.r.o. (SK) – a company registered in Slovakia, with main activities consisting of road cargo transport provided mainly to Kofola a.s. (Slovakia),
- Pinelli spol. s r.o. (CZ) - a company registered in the Czech Republic, where Kofola a.s. (CZ) holds 100% of shares. Until the end of June 2011 the activities of Pinelli spol. s r.o. consisted of the production and sale of beverages. In July and August 2011, activities were transferred to the company Kofola a.s. (CZ) and production to the plant in Krnov. Presently, Pinelli spol. s r.o. owns the trademarks Semtex and Erektus and Green Tea ice tea. Due to the fact that, after the takeover of the company, which took place on 22 April 2011, there were no operations until 30 April 2011 that could significantly affect the financial position of the Group the comparable data of this financial information includes the results of Pinelli spol. s r.o. for the period commencing on 1 May 2011.
- UGO Trade s.r.o. (CZ) – a company registered in the Czech Republic, where Kofola ČeskoSlovensko a.s. (CZ) holds 75% of shares. The company's main area of activities is the production and sale of non-alcoholic beverages. The company was acquired on 1 December 2012 and therefore these financial statements include only its financial data for last month of the year 2012,
- UGO Juice s.r.o. (CZ) - a company registered in the Czech Republic, where Kofola ČeskoSlovensko a.s. (CZ) holds 75% of shares. The company was acquired on 1 December 2012 and therefore its financial data only for the last month of 2012 has been included in the current report. The company executes the management and control function on the UGO Trade s.r.o.

The subsidiary – **Megapack Group**, with its holding company OOO Megapack with its registered office in Promozno, Widnoje, Leninskiy District, Moscow Region, the Russian Federation, of which KOFOLA S.A. holds 50% of shares in the share capital. The main activities of the Megapack Group consist of the provision of services consisting of bottling beverages for third parties, production of own beverages, as well as their distribution on the territory of the Russian Federation. In the current period, KOFOLA S.A. Group is able to control the financial and operating policies of Megapack Group, and as such it consolidates its financial results using acquisition accounting. In accordance with the binding Statute and agreement between the shareholders of the company Megapack, the General Director of this company is selected by the Shareholders Meeting, with KOFOLA S.A. having the deciding vote in this matter until 31 December 2012. Due to the fact that, at the end of 31 December 2012, the shareholders' agreement giving KOFOLA S.A. the deciding vote in choosing the General Director of the Company OOO Megapack expired; since 1 January 2013, KOFOLA S.A. and the Russian shareholders have had joint control over the company, and thus according to IAS 31 KOFOLA S.A. Group will be consolidating the Megapack Group under the equity method. KOFOLA S.A. will continue to pursue ownership supervision over the activities of the subsidiary by the right to appoint two of the four members of the Board of Directors of OOO Megapack.

The subsidiary – **Pomorskie Centrum Dystrybucji HOOP Sp. z o.o.** with its registered office in Koszalin, 75-209, ul. BoWiD 9e, of which KOFOLA S.A. holds 100% of shares and has 100% of votes at Shareholders Meeting. The main activities of PCD HOOP Sp. z o.o. consist of the wholesale of beverages. After the sale of its assets, the company's activities were extinguished.

The co-subsiary **Transport – Spedycja – Handel - Sulich Sp. z o. o.** with its registered office in Bielsk Podlaski, where KOFOLA S.A. holds 50% and has 50% of votes at Shareholders Meeting. The company's activities consist of cargo road transport. This associate company is consolidated using equity method.

STEEL INVEST Sp. z o.o. – since 17 June 2012 registered in Kutno, of which KOFOLA S.A. acquired on 28 March 2012 100% of share capital amounted to PLN 50 thousand. At this time, the company does not conduct any business operations apart from debt collection.

Kofola Zrt. in liquidation (HU) – the company ceased its business operations. On 9 August 2012, the Management Board of KOFOLA S.A. received information from the Court about the final decision on the removal of its subsidiary - Kofola Zrt. in liquidation with its registered office in Budapest, Hungary from the court register. The above-mentioned decision formally ended the liquidation process of the subsidiary commenced with an application from 1 February 2009.

Kofola Sp. z o.o. – a company that was registered in Poland, with its main activities consisting of renting out the production line in Kutno to the company Hoop Polska Sp. z o.o., which conducts its production there. The company was part of Kofola ČeskoSlovensko a.s. holding and, as a result of merge with Kofola ČeskoSlovensko a.s., has ceased its activities on 29 December 2012.

1.3 Most significant events in the KOFOLA S.A. Group in the period from 1 January 2012 to the preparation of the present financial statements

CHANGE IN REGISTERED OFFICE OF THE SUBSIDIARY

As at 31 January 2012, the registered Office of Hoop Polska Sp. z o.o. was transferred from Warsaw to Kutno.

ISSUE OF BONDS FROM SERIE A³ BY KOFOLA S.A.

According to resolution number 13/XI/2011 of KOFOLA S.A.'s Supervisory Board from 10 November 2011 regarding approval of Bond Issuance Program realisation with amendments by Supervisory Board resolution number 1/2012 from 20 February 2012 and KOFOLA S.A.'s Management resolution number 1/II/2012 from 1 February 2012 regarding issuance of bonds from series A³ KOFOLA S.A. as at 20 February 2012 issued 16 850 A³ bonds.

KOFOLA S.A. BONDS ADMITTED TO TRADING ON THE CATALYST MARKET AND BONDSPOT S.A.

As at 30 March 2012, series A¹, A² and A³ bonds issued by KOFOLA S.A. were admitted to trading in an alternative trading system on the Catalyst market, which is organised by the Stock Exchange in Warsaw and the wholesale market BondSpot S.A.

CAPITAL INCREASE IN SUBSIDIARY - AN AGREEMENT ON THE TRANSFER AND AN AGREEMENT ON THE OBLIGATION REPAYMENT

According to Resolution number 1 from 28 February 2012, the Extraordinary Shareholders Meeting of Pomorskie Centrum Dystrybucji HOOP Sp. z o.o. increased the company's share capital by PLN 1 000 thousand by the creation of 2 000 new shares with a nominal value of PLN 500 each, which were acquired by KOFOLA S.A. by the issue value of PLN 5 500 for each share, thus the total issuance amount of PLN 11 000 thousand.

On 5 March 2012, a tripartite agreement on the transfer was concluded, under which the obligations of PCD Hoop Sp. z o.o. to Hoop Polska Sp. z o.o. have been repaid to the amount of PLN 11 000 thousand and under which KOFOLA S.A. has given a cash contribution to cover the newly created shares in the increased capital of PCD Hoop Sp. z o.o. in the amount of PLN 11 000 thousand and undertook to pay the amount of transfer to Hoop Polska Sp. z o.o. no later than 28 February 2017, in accordance with the timetable included in the agreement from 7 March 2012 regarding the repayment of the obligation.

The above-described steps leading to the restructuring of PCD Hoop Sp. z o.o. constitute execution of commitments adopted by KOFOLA S.A. in the course of the arrangement of the company PCD Hoop Sp. z o.o. arising from the decision of 22 November 2010 by the Regional Court in Koszalin, VII Business Division for Bankruptcy and Recovery Cases, ref. Act VII GUp 13/10 for approval of the arrangements of the PCD Hoop Sp. z o.o.

The share capital increase of PCD Hoop Sp. z o.o. was registered by the court as at 3 April 2012.

CREDIT AGREEMENTS

On 28 March 2012, an Agreement amending and consolidating Term Loan Agreement in the amount of PLN 57 000 thousand with due date on 22 March 2014 and an Agreement amending and consolidating overdraft Agreement in the amount of PLN 57 000 thousand with due date on 28 March 2013 were signed by the subsidiary Hoop Polska Sp. z o.o. and Bank Consortium. The changes include the extension of the deadline of repayment of the overdraft until 28 March 2013 with the consequent extension of the guarantees of these loans by KOFOLA S.A. until 31 December 2016 and update of the financial conditions, which do not differ from the market conditions applicable to such agreements. Security for both loan agreements remains unchanged.

ACQUISITION OF THE SUBSIDIARY STEEL INVEST SP. Z O.O.

On 28 March 2012, KOFOLA S.A. acquired 100% shares of the STEEL INVEST Sp. z o.o. share capital amounting to PLN 50 thousand. At this time, the company does not conduct any business operations apart from debt collection.

CHANGE OF NAME OF THE SUBSIDIARY KOFOLA HOLDING A.S.

On 30 March 2012, Kofola Holding a.s. changed its name to Kofola ČeskoSlovensko a.s.

CHANGE IN REGISTERED OFFICE OF THE SUBSIDIARY STEEL INVEST SP. Z O.O.

On 17 June 2012 new registered office of the STEEL INVEST Sp. z o.o. in Kutno was registered in the National Court Register.

DECISION ABOUT PAYMENT OF DIVIDEND KOFOLA S.A. SHAREHOLDERS

The Ordinary General Meeting of KOFOLA S.A. passed a decision by resolution number 17 from 25 June 2012 to distribute the net profit for 2011 of KOFOLA S.A. in the amount of PLN 22 614 thousand and the amount of PLN 680 thousand from the dividend fund as dividend payments.

The shares of all series (A,B,C,D,E,F,G) have the dividend value of 0,89 PLN. The dividend date was set for 25 September 2012 and the day of dividend payment for 6 December 2012.

SHARE BUY-BACK PROGRAM

The Ordinary General Meeting of KOFOLA S.A. passed a decision by resolution number 18 from 25 June 2012 to authorise, under the conditions and within the limits set out in the resolution adopted, the Board of Directors of KOFOLA S.A. to purchase its own shares for cancellation and thus reduction of the share capital of KOFOLA S.A. The total number of shares covered by the Repurchase Program was to be no more than 118 707 shares, which would be approximately 0,45% of the share capital. Resources for the program could not exceed PLN 1 000 thousand and the price per share could not exceed PLN 40.

The Ordinary General Meeting of KOFOLA S.A. passed a decision by resolution number 19 from 25 June 2012 to create reserve capital to cover the total amount of the Repurchase Program (based on the resolution number 18 from 25 June 2012) in the amount of PLN 1 000 thousand. Funds from the capital reserve fund exceeding the dividend fund were allocated for this.

Pursuant to the agreement from 17 July 2012, the Brokerage House Copernicus Securities S.A. brokered the Share Repurchase program by purchasing it on their own account and KOFOLA S.A. committed itself to buy back the shares. On 24 December 2012, the Board of Directors repurchased 2 599 of own shares from the Brokerage House Copernicus Securities S.A. representing 0,0099 % of its share capital and the same percentage of voting rights in a OTC transaction. The average price per share was PLN 25,78.

As at 31 December 2012, KOFOLA S.A. completed the Share Repurchase program, the implementation of which was justified by the current situation on the regulated market of the Warsaw Stock Exchange in Warsaw S.A.

Shares repurchased by the Company will be subject to cancellation and reduction of the share capital if the General Meeting of Shareholders does not decide otherwise.

CHANGES IN THE SUPERVISORY BOARD AND IN THE AUDIT COMMITTEE

On 25 June 2012, Mr. Raimondo Eggink resigned from his position as a member of the Supervisory Board and member of the Audit Committee due to personal reasons, which is effective from 1 October 2012. On 1 November 2012 the majority shareholder acting pursuant to § 17 art. 1 letter a) of the Articles of Association of the Company appointed Mr. Pavel Jakubík as a member of the Supervisory Board.

CAPITAL CONTRIBUTION AND INCREASE IN THE SUBSIDIARY HOOP POLSKA SP. Z O.O.

Extraordinary General Meeting of Shareholders of subsidiary Hoop Polska Sp. z o.o. on 26 June 2012 passed resolution No. 1 on increasing share capital by PLN 100 thousand by issuing 200 new shares with nominal value of PLN 500, total value of PLN 100 thousand. All of the new shares have been acquired by the sole shareholder KOFOLA S.A. for the total price of PLN 13 200 thousand and were paid in kind in the form of fixed assets (production line) purchased from the non-direct Kofola Sp. z o.o. with the market value of PLN 13 200 thousand consistent with the valuation of expert. The excess over the nominal value of the shares in the amount of PLN 13 100 thousand has been transferred to the capital reserve of Hoop Polska Sp. z o.o.

BOARD OF THE NATIONAL DEPOSITORY FOR SECURITIES DECISION ON ASSIMILATION OF KOFOLA S.A. BONDS SERIES A² AND A³

On 29 June 2012, Board of the National Depository for Securities decided on the assimilation of bonds from series A² and A³ on 3 July 2012. From 3 July 2012 on, both series are presented as series A².

TERMINATION OF LIQUIDATION OF SUBSIDIARY

Management of KOFOLA S.A. obtained information on 9 August 2012 from the registry court on the final decision on removal from the court register of a subsidiary - Kofola Zrt in liquidation with its registered office in Budapest, Hungary. The above decision formally ends the liquidation process started on 1 February 2009.

REGISTRATION OF CAPITAL INCREASE IN THE SUBSIDIARY HOOP POLSKA SP. Z O.O.

Capital increase in Hoop Polska Sp. z o.o. was registered by court on 31 August 2012.

MERGER OF GROUP COMPANIES

On 6 September 2012, Managements of Kofola Sp. z o.o. with its registered office in Kutno and Kofola ČeskoSlovensko a.s. with its registered office in Ostrava agreed on cross-border merger. This merger had the form of an incorporation (merger by acquisition). Total assets of Kofola Sp. z o.o. were transferred to Kofola ČeskoSlovensko a.s. The aim of this merger was to simplify the Group's structure and lower its administrative costs. As at the merger date, 29 December 2012, the acquiring company, Kofola ČeskoSlovensko a.s., assumed all rights and obligations of the acquired company Kofola Sp. z o.o., which ceased its legal existence as at the merger date.

STARTING LINE FOR THE PRODUCTION OF DRINKS IN GLASS IN RUSSIA

In the third quarter of 2012 the Megapack Group started testing new production line for glass containers. Full operations of this line started in the fourth quarter of 2012. It is the first line for glass containers in the Megapack Group and this will contribute to widening the Megapack products portfolio in Russia.

DIVIDEND PAYMENT TO KOFOLA S.A. SHAREHOLDERS

The dividend in the amount of 0.89 zł per share was paid out to KOFOLA S.A. shareholders on 6 December 2012.

1.4 The Group's responsibility to the community and to the environment

From the start of its operations, Kofola strives to be a socially responsible company. We believe that being responsible is an answer to the needs of all of the Group's stakeholders, and in particular when it comes to generating returns for shareholders while maintaining our values.

In 2010 we openly named CSR (Corporate Social Responsibility) an inherent element of our company culture. At first, a very intuitive approach was reflected in several CSR projects.

In the year 2012, we continued many projects CSR started in previous years. At the same time, we were trying to implement the idea CSR in all possible areas. In our operations we pay special attention to supporting a healthy lifestyle (responsible consumption), having a frugal approach to natural resources, protecting the environment, tradition, being a good neighbour, and having employees who are ambassadors of our values.

RESPONSIBLE CONSUMPTION

Responsible consumption means taking an active part in various organisations, such as Food Chambers, where our employees hold leading positions and develop various initiatives relating to healthy living, as well as educates consumers with regard to proper consumption of beverages. We voluntarily marked our products with the GDA nutrition facts labels. In the Czech Republic we are a proud partner of an internet course on healthy living for kids under the "Live healthy and have fun" (Hravě žij zdravě – <http://www.hravezijzdrave.cz/>) slogan. This program was also started in Slovakia (<http://www.hravozizdravo.sk/>).

In Poland, we are engaged in having a similar program "Trzymaj Formę", which is an educational program for children of high school age, promoting healthy life styles and nutrition (<http://www.trzymajforme.pl/>).

To ensure that our products are as healthy as possible, we develop them in cooperation with leading nutrition specialists.

HEALTHY PRODUCTS

In 2012 we strongly focused on improving the healthy properties of our products. Firstly, we have replaced synthetic colouring with their natural equivalents. Secondly, we have implemented a new PET line in hot filling technology (HotFill) in the Czech Republic, in the current period we enlarged the range of beverages in plastic bottles without the use of preservatives. Stevia-sweetened beverages were quickly introduced to reduce the caloric value of children's beverages and cola.

ENVIRONMENTAL PROTECTION

With regard to environmental protection, we focus on investments in modern technologies and production lines that increase efficiency and thus minimise the use of energy and water. We invest in our water intakes to ensure that it is of the highest quality and protected against any contamination. Our goal is to maintain what is best, what comes straight from nature, and provide all of our consumers with a unique natural spring water experience.

In 2012 we achieved a decrease in the weight of the majority of PET bottles, thanks to which we have lowered usage of granules and thus decreased negative environmental impact. Compared to the year 2011, we have also increased usage of granules from recycling.

We also limit contamination caused by fumes generated by our vehicles. We currently have one of the most advanced vehicle fleets, which meets Europe's strictest norms.

ESTABLISHMENT OF THE 'PAPROĆ' FOUNDATION

On 22 February 2012, the Board of Directors of the subsidiary Hoop Polska Sp. z o.o. passed a resolution to set up the "Paproć" foundation for the purposes related to the protection of nature and the environment. Aside from an educational mission, the foundation's aim is to activate entrepreneurs and people supporting environmental activities to fight for the protection of natural heritage.

TRADITION

By buying local brands and building positive emotions and experiences around them, we make it possible to maintain the cultural heritage on the markets in which we operate.

EMPLOYEES

We train all of our drivers in first aid and organise courses on what to do in the event of a car accident. Our trucks are marked with special stickers with telephone numbers that other drivers can call if our driver is driving incorrectly.

We have also started the "responsible driver" program that aims to get our drivers used to being responsible on the road.

GOOD NEIGHBOUR

One of the most important aspects for our company is to be a "good neighbour". This is why we developed a whole series of projects that support the regions in which we operate, from the construction of play grounds, through the development of communications infrastructure or support of local non-government organisations.

In 2012 we continued the campaign to help sick children, under the program Kofola Dobronožky/Maňušky, consisting of supporting non-profit organisations that bring a smile to children in hospitals by organising puppet shows. Every one of us, by buying a bottle of Kofola, supported this campaign.

The campaign is an element of our responsible approach to brand building (Brand Social Responsibility).

1.5 Description of operating results and financial position

Presented below is a description of the financial position and results of the KOFOLA S.A. Group for the year 2012. It should be reviewed along with the consolidated financial statements and with other financial information presented in the current report.

To better introduce the Group's financial position, in addition to the consolidated financial statements prepared in accordance with the accounting methods arising out of International Financial Reporting Standards, the Management is also presenting the consolidated financial results prepared for Group management purposes, adjusted for one-off events, mostly of a non-monetary nature and recalculated by the same exchange rate.

Due to significant differences in the Czech crown, Euro and Russian rubble exchange rates to the Polish zloty between the reporting period of 2012, and the same period of 2011, in order to present better comparability of financial statements of the Group's Czech, Slovak and Russian companies, the data for the comparable period of 2011 was converted to the Polish zloty with the 2012 exchange rate. Information about rates used for translation purposes can be found in Note 4.3. The consolidated financial statements with recalculated comparable data are presented in the second chapter of this report.

Data relating to the Megapack group has been presented in the income statement (in the current and comparative period) and Statement of Financial Position (only the current reporting period) separately, as discontinued consolidation. This reclassification is related to the loss of control as at 1 January 2013 over Megapack Group and is in line with the demands of IFRS 5. Detailed information is presented in Note 4.5 to the consolidated financial statements

It should be remembered that comparative data presented in Note 1.5 includes changes of presentation of Megapack Group as discontinued consolidation (Note 5.11) and presentation changes to financial statements (Note 4.5). This data has been adjusted by one-off positions from 2011 and recalculated with the average exchange rate for 2012.

It should also be noted that only in Note 1.5 was the comparative data calculated with the exchange rate for 2012. In all other notes the data for the comparative period was calculated with the historic rate.

Selected financial data	Published	Reported as comparative information		Adjusted recalculated *
	1.1.2011 - 31.12.2011	for the consolidated financial statements for 2012 (take into account the change in the presentation of the Megapack Group and other changes in presentation) 1.1.2011 - 31.12.2011	Reported adjusted by one-off events 1.1.2011 - 31.12.2011	1.1.2011 - 31.12.2011 – comparative data for management purposes
Continuing operations				
Sales revenues	1 336 273	984 105	984 105	980 302
Cost of sales	(883 438)	(630 547)	(629 935)	(628 020)
Gross profit	452 835	353 558	354 170	352 282
Selling, marketing and distribution costs	(332 211)	(252 137)	(249 993)	(248 827)
Administrative costs	(69 478)	(55 629)	(55 042)	(54 573)
Other operating income/(expense), net	2 895	2 824	2 824	2 795
Operating result	54 041	48 616	51 960	51 678
EBITDA	132 402	116 944	120 288	119 793
Financial expense, net	(16 562)	(17 375)	(17 375)	(17 397)
Income tax	(11 034)	(9 222)	(9 631)	(9 634)
Net profit from continuing operation	26 445	22 019	24 954	24 647
Discontinued consolidation				
Net profit for the period from discontinued consolidation	-	2 213	2 213	2 290
Net profit for the period	26 445	24 232	27 167	26 937
- assigned to the shareholders of the parent company	24 232	24 232	27 167	26 937

* results published for the year 2011 taking into account both presentation changes presented in note 4.5 and reclassification changes related to the discontinued consolidation of the Megapack Group, described in note 4.5.

** corrected results for year 2011 recalculated for better comparability with the 2012 exchange rate.

In Management's opinion, the consolidated financial statements adjusted by one-off events provide for a greater comparability of KOFOLA S.A. Group's results, but from a formal standpoint, the consolidated financial statements, presented in the second section of this report, are reported.

One-off items constitute all extraordinary items, exceptional items, non-recurring or unusual in nature, including in particular costs not arising from ordinary operations, such as those associated with impairment write downs of fixed assets, financial assets, goodwill and intangible assets, relocation costs and the costs of group layoffs, etc.

In 2011 EBITDA and operating profit were affected by one-off costs of the restructuring of the companies in the Czech Republic and Slovakia amounting in total to PLN 3 343 thousand, effect on the net profit was PLN 2 934 thousand. After being adjusted by the effect of these items, operating profit amounted to PLN 51 678 thousand, EBITDA amounted to PLN 119 793 thousand and adjusted net profit amounted to PLN 26 937 thousand.

In 2012 EBITDA and net profit were affected by one-off costs related to fixed asset impairment in the amount of PLN 1 670 thousand. After being adjusted by the effect of these items, operating profit amounted to PLN 56 069 thousand, EBITDA amounted to PLN 129 937 thousand and adjusted net profit amounted to PLN 30 608 thousand. Details in the below table:

Selected financial data for the period 1.1.2012 - 31.12.2012	Consolidated financial statements under IFRS	One-off adjustments	Adjusted financial statements for management purposes
Continuing operations			
Sales revenues	1 022 663	-	1 022 663
Cost of sales	(675 766)	-	(675 766)
Gross profit	346 897	-	346 897
Selling, marketing and distribution costs	(241 709)	-	(241 709)
Administrative costs	(52 364)	-	(52 364)
Other operating income/(expense), net	1 575	1 670	3 245
Operating result	54 399	1 670	56 069
EBITDA	128 267	1 670	129 937
Financial expense, net	(18 841)	-	(18 841)
Income tax	(8 896)	-	(8 896)
Net profit from continuing operation	26 662	1 670	28 332
Discontinued consolidation			
Net profit for the period from discontinued consolidation	2 276	-	2 276
Net profit for the period	28 938	1 670	30 608
- assigned to the shareholders of the parent company	28 943	1 670	30 613

SUMMARY OF RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

In assessing KOFOLA S.A. Group's financial performance achieved in the year 2012, the market environment needs to be taken into account as it has an impact on the results obtained:

- Consumers continued to have a high level of uncertainty and therefore, they were looking for savings in their shopping carts and limited their consumption spending in favour of savings.
- The increasing level of unemployment and high energy prices had an adverse effect on the level of disposable income, which affected the contents of shopping carts, the tendency to seek sales and high promotional activity by our competitors and retailers in all markets where we operate.
- Transfer of sales from the traditional sales channel into modern one in Russia and from retailers to food discount chains in Poland.
- Consolidations in the distributors market that negatively influence trading conditions and bankruptcy of wholesalers.
- High prices of sugar, isoglucose and glucose – fructose syrup in comparison to 2011.
- The increasing cost of financing resulting from the growth rates in the interbank markets and increase bank lending margins for loan renewals.
- Change in capacity for low-alcohol beverages cans from 0.5l to 0.33l forced by law in Russia.
- Introducing in Russia from January 2012 mandatory excise label for low-alcohol beverages and, resulting from this fact, the difficulties with availability of excise labels for the first 2 months of 2012.
- The liquidity deterioration of certain important customers in Russia had a negative impact on the profitability of Megapack Group in 2012 and necessitated the creation of an allowance for receivables.

Below, we describe the changes that have taken place in the main items of the consolidated financial statements.:

- **Revenues** increased from PLN 980 302 thousand to PLN 1 022 663 thousand, an increase of PLN 42 361 thousand, which makes a 4.3% increase in comparison to 2011.
- Decrease in **adjusted gross profit** from PLN 352 282 thousand to PLN 346 897 thousand, a decrease of PLN 5 385 thousand, which makes a decrease of 1.5% resulting from big increase in prices of sugar, isoglucose and glucose – fructose syrup (basic raw materials for production) and slower than planned increasing of product price).
- Increase in **operational profit (EBIT)** from PLN 51 678 thousand to PLN 56 069 thousand, an increase of PLN 4 391 thousand, which makes an increase of 8.5% achieved mainly due to higher revenue and effects of introducing in 2011 the reduction of fixed costs and optimisation of logistics program in the Group.
- Increase in adjusted **EBITDA from continuing operations (operational profit increased by amortisation)** from PLN 119 793 thousand to PLN 129 937 thousand, an increase of PLN 10 144 thousand (8.5%).
- Increase in adjusted **EBITDA margin from continuing operations** from 12.2% in the period of twelve months ended 31 December 2011 to 12.7% in the same period in 2012.
- Increase in adjusted **net profit** attributed to shareholders of the parent company from PLN 26 937 thousand to PLN 30 613 thousand, an increase of PLN 3 676 thousand (13.6%).
- Increase in the **profitability of net profit** from 2.7% to 3.0%, an increase of 0.3 percentage points.
- Decrease in **gross financial indebtness from continuing operations** from the level PLN 344 358 thousand at the end of 2011 (recalculated by foreign exchange rate with PLN from 31 December 2012) to the level PLN 273 395 thousand on 31 December 2012, a decrease of PLN 70 963 thousand, which means 20.6%, as a consequence of gained operating profit and release of resources from working capital.
- Decrease in **net financial debt related to continuing operations** from PLN 297 855 thousand at the end of December 2011 (recalculated with foreign exchange rate with PLN from 31 December 2012) to PLN 257 689 thousand as at 31 December 2012, a decrease of PLN 40 166 thousand, (13.7%). Group net debt calculated as a multiple of 12-month adjusted EBITDA amounted to 1,98 at the end of December 2012 and 2.49 at the end of December 2011.
- Decrease in **net working capital relating to continuing operations** from PLN 7 349 thousand on 31 December 2011 (converted to the exchange rate of the Polish zloty from the last day of 2012) to minus PLN 18 356 thousand on 31 December 2012.
- **Cash flow generated from operating activities** in 2012 amounted to PLN 184 053 thousand and were PLN 79 858 thousand higher, an increase of 76.6% compared to cash flow for the same period in 2011.
- **Cash flows from investing activities** for 2012 amounted to PLN (66 249) thousand and were PLN 8 848 thousand higher, which is 15.4% higher than in 2011.
- **Cash flows from financial activities** in 2012 amounted to PLN (132 346) thousand and were PLN 80 064 thousand higher, which is 153.1% higher compared to 2011.

POLAND

- In 2012 (as compared to 2011) Hoop Polska Sp. z o.o. generated a PLN 12 537 thousand increase in sales to parties from outside the Group, i.e. by 2.8%. All of this growth comes from the modern channel. Increase in sales was mainly recorded in a segment of carbonated beverages.
- In the reported period of 2012 there were new products introduced to the Polish market: Hoop Cola in 0.25l cans, Hoop Cola Spice (with spicy flavour), new brand of syrups Jarmark Polski, new brand of water Białowieski Zdrój (clean and flavoured) and Jupik Aqua sport. Also introduced on the Polish market were Pickwick Ice Tea and Vinea beverage that had been very successful in the Czech Republic and Slovakia.
- After restructuring performed in 2011, stabilisation of the Hoop Polska Sp. z o.o. management team took place, which resulted in the company gaining improved performance.
- In 2012, an increase of revenues from key Hoop Polska Sp. z o.o. brands on the Polish market, namely Hoop Cola and Paola, allowed us to increase market shares in the cola and syrup segments.

CZECH REPUBLIC

- In 2012 (as compared to 2011) Kofola a.s. (Czech Republic) reported an increase of PLN 14 474 thousand, i.e. by 4.6% in revenue from sales to parties from outside the Group by.
- In the reported period of 2012, Kofola a.s. (Czech Republic) reported a 7.6% increase in sales in both traditional and modern channel in the local currency, which is highly above the increase of the market as a whole and marks a reversal of the sales decrease trends from last year. The sales increase was reported mainly in the cola, syrups and energy drinks categories (due to acquiring Pinelli spol. s r.o. in April 2011). Revenues of Kofola a.s. (Czech Republic) in the most profitable channel, gastro, increased by 1.3% in 2012 as compared to the same period in 2011 while the decrease in this channel was by 3.3%.
- Quick growth in the reported period was possible due to innovations, improvement in sales efficiency which gave a higher volume of products sold in the retail and higher prices than last year.
- Jupí syrups in the Czech Republic strengthened its leader position due to many innovations introduced and a new advertising campaign in February, March and September 2012.
- The following new products were introduced to the Czech market in 2012: Natelo drink served hot directly from the heater, Chito „Ginger Beer” (alcohol free ginger beer) and Chito lemonade „Cloudy lemon”, sugar free Kofola with stevia, foam Kofola, „festival” Kofola with guava, „outdoor” Kofola with guarana, new herbal flavours of Jupí syrups in glass bottles (chamomile and wild rose, plantain and yarrow, thyme and dandelion), stevia sweetened Jupik, Rajec water for babies, new flavours of Rajec water – with gooseberries and cranberries, Jupik Aqua sport and Vinea and Pickwick Ice Tea in 0.25l cans.

SLOVAKIA

- In 2012 (as compared to 2011) Kofola a.s. (Slovakia) reported a PLN 26 524 thousand, an increase of 14.0%, in revenue from sales to parties from outside the Group.
- In the reported period of 2012, we noted a 14.2% increase in sales in retail channels (both traditional and modern) in the local currency while the Slovak market recorded a 0.2% decrease. The sales increase was reported mainly in the cola, syrups, carbonated beverages and waters categories. Revenues of Kofola a.s. (Slovakia) in the most profitable channel, gastro, increased by 7.6% in 2012 as compared to the same period in 2011 while the decrease in this channel was 1.4%.
- Quick growth in the reported period was possible due to innovations, improvement of sales efficiency which gave higher volume of products sold in the retail and higher prices than last year.
- Kofola remained a strong leader in the segment of cola type beverages, falling behind Coca-Cola by only 2.3 p.p. Rajec mineral water maintains its position among bottled mineral waters. Also Vinea drink prides a strong position in the segment of carbonated drinks, outrunning Fanta and Mirinda.
- Similar as in the Czech Republic, in Slovakia we also started distributing Rajec for babies, the new revolutionary hot drink Natelo, Chito „Ginger Beer” (alcohol free ginger beer) and Chito lemonade „Cloudy lemon”, sugar free Kofola with stevia, foam Kofola, „festival” Kofola with guava, „outdoor” Kofola with guarana, new herbal flavours of Jupí syrups in glass bottles (chamomile and wild rose, plantain and yarrow, thyme and dandelion), stevia sweetened Jupik, Rajec water for babies, new flavours of Rajec water – with gooseberries and cranberries, Jupik Aqua sport and Vinea and Pickwick Ice Tea in 0.25l cans.

RUSSIA

- In Russia in the reported period, as compared to 2011, there was a 4.2% increase in sales revenue in the local value, which gives PLN 12 885 thousand after recalculation to polish zloty. The increase was especially visible in the segment of low-alcohol beverages and the segment of mineral waters namely due to entering some of the federal trade networks. The additional factor of this increase in low-alcohol beverages was the fact that in the third quarter 2011, Megapack Group was in the process of renewing the license for the production and sale of low-alcohol beverages; however, the prolonging procedures caused a production and sales break.
- In 2012 Megapack Group continued to introduce its brand products to major grocery hypermarkets. This was associated with costs of opening and listings of products in these networks. These costs were charged to the 2012 income statement; however, the increase in sales of branded beverages should become visible in subsequent periods. Entering these retail networks contributed to a twofold increase in sales revenue from Arctic water and threefold increase in sales revenue from the Jumper beverage for infants.
- Since January 2012 as a result of changes in the law in Russia there was a change in capacity for low-alcohol beverage cans from 0.5l to 0.33l. This change did not have a negative impact on demand for Megapack products.
- Since January 2012, as announced, and, similar to previous years, there has been a rise in excise duties, which resulted in an increase in prices of low-alcohol beverages. Fortunately, together with the reduction in volume of the packaging increase on single unit price was small.

- Since January 2012 Russia introduced obligatory banding of low-alcohol beverages with excise labels. Due to the fact that there were problems with their availability in the first two months of 2012, Megapack Group was unable to fulfill all the orders for low-alcohol beverages and orders for commissioned production (so called co-packing).
- At the end of the third quarter of 2012, the Megapack group started a new line for the production of beverages in glass containers.
- The deterioration in the liquidity of some major customers resulted in the creation of an allowance for receivables in the amount of PLN 7 044 thousand in the fourth quarter of 2012.
- New products in glass containers were introduced in Russia: Koe Chto lemonade and Eskimors fruit juices and Black Mamba low-alcohol canned beverages and Arctic mineral water in glass bottles.

CONSOLIDATED INCOME STATEMENT

THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2012 COMPARED TO THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2011

Adjusted selected financial data	1.1.2012 – 31.12.2012	1.1.2011 - 31.12.2011*	Change 2012/2011	Change 2012/2011 (%)
Continuing operations				
Sales revenues	1 022 663	980 302	42 361	4.3%
Adjusted cost of sales	(675 766)	(628 020)	(47 746)	7.6%
Adjusted gross profit	346 897	352 282	(5 385)	(1.5%)
Adjusted selling, marketing and distribution costs	(241 709)	(248 827)	7 118	(2.9%)
Adjusted administrative costs	(52 364)	(54 573)	2 209	(4.0%)
Adjusted other operating income/(expense), net	3 245	2 795	450	16.1%
Adjusted profit from the operational activity	56 069	51 678	4 391	8.5%
Adjusted EBITDA	129 937	119 793	10 144	8.5%
Financial expense, net	(18 841)	(17 397)	(1 444)	8.3%
Adjusted income tax	(8 896)	(9 634)	738	(7.7%)
Adjusted net profit from the continuing operations	28 332	24 647	3 685	15.0%
Discontinued consolidation				
Net profit for the period from discontinued consolidation	2 276	2 290	(14)	(0.6%)
Adjusted net profit for the period	30 608	26 937	3 671	13.6%
- assigned to the shareholders of the parent company	30 613	26 937	3 676	13.6%

	1.1.2012 – 31.12.2012	1.1.2011 - 31.12.2011*
Gross sales margin from the continuing operations (adjusted) %	33.9%	35.9%
EBITDA margin from the continuing operations (adjusted) %	12.7%	12.2%
EBIT margin from the continuing operations (adjusted) %	5.5%	5.3%
Net profit margin (adjusted)	3.0%	2.7%
Adjusted net profit per share	1.1697	1.0292

* Results recalculated using currency exchange rates for the period of twelve months ended 31 December 2012

Calculation principles:

Gross margin % - Gross profit for the period / net sales of products, services, goods and materials for the period

EBITDA margin % - (operating profit + depreciation for a given period) / net revenues from sales of products, services, goods and materials in a given period

EBIT margin % - operating profit for a given period / net revenues from sales of products, services, goods and materials in a given period

Net profitability - Net profit attributable to shareholders of the parent company / net revenues from the sales of products, services, goods and materials in a given period

Net profit per share - net profit attributable to shareholders of the parent company / weighted average number of ordinary shares in a given period

NET SALES REVENUES (CONTINUING OPERATIONS)

The consolidated net revenues from sales of KOFOLA S.A. Group for 2012 amounted to PLN 1 022 663 thousand, which constitutes a PLN 42 361 thousand (by 4.3%) increase compared to the same period of the year 2011. Revenue from the sale of finished products and services amounted to PLN 1 019 145 thousand, which constitutes 99.7% of total revenues. The increase in the Group's revenues in 2012 compared to 2011 was caused primarily by two factors.

Firstly, the positive impact on revenues from sales had been: PLN 26 524 thousand higher than revenues of Kofola a.s. (Slovakia) compared to the same period in 2011, PLN 14 474 thousand higher than revenues of Kofola a.s. (Czech Republic) and PLN 12 537 thousand higher than revenues of Hoop Polska Sp. z o.o. Increase in revenues from sales is a result of higher product prices introduced to compensate against expensive raw materials and due to a higher volume of sales.

On the other hand, extinguishing PCD Hoop Sp. z o.o. activities had a significant impact on decreasing revenues from sales of goods and materials. In 2012 revenues from the sales of products and materials of this company amounted to only PLN 412 thousand, while in 2011 they amounted to PLN 12 943 thousand.

The activities of KOFOLA S.A. Group concentrate on the production of beverages in five market segments: carbonated beverages, non-carbonated beverages, mineral water, syrups and low-alcohol drinks. Together these segments account for around 98% of the Group's sales revenues. The revenue structure has not changed considerably compared to the same period of last year. The largest among the revenues of 2012 was the sale of carbonated beverages, as was the case in the comparative period (46.1% and 44.7% of revenues in 2012 and 2011, respectively).

NET REVENUES OF THE GROUP'S MOST SIGNIFICANT ENTITIES (CONTINUING OPERATIONS)

Net revenues from the sales of products, services, goods and materials excluding the intragroup transactions	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011*	change	% change
Hoop Polska Sp. z o.o.	459 822	447 285	12 537	2.8%
Kofola a.s. (CZ)	330 143	315 669	14 474	4.6%
Kofola a.s. (SK)	216 476	189 952	26 524	14.0%

* results recalculated using currency exchange rates for the period of twelve months ended 31 December 2012

Revenues of HOOP Polska Sp. z o.o. realised in 2012 were PLN 12 537 thousand (2.8%) higher than in the comparative period. All the growth was developed in the modern channel and was partly caused by an increase in sales of Hoop Cola and Paola, new releases and increase of own brands.

Revenues of Kofola a.s. (CZ) realised in 2012 were PLN 14 474 thousand (4.6%) higher than in the comparative period in the local currency. This growth was due to increased revenues mostly in the segment of cola-type beverages, carbonated drinks, waters and syrups.

Revenues of Kofola a.s. (SK) realised for the 12-month period ended 31 December 2012 expressed in the local currency increased by PLN 26 524 thousand (14.0%) mostly due to an increase in revenues from sales of cola-type beverages, carbonated drinks, waters and syrups.

ADJUSTED COSTS OF SALES (CONTINUING OPERATIONS)

In 2012 KOFOLA S.A. Group's consolidated costs of sales increased by PLN 47 746 thousand, or 7.6%, to PLN 675 766 thousand from PLN 628 020 thousand in the same period of 2011. Consolidated cost of sales for the 12 months ended 31 December 2012 constituted 66.1% of net sales revenues (64.1% in the same period of 2011). The high level of costs of sales was mainly caused by record high prices of sugar, isoglucose and glucose – fructose syrup which were significantly higher than in the similar period in 2011. The increase in sugar price was to a large extent compensated by higher sales prices, searching for alternative suppliers of raw materials, improving production efficiency and reduction in bottle weight.

ADJUSTED SELLING, MARKETING AND DISTRIBUTION COSTS (CONTINUING OPERATIONS)

Consolidated costs of selling, marketing and distribution were decreased by PLN 7 118 thousand, i.e. 2.9% to PLN 241 709 thousand, from PLN 248 827 thousand in the same period of 2011.

Costs of selling, marketing and distribution for 2012 decreased to the level of 23.6% of net sales revenues in comparison to 25.4% in the same period of 2011. This means a 1.8 percentage point decrease in the share of selling, marketing and distribution costs. This decrease was a result of a decreased in the size of the sales force and concentration on bigger more perspective clients, optimisation of logistics processes and good control over marketing costs.

ADJUSTED ADMINISTRATIVE COSTS (CONTINUING OPERATIONS)

In 2012 the consolidated administrative costs were PLN 52 364 thousand, which means a decrease from PLN 54 573 thousand in the same period of 2011. The share of the consolidated administrative costs in net revenues decreased accordingly from 5.6% to 5.1% in the comparing periods. The decrease in administrative costs is a result of activities implemented at the beginning of 2011 within the cost reduction program in the whole Group including optimisation of employment and concentration on only the most important projects and actions.

ADJUSTED OPERATING PROFIT (CONTINUING OPERATIONS)

Adjusted operating profit (EBIT) increased by PLN 4 391 thousand, or 8.5%, from PLN 51 678 thousand in the same period of 2011 and amounted to PLN 56 069 thousand in the reported period.

The operating profit margin (EBIT margin) in 2012 amounted to 5.5% compared to 5.3% in the same period of 2011.

The 0.2 percentage point increase in operating profit was mainly the result of implemented cost savings in all departments of the Group and thanks to higher revenues.

ADJUSTED EBITDA FROM CONTINUING OPERATIONS

The adjusted EBITDA, calculated as the operating profit plus depreciation for a given period, increased from PLN 119 793 thousand in 2011 to PLN 129 937 thousand, i.e. by PLN 10 144 thousand (by 8.5%) in 2012.

The increase in the consolidated EBITDA was achieved thanks to improvement of EBITDA in all of the most important entities, that is Kofola a.s. (CZ) and Kofola a.s. (SK) and Hoop Polska Sp. z o.o. Adjusted EBITDA margin from continuing operations increased from 12.2% in 2011 to 12.7% in 2012. The increase in EBITDA margin was attained due to improvement in operating profit that was faster than the increase in sales revenues.

NET FINANCIAL EXPENSES (CONTINUING OPERATIONS)

In 2012 the Group recorded net financial expenses of PLN 18 841 thousand compared to PLN 17 397 thousand in the same period of 2011 which is an increase of 8.3%. The main reason was an increase in bank lending margins for short-term loan renewals and bond issued with respect to changes in the market environment.

ADJUSTED INCOME TAX (CONTINUING OPERATIONS)

Adjusted income tax decreased from PLN 9 634 thousand in 2011 to PLN 8 896 thousand in the current period. This change results from the recognition of an asset related to tax losses in the amount of PLN 9 576 thousand which was offset by higher current tax due to the increase in profit before tax. Effective income tax rate fell from 30.1% in 2011 to 23.0% in 2012.

NET PROFIT FROM DISCONTINUED CONSOLIDATION (MEGAPACK GROUP)

Net profit from discontinued consolidation decreased from PLN 2 290 thousand in 2011 to PLN 2 276 thousand in 2012, that is by PLN 14 thousand (0.6%).

Megapack Group's net profit decrease was caused by the necessity of creating an allowance for overdue receivables or bad debts in the amount of PLN 7 044 thousand. However Megapack Group managed to increase revenues by PLN 12 885 thousand and gross profit by PLN 3 256 thousand, which partially compensated results of the above-mentioned write-offs.

Another compensating factor was the revaluation of puttable option from non-controlling interests in Megapack Group (positive influence of change in the amount of PLN 3 720 thousand).

CONSOLIDATED BALANCE SHEET

Due to the discontinued full-method consolidation of Megapack Group at the end of 2012, we have presented for better comparability the pro forma balance sheet as at 31 December 2011, presenting the Group as if the discontinued consolidation had already been applicable on 31 December 2011.

Selected financial data	31.12.2012	Pro-forma balance sheet as at 31.12.2011 Megapack withdrawn from consolidation for better comparability with 31.12.2012 *	31.12.2011*	Change since 12.2011	Change since 12.2011 (%)
Total assets	1 258 094	1 289 419	1 289 419	(31 325)	(2.4%)
Fixed assets, of which:	780 727	819 370	865 953	(85 226)	(9.8%)
Tangible fixed assets	477 322	497 962	521 729	(44 407)	(8.5%)
Intangible fixed assets	191 141	190 589	211 777	(20 636)	(9.7%)
Goodwill	103 253	104 657	118 521	(15 268)	(12.9%)
Deferred tax assets	8 943	8 743	10 371	(1 428)	(13.8%)
Current assets, out of which:	477 367	470 049	423 466	53 901	12.7%
Inventories	99 535	102 969	125 802	(26 267)	(20.9%)
Trade receivables and other receivables	151 498	149 515	234 993	(83 495)	(35.5%)
Cash and cash equivalents	15 706	46 503	50 217	(34 511)	(68.7%)
Assets from discontinued consolidation	200 402	174 646	-	200 402	100.0%
Total equity and liabilities	1 258 094	1 289 419	1 289 419	(31 325)	(2.4%)
Equity	537 029	542 442	542 442	(5 413)	(1.0%)
Long-term liabilities	128 433	147 653	153 532	(25 099)	(16.3%)
Short-term liabilities	592 632	599 324	593 445	(813)	(0.1%)
Liabilities from discontinued consolidation	146 235	119 980	-	146 235	100.0%

Ratios (CONTINUING OPERATIONS)	31.12.2012	31.12.2011 *
Current ratio	0.57	0.57
Quick ratio	0.36	0.37
Total debt ratio	58.1%	59.7%
Net debt	257 689	297 855
Net debt/adjusted EBITDA *	1.98	2.49

* recalculated with rates as at 31 December 2012

Calculation principles:

Current ratio – current assets at the end of a given period / current liabilities at the end of a given period,

Quick ratio – current assets less inventory at the end of a given period / current liabilities at the end of a given period,

Total debt ratio – current and non-current liabilities at the end of a given period / total assets at the end of a given period,

Net debt – long-term and short-term credits, loans and other sources of financing less cash and cash equivalents.

ASSETS

At the end of December 2012, the Group's fixed assets totalled PLN 780 727 thousand. Compared to 31 December 2011, the value of fixed assets decreased by PLN 85 226 thousand (9.8%). This change was caused by several contradictory factors: depreciation charges in the amount of PLN 79 595 thousand (including Megapack), acquisition of fixed assets in the value of PLN 54 929 thousand, transfer of fixed assets of Megapack Group in the amount of PLN 64 068 thousand to current assets related to the discontinued consolidation method from 2013 on and due to change in the way pallets are recorded in the whole Group, which resulted in the reclassification of pallets with the net book value of PLN 14 870 thousand from inventory of packaging assets to fixed assets. The share of non-current assets to total assets amounted at the end of December 2012 to 62.1% and decreased as compared to the end of December 2011, when it was 67.2%, which is related mainly, as stated above, the reclassification to current assets items belonging to the Group Megapack.

As at 31 December 2012, goodwill included the following items: goodwill arising from the merger of HOOP S.A. Group with Kofola SPV Sp. z o.o. Group, goodwill of Pinelli spol. s r.o. and goodwill of Klimo production plant taken over by Kofola a.s. (Czech) in 2006. As at 31 December 2011, goodwill of the company also included the position related to Megapack Group in the amount of PLN 13 864 thousand, which was reclassified as at 31 December 2012 to discontinued consolidation presented in current assets of the consolidated statement of the financial position.

The Group's current assets as at 31 December 2012 amounted to PLN 477 367 thousand. In the structure of current assets as at the end of December 2012 the biggest were: Megapack Group assets for discontinued consolidation 42.0%, of the trade receivables and other receivables 31.7% of the total current assets and inventory making 20.8% of current assets. Compared to the end of December 2011, the value of current assets increased by PLN 53 901 thousand. This increase results from the transfer of fixed assets of Megapack Group in the amount of PLN 64 068 thousand, increase of PLN 22 134 thousand in current assets of Megapack Group (total assets of Megapack Group are presented as a separate position of current assets - Assets from discontinued consolidation) and a PLN 3 434 thousand decrease in inventory of continuing operations including transfers recorded as at 31 December 2011 of pallet inventories with a book value of PLN 14 870 thousand, a PLN 1 983 thousand

increase in trade receivables related to continuing operations and a PLN 30 797 thousand decrease in cash and cash equivalents from continuing operations). The value of working capital from continuing operations calculated as the sum of the net value of inventories, trade receivables less trade short-term liabilities and other liabilities as at 31 December 2012 amounted to PLN (18 356) thousand compared to PLN 7 349 thousand as at 31 December 2011. Working capital decrease is caused by the higher level of trade liabilities and lower level of inventory as compared to the previous period.

LIABILITIES

As at 31 December 2012, the Group's liabilities (long- and short-term together) amounted to PLN 721 065 thousand, which constitutes a PLN 25 912 thousand decrease compared to the end of December 2011. The decrease in liabilities resulted primarily from the decrease in bank debt.

The debt ratio (short- and long-term liabilities to total assets) amounted to 58.1% as at 31 December 2012 and decreased by 1.6 p.p. compared to 31 December 2011.

The Group's consolidated net debt calculated as total long- and short-term liabilities relating to credits, loans and other debt instruments less cash and cash equivalents amounted to PLN 257 689 thousand as at 31 December 2012 which means a PLN 40 166 thousand decrease compared to the end of December 2011.

CONSOLIDATED CASH FLOW

In 2012, the value of consolidated net cash flows amounted to PLN (14 542) thousand, which was PLN 9 054 thousand lower, compared to the previous period and is primarily due to the external debt.

The value of the consolidated cash flow generated from operating activities in 2012 amounted to PLN 184 053 thousand, compared to PLN 104 195 thousand in the corresponding period of 2011. This change was impacted by the significant increase in profit before tax and positive impact of changes in working capital items.

The value of consolidated net cash flow generated from investing activity in 2012 amounted to PLN (66 249) thousand compared to (57 401) thousand in 2011. The increase in cash flow from investing activity is mostly related to financial investment performed by OOO Megapack by depositing the excess money resources in the amount of PLN 31 290 thousand into a bank deposit due in more than 3 months. Cash flows from the investment activity adjusted by this financial investment show a PLN 21 141 thousand decrease in investment expenses in comparison with the previous year. This is due to the lower capital expenditures for the purchase of fixed assets than in the same period of 2011, due to the high comparative amount in 2011 when the Group carried out a number of projects, including the hot filling line, started investment in a line for filling glass bottles in Russia and a bottling nozzle in Poland.

The value of the consolidated cash flow generated from financial activity in 2012 was negative, as it was in 2011, and it amounted to PLN (132 346) thousand and PLN (52 282) thousand, respectively. The increase is mainly due to reduced usage of bank overdrafts and repayment of long-term loans. Reducing the use of credits allowed the Group to reduce interest costs.

1.6 Assessment of risk factors and threats to KOFOLA S.A. Group

Activities of the Issuer Group companies, their financial position and results of operations are subject to and may in the future be subject to negative changes as a result of the occurrence of any of the risk factors described below. Occurrence of even some of these risk factors may have a materially adverse effect on the business, financial condition and financial results, which may expose investors to loss of all or part of the funds invested. The order in which they were presented is not an indication as to their significance, or probability of occurrence of the potential impact on the Group. Other risks and uncertainties than those described below, including also those which the Group is not currently aware of or which are considered to be minor, may also have an important negative impact on the Group's operations, financial position and results of operations.

Key risks are monitored. For these risks, preventive actions are taken to reduce their vulnerability and reduce their potential impact on the Group.

RISK ASSOCIATED WITH THE MACROECONOMIC SITUATION OF THE COUNTRIES IN WHICH THE GROUP OPERATES

The economic position of Kofola Group's companies is strictly tied into the economic situation in the Czech Republic, Poland, Russia and Slovakia, which are the most important markets for the sale of the Group's products. Macroeconomic factors such as: GDP growth, unemployment, effective growth of wages or the economic mood translate into the willingness of the citizens of these countries to consume outside of their homes and to buy brand name or private labels name food products. In consequence, this may affect the sale of the Group's products. Group companies seek to minimise this risk by managing various price categories, offering simultaneously products from higher, middle and lower category as well as products under private brands of retail chains, improving distribution and increasing availability of the Group's products and continuously working on strengthening its own brands.

Increasing risk aversion of banks is due to the market situation related to the crisis in the euro area may cause increase fiscal pressure on households situation in the Czech Republic, Slovakia, Poland and Russia. Additionally, decisions of governments and central banks of European countries may have a negative impact on currency exchange rates, interest rates and other instruments traded on European financial markets, and may also lead to more difficult access to new sources of financing, affecting both availability of loans and proneness of investors to purchase new bonds. These changes could complicate prolongation of short-term loans for another period or in obtaining new loans for investment financing and in consequence this could hamper the functioning of individual companies and distract the Management from further optimisation of the Group with the goal of obtaining financing.

As a result of the mutual interdependence, an escalation of the fiscal crisis in the region, can negatively affect any variables reflecting economic viability, and thus may affect the results of Kofola Group.

RISK OF CHANGES IN THE PRICES OF RAW MATERIALS

The primary factors that affect the costs of producing beverages are raw materials, in particular sugar, isoglucose, granules used in the production of PET bottles, fruit concentrates, foil, paper, and indirectly – oil. The majority of the basic raw materials constitute so-called commodities, which are subject to significant fluctuations on world markets. As prices are negotiated in a yearly cycle, quick changes in base prices may have a significant effect on the margins earned on the sale of beverages, and therefore varying of the Group's profits and as a consequence deterioration of financial liquidity.

Wherever possible, Kofola Group's central purchasing department tries to sign mid-term contracts with the suppliers, which guarantee purchase prices throughout the contracts' validity. However in the case of several raw materials based on the so-called commodities, agreeing a purchase price is only possible on a relatively short-term basis (for example a month).

THE RISK RESULTING FROM THE SEASONAL WEATHER CONDITIONS

The sale of non-alcoholic beverages is highly dependent on weather conditions, in particular from the prevailing temperature. Nearly 60% of sales are realised in the second and third quarter, reaching a peak during the hottest summer months. Rainy and cool summers may create a decline in revenues, especially in the segment of water. An unusually hot summer may involve the inability to deliver sufficient quantities of products to retailers and potential penalties for a low level of orders.

The Group seeks to minimise the risks arising from the seasonality of sales of products by entering the winter season, and (e.g. Natelo) persuading customers by promoting the consumption of their products outside the classical season. In order to safeguard against supply shortages of products in the summer months, the Company is trying to make sufficient inventories before the season and is renting additional warehouse space to allow for the preparation of a safety buffer in case of hot weather.

THE RISK OF FUEL PRICE INCREASES

Rising oil prices, a strong U.S. dollar and the increase in excise duty on diesel fuel can have a negative impact on transport costs.

Kofola Group strives to minimise the risk of higher oil prices through better management of the logistics (trucks carrying a full supply, optimisation of routes, more frequent auctions for transportation services).

THE RISK OF INCREASE OF ELECTRICITY PRICES

Production process requires a significant amount of electricity needed to blow out of PET bottles. Increasing energy prices can have a negative impact on the production costs.

Kofola Group seeks to minimize the risk of a price increase of electricity by increasing production effectiveness (OEE) and by seeking alternative electricity suppliers.

RISK OF LOSING LARGE CLIENTS

A significant portion of the revenues earned by the Group's companies comes from clients that have chains of grocery stores, supermarkets, hypermarkets and discounts. In recent years, as trade is moving from traditional stores to the modern channel, these chains, especially discount operators, are becoming stronger and increasing their share in the revenues of the Group's companies. These chains are difficult negotiation partners, which is why in each case there is risk of not being able to agree on the terms for a given calendar year and temporarily losing a significant client, which would surely lower sales revenues and negatively affect the Group's financial results.

The Kofola Group tries to minimise the risk of losing large clients by offering products with an established reputation among consumers, which reduces the risk of retail chains deciding to abandon any of these products and by intensively working on the development of sales in catering and traditional channels.

RISK ASSOCIATED WITH PRICING BEHAVIOR OF MAIN COMPETITORS

Due to client habits created by producers, the majority of non-alcoholic beverages are purchased at retail stores (especially in the cola segment) as part of promotional campaigns, which are conducted almost non-stop by at least one producer. To maintain its competitive position, the Issuer's companies are forced to conduct promotional campaigns, as a result of which they lower the margin realised on products sold as part of the promotion. This risk constitutes a threat to the profitability of the Kofola Group.

The companies from the Kofola Group try to minimise this risk by increasing the percentage share of the restaurant sector (that is less prone to promotions), as well as by promoting impulse products (with higher margins) or introducing new products, for which no aggressive pricing promotions have to be used (in the absence of competitor's products).

CREDIT RISK

Kofola Group conducting its trade activity realises sales of products and services for businesses with deferred payments. As a result, Kofola Group is exposed to credit risk of the counterparty's failure to payment for delivered products and services. In order to minimise this risk and to maintain the lowest possible level of working capital Group KOFOLA S.A. applies the procedure for granting trade credit limit for customers buying with deferred payment.

The level of trade receivables of the Group KOFOLA S.A. is regularly monitored. In addition, part of receivables is insured within an organised trade credit insurance program.

RISK ASSOCIATED WITH LEGAL REGULATIONS

Changing legal regulations, in particular tax, labour law and social insurance regulations, VAT rates, matters relating to the granting of licenses and permits (for example for the production and sale of alcoholic beverages) may affect the personnel costs of the Group's companies, the prices of products on store shelves, or the ability to produce and sell a portion of their portfolio (this pertains in particular to low-alcohol beverages in Russia).

In a fight against alcoholism in Russia, restrictions on the marketing of alcoholic beverages have been introduced, limiting trade in alcoholic beverages after 10 p.m., limiting accessibility to licence for sale of alcoholic beverages in small trade points and especially the increase in the excise duty which is to finance the campaign. A higher excise duty may result in a decrease in consumption of alcohol and the so-called escape of the consumer to the underground economy.

Changes in regulations relating to the VAT rate, if it rises, may decrease the sales of beverages offered by the companies of KOFOLA S.A. Group.

In some developed countries restrictions on the high sugar content of beverages or additional payments for products with a high content have been implemented. There is a future risk related to the implementation of similar legislative solutions in countries, where companies of KOFOLA S.A. Group are operating.

In some developed countries restrictions related to the usage of one-time PET bottles were implemented. These restrictions are related to the obligation to implement multiple-usage PET bottles or additional product payments for beverages in PET bottles. There is a future risk related to implementation of similar legislative solutions in countries, where companies of KOFOLA S.A. Group are operating.

The Issuer tries to minimise this risk by monitoring the changes in legal regulations and adapting to them in advance, as well as making sufficiently early applications to extend licenses and permits for the production and sale of alcoholic beverages or by implementing recipe changes in products. Companies of KOFOLA S.A. Group have, as one of the first in the region, introduced beverages with stevia, used as a substitute for sugar.

RISK OF IMPOSSIBILITY TO TRANSFER RAW MATERIAL PRICES TO THE END CUSTOMER

In the last two years we have witnessed a significant increase in prices of raw materials used for beverage production. Due to the economic slow-down and resistance of retailers in the area of implementing new pricelists, there is a risk of it being impossible to transfer raw material prices to the beverage prices, and thus a continuous decrease in gross margin from sales.

RISK OF PRODUCT CONTAMINATION

Like other food stuffs, beverages are threatened by contamination that may be the result of using contaminated materials or errors made in the production process. The contamination and release of a product on the market leads to the risk of compromising the given product's reputation and incurring costs of recalling the products from the market, utilising them and paying possible penalties and damages.

The Issuer protects against this type of risk by performing detailed controls of incoming products and regular controls of the production process by company laboratories. To protect against the costs of recalling products, the Issuer made a decision to take out insurance against the risk of recalling products from the market and utilising them.

RISK OF TERMINATION OF CREDITS BY BANKS

We may fail to refinance some of our debts or fail to obtain preferential refinancing conditions. We are subject to the same risk that is usually attached to financing by loans, including risk of insufficient cash flows to pay due capital rates and interest and the risk that it will be impossible to renew, repay or refinance debt at maturity, or that the conditions for renewal or refinancing will not be as favourable as those of the earlier debt. If we were not able to refinance indebtedness on acceptable terms or at all, we may be forced to sell assets at unfavourable conditions or limit or suspend operating activity. It all would have a negative influence on our financial condition and operating results.

The Issuer limits this risk by maintaining constant and good relationships with the banks, continuously maintaining open information policy towards financing banks. At the time of preparation of this report, there are on-going negotiations with the Bank Consortium in Poland regarding prolongation of overdraft facility to the current account of Hoop Polska Sp. z o.o. or some completely new form of financing of this company.

RISK OF IMPAIRMENT OF GOODWILL OR KEY BRANDS

The sale of beverages is subject to fluctuations associated with, among others, the weather, the promotional campaigns conducted by the competition, fashion trends. Margins are also subject to changes, arising mainly out of the prices of raw materials and pricing wars in the various beverage segments.

In view of this, fluctuations may also affect the value of the brands in the company's portfolio. A change in the volume of sales, a brand's profitability or the assumption used in impairment tests may lead to the need to recognise impairment of a brand or goodwill, and thus negatively affect the Group's financial results.

To predict the situation and reflect the impact on the financial statements, the KOFOLA S.A. Group carries out annual reviews of fixed assets and goodwill in the books for impairment at the level of cash generating units (CGU). KOFOLA S.A. Group conducts an annual review of the economic useful lives of assets. The assumptions adopted in the course of these reviews regarding market conditions and future performance of the Group reflects the best judgment of the Management of the Group companies.

The issuer protects against this type of risk primarily by building an emotional brand and loyalty of the consumers to the brands in its portfolio and by introducing new products on the market.

THE RISK OF LOSS OF INTELLECTUAL PROPERTY RIGHTS

Very important component of assets of KOFOLA S.A. Group is intellectual property, including mainly trademarks of produced beverages. There is a risk of loss of trademarks of beverages produced by the Group. In order to decrease this risk, companies of the Group that are owners of the trademarks perform regular prolongation of registration of owned trademarks and administer products' websites.

THE RISK OF BUSINESS INTERRUPTION

Companies of KOFOLA S.A. Group are exposed to the risk of business interruption caused by accidental events, such as fire, flood, etc. as well as stop of working of the ERP system.

Group minimises risk of business interruption by using insurance for above mentioned kind of events (insurance for so called Business interruption) and also by implementation of the group back-up servers for safety of the main database.

RISK OF UNSUCCESSFUL INTEGRATION AFTER MERGER

Under development strategy KOFOLA S.A. Group performs acquisitions of companies from the beverage industry. For every acquisition like this there is a risk of the unsuccessful integration of the company into the Group structure, and related risk of not receiving the expected financial return.

RISK ASSOCIATED WITH LOSING KEY MANAGEMENT PERSONNEL

The activities of Kofola Group and its key companies depend on the experience, knowledge and qualifications of its managers, who manage the various areas of the Group's operations. Significant demand for sales, marketing, research and development or finance specialists, as well as actions by the competition, may cause key employees to leave. Losing a key person or persons may have a negative effect on our relationship with the clients, or may slow down the pace of our projects.

To reduce the above risk, in 2009 the Issuer started the Warrant Issue Program, which covered more than 40 key managers of KOFOLA S.A. Group. The incentive program has ceased to exist with the end of 2012. Managers, who have acquired subscription warrants in 2010, can realise them within 3 years from the date of their acquisition under condition of staying in an employment relationship with the companies of KOFOLA S.A. Group.

FOREIGN EXCHANGE RISK

Because more than half of the raw materials used in production are purchased in Euro, the Issuer is exposed to cost fluctuations arising out of changes in foreign exchange rates, which may have a negative effect on the Group's results.

The Group's management of foreign exchange risk consists of covering known risks by acquiring derivative financial instruments. The Issuer uses mostly forward contracts (and to a smaller extent currency options) to minimise the risk associated with changes in foreign exchange rates.

INTEREST RATE RISK

The companies from Kofola Group finance their operations with term credits and overdraft accounts, as well as with real estate and production line leases. The interest rate due to banks depends on the interest rate on the interbank market. Thus the financial costs incurred by the Group (and therefore its net profit) depend on interest rates, the rise of which may lower the Group's net profit.

At the time of preparation of the present report, the Group did not protect itself against changes in interest rates.

THE RISK OF CHANGES IN TRADE STRUCTURE

In the past few years, the share of discounters has significantly increased in the structure of trade, mainly at the expense of traditional channels (with the exception of the year 2012 in Poland, when a change in the trend lasting for many years took place). The changes in the structure of the retail trade, with slower growth of food supermarket chains, distributors and warehouse consolidation and business model to adapt the speed of KOFOLA S.A. to changes in the market may be reflected in a reduction of the Company's profitability.

KOFOLA S.A. Group tries to minimise risk of changes in the trade structure by adequately adjusted production to the sale in particular channels (including differentiation of capacity of packages), by assigning sale labour forces specialised in servicing particular channels and adapting the sales labour forces to the structure of the customers.

1.7 Report on the application of corporate governance by KOFOLA S.A.

In accordance with the requirements of § 91 par. 5 point 4 of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and the conditions for recognising as equally valid the information required by the regulations of a state that is not a member state, as well as § 29 par. 5 of the Warsaw Stock Exchange Regulations, the Management Board of KOFOLA S.A. with its registered office in Kutno ("the Company") hereby makes public its declaration on the Company's application of corporate governance principles in the year 2012.

1.7.1 Corporate governance principles the issuer is subject to, and the location where the principles may be examined by the public

Based on § 29 par. 2 of the Regulations of the Warsaw Stock Exchange („Stock Exchange”, „WSE”), KOFOLA S.A. should apply the principles of corporate governance that the Stock Exchange Board may pass with regard to listed companies whose shares are admitted to trading on the stock exchange. Effective 4 July 2007, in its Resolution No. 12/1170/2007, the Stock Exchange Board adopted corporate governance principles in the form of “Good Practices of the Companies Listed on the Warsaw Stock Exchange” (“Good practices”, “corporate governance principles”), which were amended by Resolution No. 17/1249/2010 dated 19 May 2010, Resolution No. 15/1282/2011 dated 31 August 2011, Resolution No. 20/1287/2011 dated 19 October 2011 and Resolution No.19/1307/2012 dated 21 November 2012.

The corporate governance principles are available to the public on the Stock Exchange's website at: <http://corp-gov.gpw.pl/>.

1.7.2 The corporate governance principles that the Company did not apply

In 2012 the Company applied all of the principles referred to in the Good Practices of the Companies Listed on the WSE, with the exception of a one principle of which it informed, in accordance with § 29 par. 3 of the Stock Exchange's Regulations, in its current report (published in the EBI system).

In 2012 the Company stated that it was not applying the principle referred to in point 6 of Part IV of the Good Practices i.e. the principle which says that the day of the dividend and the dividend payment date shall be so set that the period between them was as short as possible and in any event not longer than 15 working days. Failure to implement the aforementioned principle resulted from the fact that, in Resolution No. 17 dated 25 June 2012 adopted by the Ordinary General Meeting of Shareholders, of which the Company stated in the current report No. 8/2012 and 10/2012 dated 25 June 2012, the day of the dividend was set for 25 September 2012, while the dividend payment date was established on 6 December 2012.

In the year 2012 the Company still did not apply the principle referred to in point 6 of Part III of the Good Practices, i.e. the principle relating to meeting the criteria of independence by at least two members of the Supervisory Board of which the Company informed in current report No. 3/2012 dated 2 November 2012.

As at the date of the present declaration, one of the members of the Company's Supervisory Board meets the criterion of independence.

1.7.3 Description of the main internal control and risk management features applied at the issuer's company in the preparation of financial statements and consolidated financial statements

The Company's Management Board is responsible for the Company's internal control system and for its effectiveness in the process of preparing financial statements and periodic reports that are prepared and published in accordance with the provisions of the Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities.

Throughout the year the Company's Management Board analyses current financial results by comparing them with the adopted budget using the Company's management reporting that is based on the Company's accounting principles (International Financial Reporting Standards) and takes into account the format and detailed content of the financial data presented in the Company's and Group's periodic financial statements.

The preparation of the Company's financial statements, periodic financial reports and current management reports is the responsibility of the Finance Department of the Kofola S.A. Group, currently headed by the Member of the Management Board for Financial Matters, Finance Director. The Company's financial statements and periodic reports are prepared by a reporting team as part of the Finance Department of Kofola S.A. Group based on the financial data presented in the periodic management reports after they are approved by the Finance Director subject to other supplementary data supplied by various employees of other departments.

After closing the accounts for each calendar month, the mid and higher level managers of the Group's Finance Department headed by the Management Board Member for Financial Matters jointly analyse the Company's financial results in comparison to plans and subject to business segments. Any errors are adjusted on an ongoing basis in the Company's accounting books and the Group's reporting system in accordance with the adopted accounting policies. The preparation of financial statements and periodic reports begins after the results for the period are approved by the Management Board Member for Financial Matters.

Half-year and year-end reports are verified by an independent auditor, currently PricewaterhouseCoopers Sp. z o.o. The results of half-year reviews and year-end audits are presented by the auditor at summary meetings and to the Audit Committee. After their review or audit, the financial statements and periodic reports are sent to the Company's Supervisory Board. Before the Management Board approves the periodic reports for publication, an Audit Committee meeting is held at which the Member of the Management Board for Financial Matters presents the significant aspects of the quarterly/half-year/year-end financial statements, in particular any changes in accounting policies, important estimates and judgments, material disclosures and business transactions. The Audit Committee reviews the periodic financial reports subject to the information presented by the Management Board and the independent auditor, and formulates a recommendation for the Supervisory Board with regard to their approval.

In accordance with the Company's Statute, the Company's auditor is appointed by the Supervisory Board. Significant matters relating to periodic reports that are not verified by the auditor are consulted with the auditor in order to avoid any material adjustments in the subsequent reports. KOFOLA S.A. kept its accounting books using the SAP R/3 system as the largest companies from the Group i.e. Kofola a.s. CZ, Kofola a.s. SK, Hoop Polska Sp. z o.o., Kofola ČeskoSlovensko a.s. The system is password protected against unauthorised access. The process of preparing the financial statements involves a specified team of Finance Department employees; other persons do not have access to the data which is the basis of its preparation. The Company's accounting books, accounting evidence, documentation and the financial statements of the Company are stored in accordance with the provisions of the Accounting Act.

1.7.4 Shareholders holding directly or indirectly significant packets of shares along with the number of shares held, their percentage of share capital, the resulting number of votes and percentage in the total number of votes at general meeting

The Shareholders of KOFOLA S.A. – state according to Company's knowledge on 31 December 2012:

KSM Investment S.A. with its registered office in Luxembourg

- 13 395 373 shares or 51.18% of share capital of KOFOLA S.A.
- 13 395 373 votes or 51.18% of total votes at General Meeting of KOFOLA S.A.

CED GROUP S. a r.l. with its registered office in Luxembourg

- 11 283 153 shares or 43.11% of share capital of KOFOLA S.A.
- 11 283 153 votes or 43.11% of total votes at General Meeting of KOFOLA S.A.

As at 31 December 2012, the share capital amounted to PLN 26 172 602 and consisted of 26 172 602 shares entitling to 26 172 602 of the votes at General Meeting of the Company.

1.7.5 Holders of all types of securities that give special controlling rights, along with a description of those rights

There are no securities at the Company that give special controlling rights.

1.7.6 All restrictions on voting rights, such as a restriction on the voting rights of holders of a specified part or number of votes, time restrictions on voting rights or provisions according to which, in cooperation with the company, the equity rights related to securities are separated from the ownership of the securities

The Company's Statute does not provide for such restrictions.

1.7.7 All restrictions on the transfer of the ownership of securities

The Company's Statute does not provide for such restrictions.

1.7.8 Description of the principles used to appoint and dismiss management staff and their powers, in particular the right to make decisions on the issue or purchase of shares

THE PRINCIPLES OF APPOINTING SUPERVISORY BOARD MEMBERS

In accordance with the Company's Statute, the Supervisory Board comprises 5 (in words: five) to 6 (in words: six) members, including one independent Supervisory Board Member, appointed and removed by the General Meeting, with the stipulation that:

- a) as long as KSM Investment SA with the registered office in Luxembourg ("KSM") remains the Company's shareholder with no less than 35% of the Company's share capital, KSM shall appoint and remove 3 (three) members of the Supervisory Board, including the Chairman of the Supervisory Board – the appointment and removal of a Supervisory Board member by KSM on the basis of this paragraph shall be made by way of a written statement submitted to the Company and the person concerned and shall be effective as of the date of submission to the Company this statement concerning the appointment of the member of the Supervisory Board with a written statement of the member of the Supervisory Board including a consent for performance the function of a member of the Supervisory Board,
- b) as long as CED GROUP S. a r.l. („CED”) remains the Company's shareholder with no less than 15% of the Company's share capital, CED shall appoint and remove 2 (two) members of the Supervisory Board, including the Vice- Chairman of the Supervisory Board – the appointment and removal of a Supervisory Board member by CED on the basis of this paragraph shall be made by way of a written statement submitted to the Company and the person concerned and shall be effective as of the date of submission to the Company this statement concerning the appointment of the member of the Supervisory Board with a written statement of the member of the Supervisory Board including a consent for performance the function of a member of the Supervisory Board.

THE PRINCIPLES OF APPOINTING MANAGEMENT BOARD MEMBERS

1. The Management Board comprises from 5 to 8 members appointed and removed by the Supervisory Board. Members of the Company's Management Board may hold the following positions:
 - a) Chairman of the Management Board,
 - b) Finance Director – Member of the Management Board,
 - c) Operating Directors - Member of the Management Board,
 - d) Sales Director - Member of the Management Board,
 - e) Marketing Director - Member of the Management Board,
 - f) Human Resources and Services Director - Member of the Management Board,
 - g) Development Director - Member of the Management Board,
2. If the term of office of any member or members of the Management Board expires due to reasons other than their removal from office and, as a result, the number of the Management Board members falls below five, the Supervisory Board shall be obliged within 14 days of the occurrence of such fact to appoint a new member.
3. A resigning Management Board member shall be obliged to advise the Supervisory Board and the remaining members of the Management Board of his or her resignation in writing.
4. The term of office of the Management Board shall be five years. The members of the Management Board may be re-appointed for next terms of office. Members of the Management Board are appointed for a joint term of office.
5. The tenure of the Management Board members shall expire as provided for in Art. 369 § 4 of the Commercial Companies Code. If new members were appointed to fill a vacancy or supplement the composition of the Management Board during its term of office, the term of office of the newly-appointed Management Board member shall expire at the same time as the terms of office of the other Management Board members.

THE POWERS OF THE SUPERVISORY BOARD

The Supervisory Board shall exercise day-to-day supervision over the Company's activities in all areas of its business. The powers of the Supervisory Board shall include in particular:

- a) reviewing the Company's financial statements and the report of the Management Board on the Company's operations, in terms of their conformity with the accounting books and documents and with the actual state of affairs, and the Management Board's recommendations concerning the distribution of profit or coverage of loss, and submitting annual written report on the findings of the review to the General Shareholders Meeting,

- b) reviewing the financial statements of the Company's Group and the report of the Management Board on the operations of the Company's Group, and submitting annual written report on the findings of the review to the General Shareholders Meeting,
- c) supervising the performance of budgets,
- d) approving the payment of interim dividend,
- e) approving the grant of power of proxy or general power of attorney,
- f) issuing opinions on matters to be discussed during the General Shareholders Meeting,
- g) issues referred to in Par. 18 section 8 of the Statute of the Company.

As long as CED remains the Company's shareholder with at least 15% of its share capital, the following issues shall require that the resolutions be adopted by the Supervisory Board with the majority of 80% of the votes of the members present at the meeting or with the majority of 80% of all votes in case of the adoption of resolutions outside the meeting (in writing or through another member of the Supervisory Board):

- a) approval of the consolidated economic and financial plan ("the budget") of the capital group of the Company prepared by the Company's Management Board, changing the format used for preparing the Company's budget,
- b) approving the Company's long-term operating plans developed by the Management Board,
- c) approving any acquisition, purchase or disposal of shares in other entities, as well as joining any commercial-law company or civil-law partnership, by the Company or any company of its Group, where such transactions are not provided for in the budget and their value exceeds EUR 8 000 000 or an equivalent of that amount,
- d) approving any share capital increase, sale of a business or an organized part of a business, a demerger, merger or transformation of any company of the Company's Group if the value of assets subject to such transactions exceeds 15% of the Company's assets disclosed in the financial statements for the preceding financial year, where such transactions are not provided for in the budget,
- e) approving the conclusion of an agreement (by the Company or any company of its Group) which was not provided for in the budget and under which the Company or a company of its Group would assume a liability whose value exceeds:
 - EUR 30 000 000 or an equivalent of that amount – with respect to activities conducted as part of the ordinary course of business,
 - EUR 3 000 000 or an equivalent of that amount – with respect to activities conducted outside the ordinary course of business,
- f) approving the conclusion of a loan agreement (or another similar agreement concerning financial debt) by the Company or any company of its Group acting as the lender, where such an agreement was not provided for in the budget and its value exceeds EUR 2 000 000 or an equivalent of that amount, except for:
 - trade credit granted in the ordinary course of business,
 - loans granted on the market principles between subsidiary companies of the Company's Group.
- g) approving the issue of any sureties, guarantees (or other forms of assuming responsibility for third-party liabilities) by the Company or any company of its Group, where they are not provided for in the budget and their value exceeds 2 000 000 EUR or an equivalent of that amount; the term "third party" shall not apply to subsidiary companies from the Company's Group,
- h) approving acquisition or disposal by the Company or any company of its Group of real property, a perpetual usufruct right or an interest in real property (or in a perpetual usufruct right), where such transactions are not provided for in the Company's budget and their value exceeds EUR 5 000 000 or an equivalent of that amount,
- i) approving the disposal of any intellectual property rights of the Company or any company of its Group – where the actual market value of such rights exceeds EUR 1 000 000 or an equivalent of that amount and no such disposal is provided for in the budget,
- j) approving the disposal, by the Company or any company of its Group, of assets whose value exceeds 15% of the Company's net assets (or 15% of the net assets of a given Group member) disclosed in the financial statements for the preceding financial year, if no such disposal is provided for in the budget,
- k) approving the liquidation of any company of the Company's Group, where the value of such company's assets exceeds 15% of the Company's assets disclosed in the financial statements for the preceding financial year,

- l) approving the terms and conditions of remuneration of members of the Company's Management Board as well as members of the management and supervisory boards of companies of the Company's Group, where the total annual remuneration of a given person (including any bonuses, awards, severance pays and other similar benefits) shall exceed the following limits (gross value):
- for members of the Company's Management Board – EUR 175 000 or an equivalent of that amount,
 - for members of the management boards of companies of the Company's Group, other than the Company – EUR 175 000 or an equivalent of that amount,
 - for members of the supervisory boards of companies of the Company's Group, other than the Company – EUR 25 000 or an equivalent of that amount,
- m) suspending, for important reasons, individual or all members of the Management Board and delegating members of the Supervisory Board to temporarily perform the functions of members of the Management Board, in accordance with the rules and at or for such time as specified by the provisions of the Commercial Companies Code,
- n) approving the rules of procedure for the Company's Management Board and as well as any changes to those rules,
- o) approving the rules of procedure for the Company's Supervisory Board as well as any changes to those rules,
- p) appointing an auditor to audit the financial statements of the Company and the companies of its Group,
- q) approving the conclusion, by the Company or any company of its Group, of a contract concerning a transaction with a party related to (i) the Company, or (ii) any company of its Group, or (iii) a shareholder or a member of the Supervisory Board or Management Board of the Company or of any company of the Company's Group, except the contracts as provided below:
- the contracts for the sale or for delivery of products and goods and materials to the production, the contracts for the provision of services or the contracts for the sale of fixed assets concluded on the market rules between the companies of the Company's Group where the value of such transactions on a one-off basis or over a period of one year shall not exceed the amount of EUR 1 000 000 or its equivalent,
 - the guarantee contracts and other contracts of a similar nature, concluded between the companies of the Company's Group, where the value of the commitment shall not exceed the amount of EUR 5 000 000 or its equivalent,
- r) as of the day when Mr Janis Samaras ceases to serve as Chairman of the Company's Management Board: appointing and removing another person serving as Chairman of the Company's Management Board,
- s) appointing and removing the Chief Financial Officer – Member of the Company's Management Board,
- t) appointing members of the Company's Management Board other than the Chairman of the Management Board and the Chief Financial Officer – Member of the Company's Management Board,
- u) approving the appointment of Local Directors General (i.e. members of the Company's senior management staff who, however, do not serve on its Management Board – one such member is appointed in each country where the Company operates directly or through its subsidiaries) or the conclusion of contracts with Local Directors General by the Company or companies of its Group,
- v) after the date of the fourth removal – since November 26th 2008 – of (i) a member of the Company's Management Board other than the Chairman or the Chief Financial Officer – Member of the Company's Management Board or (ii) a Local Director General: removing member of the Company's Management Board other than the Chairman or the Chief Financial Officer – Member of the Company's Management Board,
- w) after the date of the fourth removal – since November 26th 2008 – of (i) a member of the Company's Management Board other than the Chairman of the Management Board or the Chief Financial Officer – Member of the Company's Management Board or (ii) a Local Director General: approving the removal of Local Directors General or the termination of contractual relationship with Local Directors General by the Company or by companies of its Group,
- x) adopting resolutions in connection with the adoption, change, implementation or termination of the Motivating Program for the members of authorities and management of the Company, adopted by the General Meeting in 2009 and appointing the persons entitled to participate in the Motivating Program.

Acquisition of own shares by the Company

The Company may acquire its own shares in cases referred to in Article 362 of the Commercial Companies Code, with the prior approval of the General Meeting.

1.7.9 Description of methods used to change the statute of the issuer's company

In accordance with the Company's Statute and the provisions of the Commercial Companies Code, any change to the Company's Statute requires the consent of the General Meeting. In the absence of detailed provisions on this matter in the Company's Statute, the procedures for changing the Company's Statute are consistent with the relevant provisions of the Commercial Companies Code.

1.7.10 The manner of operation of the general meeting and its basic powers as well as a description of shareholder rights and their performance, in particular the principles arising out of the general meeting regulations, if such regulations have been passed, as long as the relevant information does not arise directly out of legal regulations

CONVENING OF THE GENERAL MEETINGS

1. An Annual General Shareholders Meeting shall be convened annually by the Management Board, not later than within six (6) months of the end of the Company's financial year.
2. A General Shareholders Meeting shall be convened by the Management Board. The Supervisory Board may convene an Annual General Shareholders Meeting if it is not convened by the Management Board within the period specified in this chapter or in the Statute, and the Extraordinary General Shareholders Meeting, if it considers its convocation as advisable.
3. The shareholders representing at least half of the share capital or at least half of the total votes on the General Shareholders Meeting may convene an Extraordinary General Shareholders Meeting. The shareholders shall appoint the Chairman of this General Shareholders Meeting.
4. A shareholder or shareholders representing at least one twentieth of the share capital may request the convening of the Extraordinary General Meeting and placing certain issues in the agenda of this Meeting. The request to convene an Extraordinary General Meeting must be submitted to the Management Board in writing or in electronic form. If, within two weeks from the date of the request submitted to the Management Board, an Extraordinary General Meeting shall not be convened, the registry court may authorise the shareholders applying with this request to convene an Extraordinary General Meeting. The court shall appoint the chairman of this Meeting.
5. A motion for convening the General Shareholders Meeting shall specify the issues to be included in the agenda. The motion shall require a justification.
6. The General Shareholders Meeting shall be convened for a day that is a business day in Poland.
7. The General Shareholders Meeting convened on the motion of the Shareholders may only be cancelled or its date changed upon the approval by the parties submitting the motion. In all other cases, the General Shareholders Meeting may be cancelled if there occur any extraordinary obstacles to its holding (force majeure) or when holding the Meeting would be obviously purposeless.
8. Any notices pertaining to the General Shareholders Meetings and minutes thereof shall be prepared in the Polish language. Similarly, the Meetings shall be conducted in the Polish language.

MAKING RESOLUTIONS BY THE GENERAL MEETING

1. Subject to the provisions of Art. 404 of the Commercial Companies Code, the General Shareholders Meeting may adopt resolutions only on matters provided for in the Commercial Companies Code, in the Statute and matters included in the agenda of the Meeting.
2. A resolution not to consider an issue included in the agenda of the meeting shall be adopted only for significant reasons. The relevant motion shall be justified in detail.
3. The General Shareholders Meeting shall be opened by the Chairperson of the Supervisory Board or by a person designated by the Chairperson, or – if there is not such a person – by the oldest Supervisory Board member present at the meeting. In the absence of such persons, the General Shareholders Meeting shall be opened by the Chairman of the Management Board, a person designated by the Management Board, or the Shareholder representing the largest number of the Company shares. If there are two or more Shareholders representing the largest number of the Company shares, the General Shareholders Meeting shall be opened by the oldest of them.
4. The General Shareholders Meeting shall be valid and shall have the capacity to adopt effective resolutions if the attending shareholders represent no less than 50% (fifty per cent) of the share capital. If there is no quorum present at the first General Shareholders Meeting, the Management Board shall immediately convene another General Shareholders Meeting with the same agenda, on a date falling no sooner than after four weeks of the first General Shareholders

Meeting, indicating that it is convened after an earlier Meeting was adjourned and that it shall be valid regardless of the percentage of the share capital represented.

5. Subject to the mandatory provisions of the Commercial Companies Code and unless the Statute's provisions provide otherwise, resolutions shall be adopted by a simple majority. As long as CED GROUP S. à r.l., a limited-liability company under the law of Great Duchy of Luxemburg, with registered office in Luxembourg ("CED") remains the Company's shareholder with no less than 15% of shares in its share capital, the following matters shall require a resolution by the General Shareholders Meeting, adopted with the majority of 70% (seventy percent) of the votes cast in favour of the resolution:
 - a) payment of dividend to shareholders in the amount exceeding 75% (seventy-five percent) of the net profit generated by the Company in the preceding financial year,
 - b) appointment and removal of the independent member of the Supervisory Board,
 - c) removal or suspension of members of the Company's Management Board.
6. The General Shareholders Meeting shall adopt Rules of Procedures for the General Shareholders Meeting, specifying in detail the manner of conducting the Meetings and adopting resolutions. In the event of a change to the Rules, the change shall become effective as of the next General Shareholders Meeting.

THE POWERS OF THE GENERAL MEETING

The powers of the General Shareholders Meeting shall include in particular:

- a) reviewing and approving the report of the Management Board on the Company's operations and the operations of the Company's group and the financial statements of the Company and the Group for the preceding financial year,
- b) adopting resolutions on the distribution of net profit in the form of dividend, or on the exclusion of the net profit from dividend payment, in whole or in part, and retaining it for the Company's own purposes; adopting resolutions on coverage of loss,
- c) approving the performance of duties by the members of the Company's governing bodies,
- d) selling or leasing the Company's business or its organised part, and encumbering the business or its part with any limited property rights,
- e) changing the legal form of the Company and any deciding on any merger of the Company with another company or legal entity,
- f) adopting resolutions concerning claims for repair of damage inflicted in connection with Company's formation, its management or supervision,
- g) amending the Company's Statute, increasing or reducing the Company's share capital,
- h) issuing convertible bonds or bonds with the pre-emptive rights,
- i) acquiring Company's own shares,
- j) subject to Par. 17, Section 1 below, appointing and removing Supervisory Board members, including the Chairperson of the Supervisory Board,
- k) dissolving the Company,
- l) defining the terms and conditions concerning the Supervisory Board's remuneration, including in particular payment dates and amounts,
- m) adopting the Rules of Procedure for the General Shareholders Meeting,
- n) determining the dividend record date, that is the date as at which the list of Shareholders entitled to dividend for the given financial year is determined, subject to the provisions of Art. 348, Par. 2 of the Commercial Companies Code, and determining the dividend payment date,
- o) resolving the matters presented for consideration to the General Shareholders Meeting by the Management or the Supervisory Board,
- p) other matters which fall within the scope of powers of the General Shareholders Meeting under mandatory laws and these Company's Statute.

Binding at the Company are the Rules of Procedure for the General Meeting adopted based on Resolution No. 18 passed by the Ordinary General Meeting of Shareholders of KOFOLA S.A. dated 30 June 2010 ("the Rules of Procedure").

The Rules of Procedure specify the principles of operation of the General Meeting of Shareholders of KOFOLA S.A., including among others:

Right to Participate in the General Meeting of Shareholders

1. Shareholders Meeting have only those who are shareholders of the Company for sixteen days before the date of the General Shareholders Meeting (the record date for the participation in the General Meeting).
 - a) The bearer shares in a form of the document confer the right to participate in General Meeting if the documents of shares are submitted in the company not later than on the record date for participation in the general meeting and shall not be received before the end of this date. Instead of shares, it may be submitted the certificate issued as the proof of deposit of shares at the notary, in the bank or in the investment firm which have a seat or branch in the European Union or in a state which is the party of the agreement on the European Economic Area, as indicated in the notice of the convention of the General Meeting.
 - b) The dematerialized bearer shares confer the right to participate in the General Meeting provided that the notification to the operator of the securities account the participation in the General Meeting shall be submitted by the holder of the dematerialized shares under Art. 406 (3) § 2 of the Commercial Companies Code.
2. The persons entitled to participate in the General Shareholders Meeting pursuant to point 1 of this paragraph are hereinafter referred to as the "Eligible Participants".
3. The members of the Company's Management Board and Supervisory Board, as well as other persons invited by the body which has convened the General Shareholders Meeting, shall be obliged to participate, with the right to speak, in the General Shareholders Meeting.
4. The Shareholder who is natural persons may participate in the General Shareholders Meeting and exercise its voting right personally or through a proxy, unless such voting right has been limited or waived under the applicable laws or the provisions of the Company's Statute adopted on the basis of such laws.
5. A Shareholder which is a legal person or an entity with no legal personality, but with the legal capacity, may participate in the General Shareholders Meeting and exercise its voting right through a person authorised to make declarations of will on behalf of such Shareholder or through a proxy.
6. The Power of attorney to participate in the General Meeting and to execution of voting right must be granted in writing or in electronic form. Granting power of attorney in electronic form shall not require a provision of it with a secure electronic signature verified by a valid qualified certificate. The Management Board decides of the manner of notification of the fact of granting the power of attorney in the notice of the convention of the General Meeting.
7. If the proxy at the General Meeting is a board member, member of the supervisory board, liquidator, an employee of the Company or member of bodies or employee of the company or subsidiary cooperative of the Company, the power of attorney may authorise to represent on the only one General Meeting. The proxy has an obligation to disclose to the shareholder the circumstances indicating the existence or the possibility of existence of a conflict of interests. Granting further power of attorney is impossible. In aforementioned case, the Proxy votes in accordance with instructions granted by the shareholder.

Opening of a General Meeting and election of its Chairman

1. A General Meeting is opened by the Chairman of the Supervisory Board or a person by him/her authorised, and in the absence of such authorisation, the most senior member of the Supervisory Board present at the Meeting. In the absence of those persons, the General Meeting is opened by the Chairman of the Management Board or a person appointed by the Management Board, or the Shareholder holding the greatest number of the Company's shares. If two or more shareholders meet the criteria of the greatest number of shares, the General Meeting is opened by the most senior among them or their representatives.
2. The person opening the General Meeting oversees the submission of candidacies and election of the General Meeting Chairman.
3. The General Meeting Chairman is elected from among the General Meeting's eligible participants.
4. Each Eligible participant has the right to submit one candidate.
5. The General Meeting Chairman directs the meeting in accordance with the agreed agenda, binding legal regulations and the provisions of the present Rules of Procedure, ensuring that the meeting is conducted and voting held in an efficient and proper manner.
6. The Chairman cannot resign from this position without valid reasons.

7. The powers and responsibilities of the General Meeting Chairman include in particular:
 - a) preparing an attendance list, signing the list, displaying the list during the General Meeting and attaching it to the minutes,
 - b) giving the floor,
 - c) overseeing voting and ensuring that it is conducted correctly,
 - d) signing documents containing vote results,
 - e) concluding the completion of the meeting's agenda,
 - f) resolving procedural matters;
 - g) overseeing the work of support personnel present at the General Meeting.
8. The Chairman shall make decisions on admitting journalists to the General Meeting of Shareholders and on granting permission to make sound or visual recordings of the General Meeting of Shareholders. If any of Shareholders present at the Meeting should object to the decision of the Chairman, the issue shall be voted upon by the General Meeting of Shareholders.

Binding the General Meeting with the agenda

1. Subject to the provisions of Art. 404 of the Commercial Companies Code, the General Shareholders Meeting may adopt resolutions only on matters included in the agenda of the Meeting.
2. On the motion from an Eligible Participant, the Management Board or the Supervisory Board, the General Shareholders Meeting may adopt a resolution not to consider an issue included in the agenda or to change the order of issues included in the agenda.
3. A resolution not to consider an issue included in the agenda of the meeting shall be adopted only for significant reasons. The relevant motion shall require detailed grounds.
4. A shareholder or shareholders representing at least one-twentieth of the share capital may request the inclusion of certain issues in the agenda of the next General Meeting. The request shall be submitted to the Management Board no later than twenty one days before the scheduled date of the Meeting. The request shall include a justification or a draft of resolution concerning the proposed agenda item. The request may be submitted in electronic form. The Management Board shall announce immediately, but not later than eighteen days before the scheduled date of the General Meeting, the changes in the agenda, introduced at the request of shareholders. The announcement shall be made in a manner appropriate to convene a general meeting.
5. A shareholder or shareholders representing at least one twentieth of the share capital before the date of the General Meeting may submit to the Company in writing or by electronic means of communication, draft of resolutions concerning the issues placed in the agenda of general meeting or the issues which shall be placed in the agenda. The Company shall promptly announce the drafts of resolutions on its website.

Voting

1. Subject to the provisions of par. 2 and 3, voting is open.
2. The ballot shall be in the following cases:
 - a) the vote relates to elections and motions to dismiss members of the Company's organs or liquidators,
 - b) the vote relates to motions to hold members of the Company's organs or liquidators liable,
 - c) the vote relates to personal matters.
3. Subject to the provisions of Article 416 § 3 of the Commercial Companies Code, a ballot is ordered at the request of even one of the present or represented Shareholders.
4. The General Meeting may pass a resolution to waive the secrecy of the vote on matters relating to the election of a Committee appointed by the General Meeting.
5. The provisions of par. 2 and 3 do not apply in cases when the General Meeting is attended by only one Shareholder.

1.7.11 The composition and changes made in the most recent financial year, as well as a description of the operation of the issuer's management, supervisory or administrative organs and their committees

THE RULES OF OPERATION OF THE MANAGEMENT BOARD OF THE COMPANY

The Management Board operates in accordance with applicable provisions of law, Good Practices and the provisions of the Company's Statute.

CHANGES IN THE COMPOSITION OF THE COMPANY'S MANAGEMENT BOARD

THE COMPOSITION OF THE MANAGEMENT BOARD OF KOFOLA S.A. on 31 DECEMBER 2012:

- Janis Samaras – Chairman of the board,
- Bartosz Marczuk – Member of board,
- Martin Mateáš – Member of board,
- René Musila – Member of the board,
- Tomáš Jendřejek – Member of the board.

On the day of preparation of this statement, the aforementioned composition of the Management Board of KOFOLA S.A. remains unchanged.

CHANGES IN THE COMPOSITION OF THE COMPANY'S SUPERVISORY BOARD

THE COMPOSITION OF THE SUPERVISORY BOARD OF KOFOLA S.A. on 31 DECEMBER 2012:

- René Sommer – Chairman,
- Jacek Woźniak – Vice-chairman,
- Dariusz Prończuk,
- Pavel Jakubík,
- Martin Dokoupil,
- Anthony Brown.

On 25 June 2012, Mr. Raimondo Eggink, resigned from the position as a member of the Supervisory Board effective 1 October 2012.

Mr. Pavel Jakubík was appointed to the Supervisory Board of KOFOLA S.A. on 1 November 2012, and will serve in the position of a member of the Supervisory Board.

On the day of preparation of this statement, the aforementioned composition of the Supervisory Board remains unchanged

THE AUDIT COMMITTEE comprises:

- Anthony Brown,
- Jacek Woźniak,
- Dariusz Prończuk,
- René Sommer,
- Pavel Jakubík.

On 25 June 2012, Mr. Raimondo Eggink, resigned from the position as a member of the Audit Committee effective 1 October 2012.

Mr. Pavel Jakubík was appointed as a member of Audit Committee on 1 November 2012.

On the day of preparation of this statement, the aforementioned composition the Audit Committee remains unchanged.

THE REMUNERATION COMMITTEE comprises:

- Jacek Woźniak – Chairman,
- Martin Dokoupil.

On 25 June 2012, Mr. Raimondo Eggink, resigned from the position as a member of the Remuneration Committee effective 1 October 2012.

On the day of preparation of this statement, the aforementioned composition of the Remuneration Committee remains unchanged.

THE RULES OF OPERATION OF THE SUPERVISORY BOARD OF THE COMPANY

The Supervisory Board operates in accordance with applicable provisions of law, provisions of the Company's Statute and provisions of the Rules of Procedures of the Supervisory Board.

MEETINGS OF THE SUPERVISORY BOARD

1. The Supervisory Board passes the rules of procedures for the functioning of the Supervisory Board.
2. For a Supervisory Board meeting to be effective, all of the members of the Supervisory Board must be properly invited, and the meeting must be attended by at least half of the Supervisory Board members, including the Chairman or Vice-Chairman. With the consent of all of its members, the Supervisory Board may meet without a formal call.
3. A Supervisory Board meeting is called by: (i) the Chairman of the Supervisory Board or (ii) the Vice-Chairman of the Supervisory Board, on his own initiative or at the request of the Company's Management Board or at least two members of the Company's Supervisory Board. A meeting should be called within 2 (in words: two) weeks of the submission of such a request by the entitled person, with the date of the meeting set for within 4 (in words: four) weeks of the submission of such a request. A Supervisory Board meeting is called by registered mail, e-mail or fax sent at least 2 (in words: two) weeks prior to the meeting date.
4. The Supervisory Board is required to hold a meeting at least once a quarter. Supervisory Board meetings are held at the Company's registered office or – with the consent of all members – at another location.
5. Subject to Article 388 § 2 and 4 of the Commercial Companies Code, Supervisory Board members may take part in the passing of resolutions by casting their vote in writing through another member of the Supervisory Board.
6. Subject to Article 388 § 4 of the Commercial Companies Code, the Supervisory Board may pass resolutions in writing or by using methods of direct communication. A resolution is valid if all of the Supervisory Board members have been notified of the text of the draft resolution.
7. Subject to the other provisions of the Company's Statute (see point H of the present declaration), the Supervisory Board passes resolutions by an ordinary majority of votes cast by Supervisory Board members present at the meeting, and if the number of votes is equal the Chairman of the Supervisory Board has the deciding vote.
8. The Supervisory Board may appoint permanent or ad hoc committees, operating as the Supervisory Board's collegial consulting and opinion forming organs. Two permanent committees are formed as part of the Supervisory Board: the Audit Committee and the Remuneration Committee. The Supervisory Board appoints members of the Audit Committee and the Supervisory Committee from among members of the Supervisory Board.
9. The work of a Committee is directed by the Committee chairman, who is selected at its first meeting, in a resolution passed by its members, from among members of the Committee. The chairman also supervises the preparation of the agenda, organization of document distribution and preparation of Committee meeting minutes.
10. Committee meetings are called in accordance with the same principles that apply to the calling of Supervisory Board meetings.
11. Committee resolutions are passed by an ordinary majority of votes. In votes where an equal number of votes are cast 'in favour' and 'against', the Committee chairman casts the deciding vote.

AUDIT COMMITTEE

1. The Audit Committee is appointed by the Supervisory Board from among its members, and comprises several members. The number of members, including independent members, is determined by the Supervisory Board in the form of a resolution. At least one member of the Audit Committee should be qualified and experienced in accounting and finance.
2. The duties of the Audit Committee include:
 - a) recommending to the Supervisory Board the selection of an auditor of the financial statements of the Company and of the companies from its Group, and of the consolidated financial statements for the previous financial year,
 - b) monitoring the audit of the Company's financial statements and the consolidated financial statements for the previous financial year; becoming familiar with the details of the results of these audits at their various stages,
 - c) presenting to the Board its findings and recommendations relating to the audit and evaluation of the financial statements and consolidated financial statements for the previous financial year, as well as the Management Board's proposed distribution of profit or coverage of loss,
 - d) presenting to the Board its findings and recommendations on granting discharge to the member of the Company's Management Board in charge of the economic and finance department for the duties he/she performed,
 - e) performing other tasks determined by the Board depending on the needs arising out of the Company's current situation,
 - f) submitting to the Board annual reports on the Committee's operations,
 - g) other matters as specified in Article 41 of Directive No. 2006/43/EC passed by the European Parliament on 17 May 2006.

REMUNERATION COMMITTEE

1. The Remuneration Committee is appointed by the Supervisory Board from among its members, and comprises several members. The number of members, including independent members, is determined by the Supervisory Board in the form of a resolution.
2. The Remuneration Committee is the Supervisory Board's opinion forming and consulting organ on the following matters:
 - a) determining the terms and conditions for remunerating members of the Company's Management Board and members of the management and supervisory boards of the companies from the Company's group,
 - b) granting bonuses or other variable remuneration components to members of the Management Board,
 - c) remuneration of the Company's Management Board members agreed in the contracts signed with the Company,
 - d) the Company's remuneration policies, including in particular the performance of periodic reviews of the system used to remunerate members of the Management Board and management staff working directly under the supervision of members of the Management Board, and submitting to the Supervisory Board proposed changes in those policies in the context of the Company's strategic goals,
 - e) incentive plans for higher level managers,
 - f) assessing the human resources management system at the Company and at the companies from its Group.

1.8 Ongoing proceedings before courts, arbitration organs or public administration organs

FRUCTO-MAJ SP. Z O.O.

KOFOLA S.A. has receivables in the bankrupt company Fructo-Maj Sp. z o.o. As at 31 December 2012, the total value of the receivables is PLN 7 455 thousand, the balance sheet value of this item, after revaluation, is PLN 39 thousand.

The assets of Fructo-Maj Sp. z o.o. are currently being sold. The Management believes that, given the current state of affairs and type of collateral, no revaluation is needed with regard to the assets associated with Fructo-Maj Sp. z o.o.

POMORSKIE CENTRUM DYSTRYBUCJI HOOP SP. Z O.O.

The subsidiary Pomorskie Centrum Dystrybucji Hoop Sp. z o.o. after fulfilling the stipulations according to concluded arrangement and selling its assets the company does not conduct operating activities.

According to Resolution number 1 from 28 February 2012, the Extraordinary Shareholders Meeting of Pomorskie Centrum Dystrybucji HOOP Sp. z o.o. increased the company's share capital by PLN 1 000 thousand through the creation of 2 000 new shares with a nominal value of PLN 500 each, which were acquired by KOFOLA S.A. at the issue value of PLN 5 500 for each share, thus the total issuance amount of PLN 11 000 thousand.

On 5 March 2012, a tripartite agreement on the transfer was concluded, under which the obligations of PCD Hoop Sp. z o.o. to the Hoop Polska Sp. z o.o have been repaid to the amount of PLN 11 000 thousand and under which KOFOLA S.A. performed has given a cash contribution to cover the newly created shares in the increased capital of PCD Hoop Sp. z o.o. in the amount of PLN 11 000 thousand and undertook to pay the amount of transfer to Hoop Polska Sp. z o.o. no later than 28 February 2017, in accordance with the timetable included in the agreement from 7 March 2012 regarding the obligation repayment.

The above-described steps leading to the restructuring of PCD Hoop Sp. z o.o. constitute execution of commitments adopted by KOFOLA S.A. in the course of the arrangement of the company PCD Hoop Sp. z o.o. arising from the decision of 22 November 2010 by the Regional Court in Koszalin, VII Business Division for Bankruptcy and Recovery Cases, ref. Act VII GUp 13/10 for approval of the arrangements of the PCD Hoop Sp. z o.o.

The share capital increase of PCD Hoop Sp. z o.o. was registered by the court as at 3 April 2012.

1.9 Operating segments

ESTIMATED POSITION OF KOFOLA S.A.GROUP ON THE RETAIL SOFT DRINKS MARKET

As at 31 December 2012, the companies of KOFOLA S.A. Group hold first position in the soft drinks market in the **Czech Republic** in syrups, second in cola-type drinks, second in children drinks, second in carbonated drinks and fourth in mineral waters. In **Slovakia**, we hold first position in mineral waters, second in children drinks, second in cola-type drinks, third in syrups and second in carbonated beverages. In **Poland**, we hold second position in syrups, third in cola-type drinks, fifth in children drinks, sixth in non-carbonated beverages and seventh in carbonated beverages.

In Russia, Megapack company has only been noticeable in the local Moscow market. Due to the size of the Russian market, data of the company is not visible in the statistics; therefore it is hard to establish its market position.

PRODUCTS

KOFOLA S.A. Group offers its products in Poland, the Czech Republic, Slovakia and Russia as well as exports to a few other countries, mainly in Europe.

KOFOLA GROUP BRANDS IN 2012	
CARBONATED BEVERAGES	Kofola, RC Cola, Citrocola, Hoop Cola, Top Topic, Vinea, Orangina, Chito, Citronela, Fruti, Mr. Max, Koe Chto,
NATURAL WATERS	Rajec, Arctic, Białowieski Zdrój, Grodziska
NON-CARBONATED BEVERAGES	Jupí Fruit Drink, Top Topic, Snipp, Natelo
100% FRUIT JUICES AND NECTARS	Snipp, Eskimors
SYRUPS AND CONCENTRATES	Jupí, Paola, Jarmark Polski, Super Barman
CHILDRENS' DRINKS	Jupík, Jupik Aqua, Jumper
ICE TEA	Pickwick Ice Tea
ENERGY DRINKS	Semtex
LOW ALCOHOL BEVERAGES (Russia)	Hooper's Hooch, Dieviatka, Black Mamba

Since the beginning of 2012, the portfolio of the Group's drinks has been enlarged by new brands of syrup in the economy segment Jarmark Polski, a new brand of mineral water Białowieski Zdrój (clear and flavoured), Hoop Cola Spice, Chito „Ginger Beer” (alcohol free ginger beer) and Chito lemonade „Cloudy lemon”, sugar free Kofola with stevia, Kofola with foam, „festival” Kofola with guava, Kofola „outdoor” with guarana, new herbal flavours of Jupí syrups (chamomile and wild rose, plantain and yarrow, thyme and dandelion), stevia sweetened Jupik, Rajec water for babies, new flavours of Rajec water – with gooseberries and cranberries, Jupik Aqua sport and Vinea, Kofola and Pickwick Ice Tea in 0.25l cans. In the fourth quarter of 2012 in the Czech Republic and in Slovakia a revolutionary hot drink Natelo was introduced. In Russia, we introduced new products in glass containers: Koe Chto lemonade, fruit juices Eskimors, low alcohol beverages Black Mamba in can.

KOFOLA S.A. Group products also include waters, carbonated beverages and non-carbonated beverages and syrups on behalf of third parties, mostly big retail chains. These companies offer consumers products under their own brand using the possibility to distribute in their stores.

In addition, Megapack operating on the Russian market offers services of bottling drinks on behalf of companies from outside the Group. This applies both to low-alcohol beverages, and soft drinks.

The Management Board has decided to introduce, from 30 June 2012, changes in the presentation of segments from operating segments based on products to operating segments by country in order to better reflect how the business performance of the Group is managed and reviewed by the chief operating decision maker. The Management Board of KOFOLA S.A. is the chief operating decision maker responsible for operational decision-making and uses the results to decide on the allocation of resources to the segment and assess its segment performance.

The Group operates in the following segments managed by the chief operating decision maker:

- Poland
- Czech Republic
- Russia
- Slovakia
- Export

The Group applies the same accounting methods for all of the segments which are also in line with the accounting method used in the preparation of this financial statements. Transactions between segments are eliminated in the consolidation process.

As part of presenting its segments, the Group identified two clients, who generated more than 10% of the segment's revenues. The Group's revenues from these clients in 2012 amounted in total to PLN 479 888 thousand and related to customer A (PLN 209 587 thousand) and customer B (PLN 270 301 thousand).

1. THE DIRECTOR'S REPORT ON THE ACTIVITIES OF THE KOFOLA S.A. GROUP

Total revenues and costs of each operating segment include one-off items and are consistent with data presented in the profit and loss for the current and comparable period. Reporting segment results for the period of 12 months ended 31 December 2012 and the period of 12 months ended 31 December 2011:

GEOGRAPHICAL SEGMENTS

1.1.2012 - 31.12.2012	Poland	Czech Republic	Slovakia	Export	Eliminations (consolidation adjustments)	Subtotal	Russia **	Total
Revenue	478 933	371 848	273 696	4 369	(106 183)	1 022 663	318 229	1 340 892
Sales to external customers	459 306	339 598	219 390	4 369	-	1 022 663	318 229	1 340 892
Inter-segment sales	19 627	32 250	54 306	-	(106 183)	-	-	-
Adjusted operating expenses	(479 213)	(339 472)	(252 215)	(4 182)	108 488	(966 594)	(312 996)	(1 279 590)
Related to third party sales	(459 586)	(304 918)	(197 908)	(4 182)	-	(966 594)	(312 996)	(1 279 590)
Related to inter-segment sales	(19 627)	(34 554)	(54 307)	-	108 488	-	-	-
Adjusted operating result of the segment	(280)	32 376	21 481	187	2 305	56 069	5 233	61 302
One-off operating expenses	(1 670)	-	-	-	-	(1 670)	-	(1 670)
Operating result of the segment	(1 950)	32 375	21 482	187	2 305	54 399	5 233	59 632
Result on financial activity	(1 338)	(4 181)	(1 433)	-	(11 889)	(18 841)	(1 233)	(20 074)
within segment	(13 032)	(4 376)	(1 433)	-	-	(18 841)	(1 233)	(20 074)
between segments	11 694	195	-	-	(11 889)	-	-	-
Profit /(loss) before tax	(3 288)	28 194	20 049	187	(9 584)	35 558	4 000	39 558
Income tax	1 924	(5 038)	(5 779)	(3)	-	(8 896)	(3 154)	(12 050)
Remeasurement of puttable non-controlling interest	-	-	-	-	-	-	1 430	1 430
Net profit /(loss)	(1 364)	23 156	14 270	184	(9 584)	26 662	846	28 938
Assets and liabilities								
Segment assets	617 387	451 534	190 600	1	(201 830)	1 057 692	200 402	1 258 094
Total assets	617 387	451 534	190 600	1	(201 830)	1 057 692	200 402	1 258 094
Segment liabilities	264 179	421 173	115 659	1	(226 182)	574 830	146 235	721 065
Equity						482 862	54 167	537 029
Total liabilities and equity						1 057 692	200 402	1 258 094
Other information concerning segment								
Investment expenditure :								
Tangibles and intangibles	7 658	15 909	6 582	-	-	30 149	2 049	32 198
Depreciation and amortization	29 160	29 201	16 507		(1 000)	73 868	5 727	79 595

1. THE DIRECTOR'S REPORT ON THE ACTIVITIES OF THE KOFOLA S.A. GROUP

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1.1.2011 - 31.12.2011 *	Poland	Czech Republic	Slovakia	Export	Eliminations (consolidation adjustments)	Subtotal	Russia **	Total
Revenue	480 594	369 847	237 429	6 079	(109 844)	984 105	295 096	1 279 201
Sales to external customers	458 530	329 075	190 421	6 079	-	984 105	295 096	1 279 201
Inter-segment sales	22 064	40 772	47 008	-	(109 844)	-	-	-
Adjusted operating expenses	(480 424)	(331 242)	(221 477)	(6 105)	107 102	(932 146)	(289 671)	(1 221 817)
Related to third party sales	(459 608)	(291 964)	(174 469)	(6 105)	-	(932 146)	(289 671)	(1 221 817)
Related to inter-segment sales	(20 816)	(39 278)	(47 008)	-	107 102	-	-	-
Adjusted operating result of the segment	170	38 605	15 952	(26)	(2 742)	51 959	5 425	57 384
One-off operating expenses	-	(3 025)	(318)	-	-	(3 343)	-	(3 343)
Operating result of the segment	170	35 580	15 634	(26)	(2 742)	48 616	5 425	54 041
Result on financial activity	23 169	(3 173)	(2 295)	1	(35 077)	(17 375)	813	(16 562)
within segment	(8 905)	(6 176)	(2 295)	1	(2 213)	(17 375)	813	(16 562)
between segments	32 074	3 003	-	-	(35 077)	-	-	-
Profit /(loss) before tax	23 339	32 407	13 339	(25)	(37 819)	31 241	6 238	37 479
Income tax	(4 745)	(1 552)	(2 925)	-	-	(9 222)	(1 812)	(11 034)
Remeasurement of puttable non-controlling interest	-	-	-	-	-	-	(2 213)	(2 213)
Net profit /(loss)	18 594	30 855	10 414	(25)	(37 819)	22 019	2 213	24 232
Assets and liabilities								
Segment assets	699 256	430 094	216 262	217	(192 401)	1 153 428	181 602	1 335 030
Total assets	699 256	430 094	216 262	217	(192 401)	1 153 428	181 602	1 335 030
Segment liabilities	276 375	447 831	139 693	17	(163 213)	700 703	84 753	785 456
Equity						452 725	96 849	549 474
Total liabilities and equity						1 153 428	181 602	1 335 030
Other information concerning segment								
Investment expenditure :								
Tangibles and intangibles	16 675	24 051	3 889	-	-	44 615	8 724	53 339
Depreciation and amortization	25 276	27 275	15 777	-	-	68 328	10 033	78 361

* Data in segments for the comparative period have been set at the historic currency rate. They have not been recalculated in order to provide better comparability, as in Note 1.5, at using the current currency rate.

** Discontinued consolidation (Megapack Group)

PRODUCT SEGMENTS

1.1.2012 - 31.12.2012	Carbonated beverages	Non-Carbonated beverages	Natural waters	Syrups	Low alcohol drinks	Other	Total
Revenue	617 822	96 340	204 865	153 710	241 888	26 267	1 340 892
Continuing operations	592 180	57 746	192 833	153 710	68	26 126	1 022 663
Discontinued consolidation (Megapack Group)	25 642	38 594	12 032	-	241 820	141	318 229

1.1.2011 - 31.12.2011	Carbonated beverages	Non-Carbonated beverages	Natural waters	Syrups	Low alcohol drinks	Other	Total
Revenue	572 175	107 645	204 432	128 581	228 155	38 213	1 279 201
Continuing operations	540 084	69 572	198 741	128 581	9 621	37 506	984 105
Discontinued consolidation (Megapack Group)	32 091	38 073	5 691	-	218 534	707	295 096

1.10 Shareholders holding directly or indirectly significant packets of shares along with the number of shares held, their percentage of share capital, the resulting number of votes and percentage in the total number of votes at general meeting

According to the Company's information as at the date of the preparation of the present report (i.e. 18 March 2012), the following entities held at least 5% of the total number of votes at General Shareholders Meeting of KOFOLA S.A.:

KSM Investment S.A. with its registered office in Luxembourg

- 13 395 373 shares or 51.18% of share capital of KOFOLA S.A.
- 13 395 373 votes or 51.18% of total votes at General Meeting of KOFOLA S.A.

CED GROUP S. a r.l. with its registered office in Luxembourg

- 11 283 153 shares or 43.11% of share capital of KOFOLA S.A.
- 11 283 153 votes or 43.11% of total votes at General Meeting of KOFOLA S.A.

As at 31 December 2012, the share capital amounted to PLN 26 172 602 and consisted of 26 172 602 shares entitling to 26 172 602 votes at General Shareholders Meeting.

1.11 Changes in the ownership of major KOFOLA S.A. share packages in the period since the previous quarterly report

According to the Company's information, no changes were made in the ownership of major share packages in the period since the submission of the previous quarterly report.

SHARE CAPITAL STRUCTURE			
Name of entity	Number of shares	% in share capital	% of votes
KSM Investment S.A.	13 395 373	51.18%	51.18%
CED GROUP S. a r.l.	11 283 153	43.11%	43.11%
René Musila	687 709	2.63%	2.63%
Tomáš Jendřejek	687 660	2.63%	2.63%
Other	118 707	0.45%	0.45%
Total	26 172 602	100.00%	100.00%

1.12 Statement of changes in the ownership of KOFOLA S.A. shares or rights to such shares (options) by management and supervisory staff

According to the Company's information as at the date of submission of the report for the 12-month period ended 31 December 2012, no changes occurred in either the ownership of KOFOLA S.A. shares or options (subscription warrants) by management and supervisory staff compared to the date of submission of the report for the 3rd quarter of 2012.

1.13 Information about the conclusion of material contracts that do not meet the criteria of a significant contract

On 1 December 2012 Kofola ČeskoSlovensko a.s. (subsidiary of KOFOLA S.A.) acquired 75% shares in the Czech companies Ugo Trade s.r.o. and Ugo Juice s.r.o.

According to resolution number 13/XI/2011 of KOFOLA S.A.'s Supervisory Board from 10 November 2011 regarding approval of Bond Issuance Program realisation and KOFOLA S.A. Management resolution number 1/2012 dated 20 February 2012 and KOFOLA S.A. Management resolution number 1/II/2012 from 1 February 2012 regarding issuance of bonds from series A³, KOFOLA S.A. as at 20 February 2012 issued 16 850 bonds from series A³ at the issue price and with nominal value of PLN 1 000 each with a maturity of 34 months.

Due to tax regulation regarding excise tax on alcoholic products, the subsidiary OOO Megapack in Russia obtained bank guarantees in the total amount of PLN 89 843 thousand during the reporting period.

1.14 Information about significant contracts

On 28 March 2012 the Agreement amending and consolidating Term Loan Agreement in the amount of PLN 57 000 thousand with due date on 22 March 2014 and the Agreement amending and consolidating overdraft Agreement in the amount of PLN 57 000 thousand with due date on 28 March 2013 were signed by the subsidiary Hoop Polska Sp. z o.o. and Bank Consortium. The changes include the extension of the deadline of repayment of the overdraft until 28 March 2013 with the consequent extension of the guarantees of these loans by KOFOLA S.A. until 31 December 2016 and update of the financial conditions, which do not differ from market conditions applicable to such agreements. Securities for both loan agreements remained unchanged.

1.15 Information about relationships with other Group entities

Transactions between related parties were conducted on market terms generally applied for a given type of transaction.

A description of the transactions concluded between related parties is presented in Note 5.27 to the financial statements.

1.16 Information about credits and loans

A description of the credits and loans is presented in Note 5.21 to the financial statements.

1.17 Information on loans granted

On 22 February 2012 KOFOLA S.A. granted the subsidiary Hoop Polska Sp. z o.o. a subordinated loan in the amount of PLN 11 000 thousand due as at 31 December 2014. The aim of the loan was to improve financial ratios of Hoop Polska Sp. z o.o. required for the credit agreement with the Bank Consortium.

On 4 April 2012 KOFOLA S.A. granted the subsidiary Hoop Polska Sp. z o.o. a subordinated loan in the amount of PLN 21 000 thousand due as at 31 December 2014. The aim of the loan was to finance the subsidiary's development plan.

1.18 Information on the granting by the issuer or its subsidiary of credit or loan guarantees

Entity providing guarantees	Entity receiving guarantees	Credit value on balance sheet day which were subject to guarantee		The period for providing guarantees	The entity for which liabilities' guarantees were provided	Kind of relationship between the entity providing and entity receiving guarantees
		in currency	in ths. PLN			
Kofola ČeskoSlovensko a.s.	Unicredit Bank a.s.	506 T EUR	2 069	12/2014	Kofola a.s. (SK)	subsidiary
Kofola ČeskoSlovensko a.s.	VÚB banka a.s.	5 687 T EUR	23 250	12/2017	Kofola a.s. (SK)	subsidiary
Kofola ČeskoSlovensko a.s.	ČSOB a.s.	- T EUR	-	3/2014	Kofola a.s. (SK)	subsidiary
Kofola ČeskoSlovensko a.s.	Raiffeisen-Leasing	25 433 T CZK	4 145	10/2015	Kofola a.s. (CZ)	subsidiary
Kofola ČeskoSlovensko a.s.	Oberbank Leasing	2 902 CZK	473	4/2016	Kofola a.s. (CZ)	subsidiary
Kofola ČeskoSlovensko a.s.	Oberbank Leasing	3 047 CZK	497	5/2016	Kofola a.s. (CZ)	subsidiary
Kofola a.s. (CZ)	Komerční banka a.s.	20 000 T CZK	3 260	1/2013	Santa Trans s.r.o. (CZ)	subsidiary
KOFOLA S.A.	Bank Zachodni WBK S.A.	19 000 T PLN	19 000	12/2016	Hoop Polska Sp. z o.o.	subsidiary
KOFOLA S.A.	Bank Zachodni WBK S.A.	5 852 T PLN	5 852	12/2016	Hoop Polska Sp. z o.o.	subsidiary
KOFOLA S.A.	Kredyt Bank S.A.	786 T PLN	786	12/2016	Hoop Polska Sp. z o.o.	subsidiary
KOFOLA S.A.	Bank Pekao S.A.	1 206 T PLN	1 206	12/2016	Hoop Polska Sp. z o.o.	subsidiary
KOFOLA S.A.	Deutsche Leasing S.A.	1 544 T EUR	6 312	2/2014	Hoop Polska Sp. z o.o.	subsidiary
KOFOLA S.A.	Toyota Leasing S.A.	1 915 T PLN	1 915	6/2015	Hoop Polska Sp. z o.o.	subsidiary
KOFOLA S.A.	Komerční banka a.s.	79 998 T CZK	13 040	12/2016	Kofola a.s. (CZ)	subsidiary
KOFOLA S.A.	Komerční banka a.s.	16 740 T CZK	2 728	12/2016	Kofola a.s. (CZ)	subsidiary
Total loans and guarantees issued			PLN 84 533 ths.			

In the reporting period the companies of the KOFOLA S.A. Group received no remuneration for guaranteeing the liabilities of other Group companies.

1.19 Information on issuing securities

According to resolution number 13/XI/2011 of KOFOLA S.A.'s Supervisory Board from 10 November 2011 regarding approval of Bond Issuance Program realisation amended by resolution number 1/2012 from 20 February 2012 and resolution number 1/II/2012 of KOFOLA S.A.'s Supervisory Board from 1 February 2012 regarding issuance of bonds from series A³ KOFOLA S.A. as at 20 February 2012 issued 16 850 bonds of series A³.

In accordance with the Terms of Bonds Issuance:

- bonds are bearer bonds,
- bonds are not secured,
- the nominal value of bonds is PLN 1 000 each,
- the issue price of bonds is equal to their nominal value,,
- maturity of bonds from series A³ is 34 months from the date of the resolution of the allocation and settlement,
- interest on the bonds shall be determined separately by the sum of the index and margin WIBOR 6M for each series,
- interest will be paid every six months where the first interest period begins on the date of issue,
- bond purchase proposal was addressed to no more than 99 recipients in the manner specified in Article 9, item 3 of the Act on Bonds,
- bonds do not have the form of a document,
- bonds give rights only to cash benefits
- according to Terms of Bonds Issue on the 30 March 2012, bonds have been admitted on the Catalyst market that is organised by the Stock Exchange in Warsaw or BondSpot S.A.
- after two interest periods the Issuer has granted option call bonds with the assumption that one-time buy-back will be at least 15% of the issued series under the Bond Issuance Program.

On 21 June 2012 there was payment of interest for the first interest period, and on 21 December 2012 for the second interest period for all series of bonds issued by KOFOLA S.A.

On 29 June 2012 Board of the National Depository for Securities decided on assimilation of bonds from series A² and A³ on 3 July 2012. From 3 July 2012 on, both series are presented as series A².

1.20 The Management's standpoint on the feasibility of realising previously published profit/loss forecasts for a given year, compared to the forecast results

The Group published no financial result forecasts for the year 2013.

1.21 Assessment of the Group's management of its financial resources and its ability to meet its financial obligations

The Group's consolidated net debt, calculated as long- and short-term credits, loans and other debt instruments less cash and cash equivalents amounted to PLN 257 689 thousand as at 31 December 2012 after decreasing by PLN 52 598 thousand (by PLN 40 166 thousand if the Group's consolidated net debt for the comparative period was converted with exchange rate of the Polish zloty from the end of December 2012) from the end of December 2011 after adjustments by Megapack Group's positions.

This decrease was in large part caused by lower use of credit lines due to better results, lower investment costs and lower need to finance working capital and the repayment of credits with the due date set by schedules.

Value of long-term liabilities from financial lease as at 31 December 2012 was PLN 9 487 thousand and was PLN 6 240 thousand lower compared to 31 December 2011.

Detailed information on the external long-term debt securities with a description of the repayment conditions is provided in Note 1.19 to the attached report on the activities of KOFOLA S.A. Group.

In the period covered by the financial statements, the Group financed its operations primarily with funds generated from its operating activities, obtained by credits and issue of bonds. In 2012 the Group also repaid PLN 125 086 thousand in bank debt. Debts were repaid when due.

The Group's liquidity remained at a safe level, assured by the cash funds held, which as at 31 December 2012 amounted to PLN 15 706 thousand, and thanks to the available credit lines, the Polish zloty equivalent of which totals PLN 216 887 thousand (detailed information in Note 5.21). As at 31 December 2012, the Group had unused credit lines for general use in the total amount of PLN 109 857 thousand.

At the end of the year the Group's ratio of net debt to adjusted EBITDA amounted to 1.98 times, which is considered to be safe. At this time the Group has the borrowing power to take out additional credits for development purposes and to finance working capital.

Based on the available financial resources and credit lines, as well as appropriate external funding opportunities, the Group has sufficient financial resources to implement the assumed investment projects, as well as the planned capital expenditure in 2013.

1.22 The Group's investment plans and their feasibility

In the reporting period for the 12 months ended 31 December 2012, KOFOLA S.A. Group companies made expenditures to increase the value of tangible assets and intangible assets amounting to PLN 32 198 thousand. Investment projects realised in this period mainly concerned the company Kofola a.s. (Czech Republic) (line for bottling beverages in the so-called hot filling technology) and Hoop Polska Sp. z o.o. (nozzle exchange on the production line), expenses in gastro segment in the Czech Republic and Slovakia with the fridges, taps for kegs, 20-liter kegs, heaters to Natelo and completion of investment in the bottling line for glass in OOO Megapack (Russia).

For the year 2013, Kofola Group has planned capital expenditures continuing investments to the gastro segment and technologies for production of healthy beverages.

The financing sources of Kofola Group investment activities will be funds derived from operating activities and foreign sources of financing in the form of bank loans.

As at the date of this report, the Group's Management finds that the realisation of the full investment plan for the year 2013 will depend on the financial results achieved in the course of the year.

1.23 The factors and unusual events that had an effect on the Group's result

The net result of the Group during the reporting period in relation to comparable data was significantly influenced by the increase in prices of basic raw materials, particularly sugar, isoglucose. Most of the basic raw materials and so-called commodity prices are subject to significant fluctuations in global markets. Sugar prices reached the highest level for 30 years, granulation for the production of PET bottles has also reached the highest price during last two years. Our companies, in reaction to high raw material prices, had to increase product prices starting at the end of 2010, but those increases did not fully compensate for the increase in the raw material prices.

The result of the Group in the reporting period of twelve months ended 31 December 2012 was also significantly impacted by one-off event of non-monetary nature. The Group made impairment of fixed assets in the amount of PLN 1 670 thousand.

1.24 The factors that in Management's opinion would have a significant effect on the Group's future financial results in the next quarter

Kofola Group's competitive position has to do with basic market factors, such as: the strength of its brands, innovation, costs, production quality, the scale effect, swiftness and market position and the ability to obtain raw materials at favourable prices. In the Management's opinion, the Group's financial position, its production potential and market position pose no threats to its continued growth. There are, however, several factors, especially external that will, either directly or indirectly, affect the Group's financial results in the coming quarters.

In the coming quarters, the main risk factors with a significant effect on the Group's financial results will include in particular:

- the prices of raw production materials, of which the majority is based on so-called commodities (the prices of raw materials such as oil, sugar, isoglucose, granules for the production of PET bottles, fruit concentrates, foil or paper),
- the level of unemployment and people's willingness to consume outside of home and purchase brand name food products, pricing policies of competitors, in particular in the segment of carbonated soft drinks (especially cola), mineral waters and syrups,
- the changes in the structure of retail trade, consisting of the growing importance of discount food chains at the expense of traditional channels, with slower than previous growth of the supermarket chains and the speed of adapting KOFOLA S.A. Group's operating business model to the changing market,
- the ability to maintain the largest customers at reasonable commercial terms to enable KOFOLA S.A. Group companies to improve performance and generate positive cash flows,
- weather conditions (temperature, precipitation)
- changes in foreign exchange rates (PLN, CZK, EUR and RUB) and effectiveness of protection against such changes – so called hedging,
- increase in excise tax on low alcohol beverages in Russia and other changes regarding low-alcoholic beverages,
- increase of the VAT in the Czech republic from January 2013 from 14% to 15%
- ability to introduce new innovative products on the market,
- interest rates,
- the availability of funding and the associated expected profit margins of banks and bondholders,
- effectiveness in implementation of increase of product prices.

1.25 Subsequent events

DISCONTINUED CONSOLIDATION OF THE MEGAPACK GROUP DUE TO CHANGE OF CONTROL

Due to the fact that at the end of December 2012, shareholders' agreement giving KOFOLA S.A. the deciding vote in choosing the General Director of the Company OOO Megapack expired from 1 January 2013 KOFOLA S.A. and Russian shareholders have had joint control over the company, and thus according to IAS 31 KOFOLA S.A. Group will be consolidating Megapack Group under the equity method. KOFOLA S.A. will continue to pursue ownership supervision over the activities of the subsidiary by the right to appoint two of the four members of the Board of Directors of OOO Megapack.

1.26 Changes in the Group's basic management methods

During 2012 no changes in the Company's management methods were made.

1.27 Agreements concluded between the issuer and the management staff

No agreements have been signed with persons who are members of management organs, which provide for compensation in the event of their resignation or dismissal.

1.28 Remuneration of Management and Supervisory Board members

The following total remuneration has been paid out to members of the Management and Supervisory Boards of KOFOLA S.A. by all the Group companies:

Management Board	2012
Janis Samaras	1 227
Bartosz Marczuk	1 025
Martin Mateáš	1 448
Tomáš Jendřejek	977
René Musila	955
Total*	5 632

* Remuneration of PLN 5 464 thousand have been paid out by subsidiary Kofola ČeskoSlovensko a.s.

Supervisory Board	2012
René Sommer **	-
Jacek Woźniak	-
Dariusz Prończuk	-
Pavel Jakubík **	-
Martin Dokoupil	-
Anthony Brown	16
Raimondo Eggink	54
Total	70

** Remuneration paid out in 2012 from the employment in Kofola ČeskoSlovensko a.s. amounted to PLN 1 078 thousand.

As at 31 December 2012, member of the Supervisory Board - Mr. René Sommer - had a loan in the amount of PLN 565 thousand, with an interest rate of 3% payable on 31 March 2013.

1.29 Information about agreements that may change the proportion of shares held by the existing shareholders in the future

As at the date of the preparation of the present report, there are no agreements that could in the future change the proportion of shares held by the existing shareholders.

1.30 Information about the employee shares control systems

The terms and conditions of the Incentive Program, its eligible participants, the maximum limit of subscription warrants corresponding to participant categories, as well as the criteria that must be met to receive an allotment of subscription warrants have been set by the Supervisory Board in the Incentive Program Regulations. The costs that will be incurred by KOFOLA S.A. in connection with the introduction of the Incentive Plan are based on the Group's forecast results. At the end of 2012, the Employee Shares Program implemented in the Group ceased to be valid. Persons who have acquired subscription warrants have the right to use them in the period 3 years from the time of their acquisition.

1.31 Information about the entity authorised to audit the financial statements

On 30 May 2012 the company KOFOLA S.A. concluded a contract with PricewaterhouseCoopers Sp. z o.o. for an audit and review of financial statements. The agreement with PricewaterhouseCoopers Sp. z o.o. was concluded for a period of one year for an audit KOFOLA S.A. and KOFOLA S.A. Group for the financial year 2012 with an option to extend for a further two years. The total amount of remuneration resulting from the agreement with PricewaterhouseCoopers Sp. z o.o. due in respect of the standalone and consolidated financial statements KOFOLA S.A. for the year 2012 is PLN 20 thousand. The aggregate remuneration payable to PricewaterhouseCoopers Sp. z o.o. under the contract, with the other titles, for the year 2012 is PLN 20 thousand and relates to the review of interim individual and consolidated financial statements as at 30 June 2012.

1.32 Statement of the Management Board of KOFOLA S.A.

According to § 91 clause 1, item 6 of the Decree of the Council of Ministers from 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognising as equivalent information required by law of a non-member state the Management Board of KOFOLA S.A. declares that the entity authorised to audit the financial statements, which audited the financial statements for the year 2012, was selected in accordance with the legal regulations and that this entity and the auditors performing the audit of the report, met the conditions for an impartial and independent opinion on the audited annual financial statements in accordance with applicable regulations and professional standards.

According to § 91 paragraph 1 point 5 of the Council of Ministers of 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognising as equivalent information required by the law regulations of a non-member state the Management Board of KOFOLA S.A. declares that according to its best knowledge, the annual financial statements for 2012 and comparative figures have been prepared in accordance with applicable accounting principles and give a true and fair view about KOFOLA S.A. financial position and its financial performance, and that the issuer's activity report presents a true view of the development and achievements as well as position of KOFOLA S.A., including a description of the main risks and threats.

SIGNATURES OF THE COMPANY'S REPRESENTATIVES:

18.3.2013	Janis Samaras	Chairman of the Board of Directors	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>
18.3.2013	Bartosz Marczuk	Member of the Board of Directors	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>
18.3.2013	Martin Mateáš	Member of the Board of Directors	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>
18.3.2013	René Musila	Member of the Board of Directors	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>
18.3.2013	Tomáš Jendřejek	Member of the Board of Directors	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>

SIGNATURE OF PERSON RESPONSIBLE FOR BOOKKEEPING:

18.3.2013	Katarzyna Balcerowicz	Chief Accountant	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>

Document signed on the Polish original.



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2.1 Consolidated Income statement

for the 1-month period ended 31 December 2012 (audited) and the 12-month period ended 31 December 2011 (audited and restated) in PLN thousand

Consolidated income statement	Note	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Continuing operations			
Revenue from the sale of finished products and services	5.1	1 019 145	969 413
Revenue from the sale of goods and materials	5.1	3 518	14 692
Revenue		1 022 663	984 105
Cost of products and services sold	5.2	(672 711)	(617 263)
Cost of goods and materials sold	5.2	(3 055)	(13 284)
Total cost of sales		(675 766)	(630 547)
Gross profit		346 897	353 558
Selling, marketing and distribution costs	5.2	(241 709)	(252 137)
Administrative costs	5.2	(52 364)	(55 629)
Other operating income	5.3	7 341	7 827
Other operating expenses	5.4	(5 766)	(5 003)
Operating result		54 399	48 616
Financial income	5.5	3 888	6 988
Financial expense	5.6	(22 774)	(24 252)
Share in profit received from associates	5.7	45	(111)
Profit before tax		35 558	31 241
Income tax	5.10	(8 896)	(9 222)
Net profit on continuing operations		26 662	22 019
Discontinued consolidation			
Net profit on discontinued consolidation	5.11	2 276	2 213
Net profit for the financial year		28 938	24 232
Assigned to:			
Shareholders of the parent company		28 943	24 232
- on continuing operations		26 667	22 019
- on discontinuing consolidation		2 276	2 213
Non-controlling interests shareholders on continuing operations		(5)	-
Earnings per share (in PLN)			
- basic earnings per share			
- from continuing operations attributable to equity holders of the parent	5.12	1,0189	0,8413
- from discontinuing operations	5.12	0,0870	0,0846
- attributable to equity holders of the parent	5.12	1,1059	0,9259
- diluted earnings per share			
- from continuing operations attributable to equity holders of the parent	5.12	1,0188	0,8411
- from discontinuing operations	5.12	0,0869	0,0845
- attributable to equity holders of the parent	5.12	1,1057	0,9256

2.2 Consolidated Statement of comprehensive income

for the 12-month period ended 31 December 2012 (audited) and the 12-month period ended 31 December 2011 (audited and restated) in PLN thousand

Statement of comprehensive income	Note	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Net profit for the period		28 938	24 232
Other comprehensive income			
Currency differences from translation of foreign subsidiaries	2.5	(17 734)	19 424
- on continuing operations		(14 028)	15 889
- on discontinuing consolidation		(3 706)	3 535
Other comprehensive income (net)		(17 734)	19 424
Total comprehensive income		11 204	43 656
Assigned to:			
Shareholders of the parent company		11 209	43 656
- on continuing operations		12 639	37 908
- on discontinuing consolidation		(1 430)	5 748
Non-controlling interests shareholders on continuing operations		(5)	-

2.3 Consolidated Statement of Financial Position

as at 31 December 2012 (audited), 31 December 2011 (audited and restated) and 1 January 2011 (audited and restated) in PLN thousand.

ASSETS	Note	31.12.2012	31.12.2011	1.1.2011
Fixed assets (long-term)		780 727	893 869	853 437
Tangible fixed assets	5.13	477 322	541 122	540 072
Goodwill	5.14	103 253	118 972	111 836
Intangible fixed assets	5.14	191 141	218 870	186 869
Other long-term assets		68	3 554	4 756
Deferred tax assets	5.10	8 943	11 351	9 904
Current assets (short-term)		477 367	441 161	405 311
Inventories	5.16	99 535	130 523	127 106
Trade receivables and other receivables	5.17	151 498	247 242	203 700
Income tax receivables		226	2 560	9 242
Cash and cash equivalents	5.18	15 706	50 836	55 263
Discontinued consolidation assets	5.11	200 402	-	-
Assets (group of assets) held for sale	5.15	10 000	10 000	10 000
TOTAL ASSETS		1 258 094	1 335 030	1 258 748
LIABILITIES AND EQUITY	Note	31.12.2012	31.12.2011	1.1.2011
Equity assigned to the shareholders of the parent company		536 531	549 574	522 020
Share capital	2.5	26 173	26 173	26 173
Supplementary capital	2.5	534 518	527 424	518 113
Translation difference on revaluation of foreign subsidiaries	2.5	26 459	44 193	24 769
Other capital	2.5	177	177	177
Own shares	2.5	(69)	-	-
Accumulated losses	2.5	(50 727)	(48 393)	(47 212)
Equity assigned to the non-controlling interest's shareholders	5.20.5	498	-	-
Total equity	2.5	537 029	549 574	522 020
Long-term liabilities		128 433	165 029	195 956
Bank credits and loans	5.21	56 025	84 392	149 283
Bonds issued	5.21	45 369	31 808	-
Financial leasing liabilities	5.25	9 487	15 727	27 232
Provisions	5.20	673	70	215
Other long-term liabilities	5.22	11 234	20 281	17 408
Deferred tax reserve	5.10	5 645	12 751	1 818
Short-term liabilities		592 632	620 427	540 772
Bank credits and loans	5.21	148 568	224 386	161 997
Bonds issued	5.21	3 163	82	-
Financial leasing liabilities	5.25	9 573	12 779	12 947
Trade liabilities and other liabilities	5.22	269 390	321 189	290 658
Income tax liabilities		3 663	3 358	703
Other financial liabilities		117	18	33
Provisions	5.20	10 176	14 218	30 439
Net assets attributable to owners with put option		-	41 497	41 188
Government subsidies		537	659	-
Discontinued consolidation liabilities	5.11	146 235	-	-
Liabilities directly related to assets held for sale	5.15	1 210	2 241	2 807
Total Liabilities		721 065	785 456	736 728
TOTAL LIABILITIES AND EQUITY		1 258 094	1 335 030	1 258 748

2.4 Consolidated Statement of Cash Flows

for the 12-month period ended 31 December 2012 (audited) and the 12-month period ended 31 December 2011 (audited and restated) in PLN thousand

Consolidated statement of cash flow	Note	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Cash flow on operating activity			
Profit before tax on continuing operations	2.1	35 558	31 241
Profit before tax on discontinued consolidation	5.11	4 000	6 238
Adjustments for the following items:			
Non-cash movements			
Depreciation	5.1	79 595	78 361
Net interest	5.5	19 601	17 684
Change in the balance of provisions	5.20	(3 438)	(16 366)
Impairment of fixed assets		1 577	-
Remeasurement of puttable non-controlling interest		1 430	(2 213)
Other		(636)	-
Other currency differences from translation		(7 722)	(11 920)
Cash movements			
Profit on investment activity		(749)	(1 566)
Paid income tax		(10 237)	1 550
Changes in working capital			
Change in the balance of receivables	5.33	23 385	(36 897)
Change in the balance of inventories	5.33	(3 306)	(1 347)
Change in the balance of liabilities	5.33	45 117	38 771
Change in the balance of state subsidies		(122)	659
Net cash flow on operating activity		184 053	104 195
Cash flow on investing activity			
Sale of intangible assets and fixed assets		2 457	3 598
Purchase of intangible assets and fixed assets	5.33	(32 198)	(53 339)
Purchase of short-term deposits with maturity over 3 months		(31 290)	-
Purchase of subsidiary, net		(6 258)	(9 757)
Interest received		1 040	2 097
Net cash flow on investing activity		(66 249)	(57 401)
Cash flow on financial activity			
Repayment of financial leasing liabilities		(16 320)	(20 309)
Proceeds from loans and bank credits received		36 434	56 364
Proceeds from bonds issue		16 697	31 890
Repayment of loans and bank credits		(125 086)	(78 780)
Dividends paid to the shareholders of the parent company	5.9	(23 294)	(16 227)
Dividends paid to non-controlling interest		-	(5 439)
Interest paid		(20 777)	(19 781)
Net cash flow on financing activity		(132 346)	(52 282)
Net increase in cash and cash equivalents		(14 542)	(5 488)
Cash at the beginning of the period		50 836	55 263
Exchange differences on translation of cash		(617)	1 061
Cash at the end of the period		35 677	50 836
Cash at the end of the period included in discontinued consolidation		19 970	-
Restricted cash		-	-

2.5 Consolidated statement of changes in equity

for the 12-month period ended 31 December 2012 (audited) and the 12-month period ended 31 December 2011 (audited and restated) in PLN thousand

Consolidated statement of changes in equity	Note	Assigned to the shareholders of the parent company							Equity assigned to the non-controlling interest's shareholders	Total equity
		Share capital	Supplementary capital	Translation difference on revaluation of foreign subsidiaries	Other capital	Own shares	Accumulated losses	Equity assigned to the shareholders of the parent company		
As at 1.1.2011		26 173	457 924	24 769	177	-	(37 446)	471 597	41 188	512 785
Correction of errors	4.5	-	60 189	-	-	-	(9 766)	50 423	(41 188)	9 235
As at 1.1.2011 after restatement		26 173	518 113	24 769	177	-	(47 212)	522 020	-	522 020
Net profit for the period		-	-	-	-	-	24 232	24 232	-	24 232
Other comprehensive income		-	-	19 424	-	-	-	19 424	-	19 424
Total comprehensive income	2.2	-	-	19 424	-	-	24 232	43 656	-	43 656
Dividends payment	5.9	-	-	-	-	-	(16 227)	(16 227)	-	(16 227)
Other (profit distribution)		-	9 311	-	-	-	(9 186)	125	-	125
As at 31.12.2011		26 173	527 424	44 193	177	-	(48 393)	549 574	-	549 574
As at 1.1.2012		26 173	467 235	44 193	177	-	(38 627)	499 151	41 497	540 648
Correction of errors	4.5	-	60 189	-	-	-	(9 766)	50 423	(41 497)	8 926
As at 1.1.2012 after restatement		26 173	527 424	44 193	177	-	(48 393)	549 574	-	549 574
Net profit/(loss) for the period		-	-	-	-	-	28 943	28 943	(5)	28 938
Other comprehensive loss		-	-	(17 734)	-	-	-	(17 734)	-	(17 734)
Total comprehensive income	2.2	-	-	(17 734)	-	-	28 943	11 209	(5)	11 204
Dividends payment	5.9	-	(680)	-	-	-	(22 614)	(23 294)	-	(23 294)
Own shares		-	-	-	-	(69)	-	(69)	-	(69)
Other (profit distribution)		-	7 774	-	-	-	(8 663)	(889)	503	(386)
As at 31.12.2012		26 173	534 518	26 459	177	(69)	(50 727)	536 531	498	537 029

Information about the holding company of KOFOLA Group (“the Group”, “KOFOLA S.A. Group”, “the Issuer”):

Name: KOFOLA Spółka Akcyjna („Company”, „Issuer”)

Registered office: presently ul. Wschodnia 5, 99-300 Kutno, until 24 October 2011 ul. Jana Olbrachta 94, 01-102 Warszawa.

Main areas of activity: the activities of head offices and holdings, excluding financial holdings (PKD 2007) 7010Z (the activities of holdings in accordance with PKD 2004). The classification of the Warsaw Stock Exchange places the Company in the food sector.

Registration organ: the Regional Court for Łódź-Śródmieście in Łódź, XX Business Division of the National Court Register, KRS 0000134518.

The Company has been formed for an unspecified time.

The Group’s consolidated financial statements cover the period of twelve months ended 31 December 2012 and include comparatives for the twelve-month period ended 31 December 2011.

MANAGEMENT BOARD

As at 31 December 2012, the Management Board of the holding company KOFOLA S.A. comprised:

- Mr. Janis Samaras – Chairman of the Management Board,
- Mr. Bartosz Marczuk – Member of the Management Board,
- Mr. Martin Mateáš – Member of the Management Board,
- Mr. Tomáš Jendřejek – Member of the Management Board,
- Mr. René Musila – Member of the Management Board.

No changes were made in the composition of the holding company’s KOFOLA S.A. Management Board prior to the publication of the present financial statements.

SUPERVISORY BOARD

As at 31 December 2012, the Supervisory Board comprised:

- Mr. René Sommer – Chairman,
- Mr. Jacek Woźniak – Vice- Chairman,
- Mr. Dariusz Prończuk,
- Mr. Pavel Jakubík,
- Mr. Martin Dokoupil,
- Mr. Anthony Brown.

No changes were made in the composition of the holding company’s KOFOLA S.A. Supervisory Board prior to the publication of the present financial statements.

AUDIT COMMITTEE

As at 31 December 2012, the Audit Committee comprised:

- Mr. René Sommer,
- Mr. Jacek Woźniak,
- Mr. Dariusz Prończuk,
- Mr. Pavel Jakubík,
- Mr. Anthony Brown.

No changes were made in the composition of the holding company’s Audit Committee prior to the publication of the present financial statements.



4. INFORMATION ABOUT THE METHODS USED TO PREPARE THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOFOLA S.A. GROUP

4.1 Information about the basis for preparation of the consolidated financial statements of the KOFOLA S.A. Group

The present consolidated financial statements (“consolidated financial statements”) have been prepared in accordance with the laws binding in the Republic of Poland and with International Financial Reporting Standards (“IFRS”), as well as the interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) adopted by the European Union, and therefore comply with Article 4 of the E.U. Directive on the application of international accounting standards. The consolidated financial statements have been prepared on a going concern basis and in accordance with the historical cost method, except for financial assets and liabilities measured at fair value, and the assets, liabilities and contingent liabilities of the acquiree, which were stated at fair value as at the date of the merger as required by IFRS 3.

The consolidated financial statement includes the consolidated statement of the financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash-flow statement and explanatory notes.

The consolidated financial statements are presented in Polish zlotys (“PLN”), and all values, unless stated otherwise, are listed in PLN thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires that management 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 as disclosed in Note 4.7.

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards and interpretations became effective for the Group from 1 January 2012:

“Disclosures – Transfers of Financial Assets” – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity’s balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 “Income taxes”, which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated financial statements.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED BY THE GROUP

Certain new standards and interpretations are effective as at 1 January 2013 or later, but the Group has not decided on their previous application.

IFRS 9 “Financial Instruments Part 1: Classification and Measurement”. IFRS 9, issued in November 2010, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. It was not yet endorsed by EU. The Group analyses the implications and impact of the standard on the Company, as well as the time of its adoption.

4. INFORMATION ABOUT THE METHODS USED TO PREPARE THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOFOLA S.A. GROUP

The following other new standards are not expected to have any material impact on the Group when adopted:

- IFRS 10 “Consolidated Financial Statements” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014) which replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation - special purpose entities”.
- IFRS 11 “Joint Arrangements”, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014), which replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Venturers”.
- IFRS 12 “Disclosure of Interests in Other Entities”, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014) which requires new disclosures by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.
- IFRS 13 “Fair Value Measurement”, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), which aims to improve disclosures and achieve consistency by providing a revised definition of fair value.
- IAS 27 “Separate Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014), which were changed by IFRS 10 “Consolidated Financial Statements” and IFRS 11 “Joint Arrangements”
- Amendments to IAS 1 “Presentation of Financial Statements” (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), which aim to improve the disclosure of items presented in other comprehensive income.
- Amended IAS 19 “Employee Benefits”(issued in June 2011, effective for periods beginning on or after 1 January 2013), which makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.
- “Disclosures - Offsetting Financial Assets and Financial Liabilities” - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014), which requires disclosures that will enable users to better evaluate the effect of netting arrangements, including rights of set-off.
- “Offsetting Financial Assets and Financial Liabilities”- Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013), which clarifies the meaning of “currently has a legally enforceable right of set-off”.
- Improvements to International Financial Reporting Standards (issued in May 2012), which consists of improvements to five standards. It was not yet endorsed by the EU.
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012), which clarify the transition guidance in IFRS 10 “Consolidated Financial Statements” and provide additional transition relief from reporting comparative information under IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”. It was not yet endorsed by the EU.
- Amendments to IFRS 1 “First-time adoption of International Financial Reporting Standards - Government Loans” (issued in March 2012 and effective for annual periods beginning 1 January 2013), which give first-time adopters of IFRSs relief from full retrospective application of accounting for certain government loans on transition.
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, which considers when and how to account for the benefits arising from the stripping activity in the mining industry.
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012), which introduced a definition of an investment entity which will be required to carry its investee subsidiaries at fair value through profit or loss. It was not yet endorsed by the EU.

4.2 Functional currency and presentation currency

The Polish zloty is the functional currency of the parent company and the presentation currency of the consolidated financial statements.

4.3 Translation of amounts expressed in foreign currencies

The methods used to recognise and value transactions expressed in foreign currencies have been specified in IAS 21 "The Effects of Changes in Foreign Exchange Rates". Transactions expressed in foreign currencies are translated by the companies comprising the Group into their functional currencies using the exchange rates as at the date of the transaction. Financial assets and liabilities expressed as at the balance sheet date in foreign currencies are translated using the average exchange rate announced by the National Bank of Poland for the end of the reporting period, and all foreign exchange gains or losses are recognised in the income statement under:

- operating income and expense – for trading operations,
- financial income and expense – for financial operations.

Non-financial assets and liabilities recognised at historical cost expressed in a foreign currency are listed at the historical rate as at the date of the transaction. Non-financial assets and liabilities recognised at fair value expressed in a foreign currency are translated at the exchange rate as at the date on which they were stated at fair value.

Foreign exchange differences on loans granted to subsidiaries which are eliminated by the consolidation are transferred as part of consolidation adjustments from the income statement to other capital as foreign exchange differences on currency translation.

The following rates were used in the statement of financial position:

Currency rates at the end of period	31.12.2012	31.12.2011	1.1.2011
PLN/CZK	0.1630	0.1711	0.1580
PLN/EUR	4.0882	4.4168	3.9603
PLN/RUB	0.1017	0.1061	0.0970
PLN/USD	3.0996	3.4174	2.9641

Average currency rates, calculated as arithmetical mean of currencies on last day of each month in period	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
PLN/CZK	0.1661	0.1682
PLN/EUR	4.1736	4.1401
PLN/RUB	0.1043	0.1008
PLN/USD	3.2312	2.9679

The financial statements of foreign entities are translated into PLN in the following manner:

- assets & liabilities for each balance sheet presented at the exchange rate announced by the National Bank of Poland for the balance sheet date, except equity that is translated using the historical rate.
- income & expenses for each income statement at the rate constituting the arithmetical mean of the average exchange rates announced by the National Bank of Poland for each day ending a reporting month. The resulting foreign exchange differences are recognised in other comprehensive income.
- corresponding cash-flow statement items (investment and financing activities) at the rate constituting the arithmetical mean of the average exchange rates announced by the National Bank of Poland for each day ending a reporting period. The resulting foreign exchange differences are recognised under the "Other currency differences from translation" item of the cash-flow statement.

4.4 Consolidation methods

4.4.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They 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 to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

4.4.2 Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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.

4.4.3 Disposal of subsidiaries

When the group ceases to have control, any retained interest in the entity is remeasured to its fair value as 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.

4.4.4 Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines as at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in the income statement.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

4.5 Corrections of errors and changes in presentation

RESTATEMENT OF COMPARATIVE INFORMATION – PRIOR-PERIOD ERRORS

Certain comparative information for the prior years has been restated for the purpose of correction of prior year errors that have been identified.

CHANGES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CORRECTION IN RECOGNITION OF DEFERRED TAX LIABILITY

In December 2007 Hoop S.A. (now Kofola S.A.) contributed in kind the entire business of Hoop Group in Poland to a newly established legal entity Hoop Polska Sp. z o.o. Within this transaction a deferred tax liability was recognised against "Other capital" in the consolidated financial statements what was not in line with IAS 12.10 as the proceeds from the sale of the shares in the subsidiary and the dividends received are both non-taxable and that is why no future tax liability exists.

In 2012 the Management Board of the Group decided to correct this error in calculation of deferred tax and reversed the deferred tax liability.

As a result the following restatements were made in the consolidated statement of financial position:

- Debit Deferred tax liability as at 31 December 2011 and 1 January 2011 in the amount of PLN 60 189 thousand.
- Credit Other capital as at 31 December 2011 and 1 January 2011 in the amount of PLN 60 189 thousand.

4. INFORMATION ABOUT THE METHODS USED TO PREPARE THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOFOLA S.A. GROUP

ADJUSTMENT IN DEFERRED TAX BALANCE OF HOOP POLSKA SP. Z O.O.

In 2012 management identified an inaccurate value of deferred tax asset recognised in the previous years. The deferred tax asset instead of a deferred tax liability was recognised from the difference between the tax value and accounting value of assets leased under finance lease. As a result the deferred tax asset was overstated by PLN 9 766 thousand as at 1 January 2011 and 31 December 2011. The consolidated statement of the financial position was adjusted for this matter as follows:

	31.12.2011		
	published financial statements	comparable data	change
Deferred tax assets	21 117	11 351	(9 766)
Accumulated losses	(38 627)	(48 393)	(9 766)

	1.1.2011		
	published financial statements	comparable data	change
Deferred tax assets	19 670	9 904	(9 766)
Accumulated losses	(37 446)	(47 212)	(9 766)

ADJUSTMENT OF NET ASSETS ATTRIBUTABLE TO OWNERS WITH PUT OPTION

In 2012 the Management Board noted that, based on the Articles of Association, the non-controlling interest in Megapack Group has a puttable option. As the puttable option exists from the date of establishment of the subsidiary, based on IAS 32 the respective financial liability should be recognised and remeasured as at each reporting date. Until 2012 this liability was not recognised. As a result of information mentioned above, the Financial statements include the following adjustments. The liability for the put option of a non-controlling interest as at 1 January 2011 and 31 December 2011 was recognised in the current liabilities as the Articles of Association required redemption within three months after request and non-controlling interests were debited by the same amount. The change of liability in 2011 is recognised as expense in the income statement. The consolidated statement of the financial position, consolidated income statement and consolidated statement of comprehensive income were adjusted for this matter as follows:

	31.12.2011		
	published financial statements	comparable data	change
Non-controlling interest	41 497	-	(41 497)
Net assets attributable to owners with put option	-	41 497	41 497

	1.1.2011		
	published financial statements	comparable data	change
Non-controlling interest	41 188	-	(41 188)
Net assets attributable to owners with put option	-	41 188	41 188

CORRECTION IN PROVISIONS FOR UNTAKEN HOLIDAYS AND STATE SUBSIDIES

In the comparative data, changes were introduced in relation to the provision for untaken holidays and state subsidies. Presently, the provision for untaken holidays is disclosed as liabilities (trade and other) and state subsidies are disclosed on a separate row of the consolidated statement of the financial position. In Management's opinion, this new approach will allow it to provide more reliable and useful information for readers of the financial statements.

	31.12.2011		
	published financial statements	comparable data	change
Trade liabilities and the other liabilities	313 576	321 189	7 613
Provisions	22 490	14 218	(8 272)
Government subsidies	-	659	659

4. INFORMATION ABOUT THE METHODS USED TO PREPARE THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOFOLA S.A. GROUP

TOTAL IMPACT IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Published financial statements 31.12.2011	Correction in recognition of deferred tax liability of KOFOLA S.A.	Adjustment in deferred tax balance of Hoop Polska Sp. z o.o.	Adjustment of net assets attributable to owners with put option	Correction in provisions of untaken holiday and state subsidies	Adjustment of other capital	Comparative data 31.12.2011
Fixed assets (long-term)	903 635	-	(9 766)	-	-	-	893 869
Deferred tax assets	21 117	-	(9 766)	-	-	-	11 351
Current assets (short-term)	441 161	-	-	-	-	-	441 161
TOTAL ASSETS	1 344 796	-	(9 766)	-	-	-	1 335 030
LIABILITIES AND EQUITY							
Equity assigned to shareholders of the parent company	499 151	60 189	(9 766)	-	-	-	549 574
Share capital	26 173	-	-	-	-	-	26 173
Reserve and other capital funds	-	60 189	-	-	-	467 235	527 424
Translation difference on revaluation of foreign subsidiaries	-	-	-	-	-	44 193	44 193
Other capital	511 605	-	-	-	-	(511 428)	177
Accumulated losses	(38 627)	-	(9 766)	-	-	-	(48 393)
Equity assigned to the non-controlling interests' shareholders	41 497	-	-	(41 497)	-	-	-
Total equity	540 648	60 189	(9 766)	(41 497)	-	-	549 574
Long-term liabilities	225 218	(60 189)	-	-	-	-	165 029
Deferred tax reserve	72 940	(60 189)	-	-	-	-	12 751
Short-term liabilities	578 930	-	-	41 497	-	-	620 427
Trade liabilities and other liabilities	313 576	-	-	-	7 613	-	321 189
Provisions	22 490	-	-	-	(8 272)	-	14 218
Net assets attributable to owners with put option	-	-	-	41 497	-	-	41 497
State subsidies	-	-	-	-	659	-	659
Total liabilities	804 148	(60 189)	-	41 497	-	-	785 456
TOTAL LIABILITIES AND EQUITY	1 344 796	-	(9 766)	-	-	-	1 335 030

ASSETS	Published financial statements 1.1.2011	Correction in recognition of deferred tax liability of KOFOLA S.A.	Adjustment in deferred tax balance of Hoop Polska Sp. z o.o.	Adjustment of net assets attributable to owners with put option	Adjustment of other capital	Comparative data 1.1.2011
Fixed assets (long-term)	863 203	-	(9 766)	-	-	853 437
Deferred tax assets	19 670	-	(9 766)	-	-	9 904
Current assets (short-term)	405 311	-	-	-	-	405 311
TOTAL ASSETS	1 268 514	-	(9 766)	-	-	1 258 748
LIABILITIES AND EQUITY						
Equity assigned to shareholders of the parent company	499 151	60 189	(9 766)	-	-	522 020
Share capital	26 173	-	-	-	-	26 173
Reserve and other capital funds	-	60 189	-	-	457 924	518 113
Translation difference on revaluation of foreign subsidiaries	-	-	-	-	24 769	24 769
Other capital	482 870	-	-	-	(482 693)	177
Accumulated losses	(37 446)	-	(9 766)	-	-	(47 212)
Equity assigned to the non-controlling interests' shareholders	41 188	-	-	(41 188)	-	-
Total equity	512 785	60 189	(9 766)	(41 188)	-	522 020
Long-term liabilities	256 145	(60 189)	-	-	-	195 956
Deferred tax reserve	62 007	(60 189)	-	-	-	1 818
Short-term liabilities	499 584	-	-	41 188	-	540 772
Trade liabilities and other liabilities	290 658	-	-	-	-	290 658
Provisions	30 439	-	-	-	-	30 439
Net assets attributable to owners with put option	-	-	-	41 188	-	41 188
Total liabilities	755 729	(60 189)	-	41 188	-	736 728
TOTAL LIABILITIES AND EQUITY	1 268 514	-	(9 766)	-	-	1 258 748

4. INFORMATION ABOUT THE METHODS USED TO PREPARE THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOFOLA S.A. GROUP

PRESENTATION CHANGES TO INCOME STATEMENT

PRESENTATION OF MEGAPACK GROUP AS DISCONTINUED CONSOLIDATION

Due to the fact that, at the end of December 2012, the shareholders' agreement giving KOFOLA S.A. the deciding vote in choosing the General Director of the Company OOO Megapack expired from 1 January 2013 KOFOLA S.A. and the Russian shareholders have had joint control over the company, and thus according to IAS 31 KOFOLA S.A. Group will be consolidating Megapack Group under the equity method.

Therefore Megapack Group data is presented only on one row as activities from the discontinued consolidation. This presentation is in line with IFRS 5.

ADJUSTMENT OF SEGMENTAL COSTS

The Management Board of the Group has decided to introduce changes to the presentation of segmental costs, effective from 1 January 2012.

In comparative periods a part of segmental costs was presented as Selling, marketing and distribution costs, and is currently presented as a position decreasing revenues from the sales of finished products and services. The segmental costs are: bonuses for customers and distributors, specific marketing costs (e.g. listing, opening expenses, leaflets), reconstruction costs, refrigerators, implementation costs, promotion charges, promotional commodities and products and commissions.

According to the Management of the Group the new approach will allow it to provide more reliable information about the net value of sales revenue for the users of the financial information.

ADJUSTMENT OF NON-CONTROLLING INTEREST

Details of the above-mentioned reclassification are described in the note on changes of presentation of the consolidated statement of the financial position.

TOTAL IMPACT IN THE CONSOLIDATED INCOME STATEMENT

Income statement (1.1.2011 – 31.12.2011)	Published financial statements	Adjustment of segmental costs	Correction of put option in ownership of other shareholder	Adjustment of the Megapack Group due to the discontinued consolidation	Comparative data
Continuing operations					
Revenue from the sale of finished products and services	1 320 851	(57 072)	-	(294 366)	969 412
Revenue from the sale of goods and materials	15 422	-	-	(730)	14 692
Sales revenues	1 336 273	(57 072)	-	(295 096)	984 105
Cost of products and services sold	(869 788)	-	-	252 525	(617 263)
Cost of goods and materials sold	(13 650)	-	-	366	(13 284)
Cost of sales	(883 438)	-	-	252 891	(630 547)
Gross profit (loss) on sales	452 835	(57 072)	-	(42 205)	353 558
Selling, marketing and distribution costs	(332 211)	57 072	-	23 002	(252 137)
Administrative costs	(69 478)	-	-	13 849	(55 629)
Other operating income	8 016	-	-	(189)	7 827
Other operating expenses	(5 121)	-	-	118	(5 003)
Operating result	54 041	-	-	(5 425)	48 616
Financial income	8 440	-	-	(1 452)	6 988
Financial expense	(24 891)	-	-	639	(24 252)
Share in profit received from subsidiaries and associates	(111)	-	-	-	(111)
Profit/(loss) before tax	37 479	-	-	(6 238)	29 028
Income tax	(11 034)	-	-	1 812	(9 222)
Net profit/(loss) on continuing operations	26 445	-	-	(4 426)	19 806
Discontinued consolidation					
Net profit (loss) on discontinued consolidation	-	-	(2 213)	4 426	2 213
Net profit/(loss) for the financial year	26 445	-	(2 213)	-	24 232
Assigned to:					
Shareholders of the parent company	24 232	-	-	-	22 019
- on continuing operations	24 232	-	-	-	22 019
- on discontinuing consolidation	-	-	2 213	-	2 213
Non-controlling interests shareholders on continuing operations	2 213	-	(2 213)	-	-
Earnings per share (in PLN)					
- basic earnings per share	0,9259	-	-	-	0,9259
- on continuing operations	0,9259	-	(0,0846)	-	0,8413
- on discontinuing consolidation	-	-	0,0846	-	0,0846
- diluted earnings per share	0,9256	-	-	-	0,9256
- on continuing operations	0,9256	-	(0,0845)	-	0,8411
- on discontinuing consolidation	-	-	0,0845	-	0,0845

4. INFORMATION ABOUT THE METHODS USED TO PREPARE THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOFOLA S.A. GROUP

RESTATEMENT OF CONSOLIDATED CASH-FLOW STATEMENT

In the consolidated financial statements for the comparative period, an adjustment between positions flow from operating activities "Change in provision" and "Change in liabilities" resulting from the different way of recognising the provision for untaken holidays described in the section above on the balance sheet.

In the comparative period currency exchange differences on translation of cash and cash equivalents were presented jointly with other cash flow from operating activity exchange rate recalculation differences, now they are presented separately.

	1.1.2011 - 31.12.2011		
	published financial statements	comparable data	change
Other currency differences from translation	(13 146)	(14 207)	1 061
Exchange differences on translation of cash	-	1 061	(1 061)

PRESENTATION OF THE THIRD COMPARATIVE PERIOD IN BALANCE SHEET

The third comparative period in the statement of the financial position as at 1 January 2011 is presented as a result of the above-described reclassifications and the restatement due to the prior-period error. This requirement to present the additional opening balance sheet, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification and state in the financial statements that the other notes have not been impacted by the restatement or reclassification. Due to the immaterial value, notes to the additional opening balance sheet were omitted.

4.5.1 Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation except for items initially measured at fair values acquired in business combination, less any impairment losses. The opening value of fixed assets consists of their acquisition price plus all costs directly associated with the asset's acquisition and adaptation for use. The costs also include the cost of replacing parts of machines and equipment as they are incurred, if the recognition criteria are met. Costs incurred after the asset is given over for use, such as maintenance and repairs, are charged to the income statement as they are incurred.

If circumstances occurred during the preparation of the financial statements indicating that the balance sheet value of tangible fixed assets may not be recoverable, the said assets are tested for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). If there are indications that impairment might have occurred, and the balance sheet value exceeds the estimated recoverable amount, then the value of those assets or cash generating units to which the assets belong is reduced to the value of the recoverable amount. The recoverable value corresponds to the higher of the following two values: the fair value less cost to sell, or the value in use. When determining value in use, the estimated future cash flows are discounted to the present value using a gross discount rate reflecting the current market assessments of the time value of money and the risk associated with the given asset component. If the asset component does not generate income sufficiently independently, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment write downs are recognised in the income statement under other operating costs.

A given tangible fixed asset may be removed from the balance sheet after it is sold or if no economic benefits are anticipated from its continued use. All profits and losses arising out of removing a given item from the balance sheet (calculated as the difference between the potential net income from the sale and the balance sheet value of a given item) are recognised in the income statement in the period in which the removal was performed.

Assets under construction consist of fixed assets that are being constructed or assembled, and are stated at acquisition price or cost of production. Fixed assets under construction are not depreciated until the construction is completed and the assets given over for use.

The balance sheet value, the useful life and the depreciation method of fixed assets are verified, and if need be – adjusted, at the end of each financial year.

4. INFORMATION ABOUT THE METHODS USED TO PREPARE THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOFOLA S.A. GROUP

DEPRECIATION

Tangible fixed assets, or their significant and separate components, are depreciated using the straight-line method throughout their economic useful lives. Land is not depreciated. The Group assumes the following economic useful lives for the following categories of fixed assets:

	Useful life
Buildings and constructions	20 - 40 years
Technical improvement on leased property	10 years
Plant and equipment	2 - 15 years
Vehicles	4 – 6 years

4.5.2 Borrowing costs

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

4.5.3 Leases and perpetual usufruct of land

Finance lease agreements that basically transfer to the Group all of the risks and rewards of owning the subject of the lease are recognised in the statement of financial position at the commencement of the lease at the lower of the following two values: the fair value of the fixed asset constituting the subject of the lease or the present value of minimum lease payments. Lease payments are allocated between financial costs and the lease liability so as to achieve a constant rate of interest on the outstanding balance. Financial costs are charged directly to the income statement.

Fixed assets used under finance leases are depreciated using the shorter of the two periods: the asset's estimated useful life or the lease term.

Lease agreements under which the lessor retains all of the risks and rewards of owning the subject of the lease are classified as operating leases. Operating lease payments are recognised as costs in the income statement on a straight-line basis over the term of the lease.

4.5.4 Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination.

Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Any impairment of goodwill cannot be subsequently reversed.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

4.5.5 Intangible fixed assets

Intangible fixed assets acquired in a separate transaction are initially stated at acquisition price or production costs. The acquisition price of intangible assets acquired in a business combination is equal to their fair value as at the date of the combination. After their initial recognition, intangible assets are stated at their historical price or production costs less accumulated amortisation and impairment write downs. Expenses incurred for intangible assets produced by the entity, except for capitalised costs of development, are not capitalised and are recognised in the income statement of the period in which they were incurred.

The Group determines whether the economic useful life of an intangible asset is definite or indefinite. A significant part of the Group's intangible assets constitute trademarks, for which the Group has selected for an indefinite useful life. Kofola S.A. Group companies are the owners of some of the leading trademarks in non-alcoholic beverages in Central Europe. As a result, these brands are generating positive cash flow and the Group owns the brands for the long term. Coming to the conclusion that these trademarks have indefinite useful lives, the Board took into account several factors and circumstances, such as size, diversification and market share of each brand, the brand's past performance, long-term development strategy, any laws or other local laws which may affect the life of the assets and other economic factors, including the impact of competition and market conditions. Group Management expects that it will acquire, hold and promote trademarks for an indefinite period through marketing and promotional support. The trademarks with indefinite useful lives are tested for impairment at least annually.

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there are impairment indicators. Period and method of amortisation of intangible assets with finite lives are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful life
Software licences	3 years
Computer software	3 – 6 years
Other licences	5 – 7 years

4.5.6 Recoverable amount of fixed assets

The Group evaluates its assets for impairment as at each balance sheet date. If there are indications of impairment, the Group performs a formal estimate of the recoverable amount. If the carrying value of a given asset or cash-generating unit exceeds its recoverable amount, it is considered impaired and written down to the value of the recoverable amount. The recoverable value corresponds to the higher of the following two values: the fair value less cost to sell, or the value in use of a given asset or cash generating unit.

4.5.7 Financial instruments

Financial assets is any agreement that gives rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.

The most significant asset components that are subject to the valuation methods applicable to financial instruments:

1. loan receivables,
2. derivative instruments (options, forward contracts, futures, swap contracts, embedded derivative instruments),
3. other financial assets (trade receivables, cash).

Short-term trade receivables are stated at amortised cost by applying the effective interest rate method, and reduced by impairment write downs, if any.

The most significant liability components that are subject to the valuation methods applicable to financial instruments:

1. loan payables,
2. credit payables,
3. derivative instruments (options, forward contracts, futures, swap contracts, embedded derivative instruments),
4. other financial liabilities.

Trade payables are stated at amortised cost by applying the effective interest rate method.

4. INFORMATION ABOUT THE METHODS USED TO PREPARE THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOFOLA S.A. GROUP

The Group's financial assets are classified to the following categories:

- financial assets stated at fair value through profit or loss,
- loans and receivables.

Financial liabilities are divided into:

- financial liabilities stated at fair value through profit or loss,
- financial liabilities stated at amortised cost – other liabilities.

Classification is based on the designation and nature of the asset. The Group classifies its assets at their initial recognition, with subsequent verifications performed as at each reporting date.

FINANCIAL ASSETS

Financial assets are initially recorded at fair value. Their initial valuation is increased by transaction costs, with the exception of financial assets stated at fair value through profit or loss. The transaction costs of a possible asset disposal are not considered in the subsequent valuation of financial assets. The asset is listed in the balance sheet when the Group becomes a party to the agreement (contract), out of which the financial asset arises.

FINANCIAL ASSETS STATED AT FAIR VALUE THROUGH PROFIT OR LOSS

This category includes two groups of assets: financial assets held for trading and financial assets initially recognised as stated at fair value through profit or loss. A financial asset is included in the held for sale category if it was acquired in order to be resold within a short time, if it constitutes a component of a portfolio that generates short-term profits, or if it is a derivative instrument with a positive fair value.

At the Group, this category includes primarily derivative instruments (in cases when the Group's companies do not apply hedge accounting), as well as debt and equity instruments acquired in order to be resold within a short time.

Assets classified as financial assets stated at fair value through profit or loss are stated as at each reporting date at fair value, and all gains or losses are charged to financial revenue or costs. Derivative financial instruments are stated at fair value as at the balance sheet date and as at the end of each reporting period based on valuations performed by the banks realising the transactions. Other financial assets stated at fair value through profit or loss are valued using stock exchange prices, and in their absence, using appropriate valuation techniques, such as: the use of the prices of recent transactions or listings, comparisons with similar instruments, option valuation models. The fair value of debt instruments consists primarily of future cash flows discounted at the current market interest rate applicable to similar instruments.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments, not listed on the active market. Depending on their maturity date, they are included in fixed assets (assets due in more than 1 year of the reporting day) or current assets (assets due within 1 year of the reporting day). Loans and receivables are stated as at the balance sheet date at amortised cost. Included in this group are primarily trade receivables and bank deposits and other cash funds, as well as loans and acquired, non-listed debt instruments not included in the other financial assets categories.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value. Their initial recognition includes transaction costs, except for financial liabilities classified as stated at fair value through the profit or loss. The transaction costs of disposing of a financial liability component are not considered in the subsequent valuation of financial liabilities. The component is listed in the balance sheet when the Group becomes a party to the agreement (contract), out of which the financial liability arises.

FINANCIAL LIABILITIES STATED AT FAIR VALUE THROUGH PROFIT OR LOSS

This category includes two groups of liabilities: financial liabilities held for sale and financial liabilities initially recognised as stated at fair value through profit or loss. Financial liabilities held for sale are liabilities that: have been taken out primarily to be sold or bought back within a short time, are a component of portfolio of specific financial instruments that are managed jointly, and for which it is possible to confirm the generation of short-term profits, or constitute derivative instruments.

The Group's financial liabilities stated at fair value through profit or loss include primarily derivative instruments with a negative fair value. Liabilities classified as financial liabilities stated at fair value are stated at fair value as at each reporting date, and all gains or losses are charged to financial revenue and costs. Derivative instruments are stated at fair value as at each balance sheet date as well as at the end of each reporting period based on valuations performed by the banks realising the transactions. The fair value of debt instruments consists of future cash flows discounted at the current market interest rate applicable to similar instruments.

FINANCIAL LIABILITIES STATED AT AMORTISED COST

Other financial liabilities, not classified as financial liabilities stated at fair value through profit or loss, are included in financial instruments stated at amortised cost. This category includes primarily trade payables, as well as credits and loans. The liabilities included in this category are stated at amortised cost by applying the effective interest rate.

4.5.8 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Inventory is stated at net amount (less revaluation write downs). Inventory write downs are performed in connection with impairment, to bring the value of inventory to the net realisable prices. Inventory write downs are recognised in the income statement under the "cost of goods sold" item. Whereas reversals of inventory, write downs are recorded as a decrease of the cost of goods sold. The value of a write down decreases the balance sheet value of the written down inventory.

4.5.9 Trade receivables and other receivables

Trade and other financial receivables are stated as at the balance sheet date at amortised cost (i.e. discounted using the effective interest rate) less impairment write downs. Short-term liabilities with a maturity of up to 360 days are recognised at nominal value.

In cases when the effect of the time value of money is significant, the value of a receivable is determined by discounting the forecast future cash flows to the present value, using a gross discounted rate that reflects the current market assessments of the time value of money. If a discounting method was used, the increase in the receivable relating to the passing of time is recorded as financial revenue.

Receivables that are not financial assets are initially recognised at nominal value and stated as at the balance sheet date at lower of carrying amount and their recoverable value.

Receivables are revalued in consideration of the likelihood of their repayment, by creating provisions for doubtful receivables. A provision for doubtful receivables is created when there is objective evidence that it will not be possible to collect all of the amounts due under the original contractual terms. The existence of such objective evidence is assessed on a continuous basis, after obtaining information of the existence of objective evidence that may determine impairment.

If there is objective evidence that the receivables recognised at amortised costs have been impaired, the impairment loss is determined as the difference between the balance sheet value of the asset and the present value of the future cash flows discounted based on the effective percentage rate. The likelihood of future cash flows is determined based on analysing historical data. The likelihood of losing the receivables determined as a result of estimates based on historical data may decrease if the Management has reliable documents indicating that the receivables have been secured and their collection is very likely.

Generally, provisions for doubtful receivables are created for 100% of the following receivables:

- from debtors placed in a state of liquidation or bankruptcy, up to the amount that has not been covered by a guarantee or otherwise secured,
- from debtors whose bankruptcy filing has been rejected, if the debtor's assets are insufficient to satisfy the costs of the bankruptcy proceeding at the full value of the claim,
- disputed by the debtors, as well as overdue up to the amount that has not been covered by a guarantee or otherwise secured, if an analysis of the debtor's financial position indicates that the repayment of the contractual amount in the nearest six months is not possible,
- constituting an equivalent of the amounts increasing the receivables with regard to which a provision had previously been created at the value of those amounts until they are received or written off,
- overdue or not overdue with a significant likelihood of non-collectability, at a reliably estimated amount of provision for doubtful receivables,
- late interest penalty,
- receivables that are overdue by more than 360 days as at the balance sheet date.

4.5.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, as well as liquid instruments that can be readily convertible to cash in known amounts and are subject to minor value changes.

The balance of cash and cash equivalents listed in the consolidated cash flow statement consists of cash at bank and in hand, as well as short-term deposits for period up to 3 months.

4.5.11 Assets (group of assets) held for sale

Fixed assets (or groups of assets) are classified as held-for-sale if their balance sheet value will be recovered through sales transactions rather than through continued use, on the condition that they are available for immediate sale in the current condition, subject to the terms customarily applied in the sale of such assets (or groups of assets), and their sale is very likely.

Immediately before an asset (or group of assets) is classified as held-for-sale, the asset is valued, i.e. its balance sheet value is determined in accordance with the applicable standards. Tangible and intangible assets are subject to depreciation/amortisation up to the date of their classification, and if there are indications of impairment, the asset is also tested for impairment and written down, in accordance with IAS 36 "Impairment of assets".

Fixed assets (or groups of assets) whose value was determined as above are subject to being reclassified to assets held for resale.

At their reclassification the assets are stated at the lower of the following two values: the balance sheet value or the fair value less cost to sell. The difference on valuation to fair value is recognised in other operating costs. At a later valuation, any reversal of fair value is recognised in other operating revenue. If an entity no longer meets the criteria for classifying an asset as held-for-sale, the asset is recognised under the balance sheet item from which it had been previously reclassified and stated at the lower of the following two amounts:

- the balance sheet value from the day preceding the asset's classification as held for sale, adjusted by depreciation or revaluation, which would have been recognised had the asset not been reclassified as held-for-sale, or
- at the recoverable amount from the day on which the decision to not sell the asset was made.

In the case of an agreed loss of control (even if there is no sale of share) the transaction is considered as deemed sale and accounted for as an asset held-for-sale based on IFRS 5.

4.5.12 Equity

Equity is recognised by type in accounting books and in accordance with binding legal regulations and the Company's Statute.

Share capital is listed at the amount disclosed in the Statute and in the National Court Register.

Declared but unpaid capital contributions are recorded as unpaid share capital. Treasury shares and unpaid share capital reduce the value of the Company's equity.

Share premium – this capital consists of the premium earned on the issue of shares, less the costs of the issue.

Other capital is supplementary capital, capital reserve fund from foreign exchange differences on translation of subsidiaries and the revaluation reserve. In the position of other capital also capital reserve fund is presented (Dividend Fund) for the payment of dividends. Balance of capital reserve fund from foreign exchange differences is adjusted for exchange differences arising from the conversion of financial statements of foreign subsidiaries. Other capital is not attributable for distribution.

Own shares acquired for cancellation, in accordance with the provisions of the Code of Commercial Companies, are recorded at cost as a negative amount as a separate component of equity.

Accumulated profits consist of: accumulated profit or uncovered loss from previous years (accumulated profit/loss from previous years), the financial result for the year.

Dividends are recognised as liabilities in the period in which they were approved.

NON-CONTROLLING INTEREST

Non-controlling interest is calculated as

- initially either at fair value or as its share on the acquired net asset; and
- subsequently increase/decrease by their share on profit, dividends paid to them and changes in ownership.

4.5.13 Net assets attributable to owners with a put option

When the non-controlling interest has a put option that provides them with the right to force the Group to purchase their respective interest, a financial liability (redemption liability) is recognised to reflect the put option.

A financial liability is recognised at the present value of the redemption amount and accreted through finance charges in the profit or loss over the contract period up to the final redemption amount. The initial redemption liability is debited against non-controlling interest equity. If the present value of the redemption amount exceeds the carrying value of non-controlling interest, any excess is recorded against the parent's equity.

4.5.14 Interest-bearing bank credits, loans and debt securities

At their initial recognition, all bank credits, loans and debt securities are recorded at their purchase price corresponding to the fair value of the received cash funds, less the costs of obtaining the credit or loan or emission of bonds.

After their initial recognition, interest bearing credits, loans and debt securities are stated at amortised cost by applying the effective interest rate method.

Amortised cost is determined by taking into account the costs of obtaining the credit or loan, as well as the discounts or bonuses received at the settlement of the liability.

4.5.15 Trade liabilities and other liabilities

Liabilities constitute a current obligation arising out of past events, the fulfilment of which is expected to result in an outflow of funds containing economic benefits.

Financial liabilities other than financial liabilities stated at fair value through profit or loss are valued as at the balance sheet date at amortised cost (i.e. discounted using the effective interest rate). Short-term liabilities due within 360 days are stated at amounts due.

Exchange rate differences resulting from the balance sheet valuation of liabilities from goods and services are recognised in cost of sales.

Liabilities not included in financial liabilities are stated at amounts due.

4.5.16 Provisions

Provisions are created when the Group has a present obligation (legal or constructive) arising out of past events, and when it is likely that the fulfilment of this obligation will result in an outflow of economic benefits, and that the amount of the obligation may be reliably estimated. If the Group expects that the costs covered by the provision will be refunded, for example based on an insurance policy, then the refund is recognised as a separate asset, but only if it is virtually certain that the refund will indeed occur. The costs relating to a given provision are disclosed in the income statement less any refunds. If the time value of money is material, the value of the provision is determined by discounting the forecasted future cash flows to their present values using a gross discount rate reflecting the current market assessments of the time value of money and any risk associated with the given liability. If a method was used consisting of discounting, then any subsequent provision increases due to unwinding of discount are recognised as financial costs.

4.5.17 Employee benefits

JUBILEE BONUSES AND RETIREMENT COMPENSATION

In accordance with remuneration regulations binding some of the Group's companies, their employees are entitled to retirement compensation benefits and jubilee bonuses.

The companies do not separate assets that could be used in the future to pay retirement compensation liabilities. The companies create provisions for future retirement compensation liabilities in order to allocate costs to the periods, to which they relate.

The value of the companies' future retirement compensation benefits and jubilee bonuses is calculated by an actuary using the accumulated future benefits method subject to the forecasted rise in the remuneration constituting the basis for the calculation of future benefits, assumed discount rate, the assumed likelihood of reaching a sufficiently long term of employment (the likelihood of becoming eligible for a jubilee bonus), the likelihood that the employee will reach retirement age (the likelihood of becoming

eligible for a one-off retirement payment), the likelihood of disability prior to reaching retirement age (the likelihood of becoming eligible for a one-off disability payment), on the condition of remaining employed by the current employer.

The provision is revalued once a year – at the end of each financial year. Up or down adjustments are charged to operating costs (employee benefits) based on a wage distribution list. The use of such provisions decreases the provision (it is not allowed to charge benefit payments to current operating costs and to make year-end provision adjustments). The release of the above provision adjusts (decreases) the costs of employee benefits.

TERMINATION BENEFITS

In the event of employment termination, the employees of the Group's companies are entitled to benefits in accordance with the labour regulations binding in Poland, such as unused annual leave equivalent and compensation for compliance with a non-compete agreement.

The provision for unused annual leave is revalued as at the last day of the financial year and as at the last day of each six-month period.

The provisions for other benefits related to termination of employment are created at the time of termination of employment.

OTHER EMPLOYEE BENEFITS

The costs of other employee benefits are recognised in the income statement of the year in which they were approved for payment, because the value of the benefit can only be reliably determined when it is approved for payment.

4.5.18 Revenue

Revenue is recognised at the amount of the economic benefits the Group is likely to obtain from a given transaction, and when the amount of revenue may be measured reliably. Revenue is recognised less value added tax (VAT), excise tax and rebates (discounts, bonuses and other "costs of bringing the product to the store shelf").

The amount of revenue is determined at the fair value of the payment received or receivable. Revenue is stated at discounted value when the effect of the time value of money is material (in case of payment after 360 days). If revenue is recognised at discounted value, the value of the discount is recognised proportionately to the amount of time passed as an increase in receivables, and on the other side as financial revenue.

Foreign exchange rate differences resulting from the realisation or the valuation of trade receivables are recognised in the income statement.

Revenue is also recognised in accordance with the criteria specified below.

4.5.18.1 Sale of goods and products

Revenue is recognised when the significant risks and rewards of the ownership of goods and products have been transferred to the buyer, and when the amount of revenue may be measured reliably.

4.5.18.2 Provision of services

Revenue from the provision of services is recognised after the service is rendered based on invoices issued by the end of the month in which the service was performed.

4.5.18.3 Interest

Interest income is recognised gradually using the effective interest method.

4.5.18.4 Dividends

Dividends are recognised once the shareholders' right to receive them is established.

4.5.19 Government subsidies

The Group recognises government subsidies and subsidies from funds of the European Union once there is virtual certainty that the subsidy will be granted and that all of the related required criteria will be complied with. Both of the above conditions must be met for a government subsidy to be recognised.

The Group may receive non-refundable government grants, mostly in the form of direct or indirect subsidies to investment projects. Subsidies reduce the value of assets and are recognised in the income statement.

When the grant relates to a cost item, it is recognised as income against the costs which the grant is intended to compensate.

4.5.20 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 as 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 regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; 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 determined using tax rates (and laws) that have been enacted or substantively 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the 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 assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

4.5.21 Discontinued operations

A discontinued operation is a significant component of the Group that either has been disposed of, or that is classified as held-for-sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being restated.

4.5.22 Net assets attributable to owners with a put option

When the non-controlling interest has a put option that provides them with the right to force the Group to purchase their respective interest, a financial liability (redemption liability) is recognised to reflect the put option.

A financial liability is recognised at the present value of the redemption amount and accreted through finance charges in the profit or loss over the contract period up to the final redemption amount. The initial redemption liability is debited against non-controlling interest equity. If the present value of the redemption amount exceeds the carrying value of non-controlling interest, any excess is recorded against the parent's equity.

4.5.23 Earnings per share

Basic earnings per share are calculated by dividing the 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.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has two categories of ordinary shares with dilutive potential: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Earnings per share are presented separately for continuing operations and discontinued consolidation.

4.6 Professional judgment

When a given transaction is not regulated in any standard or interpretation, the Management, based on its subjective judgment, develops and applies accounting policies that will ensure that the financial statements contain proper and reliable information, and that they:

- present truly and fairly the Company's financial position, financial result and cash flows,
- reflect the economic substance of transactions,
- are objective,
- are prepared in accordance with the prudence principle,
- are complete in all material respects.

As at 31 December 2012, the Management's professional judgment relates to provisions for claims and court cases, as well as to contingent liabilities. It is also used in assessing the risk associated with the repayment of overdue receivables – the Group verifies its provisions for doubtful debts as at each balance sheet date, taking into account the potential risk of significant delays in their repayment.

KOFOLA S.A. Group had the power to govern the financial and operating policies of the Megapack Group and therefore consolidated the financial results by the full method. According to the current Articles of Association of the Megapack group, the CEO is elected by the General Meeting of Shareholders, and in this case the deciding vote had KOFOLA S.A. by 31 December 2012. Due to the fact that at the shareholders' agreement giving KOFOLA S.A. the deciding vote in choosing the CEO of the Megapack Group expired (last possibility to utilise this right is on 31 December 2012), from 1 January 2013 KOFOLA S.A. and Russian shareholders have joint control over the company, and thus according to the IAS 31 KOFOLA S.A. will account for the Megapack Group using the equity method. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the KOFOLA S.A. share of the profit or loss of Megapack after the date related to loss of control. KOFOLA S.A. will continue to pursue ownership supervision over the activities of an associated company, with the right to appoint two of the four members of the Board of Directors of the Megapack group.

4.7 Uncertainty of estimates

Since some of the information contained in the financial statements cannot be measured precisely, to prepare the financial statements, the Group's Management must perform estimates. The Management verifies the estimates based on changes in the factors taken into account at their calculation, new information or past experiences. For this reason the estimates performed as at 31 December 2012 may be changed in the future. The main estimates pertain to the following matters:

Estimates	Type of information	Note
Impairment of goodwill and individual tangible and intangible assets	Key assumptions used to determine the recoverable amount: evidence for impairment, models, discount rates, growth rates.	5.14
Indefinite useful lives of brands	the history of the market, market position, service life of similar products, the stability of the market segment, competition.	4.5.5
Provisions for doubtful debts	Main assumptions used to determine the recoverable amount.	5.17
Income tax	Assumptions used to recognise deferred income tax assets.	5.10

4.8 New accounting policy

Since 1 January 2012 palettes for drinks distribution are presented as tangible fixed assets (formerly presented as inventories). The value of palettes reclassified from the opening balance of inventories to tangible fixed assets amounts to PLN 14 870 thousand. This change resulted from the new palettes' management service outsourced from external supplier resulting in less frequent use of own palettes. The new palettes' management service was introduced in 2012 in Hoop Polska Sp. z o.o. which maintains more than half of the Group's palettes. This new circumstance changed business model of usage of own palettes and has extended the useful life of palettes from less than one year to three years. This represents a new accounting policy for the new type of business transaction and not change in current accounting policy.

Income tax is not recognised on the basis of estimation of the effective tax rate, due to difficulty of calculating the effective tax rate. This tax is recognised on the basis of a detailed calculation of current and deferred income tax at the balance sheet date.

4.9 Approval of financial statements

The Board of Directors approved the present separate financial statements for publication 18 March 2013.



5.1 Operating segments

An operating segment is a component of an entity:

- A) which engages in business activities as a result of which it may earn revenue and incur costs (including revenue and costs associated with transactions with other components of the same entity),
- B) whose results are regularly reviewed by the chief operating decision maker in charge of making operating decisions at the entity, which uses those results to decide on the allocation of resources to the segment and to assess the segment's results, as well as
- C) for which separate financial information is available.

The Management Board has decided to introduce from 30 June 2012 changes in the presentation of segments from operating segments based on products to operating segments by country in order to better reflect how the business performance of the Group is managed and reviewed by the chief operating decision maker. The Management Board of KOFOLA S.A. is the chief operating decision maker responsible for operational decision-making and uses the results to decide on the allocation of resources to the segment and assess its segment performance.

The Group operates in the following segments managed by the chief operating decision maker:

- Poland
- Czech Republic
- Russia
- Slovakia
- Export

The Group applies the same accounting methods for all of the segments which are also in line with accounting method used in the preparation of these financial statements. Transactions between segments are eliminated in the consolidation process.

As part of presenting its segments, the Group identified two clients, who generated more than 10% of the segment's revenues. The Group's revenues from these clients in 2012 amounted in total to PLN 479 888 thousand and related to customer A (PLN 209 587 thousand) and customer B (PLN 270 301 thousand).

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOFOLA S.A. GROUP

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Total revenues and costs of all separate segments include non-recurring items and are consistent with the data presented in the income statement for the current and comparative period. Reporting segment results for the 12-month period ended 31 December 2012 and for the 12-month period ended 31 December 2011:

1.1.2012 - 31.12.2012	Poland	Czech Republic	Slovakia	Export	Eliminations (consolidation adjustments)	Subtotal	Russia **	Total
Revenue	478 933	371 848	273 696	4 369	(106 183)	1 022 663	318 229	1 340 892
Sales to external customers	459 306	339 598	219 390	4 369	-	1 022 663	318 229	1 340 892
Inter-segment sales	19 627	32 250	54 306	-	(106 183)	-	-	-
Adjusted operating expenses	(479 213)	(339 472)	(252 215)	(4 182)	108 488	(966 594)	(312 996)	(1 279 590)
Related to third party sales	(459 586)	(304 918)	(197 908)	(4 182)	-	(966 594)	(312 996)	(1 279 590)
Related to inter-segment sales	(19 627)	(34 554)	(54 307)	-	108 488	-	-	-
Adjusted operating result of the segment	(280)	32 376	21 481	187	2 305	56 069	5 233	61 302
One-off operating expenses	(1 670)	-	-	-	-	(1 670)	-	(1 670)
Operating result of the segment	(1 950)	32 375	21 482	187	2 305	54 399	5 233	59 632
Result on financial activity	(1 338)	(4 181)	(1 433)	-	(11 889)	(18 841)	(1 233)	(20 074)
within segment	(13 032)	(4 376)	(1 433)	-	-	(18 841)	(1 233)	(20 074)
between segments	11 694	195	-	-	(11 889)	-	-	-
Profit/(loss) before tax	(3 288)	28 194	20 049	187	(9 584)	35 558	4 000	39 558
Income tax	1 924	(5 038)	(5 779)	(3)	-	(8 896)	(3 154)	(12 050)
Remeasurement of puttable non-controlling interest	-	-	-	-	-	-	1 430	1 430
Net profit/(loss)	(1 364)	23 156	14 270	184	(9 584)	26 662	846	28 938
Assets and liabilities								
Segment assets	617 387	451 534	190 600	1	(201 830)	1 057 692	200 402	1 258 094
Total assets	617 387	451 534	190 600	1	(201 830)	1 057 692	200 402	1 258 094
Segment liabilities	264 179	421 173	115 659	1	(226 182)	574 830	146 235	721 065
Equity						482 862	54 167	537 029
Total liabilities and equity						1 057 692	200 402	1 258 094
Other information concerning segment								
Investment expenditure :								
Tangibles and intangibles	7 658	15 909	6 582	-	-	30 149	2 049	32 198
Depreciation and amortisation	29 160	29 201	16 507		(1 000)	73 868	5 727	79 595

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1.1.2011 - 31.12.2011 *	Poland	Czech Republic	Slovakia	Export	Eliminations (consolidation adjustments)	Subtotal	Russia **	Total
Revenue	480 594	369 847	237 429	6 079	(109 844)	984 105	295 096	1 279 201
Sales to external customers	458 530	329 075	190 421	6 079	-	984 105	295 096	1 279 201
Inter-segment sales	22 064	40 772	47 008	-	(109 844)	-	-	-
Adjusted operating expenses	(480 424)	(331 242)	(221 477)	(6 105)	107 102	(932 146)	(289 671)	(1 221 817)
Related to third party sales	(459 608)	(291 964)	(174 469)	(6 105)	-	(932 146)	(289 671)	(1 221 817)
Related to inter-segment sales	(20 816)	(39 278)	(47 008)	-	107 102	-	-	-
Adjusted operating result of the segment	170	38 605	15 952	(26)	(2 742)	51 959	5 425	57 384
One-off operating expenses	-	(3 025)	(318)	-	-	(3 343)	-	(3 343)
Operating result of the segment	170	35 580	15 634	(26)	(2 742)	48 616	5 425	54 041
Result on financial activity	23 169	(3 173)	(2 295)	1	(35 077)	(17 375)	813	(16 562)
within segment	(8 905)	(6 176)	(2 295)	1	(2 213)	(17 375)	813	(16 562)
between segments	32 074	3 003	-	-	(35 077)	-	-	-
Profit /(loss) before tax	23 339	32 407	13 339	(25)	(37 819)	31 241	6 238	37 479
Income tax	(4 745)	(1 552)	(2 925)	-	-	(9 222)	(1 812)	(11 034)
Remeasurement of puttable non-controlling interest	-	-	-	-	-	-	(2 213)	(2 213)
Net profit /(loss)	18 594	30 855	10 414	(25)	(37 819)	22 019	2 213	24 232
Assets and liabilities								
Segment assets	699 256	430 094	216 262	217	(192 401)	1 153 428	181 602	1 335 030
Total assets	699 256	430 094	216 262	217	(192 401)	1 153 428	181 602	1 335 030
Segment liabilities	276 375	447 831	139 693	17	(163 213)	700 703	84 753	785 456
Equity						452 725	96 849	549 474
Total liabilities and equity						1 153 428	181 602	1 335 030
Other information concerning segment								
Investment expenditure :								
Tangibles and intangibles	16 675	24 051	3 889	-	-	44 615	8 724	53 339
Depreciation and amortisation	25 276	27 275	15 777	-	-	68 328	10 033	78 361

* Data in segments for the comparative period have been set at the historic currency rate. They have not been recalculated in order to provide better comparability, as in Note 1.5, at using the current currency rate.

** Discontinuing consolidation (Megapack Group)

REVENUES PER TYPE OF PRODUCT

1.1.2012 - 31.12.2012	Carbonated beverages	Non-Carbonated beverages	Natural waters	Syrups	Low alcohol drinks	Other	Total
Revenue	617 822	96 340	204 865	153 710	241 888	26 267	1 340 892
Continuing operations	592 180	57 746	192 833	153 710	68	26 126	1 022 663
Discontinuing consolidation (Megapack group)	25 642	38 594	12 032	-	241 820	141	318 229

1.1.2011 - 31.12.2011	Carbonated beverages	Non-Carbonated beverages	Natural waters	Syrups	Low alcohol drinks	Other	Total
Revenue	572 175	107 645	204 432	128 581	228 155	38 213	1 279 201
Continuing operations	540 084	69 572	198 741	128 581	9 621	37 506	984 105
Discontinuing consolidation (Megapack group)	32 091	38 073	5 691	-	218 534	707	295 096

SEASONALITY AND PERIODICITY OF KOFOLA GROUP OPERATING BUSINESS

Seasonality

Seasonality is associated with periodic fluctuations in supply and demand and has certain influence on general trends in KOFOLA S.A. sales. Concentration of sales of drinks appears in the second and third quarter of the year. It is due to increase in consumption of drinks in the spring-summer season. In the year ended 31 December 2012, about 21% (2011: 21%) of revenues from the sales of products and services were achieved in the first quarter, and in second, third and fourth we achieved respectively 31% (2011: 31%), 25% (2011: 23%) and 23% (2011: 25%) of the annual consolidated revenue. Management expects similar seasonality in 2013.

Periodicity

The Group's results are dependent on economic cycles, in particular, fluctuations in demand and price volatility of raw materials, so-called "commodities".

5.2 Expenses by type (Continuing operations)

Expenses by type	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Depreciation of fixed assets and intangible assets	73 868	68 328
Costs of employee benefits and retirement benefit	133 238	140 240
Consumption of materials and energy	617 530	556 026
Services	138 978	143 681
Rental costs	9 844	15 500
Taxes and fees	8 654	6 874
Property and life insurance	2 397	2 715
Other costs, including:	4 687	3 462
– change in allowance to inventory	(5 659)	(726)
– change in allowance to receivables	6 788	2 472
– other operating costs	3 558	1 716
Total expenses by type	989 196	936 826
Change in the finished goods, work in progress	(16 247)	(6 046)
Depreciation recognised in segment costs	(6 165)	(5 751)
Reconciliation of expenses by type to expenses by function	966 784	925 029
Selling, marketing and distribution costs	241 709	252 137
Administrative costs	52 364	55 629
Costs of products and services sold	669 656	603 979
Costs of goods and materials sold	3 055	13 284
Total costs of product sold, merchandise and materials, sales costs and overhead costs	966 784	925 029

Costs of employee benefits and retirement benefits	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Cost of salary	104 435	108 990
Social security and other benefits costs	12 822	14 034
Costs of future benefits (provisions), retirement benefits, jubilee bonuses and other employee benefits	213	-
Retirement benefits expenses or retirement benefit of contribution plan expenses	15 768	17 216
Total costs of employee benefits and retirement benefits	133 238	140 240

5.3 Other operating income (Continuing operations)

Other operating income	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Net gain from the sale of non-financial assets	448	2 619
Release of tangible fixed assets' provision	93	-
Received subsidies	1 568	824
Write-off liabilities	11	-
Received penalties and damages	5 221	1 010
Value added tax return	-	3 374
Total other operating income	7 341	7 827

5.4 Other operating expenses (Continuing operations)

Other operating expenses	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Net loss from the sale of non-financial assets	306	758
Impairment of fixed assets	1 670	13
Loss from liquidation of tangible and intangible assets	-	264
Provided donations, sponsorship	620	584
Paid penalties and damages	717	1 858
Write-off of deferred costs	1 755	-
Other	698	1 526
Total other operating expenses	5 766	5 003

5.5 Financial income (Continuing operations)

Financial income	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Financial interest income from		
– bank deposits	753	312
– credits and loans granted	265	325
– receivables	22	35
Net financial income from realised FX differences	757	305
Release of provision	1 996	6 000
Other financial income	95	11
Total financial income	3 888	6 988

The verification of the twelve months of 2012 estimates, resulted in a partially released provision for losses from investments in distribution companies in the amount of PLN 1 996 thousand.

5.6 Financial expense (Continuing operations)

Financial expense	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Financial interest expense from		
– credit and financial lease	20 128	19 374
Net financial losses from realised FX differences	79	2 619
Bank costs and charges	2 478	2 259
Other financial expense	89	-
Total financial expense	22 774	24 252

5.7 Share in profit received from associates

The item includes the result of TSH Sulich Sp. z o.o. corresponding in the current period to KOFOLA S.A. Owing to the fact that KOFOLA S.A. holds 50 % of the company's share capital, TSH Sulich Sp. z o.o. is not consolidated by acquisition accounting.

5.8 Changes in allowances and impairments

Changes in reserves and provisions	Receivables	Inventories	Tangible assets	Intangible assets	Financial assets	Provisions
As at 1.1.2012	23 662	8 533	22 882	34 120	800	14 288
Currency differences from translation	(521)	(47)	30	-	-	(435)
Increase due to creation	9 223	2 703	1 656	-	-	10 484
Decrease due to release	(243)	(894)	(5)	-	-	(4 697)
Decrease due to usage	(2 191)	(1 204)	(93)	(196)	-	(8 790)
Transfer to other category*	-	(6 263)	-	-	-	-
Discontinued consolidation (Megapack Group)	(9 722)	-	-	-	-	-
As at 31.12.2012	20 208	2 828	24 470	33 924	800	10 850

* This item relates to pallets, the value of which has been transferred to non-current assets and impairment loss representing the equivalent of their existing use was presented as accumulated depreciation.

Provision specifications of group companies can be found in Note 5.20. Specific titles for impairment of receivables are provided in Note 5.17.

5.9 Dividends paid and declared

Declared dividends	1.1.2012 - 30.9.2012	1.1.2011 - 30.9.2011
Dividends declared in the given period	23 294	16 227
Dividends on common shares: paid out in the given period	23 294	16 227
Dividends declared or paid	23 294	16 227

In its Resolution No. 17, the Ordinary General Meeting of KOFOLA S.A. of 25 June 2012 designated the net profit generated by KOFOLA S.A. in the period from 1 January 2011 to 31 December 2011, amounting to PLN 22 614 thousand and dividend fund amounting to PLN 680 thousand for the payment of a dividend.

The shares of all series (A,B,C,D,E,F,G) were included in the dividend amounting to PLN 0,89 per share. The dividend date was set for 25 September 2012 and date of dividend payment for 6 December 2012. Per the above resolution, the dividend was paid out on 6 December 2012.

5.10 Income tax (Continuing operations)

Main income tax elements for the period of 12 months ended 31 December 2012 and for the period of 12 months ended 31 December 2011:

Income tax	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Income Statement		
Current income tax	9 326	2 709
Current Income tax charge	9 326	3 823
Adjustments of current income tax from previous years	-	(1 114)
Deferred income tax	(430)	6 513
Related with arising and reversing of temporary differences	(3 709)	7 826
Related with tax losses	3 279	(1 313)
Income tax charge recorded in consolidated income statement	8 896	9 222
Statement of changes in equity		
Current income tax	-	-
Tax effect of changes in share capital	-	-
Deferred income tax	500	-
Tax from fair value gains on available-for-sale financial assets	-	-
Tax from cash flow hedges	-	-
Other	500	-
Tax burdens shown in equity	500	-

The income tax rate applicable to the majority of the Group's 2012 and 2011 income is 19%. The income tax rate applicable to the majority of income of continuing subsidiaries is 19% (2011: 19%). Reconciliation between the expected and the actual taxation charge is provided above.

	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Accounting profit before income tax	35 558	31 241
Tax expense at the theoretical domestic tax rates in Poland	(6 756)	(5 936)
Tax effect of:		
Non-deductible expenses	(1 748)	(2 655)
Unrealised tax losses of Group companies	(394)	(635)
Non-taxable income	613	408
Current tax adjustments relating to prior periods	(229)	1 155
Deferred tax adjustments relating to prior periods	(1 623)	(2 598)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1 644)	-
Tax losses of Group companies	2 885	1 033
Other	-	6
Income tax presented in profit and loss	(8 896)	(9 222)
Effective tax rate (%)	25,02%	29,52%

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE KOFOLA S.A. GROUP

DEFERRED INCOME TAX

Deferred income tax arises out of the following items:

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX RESERVES	31.12.2012		
	Deferred tax assets	Deferred tax reserve	Net amount
Tangible and intangible fixed assets	-	37 372	(37 372)
Inventories	996	-	996
Receivables	2 263	6 282	(4 019)
Tax losses	17 648	-	17 648
Trade and other liabilities	8 653	-	8 653
Investment incentives	28 003	-	28 003
Other	-	10 611	(10 611)
Deferred income tax assets / deferred tax reserves	57 563	54 265	3 298
Presentation corrections	(48 620)	(48 620)	-
Long-term deferred income tax assets / deferred tax reserves	(855)	4 030	(4 885)
Short-term deferred income tax assets / deferred tax reserves	9 798	1 615	8 183

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX RESERVES	31.12.2011		
	Deferred tax assets	Deferred tax reserve	Net amount
Tangible and intangible fixed assets	-	38 653	(38 653)
Inventories	2 002	-	2 002
Receivables	3 535	6 265	(2 730)
Tax losses	8 072	-	8 072
Trade and other liabilities	11 170	-	11 170
Investment incentives	29 395	-	29 395
Other	-	10 656	(10 656)
Deferred income tax assets / deferred tax reserves	54 174	55 574	(1 400)
Presentation corrections	(23 291)	(23 291)	-
Long-term deferred income tax assets / deferred tax reserves	27 850	30 427	(2 577)
Short-term deferred income tax assets / deferred tax reserves	3 033	1 856	1 177

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX RESERVES	1.1.2011		
	Deferred tax assets	Deferred tax reserve	Net amount
Tangible and intangible fixed assets	-	30 588	(30 588)
Inventories	2 655	-	2 655
Receivables	2 526	5 051	(2 525)
Tax losses	7 690	-	7 690
Trade and other liabilities	10 882	-	10 862
Investment incentives	27 144	-	27 144
Other	-	7 152	(7 152)
Deferred income tax assets / deferred tax reserves	50 877	42 791	8 086
Presentation corrections	(40 973)	(40 973)	-
Long-term deferred income tax assets / deferred tax reserves	5 986	808	5 178
Short-term deferred income tax assets / deferred tax reserves	3 918	1 010	2 908

5.11 Discontinued consolidation (Megapack group)

Megapack Group, which is part of the Russia reportable segment, is presented as a discontinued consolidation following the loss of control as at 1 January 2013.

An analysis of the result of discontinued consolidation, and the result recognised on the remeasurement of assets or disposal group is as follows:

An analysis of the result of discontinued consolidation	2012	2011
Revenues	319 458	296 737
Expenses	(315 458)	(290 499)
Profit before tax of discontinued consolidation	4 000	6 238
Income tax relating to profit before tax of discontinued consolidation	(3 154)	(1 812)
Profit after tax of discontinued consolidation	846	4 426
Remeasurement of puttable non-controlling interest	1 430	(2 213)
Pre-tax gain/(loss) recognised on the remeasurement of net assets constituting the discontinued consolidation to the lower of carrying amount and fair value less costs to sell	-	-
Income tax effect of remeasurement	-	-
Profit/(loss) for the year from discontinued consolidation	2 276	2 213

An analysis of the balance sheet of discontinued consolidation is as follows:

Analysis of the statement of financial position of discontinued consolidation	31.12.2012
Fixed assets	64 068
Receivables	96 859
Inventories	19 505
Cash and cash equivalents	19 970
Total assets	200 402
Deferred tax liability	5 067
Trade and other liabilities	101 101
Liabilities due to non-controlling interests	40 067
Total liabilities	146 235

An analysis of the cash flows of discontinued consolidation is as follows:

Analysis of the cash flows from discontinued consolidation	2012	2011
Operating cash flows	64 093	(25 868)
Investing cash flows	(32 845)	(7 371)
Financing cash flows	(14 577)	1 587
Total cash flows	16 671	(31 652)

Losses on foreign exchange in the amount of PLN 3 706 thousand related to assets and liabilities from discontinued consolidation are included in other comprehensive income.

As at 1 January 2013, these losses will be transferred from the statement of comprehensive income to the income statement.

5.12 Earnings per share

The basic profit per share is calculated by dividing the net profit for the period attributable to the holding company's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The diluted profit per share is calculated by dividing the net profit for the period attributable to ordinary shareholders (after deducting the interest on redeemable preferred shares convertible to ordinary shares) by the weighted average number of ordinary shares outstanding during the period (adjusted by the effect of diluting options and diluting redeemable preferred shares convertible to ordinary shares).

Presented below is the data relating to the profits and shares used to calculate basic and diluted profit per share:

	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Net profit from the continuing operations assigned to the shareholders of parent company	26 667	22 019
Profit for the period from discontinued consolidation	2 276	2 213
Net profit assigned to the shareholders of the parent company	28 943	24 232

	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Weighted average number of issued common shares used to calculate the regular earnings per share ratio	26 172 602	26 172 602
Impact of dilution:		
Stock options	6 099	6 099
Own shares	(2 599)	-
Adjusted weighted average number of common shares used to calculate diluted earnings per share	26 176 102	26 178 701

No other transactions involving ordinary shares or potential ordinary shares took place in the period from the balance sheet date to the preparation of the financial statements.

Based on the above information, the basic and diluted learning per share is as follows:

Basic earnings per share (PLN/share)	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Net profit from the continuing operations assigned to the shareholders of parent company	26 667	22 019
Profit for the period from discontinued consolidation	2 276	2 213
Net profit assigned to the shareholders of the parent company	28 943	24 232
Weighted average number of issued common shares	26 172 602	26 172 602
Basic earnings per share from the continuing operations assigned to the shareholder of parent company	1,0189	0,8413
Basic earnings per share for the period from discontinued consolidation	0,0870	0,0846
Basic earnings per share assigned to the shareholder of parent company	1,1059	0,9259

Diluted earnings per share (PLN/share)	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Net profit from the continuing operations assigned to the shareholder of parent company	26 667	22 019
Net profit for the period from discontinued consolidation	2 276	2 213
Net profit attributable to the shareholders of parent company	28 943	24 232
Adjusted weighted average number of common shares used to calculate diluted earnings per share	26 176 102	26 178 701
Diluted earnings per share from continuing operations attributable to the shareholder of parent company	1,0188	0,8411
Diluted earnings per share for the period from discontinued consolidation	0,0869	0,0845
Diluted earnings per share attributable to the shareholder of parent company	1,1057	0,9256

5.13 Tangible fixed assets

In the reporting period of 12 months ended 31 December 2012 the companies of KOFOLA S.A. Group incurred PLN 30 529 thousand in expenses to increase the value of tangible fixed assets. The investment projects realised in this period pertain primarily to the entity Kofola a.s. (Czech republic) (line for bottling beverages in so-called technology hot filling, High Hydrostatic Pressure line for fresh fruit juices) and Hoop Polska Sp. z o.o. (modernization of water treatment plant), expenses in gastro segment in the Czech Republic and Slovakia with the fridges, taps for kegs, 20-liter kegs, heaters to Natelo and completion of investment in the bottling line for glass in OOO Megapack (Russia).

In 2012 Kofola a.s. (CZ) received a grant in the amount of PLN 653 thousand for the purchase of a pressure line for the production of fruit and vegetable juice. The amount of the grants received reduced the purchase price of the asset.

In 2011 Kofola a.s. (CZ) received a grant in the amount of PLN 7 664 thousand for the purchase of the line to the hot filling. The amount of the grants received reduced the purchase price of the asset.

1.1.2012 - 31.12.2012

TABLE OF CHANGES IN TANGIBLE FIXED ASSETS	Land	Buildings and constructions	Plant and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
a) gross book value at the beginning of the period	15 147	340 631	513 488	78 845	100 473	8 332	1 056 916
b) increases	241	9 502	31 927	4 946	29 312	(3 125)	72 804
- purchase of fixed assets	209	3 713	30 071	2 159	8 201	2 440	46 793
- transfer from investment	32	5 026	482	22	15	(5 577)	-
- reclassification of pallets to fixed assets (Note 4.5)	-	-	-	-	21 097	-	21 097
- tangible fixed assets acquired pursuant to a financial lease agreement	-	-	-	2 765	-	-	2 765
- acquisition of subsidiary (Note 5.28)	-	763	1 374	-	-	12	2 149
c) decreases	(3)	(5 180)	(92 205)	(13 079)	(9 612)	(29)	(120 108)
- sale	(3)	(430)	(24 957)	(4 688)	(2 299)	-	(32 377)
- liquidation	-	(646)	(9 542)	(4 042)	(6 973)	(29)	(21 232)
- reclassification to other categories	-	-	(74)	67	7	-	-
- other decreases	-	-	-	(1 667)	(54)	-	(1 721)
- discontinued consolidation (Megapack group)	-	(4 104)	(57 632)	(2 749)	(293)	-	(64 778)
FX diff. from translation	(516)	(10 833)	(19 664)	(3 589)	(5 410)	(195)	(40 207)
d) gross book value at the end of the period	14 869	334 120	433 546	67 123	114 764	4 983	969 405
e) accumulated depreciation at the beginning of the period	(939)	(46 269)	(309 597)	(60 874)	(65 233)	-	(482 912)
f) depreciation charge for the period	939	(5 616)	20 593	1 464	(13 026)	29	4 383
- annual depreciation charge	939	(10 045)	(43 013)	(9 883)	(14 051)	-	(76 053)
- sale	-	-	23 621	4 007	1 312	-	28 940
- liquidation	-	1 012	9 508	3 650	5 713	29	19 912
- reclassification to other categories	-	(43)	(55)	400	52	-	354
- reclassification of pallets to fixed assets (Note 4.5)	-	-	-	-	(6 263)	-	(6 263)
- acquisition of subsidiary	-	(88)	(988)	-	-	-	(1 076)
- other (increases)	-	-	-	1 273	-	-	1 273
- discontinued consolidation (Megapack group)	-	3 548	31 520	2 017	211	-	37 296
FX diff. from translation	-	1 658	12 577	2 901	3 809	(29)	20 916
g) accumulated depreciation at the end of the period	-	(50 227)	(276 427)	(56 509)	(74 450)	-	(457 613)
h) impairment charges at the beginning of the period	-	(22 542)	(355)	23	(8)	-	(22 882)
increase	-	-	(1 670)	-	(12)	-	(1 682)
- establishment of impairment charges in the income statement	-	-	(1 670)	-	(12)	-	(1 682)
decreases	-	-	95	-	-	-	95
- sale	-	-	93	-	-	-	93
- other	-	-	2	-	-	-	2
i) impairment charges at the end of the period	-	(22 542)	(1 930)	23	(21)	-	(24 470)
j) net book value at the beginning of the period	14 208	271 820	203 536	17 994	35 232	8 332	551 122
k) net book value at the end of the period	14 869	261 351	155 189	10 637	40 293	4 983	487 322
including:							
Tangible fixed assets							477 322
Assets held for sale							10 000

1.1.2011 - 31.12.2011

TABLE OF CHANGES IN TANGIBLE FIXED ASSETS	Land	Buildings and constructions	Plant and equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
a) gross book value at the beginning of the period	14 151	316 064	446 257	78 985	93 703	14 301	963 461
b) increases	476	11 870	40 050	8 376	6 532	(7 027)	60 277
- purchase of fixed assets	476	5 185	37 517	2 757	6 507	2 241	54 683
- transfer from investment	-	6 685	2 533	25	25	(9 268)	-
- transfer from financial lease	-	-	-	5 594	-	-	5 594
c) decreases	(205)	(2 773)	(12 180)	(19 391)	(7 549)	-	(42 098)
- sale	(205)	(1 923)	(8 432)	(4 721)	(2 980)	-	(18 261)
- liquidation	-	(850)	(3 774)	(4 170)	(4 516)	-	(13 310)
- other	-	-	26	(10 500)	(53)	-	(10 527)
FX diff. from translation	725	15 470	39 361	10 875	7 787	1 058	75 276
d) gross book value at the end of the period	15 147	340 631	513 488	78 845	100 473	8 332	1 056 916
e) accumulated depreciation at the beginning of the period	(878)	(36 244)	(244 446)	(48 167)	(59 140)	-	(388 875)
f) depreciation charge for the period	(61)	(7 806)	(38 995)	(6 935)	(677)	-	(54 474)
- annual depreciation charge	(61)	(8 167)	(45 850)	(13 069)	(8 134)	-	(75 281)
- sale	-	131	3 113	3 056	2 910	-	9 210
- liquidation	-	230	3 774	2 609	4 496	-	11 109
- reclassification to other categories	-	-	(32)	32	-	-	-
- other (increases)	-	-	-	437	51	-	488
FX diff. from translation	-	(2 219)	(26 156)	(5 772)	(5 416)	-	(39 563)
g) accumulated depreciation at the end of the period	(939)	(46 269)	(309 597)	(60 874)	(65 233)	-	(482 912)
h) impairment charges at the beginning of the period	-	(22 542)	(1 995)	23	-	-	(24 514)
increase	-	-	(5)	-	(8)	-	(13)
- establishment of impairment charges in the income statement	-	-	(5)	-	(8)	-	(13)
decreases	-	-	1 645	-	-	-	1 645
- sale	-	-	1 645	-	-	-	1 645
i) impairment charges at the end of the period	-	(22 542)	(355)	23	(8)	-	(22 882)
j) net book value at the beginning of the period	13 273	257 278	199 816	30 841	34 563	14 301	550 072
k) net book value at the end of the period	14 208	271 820	203 536	17 994	35 232	8 332	551 122
including:							
Tangible fixed assets							541 122
Assets held for sale							10 000

Net book value of finance lease assets in accordance with IFRS

At the beginning of the period	22 547
At the end of the period	18 379

5.14 Intangible fixed assets

1.1.2012 - 31.12.2012

TABLE OF CHANGES IN INTANGIBLE FIXED ASSETS	Goodwill	Patents, licenses	Computer software	Trademarks	Other fixed intangible assets	Total
a) gross book value at the beginning of the period	118 971	2 904	21 610	240 867	791	385 143
b) increases	-	751	1 411	2 814	(677)	4 299
- purchase of intangible assets	-	80	1 350	180	59	1 669
- transfer from investment	-	671	61	4	(736)	-
- acquisition of subsidiary (Note 5.28)	-	-	-	2 630	-	2 630
c) decreases	(13 864)	(1 109)	(511)	(20 709)	-	(36 193)
- sale	-	-	-	-	-	-
- liquidation	-	(1)	(500)	-	-	(1 533)
- discontinued consolidation (Megapack group)	(13 864)	(76)	(11)	(20 709)	-	(34 660)
FX diff. from translation	(1 854)	1	(1 080)	(6 633)	(18)	(9 584)
d) gross book value at the end of the period	103 253	2 547	21 430	216 339	96	343 665
e) accumulated depreciation at the beginning of the period	-	(1 771)	(11 411)	-	-	(13 182)
f) depreciation charge for the period	-	(656)	(2 132)	-	-	(2 788)
- annual depreciation charge	-	(957)	(2 586)	-	-	(3 543)
- liquidation	-	253	454	-	-	707
- discontinued consolidation (Megapack group)	-	48	-	-	-	48
FX diff. from translation	-	2	621	-	-	623
g) accumulated depreciation at the end of the period	-	(2 425)	(12 922)	-	-	(15 347)
h) impairment charges at the beginning of the period	-	29	-	(33 924)	(225)	(34 120)
increase	-	165	31	-	-	196
- reclassification between groups	-	165	31	-	-	196
- decrease	-	-	-	-	-	-
i) impairment charges at the end of the period	-	194	31	(33 924)	(225)	(33 924)
j) net book value at the beginning of the period	118 971	1 162	10 199	206 943	566	337 841
k) net book value at the end of the period	103 253	316	8 539	182 415	(129)	294 394
including:						
Goodwill						103 253
Intangible assets						191 141

The expected useful life of the software is from 2 to 4 years.

Goodwill arises from and consists of the merger of Kofola Group with Hoop Group, goodwill for the company Pinelli spol. s r.o. purchased in April 2011 and the value acquired by Kofola a.s. (Czech Republic) in 2006, part of the production of the company Klimo s r.o. Change in the value is due to the remeasurement of goodwill of Megapack Group (PLN 13 864 thousand) to the asset held for discontinued consolidation and due to the exchange rate differences on translation.

The value of trademarks consists, among others, of such trademarks as: Kofola, Vinea, Hoop Cola, Paola, Arctic, Citrocola, Semtex, Erektus and UGO.

Change in the value of trademarks to the comparable period results from the inclusion, in the reporting period, trademarks resulting from the acquisition of shares in the companies UGO Trade s.r.o. and UGO Juice s.r.o. (see Note 5.28) and from transfer of value of trademarks belonging to Megapack Group to assets held for discontinued consolidation.

In the reporting period of 12 months ended 31 December 2012 KOFOLA S.A. Group companies made expenditures to increase the value of intangible assets amounting to PLN 1 669 thousand. Investment projects realised in this period relate mainly to the company's software Kofola ČeskoSlovensko a.s.

1.1.2011 - 31.12.2011

TABLE OF CHANGES IN INTANGIBLE FIXED ASSETS	Goodwill	Patents, licenses	Computer software	Trademarks	Other fixed intangible assets	Total
a) gross book value at the beginning of the period	111 836	2 132	19 107	208 198	1 240	342 513
b) increases	5 003	655	1 698	23 691	355	31 402
- purchase of intangible assets(including advances)	-	655	1 595	6 892	458	9 600
- purchase of subsidiary (Note 5.28)	5 003	-	-	16 799	-	21 802
- transfer from development	-	-	103	-	(103)	-
c) decreases	-	(508)	(354)	-	(18)	(880)
- sale	-	(336)	-	-	-	(336)
- liquidation	-	(172)	(354)	-	(18)	(544)
FX diff. from translation	2 133	625	1 159	8 978	(786)	12 109
d) gross book value at the end of the period	118 972	2 904	21 610	240 867	791	385 144
e) accumulated depreciation at the beginning of the period	-	(1 315)	(8 373)	-	-	(9 688)
f) depreciation charge for the period	-	(63)	(2 365)	-	-	(2 428)
- annual depreciation charge	-	(361)	(2 719)	-	-	(3 080)
- liquidation	-	298	354	-	-	652
FX diff. from translation	-	(393)	(673)	-	-	(1 066)
g) accumulated depreciation at the end of the period	-	(1 771)	(11 411)	-	-	(13 182)
h) impairment charges at the beginning of the period	-	29	-	(33 924)	(225)	(34 120)
increase	-	-	-	-	-	-
- impairment write down	-	-	-	-	-	-
i) impairment charges at the end of the period	-	29	-	(33 924)	(225)	(34 120)
j) net book value at the beginning of the period	111 836	846	10 734	174 274	1 015	298 705
k) net book value at the end of the period	118 972	1 162	10 199	206 943	566	337 842
including:						
Goodwill						118 972
Intangible assets						218 870

In testing for impairment of trademarks and goodwill, Management of the Group has decided to use fair value less costs to sell. For the purpose of market valuation, the brand royalties' method was used. Due to the fact that the Management is not aware of comparable market transactions, the calculation of fair value less costs to sell is based on discounted free cash flow and used the estimated cash-flow projections based on financial plans approved by management of the Group on the basis of plans drawn up by the Management of the Group for the period until 2018 for trademarks and up to 2017 for goodwill. Cost of sales was adopted as 2% of the fair value of the cash generating unit.

Main assumptions used in financial plans and cash-flow projections:

THE MAIN TRADEMARKS

2012	Hoop Cola	Paola	Kofola	Vinea	Semtex
Country of trademark	Poland	Poland	Czech	Slovakia	Czech
Licence fee	3,25%	4,50%	6,00%	6,00%	6,00%
Infinite growth rate	2,00%	2,00%	2,00%	2,00%	2,00%
Discount rate (pre-tax)	9,80%	10,90%	6,70%	7,50%	7,90%

2011	HOOP Cola	Paola	Kofola	Vinea	Semtex
Country of trademark	Poland	Poland	Czech	Slovakia	Czech
Licence fee	4,50%	4,50%	6,00%	6,00%	8,00%
Infinite growth rate	2,00%	2,00%	2,00%	2,00%	2,10%
Discount rate (pre-tax)	11,80%	11,70%	10,60%	10,10%	12,50%

CARRYING VALUE OF TRADEMARKS PER COUNTRY

	Poland	Czech	Slovakia
2012	86 367	59 218	34 194
2011	86 367	62 160	36 942

GOODWILL

2012	Poland*	Czech**
Carrying value	89 183	14 067
EBITDA margin	9,30%	18,00%; 41,90%
Infinite growth rate	2,00%	2,00%
Discount rate (pre-tax)	9,00%	7,90%; 8,30%
FX rate of PLN/EUR***	3,70	3,70

* includes goodwill of Hoop Polska Sp. z o.o.

** includes goodwill arose at acquisition of Pinelli spol.s r.o.in 2011 and goodwill of Klimo s.r.o.

*** source Ministry of finance

2011	Poland*	Czech**
Carrying value	89 183	14 766
EBITDA margin	5,80%	17,10%, 19,20%
Infinite growth rate	2,00%	2,00%, 2,10%
Discount rate (pre-tax)	9,30%	15,50%, 10,50%
FX rate of PLN/EUR***	4,15	4,15

* includes goodwill of Hoop Polska Sp. z o.o.

** includes goodwill of Klimo s.r.o.

*** source Ministry of finance

Main assumption adopted by the Management is based on past experience and expectations as for the future market development. Interest rates adopted are in line with those used when preparing Group's results assumptions. Discount rate includes taxation and risk related to relevant operating segments as well as trademarks.

The Group's Management believes that the main assumptions used in impairment tests of cash generating units as at 31 December 2012 are rational and based on the Group's experience, development strategy and on market forecasts. The Group's forecasts of future financial results are based on series of assumptions, where those relating to macroeconomic factors and actions taken by the competition, such as foreign exchange rates, prices of raw materials, interest rates, are beyond the Group's control. Changes in these assumptions may affect the Group's financial position, including the results of fixed asset impairment tests, and in consequence, may change the Company's financial position and financial result in future years.

THE SENSITIVITY ANALYSIS TO CHANGES IN THE KEY ASSUMPTIONS CONTAINED IN THE FINANCIAL PLANS AND CASH-FLOW PROJECTIONS

Management believes that, in relation to fair value decreased by costs of sales for trademarks: Kofola, Vinea, Semtex, Paola and Cash generating units related to Klimo s.r.o. and Pinelli s.r.o., no rational change in the above-adopted assumptions would result in their recoverable value being lower than the carrying value.

HOOP POLSKA SP. Z O.O. GOODWILL

In the Poland (Hoop Polska Sp. z o.o.) geographical segment, the recoverable value of the cash generating unit calculated as fair value less cost of sale has exceeded the carrying value by PLN 94 175 thousand. The resulting surplus could hypothetically be consumed by the reduction of EBITDA margin by 1,5 p.p. or devaluation of the foreign exchange rate by 16% and also decrease in the growth rate to 0,1% or increase in the discount rate to 10,4%.

HOOP COLA

In case of Hoop Cola trademark, the recoverable value calculated as fair value less cost of sale has exceeded the carrying value by PLN 12 490 thousand. The resulting surplus could hypothetically be consumed by the reduction of EBITDA margin by 1,5 p.p., by devaluation of the foreign exchange rate by 0,1% or by increase in the discount rate to the level of 10,4%.

5.15 Assets (group of assets) held for sale

Assets (groups of assets) held for sale include the available for immediate sale fixed assets of the subsidiary Hoop Polska Sp. z o.o. with a balance sheet value of PLN 10 000 thousand (the plant in Tychy along with office building), and assets related to these liabilities in the amount of PLN 1 210 thousand presented in the position Liabilities directly associated with assets (asset groups) classified as held-for-sale and constitute total leasing obligations.

In accordance with IFRS 5, the Issuer classifies a fixed asset (or group of fixed assets) as held-for-sale, if its balance sheet value will be recovered primarily through a sale transaction rather than through continued use.

On 25 October 2012, the Company signed a preliminary agreement for the sale of the Tychy plant owned by the subsidiary Hoop Poland Sp. z o.o. and reported it as assets held for sale in these financial statements. However, the client withdrew from the contract due to changes in business plans of his main contractor, and his deposit paid has been charged in the consolidated income statement. Currently, negotiations with another potential buyer of the plant are being made. Management is making efforts to finalise the sale of the property in the coming months.

5.16 Inventory

Inventory	31.12.2012	31.12.2011
Inventories which were not provided for	99 528	128 767
Materials	64 957	89 541
Merchandise (goods for resale)	2 596	63
Production in progress (valued at manufacturing cost)	173	78
Finished products	31 802	39 085
Inventories which were provided for	2 835	10 289
Materials	1 044	7 699
Merchandise (goods for resale)	363	290
Production in progress (valued at manufacturing cost)	-	28
Finished products	1 428	2 272
Inventory provision	(2 828)	(8 533)
Net inventory	99 535	130 523

Information on created, released or used inventory write downs is presented in Note 5.8 of the notes to the consolidated financial statements.

5.17 Trade receivables and other receivables

Trade receivables and other receivables	31.12.2012	31.12.2011
Financial receivables		
Trade receivables	142 233	204 431
Other financial receivables	13 587	19 010
Allowance to receivables	(19 008)	(22 489)
Total financial assets within trade and other receivables	136 812	200 952
Non-financial receivables		
VAT recoverable	931	2 662
Other receivables	10 175	11 798
Prepayments	4 780	33 003
Allowance to receivables	(1 200)	(1 173)
Total trade and other receivables	151 498	247 242

The terms of transactions with related parties are presented in Note 5.27 of the notes to the financial statements. Trade receivables are not interest bearing and are usually payable within 30-60 days, unless they are the subject of factoring or discounting.

The risks associated with trade and other receivables, as well as the Group's policy relating to managing such risks, are described in Note 5.29 of the notes to the financial statements.

Information on created, released or used provisions for the impairment of receivables is presented in Note 5.8 of the notes to the consolidated financial statements. Information on liens established on receivables to secure credits and loans is presented in Note 5.21 of the notes to the consolidated financial statements.

Additional information to financial receivables	2012		2011	
	Trade receivables	Other financial assets	Trade receivables	Other financial assets
Opening balance	14 472	8 018	13 406	7 683
FX rate differences on revaluation	(466)	-	809	-
(Release) / creation of impairment during the year	10 475	8	2 668	335
Use of allowance for bad debts	(3 696)	(81)	(2 411)	-
Discontinuing consolidation (Megapack group)	(9 722)	-	-	-
Closing balance	11 063	7 945	14 472	8 018

5.18 Cash and cash equivalents

The balance of cash and cash equivalents listed in the consolidated balance sheet and cash-flow statement consisted of the following items as at:

Cash and cash equivalents	31.12.2012	31.12.2011
Cash in bank and in hand	15 690	25 718
Short-term deposits	-	25 100
including deposits with maturity dates of more than 3 months from the contracting date*	-	-
Other cash paid or due within three months from the date received, issued - REPO transaction, cheques, bills and other cash assets	16	18
Total cash and cash equivalents	15 706	50 836

* Short-term deposits that can be readily convertible to cash in known amounts and are subject to insignificant changes in value.

Free funds are held at bank and invested in the form of term and overnight deposits, primarily with variable interest rates.

Split by currency	31.12.2012	31.12.2011
in PLN	1 819	36 097
in EUR	2 893	1 795
in CZK	10 917	8 241
in USD	76	828
in RUB	1	3 875
Total cash and cash equivalents	15 706	50 836
Credit quality of cash and cash equivalents	31.12.2012	31.12.2011
A2	11 238	8 961
A3	693	258
Baa1	3 065	8 337
Ba2	-	25 100
Baa2	41	801
Baa3	1	-
Cash in hand	652	7 361
Total cash and cash equivalents	15 690	50 818

5.19 Share capital and other capital

5.19.1 Share capital

SHARE CAPITAL								
Series	Type of share	Type of preferred shares	Type of rights restriction to shares	Number of shares	Par value of one share	Way of covering the capital (cash/contribution in kind)	Date registered	Right to dividend (from the date)
A	ordinary	N/A	N/A	447 680	448	cash	03.10.1997	
B	ordinary	N/A	N/A	100 000	100	cash	22.01.1998/ 07.02.2007	03.10.1997
C	ordinary	N/A	N/A	71 080	71	cash	05.03.1998	22.01.1998
C	ordinary	N/A	N/A	11 776	12	cash	05.03.1998/ 07.02.2007	05.03.1998
D	ordinary	N/A	N/A	9 458 040	9 458	cash	21.01.2003	01.01.2003
E	ordinary	N/A	N/A	3 000 000	3 000	cash	01.09.2003	01.01.2003
F	ordinary	N/A	N/A	13 083 342	13 083	merger	30.05.2008	30.05.2008
G	ordinary	N/A	N/A	684	1	merger	31.03.2009	01.01.2009
Total				26 172 602				

SHARE CAPITAL STRUCTURE			
Name of entity	Number of shares	% in share capital	% in voting power
KSM Investment S.A.	13 395 373	51.18%	51.18%
CED GROUP S. a.r.l.	11 283 153	43.11%	43.11%
René Musila	687 709	2.63%	2.63%
Tomáš Jendřejek	687 660	2.63%	2.63%
Other	118 707	0.45%	0.45%
Total	26 172 602	100.00%	100.00%

NOMINAL VALUE OF SHARES

All of the issued shares have a nominal value of 1 PLN and have been fully paid up.

SHAREHOLDER RIGHTS

The shares of all series are ordinary shares equally privileged with regard to dividend and return on equity.

5.19.2 Supplementary capital

Supplementary capital is created based on statutory requirements (in accordance with binding legal regulations) or voluntarily (in accordance with the entity's by-laws) using funds from the distribution of profits, share premium and contributions made by the shareholders. It is used to cover losses, refund capital contributions, and redeem shares. The main source of the capital presented in this report is the settlement of the merger with Hoop Group.

In the Supplementary capital – capital fund (dividend fund) is presented in the amount of PLN 28 862 thousand designed for future dividend payments (Note 1.3).

5.19.3 Reserve on foreign exchange difference on revaluation of subsidiaries

The balance of the reserve on foreign exchange differences is adjusted by the foreign exchange differences arising out of the currency translation of the financial statements of foreign subsidiaries. This capital is not distributed.

5.19.4 Accumulated losses

Current profits, up to the amount specified in legal regulations, should be used to increase the reserve capital.

Accumulated losses	31.12.2012	31.12.2011
Accumulated losses from previous years	(79 670)	(72 625)
Net profit for the financial year	28 943	24 232
Total accumulated losses	(50 727)	(48 393)

5.19.5 Non-controlling interests

Non-controlling interests	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
At the beginning of the period	-	-
Acquisition of UGO Juice s.r.o. shares	503	-
Non-controlling interest participation in financial results of related parties	(5)	-
Currency differences from translation of foreign subsidiaries	-	-
At the end of the period	498	-

5.20 Provisions

Provisions	Benefits after the period of employment	Provisions for litigation, fines, court cases, damages	Provision for personal expenses (bonuses)	Other provisions	Total
As at 1.1.2012	124	12	6 218	7 934	14 288
Currency differences from translation	-	(24)	(267)	(144)	(435)
Increase due to creation	-	615	7 965	1 904	10 484
Decrease due to release	-	-	(500)	(4 197)	(4 697)
Decrease due to usage	-	-	(5 482)	(3 308)	(8 790)
As at 31.12.2012	124	603	7 934	2 189	10 850

Provisions time framework	31.12.2012	31.12.2011
Long-term	673	70
Short-term	10 176	14 218
Total provisions	10 850	14 288

5.21 Credits, loans and issued bonds

INDEBTNESS OF THE GROUP FROM THE CREDITS AND LOANS AND FROM EMITTED BONDS

As at 31 December 2012, the Group's total credit and loan debt amounts to PLN 204 593 thousand and decreased by PLN 104 185 thousand compared to the end of the year 2011.

As at 31 December 2012, KOFOLA S.A. has obligations from issued bonds in the total amount of PLN 48 532 thousand. Liabilities in the amount of PLN 45 369 thousand are disclosed as long-term liabilities, and the liabilities from interests and obligations from bonds maturing in December 2013 in the amount of PLN 3 163 thousand are presented in short-term liabilities.

EMMISSION OF OWN BONDS

According to resolution number 13/XI/2011 of KOFOLA S.A.'s Supervisory Board from 10 November 2011 regarding approval of Bond Issuance Program realisation with amendments by Supervisory Board resolution number 1/2012 from 20 February 2012 and KOFOLA S.A.'s Management resolution number 1/II/2012 from 1 February 2012 regarding issuance of bonds from series A³ KOFOLA S.A. as at 20 February 2012 issued 16 850 A³ bonds.

In accordance with the Terms of Bonds Issuance:

- bonds are bearer bonds,
- bonds are not secured,
- the nominal value of bonds is PLN 1 000 each,
- the issue price of bonds is equal to their nominal value,,
- maturity of bonds from series A³ is 34 months from the date of the resolution of the allocation and settlement,
- interest on the bonds shall be determined separately by the sum of the index and margin WIBOR 6M for each series,
- interest will be paid every six months where the first interest period begins on the date of issue,
- bond purchase proposal was addressed to no more than 99 recipients in the manner specified in Article 9, item 3 of the Act on Bonds,
- bonds do not have the form of a document,
- bonds give rights only to cash benefits
- according to Terms of Bonds Issue on the 30 March 2012, bonds have been admitted on the Catalyst market that is organised by the Stock Exchange in Warsaw or BondSpot S.A.
- after two interest periods the Issuer has granted option call bonds with the assumption that one-time buy-back will be at least 15% of the issued series under the Bond Issuance Program.

Issued bonds are valued using adjusted price method (amortised cost) until maturity.

In accordance with the Terms of Bond Issuance, KOFOLA S.A. is obliged to fulfil certain non-financial indicators (i.e. covenants) for the consolidated data. On 31 December 2012 levels of all required indicators have been achieved.

CREDIT CONTRACTS CONCLUDED BY HOOP POLSKA SP. Z O.O.

On 28 March 2012 an Agreement amending and consolidating Term Loan Agreement in the amount of PLN 57 000 thousand with due date on 22 March 2014 and Agreement amending and consolidating overdraft Agreement in the amount of PLN 57 000 thousand with due date on 28 March 2013 were signed by the subsidiary Hoop Polska Sp. z o.o. and Bank Consortium. The changes include the extension of the deadline of repayment of the overdraft until 28 March 2013 with the consequent extension of the guarantees of these loans by KOFOLA S.A. until 31 December 2016 and update of the financial conditions, which do not differ from market conditions applicable to such agreements. Security for both loan agreements remains unchanged.

CREDIT TERMS

Based on credit agreements, the companies of the Group are required to meet specified financial ratios (so-called covenants). Credit agreements ended in the current reporting period have been extended. In accordance with the requirements of IAS 1, a breach of credit terms that may potentially limit unconditional access to credits in the nearest year makes it necessary to classify such liabilities as short-term. As at 1 December 2012, there were no breaches of covenants from any contract.

As at the balance sheet date, the Group had the following own bonds, credits, loans and open credit lines:

5.21.1 Own bonds issued

31.12.2012

Own bonds issued	Credit currency	Bonds value on balance sheet day	Interest terms	Interest terms
Bonds issued A1	PLN	3 163	6M WIBOR + margin	12/2013
Bonds issued A2	PLN	45 369	6M WIBOR + margin	12/2014
Total own bonds issued		PLN 48 532 ths.		

5.21.2 Credit and loans

31.12.2012

Financing entity	Credit currency	Credit/ limit amount	Credit value on balance sheet day		Interests terms	Maturity date	Collaterals
			in currency	in PLN			
Oberbank Leasing spol. s r.o.	CZK	2 989	2 752	449	3M PRIBOR + margin	8/2016	Fixed assets
ČSOB a.s.	CZK	29 200	3 982	649	1M PRIBOR + margin	6/2013	Receivables, inventory, promissory note
Česká spořitelna a.s.	CZK	12 000	1 942	317	3M PRIBOR + margin	6/2014	Receivables, promissory note, real estate
Česká spořitelna a.s.	CZK	13 000	1 338	218	3M PRIBOR + margin	12/2013	Receivables, promissory note, real estate
Komerční banka a.s.	CZK	160 000	79 998	13 040	3M PRIBOR + margin	12/2016	Promissory note, real estate
Komerční banka a.s.	CZK	28 600	16 740	2 729	1M PRIBOR + margin	12/2016	Promissory note, real estate
RBS a.s.	CZK	120 000	110 314	17 981	3M PRIBOR + margin	12/2015	Receivables, promissory note
ČSOB a.s.	CZK	210 000	168 141	27 407	1M PRIBOR + margin	11/2013	Receivables, inventory, promissory note
ČSOB a.s.	CZK	10 000	-	-	1M PRIBOR + margin	11/2013	Receivables, inventory, promissory note
Komerční banka a.s.	CZK	200 000	195 000	31 785	1M PRIBOR + margin	12/2013	Promissory note, real estate
Komerční banka a.s.	CZK	40 000	22 955	3 742	1M PRIBOR + margin	12/2013	Promissory note, real estate
Česká spořitelna a.s.	CZK	100 000	36 977	6 027	3M PRIBOR + margin	5/2013	Receivables, promissory note
Česká spořitelna a.s.	CZK	40 000	39 923	6 507	3M PRIBOR + margin	5/2013	Receivables, promissory note
Česká spořitelna a.s.	CZK	140 000	80 457	13 114	1M PRIBOR + margin	6/2016	Technology
Česká spořitelna a.s.	CZK	37 000	28 294	4 612	1M PRIBOR + margin	4/2017	Promissory note, real estate
Oberbank Leasing spol. s r.o.	CZK	3 451	2 902	473	1M PRIBOR + margin	4/2016	Asset security- KEG
Oberbank Leasing spol. s r.o.	CZK	3 541	3 047	497	1M PRIBOR + margin	5/2016	Asset security- KEG
Komerční banka, a. s.	CZK	20 000	20 000	3 260	1M PRIBOR + margin	1/2013	Promissory note "in blanco"
CITIBANK	CZK	85	85	14	margin	1/2013	Promissory note
Raiffeisenbank a.s.	CZK	1 314	1 314	213	margin	1/2013	Promissory note
Raiffeisenbank a.s.	CZK	240	240	39	margin	1/2013	Promissory note

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Financing entity	Credit currency	Credit/ limit amount	Credit value on balance sheet day		Interests terms	Maturity date	Collaterals
			in currency	in PLN			
Raiffeisenbank a.s.	CZK	993	993	162	margin	5/2014	Promissory note
Unicredit Bank a.s.	EUR	5 500	291	1 190	1M EURIBOR + margin	2/2013	Receivables, real estate, movables (subject of credit), guarantee by Kofola ČeskoSlovensko, a.s. debt accession Kofola ČeskoSlovensko, a.s. - KSM Investment S.A.
VÚB banka a.s.	EUR	4 000	105	429	1M EURIBOR + margin	2/2013	Promissory note "in blanco" Kofola a.s. nr 301/2007/D , receivables
Unicredit Bank a.s.	EUR	4 715	215	879	1M EURIBOR + margin	12/2014	Receivables, real estate, movables (subject of credit), guarantee by Kofola ČeskoSlovensko, a.s., debt accession Kofola ČeskoSlovensko, a.s. - KSM Investment S.A.
ČSOB a.s.	EUR	620	127	519	1M EURIBOR + margin	3/2014	Receivables, real estate, movables, inventory, guarantee by Kofola ČeskoSlovensko, a.s.
VÚB banka a.s.	EUR	3 600	627	2 565	1M EURIBOR + margin	3/2014	Agreement establishing a right to current assets No. 1566/2007/ZZ, promissory note No. 2645/2007/D; promissory note "in blanco" Kofola a.s.
VÚB banka a.s.	EUR	807	9	37	1M EURIBOR + margin	4/2013	Agreement establishing a right to current assets No. 1566/2007/ZZ, promissory note No. 2645/2007/D; promissory note "in blanco" Kofola a.s.
VÚB banka a.s.	EUR	996	30	123	1M EURIBOR + margin	3/2014	Agreement establishing a right to current assets No. 1566/2007/ZZ, promissory note No. 2645/2007/D; promissory note "in blanco" Kofola a.s.
VÚB banka a.s.	EUR	9 960	5 582	22 820	1M EURIBOR + margin	12/2017	Agreement establishing a right to fixed assets; promissory note "in blanco" Kofola a.s., guarantor Kofola ČeskoSlovensko a.s.
VÚB banka a.s.	EUR	2 150	444	1 815	1M EURIBOR + margin	6/2015	Promissory note "in blanco", Agreement establishing a right to fixed assets No. 78/ZZ/2012 from 25 April 2012
VÚB banka a.s.	EUR	4 150	3 458	14 137	1M EURIBOR + margin	6/2015	Promissory note "in blanco", Agreement establishing a right to fixed assets No. 78/ZZ/2012 from 25 April 2012
Bank Zachodni WBK S.A.	PLN	19 000	19 000	19 000	3M WIBOR + margin	3/2014	Mortgage on properties in Bielsk Podlaski, Grodzisk Wielkopolski, Kutno. Lien on items and rights. Assignment of receivables from selected sale contracts. Assignment of rights from all insurance policies. Lien and power of attorney to all bank accounts. Voluntary submission to collection. Guarantee by Kofola S.A.
Bank Zachodni WBK S.A.	PLN	27 000	5 852	5 852	1M WIBOR + margin	3/2013	Mortgage on properties in Bielsk Podlaski, Grodzisk Wielkopolski, Kutno. Lien on items and rights. Assignment of receivables from selected sale contracts. Assignment of rights from all insurance policies. Lien and power of attorney to all bank accounts. Voluntary submission to collection. Guarantee by Kofola S.A.
Kredyt Bank S.A.	PLN	20 000	786	786	1M WIBOR + margin	3/2013	Mortgage on properties in Bielsk Podlaski, Grodzisk Wielkopolski, Kutno. Lien on items and rights. Assignment of receivables from selected sale contracts. Assignment of rights from all insurance policies. Lien and power of attorney to all bank accounts. Voluntary submission to collection. Guarantee by Kofola S.A.
Bank Pekao S.A.	PLN	10 000	1 206	1 206	1M WIBOR + margin	3/2013	Mortgage on properties in Bielsk Podlaski, Grodzisk Wielkopolski, Kutno. Lien on items and rights. Assignment of receivables from selected sale contracts. Assignment of rights from all insurance policies. Lien and power of attorney to all bank accounts. Voluntary submission to collection. Guarantee by Kofola S.A.
ING Commercial Finance Polska S.A.	PLN	15 000	-	-	-	-	Non-recourse factoring
Total credits and loans			PLN 204 593		ths.		

SECURITY PROVIDED BY THE GROUP

Security established by the Group companies - fair value	31.12.2012		31.12.2011	
	Purchase price	Net book value	Purchase price	Net book value
- Tangible fixed assets	456 068	309 761	464 530	322 607
- Intangible assets (brands)	154 520	120 596	157 267	123 343
- Inventory	63 487	63 487	56 086	56 086
- Receivables	74 512	74 512	76 377	76 377
Total	748 587	568 356	754 260	578 413

5.22 Trade liabilities and other liabilities

Trade liabilities and other liabilities	31.12.2012	31.12.2011
Financial liabilities		
Trade liabilities	170 077	225 822
Liabilities for purchased property, plant and equipment	6 002	5 696
Accrued liabilities and other creditors	33 521	27 097
Total financial liabilities within trade and other liabilities	209 600	258 615
Non-financial liabilities		
VAT	6 032	5 863
Deferred revenues	1 461	659
Advance received	29 901	29 351
Accrued employee benefit costs	14 205	17 061
Other	8 191	9 641
Total trade liabilities and other liabilities	269 390	321 190

Trade payables are not interest bearing and are usually paid within 30-90 days.

Other payables are not interest bearing and payable on average within 1 month.

Accruals relate to performed but not yet invoiced supplies of materials and services.

Other long-term liabilities	31.12.2012	31.12.2011
other financial liabilities	11 234	20 281
other non-financial liabilities	-	-
accruals for income	-	-
Total other long-term liabilities	11 234	20 281

Other long-term liabilities consist primarily of liabilities relating to purchases of fixed assets with deferred payment terms.

5.23 Government subsidies

In the reporting period, a subsidiary Hoop Polska Sp. z o.o. received a grant from the European Training Fund in the amount of PLN 1 568 thousand. This grant is presented in other operating income and relates to the staff training expenses.

5.24 Contingent assets and liabilities

5.24.1 Liabilities concerning operational leasing - Group as a lessee

As at 31 December 2012, the future minimum payments arising out of non-revocable operating lease agreements are as follows:

Liabilities concerning operational leasing - Group as a lessee	31.12.2012	31.12.2011
In one year period	1 176	11 182
In period from one to five years	1 911	38 184
Over five years	-	-
Total	3 087	49 366

5.24.2 Receivables concerning operational leasing - Group as a lesser

Receivables concerning operational leasing - Group as a lesser	31.12.2012	31.12.2011
In one year period	324	21
In period from one to five years	351	-
Over five years	-	-
Total	675	21

5.25 Finance lease

KOFOLA S.A. Group uses tangible fixed assets (mainly vehicles and various types of machines and equipment) based on finance lease agreements.

As at 31 December 2012, the balance sheet value of leased tangible assets with purchase option was PLN 10 340 thousand.

Future minimum lease payments on these agreements and present value of minimum net lease payments:

	31.12.2012	31.12.2011
Nominal value of minimum lease payment		
In one year period	11 961	16 204
In period from one to five years	10 522	16 967
Over five years	-	-
Total finance lease liabilities - total minimum lease payments	22 483	33 171
Finance costs of finance lease	2 212	2 424
Current value of minimum lease payments		
In one year period	10 784	15 020
In period from one to five years	9 487	15 727
Over five years	-	-
Total present value of minimum lease payments	20 271	30 747

5.26 Court litigations

FRUCTO-MAJ SP. Z O.O.

KOFOLA S.A. has receivables in the bankrupt company Fructo-Maj Sp. z o.o. As at 31 December 2012, the total value of the receivables is PLN 7 455 thousand, the balance sheet value of this item, after valuation allowance, is PLN 39 thousand.

The assets of Fructo-Maj Sp. z o.o. are currently being sold. The Management believes that, given the current state of affairs and type of collateral, no revaluation is needed with regard to the assets associated with Fructo-Maj Sp. z o.o.

POMORSKIE CENTRUM DYSTRYBUCJI HOOP SP. Z O.O.

The subsidiary Pomorskie Centrum Dystrybucji Hoop Sp. z o.o., after fulfilling the stipulations according to concluded arrangement and selling its assets the company, does not conduct operating activities.

According to Resolution number 1 from 28 February 2012, the Extraordinary Shareholders Meeting of Pomorskie Centrum Dystrybucji HOOP Sp. z o.o. increased the company's share capital by PLN 1 000 thousand through the creation of 2 000 new shares with a nominal value of PLN 500 each, which were acquired by KOFOLA S.A. at the issue value of PLN 5 500 for each share, thus the total issuance amount of PLN 11 000 thousand.

On 5 March 2012, a tripartite agreement on the transfer was concluded, under which the obligations of PCD Hoop Sp. z o.o. to the Hoop Polska Sp. z o.o have been repaid to the amount of PLN 11 000 thousand and under which KOFOLA S.A. performed has given a cash contribution to cover the newly created shares in the increased capital of PCD Hoop Sp. z o.o. in the amount of PLN 11 000 thousand and undertook to pay the amount of transfer to Hoop Polska Sp. z o.o. no later than 28 February 2017, in accordance with the timetable included in the agreement from 7 March 2012 regarding the obligation repayment.

The above-described steps leading to the restructuring of PCD Hoop Sp. z o.o. constitute execution of commitments adopted by KOFOLA S.A. in the course of the arrangement of the company PCD Hoop Sp. z o.o. arising from the decision of 22 November 2010 by the Regional Court in Koszalin, VII Business Division for Bankruptcy and Recovery Cases, ref. Act VII GUp 13/10 for approval of the arrangements of the PCD Hoop Sp. z o.o.

The share capital increase of PCD Hoop Sp. z o.o. was registered by the court as at 3 April 2012.

5.27 Information on transactions with related parties

The ultimate controlling entity of KOFOLA S.A. Group is KSM Investment.

Presented below are the total amounts from transactions concluded in a given financial year with related parties:

Revenues from the sale to related companies	1.1.2012 - 31.12.2012	
	revenues from the sale of products and services	revenues from the sale of merchandise and materials
- associated entities (TSH Sulich)	128	-
Total revenues from the sale to related companies	128	-

Purchase to related companies	1.1.2012 - 31.12.2012	
	Purchase of services	Purchase of goods and materials
- associated entities (TSH Sulich)	7 954	2
Total purchase to related parties	7 954	2

Receivables from related companies	31.12.2012	31.12.2011
- associated entities (TSH Sulich)	116	18
- shareholder (KSM Investment)	4 386	4 070
Total receivables from related companies	4 502	4 088

Liabilities towards related companies	31.12.2012	31.12.2011
- associated entities (TSH Sulich)	490	661
- shareholder (KSM Investment)	5 190	5 447
Total liabilities towards related companies	5 680	6 108

All transactions with related parties have been concluded on market terms.

REMUNERATION OF THE GROUP'S SENIOR MANAGEMENT STAFF

Presented below is the structure of the remuneration paid out to members of the Management Board of the holding company and to members of the Management Boards of the subsidiary companies:

The remuneration of the Group's senior executives	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Short-term employee benefits (salaries and surcharges)	9 120	8 764
Pension costs or the costs of pension schemes	230	322
Total remuneration of the Group's senior executives	9 350	9 086

The remuneration paid to members of the Management Board and Supervisory Board of the parent company and the members of the Management and Supervisory Boards of subsidiaries was as follows:

	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Management Board	9 350	9 086
Supervisory Board	106	108
Total	9 456	9 194

Remuneration of the Members of the Management Board and the Supervisory Board of the parent company for the period from 1 January 2012 to 31 December 2012 were as follows:

- The total remuneration of the members of the Management Board: PLN 5 632 thousand.
- The total remuneration of the members of the Supervisory Board: PLN 70 thousand.

5.28 Acquisition of subsidiary

5.28.1 UGO Group

On 1 December 2012 Kofola ČeskoSlovensko a.s. acquired 75 % of shares in UGO Juice s.r.o. that owns 100% shares of UGO Trade s.r.o., owner of network of bars offering fresh juices (production and sale takes place in the points located in shopping malls) and ice-cream made from fruit juice.

In these consolidated financial statements the transaction has been accounted for (acquisition method). The purchase price for the purpose of final accounting of the transaction has been stated according to IFRS 3 based on the price in the purchase agreement of shares including cash value over the time. The allocation of the purchase price is temporary. Final settlement will be submitted by 31 November 2013.

The following table presents a comparison of values of the main assets and liabilities according to the books of UGO Juice s.r.o. and UGO Trade s.r.o (consolidated data) as at the date of taking control. The fair values are stated for the purpose of acquisition accounting:

	Book value (consolidated)	Fair value (consolidated)
Fixed assets	1 052	1 052
Trademarks	-	2 580
Inventory	80	80
Receivables	368	368
Cash and cash equivalents	468	468
Total assets	1 968	4 548
Liabilities and provisions	2 436	2 436
Net assets	(468)	2 112
Price		2 112
Goodwill		-

If the acquisition took place at the beginning of 2012, the consolidated net profit assigned to shareholders of the parent company for the twelve-month period ended 31 December 2012 would be lower by PLN 178 thousand, and the revenue for this period would be higher by PLN 3 525 thousand.

5.28.2 PINELLI company

On 22 April 2011 Kofola a.s. (Czech Republic) has acquired 100% share in the company Pinelli spol. s r.o. which is the manufacturer of Semtex energy drinks and Erektus and Green Tea ice tea.

The data is comparable to the consolidated financial statements included the effects of the settlement of the transaction (the acquisition method) and determine the value of the company that the excess of purchase price over the fair value of the identifiable assets, liabilities and contingent liabilities. The purchase price for the final settlement was established in accordance with IFRS 3, based on the price set out in the share purchase agreement taking into account the time value of money. Due to the fact that since the acquisition of control on 22 April 2011 to 30 April 2011, there were no significant operations, which could materially affect the valuation of the acquired company for the purpose of determining the value of the data taken on 30 April 2011.

The following table presents a comparison of the main assets and liabilities arising from the books of the company Pinelli s.r.o. as at the date of taking control of the fair values determined for the purpose of settlement of the acquisition:

	Book value (consolidated)	Fair value (consolidated)
Fixed assets	1 157	1 874
Intangible assets	4 893	16 799
Inventory	1 846	2 034
Receivables	6 615	6 615
Cash and cash equivalents	3 132	3 132
Total assets	17 679	30 490
Liabilities and provisions	3 443	6 885
Net assets	14 263	23 605
Price		28 608
Goodwill		5 003

If the acquisition had occurred at the beginning of 2011, the consolidated net profit attributable to shareholders of the parent company for the twelve months ended 31 December 2011 would have been higher by PLN 481 thousand, and sales for the period would be higher by PLN 4 436 thousand.

5.29 Objectives and methods of financial risk management

The Group's primary financial instruments consist of bank credits, bonds, lease payables, cash and cash equivalents, deposits and loans. The main goal of such financial instruments is to obtain funds for business operations, or to invest the Company's available funds. In addition, the Group has other financial instruments, such as trade receivables and payables that arise as part of its operations. The accounting methods relating to those instruments have been described above (note 4.5).

It is the Group's principle – now and throughout the reporting period – to not trade in financial instruments.

The Group's activities are exposed to several types of financial risk: market risk (including foreign exchange risk, pricing risk and cash-flow risk relating to changes in interest rates), credit risk and liquidity risk. In addition, the Group monitors the market prices risk relating to all of its financial instruments. Risk is managed by the Company's Management, which recognises and assesses the above financial risks. The general risk management process is focused on the unpredictability of financial markets, and the Group tries to minimise any potential adverse effects on its financial results. The Group uses derivative financial instruments to hedge against certain types of risk, providing that the hedging instruments are considered to be cost effective. As at 31 December 2012, we had no options or forward contracts, in either dollars or euros. The Management verifies and agrees the risk management methods with regard to every type of risk. A short description of these methods is presented below.

5.29.1 Interest rate risk

Interest rate risk is a risk that the fair value or future cash flows from a financial instrument will change due to changes in interest rates. The interest bearing financial liabilities of the Group are mainly bank credits and bonds. The Group has interest-bearing financial liabilities consisting mainly of bank credits. The Group has credit payables with variable interest rates, which gives rise to a risk of an increase in those rates compared to the rates applied at contract conclusion. In addition, the Group places its free funds on variable interest rate deposits, which will bring the profits down if the interest rates fall. The Group also uses fixed interest rate instruments, with regard to which interest rate movements have no effect on interest costs or the interest receivable. Trade and other receivables and payables are not interest bearing and have due dates of up to a year.

The Group monitors its exposure to interest rate risk and interest rate forecasts.

As at 31 December 2012, if interest rates at that date had been 100 basis points lower (2011: 100 basis points lower) with all other variables held constant, profit for the year would have been PLN 3 367 thousand (2011: PLN 3 389 thousand) higher, mainly as a result of lower interest expense on variable interest for financial liabilities. If interest rates had been 100 basis points higher (2011: 100 basis points higher), with all other variables held constant, profit would have been PLN 3 367 thousand (2011: PLN 3 389 thousand) lower, mainly as a result of higher interest expense on variable interest financial liabilities.

5.29.2 Currency risk

The Group is exposed to the risk of changes in foreign exchange rates due to a volume of sales of finished products almost entirely in Polish zlotys and the fact that more than half of the costs of purchased raw materials are incurred in foreign currencies (mainly Euros). The currency risk relates primarily to the EUR and USD exchange rates in relation to PLN and CZK. The Group's exposure associated with other, below listed currencies, is immaterial.

The effect of currency risk on the Group's position is presented in the note (sensitivity analysis) below. The sensitivity analysis is based on a reasonable change in the assumed foreign exchange rate while the other assumptions remain unchanged. In practice this is not very likely, and changes in certain assumptions may be correlated, e.g. a change in interest rate and in the foreign exchange rate. The Group manages currency risk as a whole. The sensitivity analysis prepared by the Management for currency risk illustrates the effect of changes in the exchange rate of the euro, dollar and Czech crown to the Polish zloty, on the fair value or future cash flows of a given financial instrument.

Currency risk impact on profit or loss	31.12.2012	31.12.2011
CZK strengthening by 3% (2011: strengthening by 3%)	(1 440)	(1 339)
CZK weakening by 3% (2011: weakening by 3%)	1 440	1 339
EUR strengthening by 3% (2011: strengthening by 3%)	(1 846)	(1 445)
EUR weakening by 3% (2011: weakening by 3%)	1 846	1 445
USD strengthening by 10% (2011: strengthening by 3%)	(2)	19
USD weakening by 10% (2011: weakening by 3%)	2	(19)

5.29.3 Credit risk

The Group is exposed to credit risk, defined as a risk that its debtors will not meet their obligations and thus cause the Group to incur losses. With regard to the Group's other financial assets, such as cash and cash equivalents, credit risk arises as a result of the other party's inability to pay, and the maximum value of the Group's exposure to this risk is equal to the balance sheet value of these instruments.

Presented below is the ageing structure of receivables:

Credit risk	31.12.2012		31.12.2011	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Neither past due nor impaired				
Large retails chains	78 168	-	88 266	38
Medium sized companies	3 674	-	49 940	5 927
Small companies	10 016	5 507	4 096	3 567
Total neither past due nor impaired	91 858	5 507	142 302	9 532
Past due but not impaired				
- less than 30 days overdue	20 650	68	21 865	31
- 30 to 90 days overdue	5 038	-	6 405	-
- 91 to 180 days overdue	7 217	4	10 861	-
- 181 to 360 days overdue	281	-	550	-
- over 360 days overdue	580	-	621	-
Total past due but not impaired	33 766	72	40 302	31
Past due and individually impaired				
- less than 30 days overdue	45	-	5 479	-
- 30 to 90 days overdue	4 883	-	200	-
- 91 to 180 days overdue	364	-	74	-
- 181 to 360 days overdue	3 220	29	2 785	-
- over 360 days overdue	8 096	7 979	13 289	9 447
Total individually impaired (gross)	16 608	8 008	21 827	9 447
Less impairment provision (-)	(11 063)	(7 945)	(14 472)	(8 018)
Total	131 169	5 642	189 959	10 992

Subject to the above, the Company's Management believes that the credit risk has been accounted for in the financial statements through the creation of appropriate provisions.

The credit risk associated with bank deposits, derivative instruments and other investments is considered to be immaterial, as the Group has concluded transactions with institutions that have a sound financial position.

The Group undertakes activities aimed at limiting credit risk, consisting of: checking the creditworthiness of its customers, setting credit limits, insuring selected receivables and monitoring the customers' financial position.

5.29.4 Liquidity risks

The Group is exposed to liquidity risk, defined as a risk of losing the ability to pay its obligations as they become due. The risk arises from a potential restriction in access to financial markets or from a change in the attitude of the banks in the area of granting credits which may result in an inability to obtain new financing or refinancing of debts. In order to reduce this risk and in order to diversify the financing sources, the Issuer in December 2011 and February 2012 carried out the issuing of 3 series of bonds under Program of Bond Issue that raised the amount of PLN 49 000 thousand.

The Group monitors the risk of insufficient funds by adjusting the structure of financing to prediction of future cash flows (planned investment included), diversifying of sources of financing and by keeping sufficient level of available credit lines.

It is the Group's objective to maintain a balance between financing continuity and flexibility, by using various financing sources, such as credits, bonds, loans and finance lease agreements. The Group tries to control its financial liabilities so that in each given period the amount of liabilities due within the next 12 months does not pose a threat for the Group's ability to meet its financial obligations. The Group's Management believes that the value of cash and cash equivalents as at the balance sheet date, the available credit lines and the Group's financial position are such that the risk of losing liquidity may be assessed as moderate.

Analysis of financial liabilities within time periods is presented below. The amounts represent undiscounted cash flows, which represent the Group's maximum exposure to liquidity risk.

Ageing of financial liabilities:

31.12.2012		Liabilities due in the period:			
Aged structure of liabilities	Total liabilities	up to 90 days	from 91 to 360 days	above 360 (see note below)	
Trade liabilities	170 077	159 534	10 532	11	
Credits and loans	204 593	35 448	113 120	56 025	
Interests	24 108	538	13 343	10 227	
Bonds issued	48 532	-	3 163	45 369	
Financial leasing liabilities	20 270	2 879	7 905	9 486	
Accruals and other financial liabilities	50 757	39 218	305	11 234	
Total	518 337	237 617	148 368	132 352	

Liabilities due more than 360 days	1-2 years	2-3 years	3-4 | years	4-5 years	above 5 years	Total
Trade liabilities	9	2	-	-	-	11
Credits and loans	24 843	16 490	9 767	4 917	8	56 025
Interests	8 790	875	414	148	-	10 227
Bonds issued	45 369	-	-	-	-	45 369
Financial leasing liabilities	6 017	2 466	810	193	-	9 486
Accruals and other financial liabilities	4 825	1 219	-	-	5 190	11 234
Total	89 853	21 052	10 991	5 258	5 198	132 352

31.12.2011		Liabilities due in the period:			
Aged structure of liabilities	Total liabilities	up to 90 days	from 91 to 360 days	above 360 (see note below)	
Trade liabilities	225 822	200 949	24 841	32	
Credits and loans	308 778	90 746	133 640	84 392	
Interests	25 270	653	13 359	11 258	
Bonds issued	31 890	-	82	31 808	
Financial leasing liabilities	30 747	3 777	11 243	15 727	
Accruals and other financial liabilities	53 074	24 103	8 690	20 281	
Total	675 581	320 228	191 855	163 498	

Liabilities due more than 360 days	1-2 years	2-3 years	3-4 years	4-5 years	above 5 years	Total
Trade liabilities	32	-	-	-	-	32
Credits and loans	31 401	23 458	14 039	10 184	5 310	84 392
Interests	6 052	3 959	700	403	144	11 258
Bonds issued	3 042	28 766	-	-	-	31 808
Financial leasing liabilities	9 776	3 704	1 631	616	-	15 727
Accruals and other financial liabilities	11 630	1 964	1 240	-	5 447	20 281
Total	61 933	61 851	17 610	11 203	10 901	163 498

5.30 Equity management

The Group manages equity by having a balanced financial policy with the objective of supplying the necessary funds to grow the business and, at the same time, secure an appropriate financing structure and financial liquidity.

In accordance with market practice, the Group monitors its equity based on, among others, the equity ratio and the net debt/adjusted EBITDA ratio.

The equity ratio is calculated as the ratio of net assets to the total assets and liabilities. The net debt/adjusted EBITDA ratio is calculated as the ratio of credits, loans and other sources of financing to adjusted EBITDA. Credits, loans, bonds and other sources of financing constitute the total value of liabilities arising out of credits, loans, bonds and leases, less cash and cash equivalents, while adjusted EBITDA is operating profit plus depreciation adjusted by all one-off events (all nonrecurring or exceptional costs not arising out of ordinary operations, such as impairment write downs, costs of relocation and group layoffs).

Key financial indicators	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Sales revenues from continuing operations	1 022 663	984 105
Capital employed	665 461	714 603
Net debt from continuing operations	257 689	310 286
Operating profit from continuing operations	54 399	48 616
Plus: depreciation from continuing operations	73 868	68 328
EBITDA from continuing operations	128 267	116 944
EBITDA margin from continuing operations (%)	12,54%	11,88%

To better understand Kofola Group's business results without the burden of one-off events, one should also become familiar with the description of operating results and financial position presented in Note 1.5 Directors' Report on the Activities of Kofola Group for the 12 month-period ended 31 December 2012.

5.31 Financial instruments

The table below shows a comparison of the balance sheet values and fair values of all of the Group's financial instruments that have been listed in the financial statements at values other than fair value, by category of assets and liabilities

	Loans and receivables	
	As at 31.12.2012	As at 31.12.2011
Trade receivables	131 170	189 959
Other financial receivables	5 642	10 993
Cash and cash equivalents	15 706	50 836
Total	152 518	251 788

	Other financial liabilities at amortised cost	
	As at 31.12.2012	As at 31.12.2011
Credits and loans	204 593	308 778
Bonds issued	48 532	31 890
Financial leasing liabilities	20 270	30 747
Trade liabilities and other financial liabilities	209 600	258 615
Other long-term financial liabilities	11 234	20 281
Total	494 229	650 311

Fair value of financial assets and liabilities recognised at amortised costs	Fair value	
	As at 31.12.2012	As at 31.12.2011
Financial assets at amortised costs	136 812	200 952
Trade receivables	131 170	189 959
Other financial receivables	5 642	10 993
Financial liabilities at amortised costs	494 229	650 311
Bank credits and loans	204 593	308 778
- floating interest rate	204 593	308 778
Bonds issued	48 532	31 890
Financial leasing liabilities	20 270	30 747
- floating interest rate	20 270	30 747
Trade liabilities and other financial liabilities	209 600	258 615
Other long-term liabilities	11 234	20 281

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ARE ASSIGNED THE FOLLOWING LEVELS IN THE HIERARCHY OF FAIR VALUE

Technical valuation based on significant data not observed	2012	2011
Net asset related to other shareholders with put option	40 067	41 497

5.32 Factoring

As at 31.12.2012	The value of assigned claims not paid by the end customer
Partial factoring (regressive)	-
Full factoring (non-recourse)	6 359
Total	6 359

5.33 The reasons for the differences between the changes of certain balance sheet items and changes presented in cash flow

	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Change due for supplies and services, and other accounts receivable	95 744	(43 542)
Change in other long-term assets	3 486	1 202
Change in advances for fixed assets and intangible assets	(7 818)	-
Unreceived interests	281	-
BOMI S.A. compensation of liabilities and receivables	(3 000)	-
Discontinued consolidation (Megapack Group)	(65 603)	-
Change in the balance of receivables from the constitution of the Group	295	5 444
Change in the balance of receivables	23 385	(36 896)
	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Balance change of liabilities for supplies and services and other liabilities	(51 800)	30 532
Change in other long-term liabilities	(9 047)	2 873
Change in other financial liabilities	99	(15)
Change in investment liabilities	(839)	5 270
BOMI S.A. compensation of liabilities and receivables	3 000	-
Discontinued consolidation (Megapack Group)	101 101	-
Change in liabilities arising from acquisition of subsidiaries	4 760	-
Accrued and unpaid interest on liabilities	(55)	-
Change in update of value for puttable options of non-controlling shares	(1 431)	2 213
Change in the balance of liabilities from the constitution of the Group	(671)	(2 102)
Change in the balance of liabilities	45 117	38 771
	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Net book value of disposed property, plant and equipment, intangible assets	3 892	3 598
Profit/(loss) on disposal of property, plant and equipment, intangible assets	(1 435)	-
Sales of property, plant and equipment, intangible assets	2 457	3 598
	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Increases in the book value of tangible fixed assets, intangible assets	17 662	(50 371)
The net book value of tangible fixed assets, intangible assets	(3 892)	-
Pallets reclassification – see Note 4.5	14 870	-
Change in advances for fixed assets and intangible assets	7 818	(12)
Change in investment liabilities	839	(5 270)
Discontinued consolidation (Megapack Group)	(62 094)	-
Currency differences from translation	(7 401)	2 314
Acquisition of plant and equipment, intangible assets	(32 198)	(53 339)
	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Balance sheet change in inventories	30 988	(3 417)
Pallets reclassification	(14 870)	-
Change due to the composition of the Group	81	2 070
Discontinued consolidation (Megapack Group)	(19 505)	-
Increase/(decrease) in inventory	(3 306)	(1 347)

5.34 Headcount

The average headcount in the company was as follows:

Average headcount	1.1.2012 - 31.12.2012	1.1.2011 - 31.12.2011
Management Board of the Parent entity	5	5
Management Boards of the Group entities	10	19
Administration	172	202
Sales, Marketing and Logistic department	837	929
Production division	529	597
Other	199	183
Total continuing operations	1 752	1 935
Discontinued consolidation of Megapack	440	441
Total continuing operations and discontinued consolidation	2 192	2 376

5.35 Subsequent events

DISCONTINUED CONSOLIDATION OF MEGAPACK GROUP DUE TO CHANGE IN MANAGING SYSTEM

Due to the fact that, the shareholders' agreement giving KOFOLA S.A. the deciding vote in choosing the CEO of the Megapack Group expired (last possibility to utilise this right is on 31 December 2012) from 1 January 2013 KOFOLA S.A. and the Russian shareholders have joint control over the company, and thus according to the IAS 31 KOFOLA SA will account for the Megapack Group using the equity method. KOFOLA S.A. will continue to pursue ownership supervision over the activities of the joint venture by the right to appoint two of the four members of the Board of Directors of OOO Megapack.

SALE OF SHARES IN SUBSIDIARY SULICH TSH SP. Z O.O.

On 8 March 2013 KOFOLA S.A. sold all its shares in the subsidiary Transport Spedycja Handel SULICH Sp. z o.o.

No other subsequent events were identified.

SIGNATURES OF THE COMPANY'S REPRESENTATIVES:

18.3.2013	Janis Samaras	Chairman of the Board of Directors	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>
18.3.2013	Bartosz Marczuk	Member of the Board of Directors	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>
18.3.2013	Martin Mateáš	Member of the Board of Directors	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>
18.3.2013	René Musila	Member of the Board of Directors	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>
18.3.2013	Tomáš Jendřejek	Member of the Board of Directors	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>

SIGNATURE OF PERSON RESPONSIBLE FOR BOOKKEEPING:

18.3.2013	Katarzyna Balcerowicz	Chief Accountant	.....
<i>date</i>	<i>name and surname</i>	<i>position</i>	<i>signature</i>

Document signed on the Polish original.

The background is a light beige color with a pattern of various-sized circles in shades of orange, brown, and grey. A thick, curved orange line enters from the right side of the page, curving downwards and then back up towards the right edge.

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