



MANAGEMENT BOARD

Koprivnica, 1st April 2014

**PODRAVKA GROUP
AUDITED CONSOLIDATED FINANCIAL REPORT
FOR THE YEAR 2013.**

Appendix 1

Reporting period:

1.1.2013

to

31.12.2013

Annual financial report of entrepreneur - GFI-POD

Registration number (MB)

Identification number of subject (MBS)

Personal identification number (OIB)

Issuer company:

Postal code and place

Street and number

E-mail address:

Internet address:

Code and name of comune/town

Code and county name Number of employees

(at quarter end)

Consolidated statement NKD/NWC code:

Subsidiaries subject to consolidation (according to IFRS):

Registration number:

<input type="text" value="BELUPO d.d."/>	<input type="text" value="Koprivnica"/>	<input type="text" value="3805140"/>
<input type="text" value="DANICA d.o.o."/>	<input type="text" value="Koprivnica"/>	<input type="text" value="0991279"/>
<input type="text" value="ITAL-ICE d.o.o."/>	<input type="text" value="Poreč"/>	<input type="text" value="3746011"/>
<input type="text" value="PODRAVKA POLSKA SP z.o.o."/>	<input type="text" value="Kostrzyn, Polska"/>	<input type="text" value="5981449907"/>
<input type="text" value="PODRAVKA LAGRIS a.s."/>	<input type="text" value="Dolní Lhota u Luhačovic, Češka"/>	<input type="text" value="3042510487"/>
<input type="text" value="PODRAVKA SARAJEVO d.o.o."/>	<input type="text" value="Sarajevo, BiH"/>	<input type="text" value="20188537"/>

Book keeping service:

Contact person:

(authorised person for representation)

Phone number: Facsimile:


E-mail address:

Sumame and name

(authorised person for representation)

Disclosure documents:

1. Audited annual financial statements
2. Report of the Management Board on position of the Company
3. Statement of responsible persons for preparation of financial statements
4. The decision of the competent authority (the proposal) about the development of the annual financial statements
5. Decision on the allocation of profits or covering of loss


(signed by authorised person for representation)

BALANCE SHEET
as at 31.12.2013.

Obligator: Podravka prehrambena industrija d.d., Koprivnica			
Item	AOP code	Last year (net)	Current year (net)
1	2	3	4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED BUT NOT PAID-IN CAPITAL	001	0	0
B) LONG-TERM ASSETS (003+010+020+029+033)	002	1.721.143.991	1.517.762.204
I. INTANGIBLE ASSETS (004 to 009)	003	279.641.788	244.319.137
1. Assets development	004	5.839.794	8.387.114
2. Concessions, patents, licences fees, trade and service marks, software and other rights	005	210.946.610	184.927.027
3. Goodwill	006	41.983.000	25.881.000
4. Prepayments for purchase of intangible assets	007	0	0
5. Intangible assets in preparation	008	20.872.384	25.123.996
6. Other intangible assets	009	0	0
II. TANGIBLE ASSETS (011 to 019)	010	1.400.738.837	1.218.263.632
1. Land	011	45.995.536	57.770.322
2. Buildings	012	882.052.504	758.629.723
3. Plant and equipment	013	383.931.370	317.730.791
4. Tools, facility inventory and transport assets	014	18.257.354	20.642.379
5. Biological assets	015	0	0
6. Prepayments for tangible assets	016	276.374	7.215.364
7. Tangible assets in progress	017	68.046.263	54.102.698
8. Other tangible assets	018	2.179.436	2.172.355
9. Investments in buildings	019	0	0
III. LONG-TERM FINANCIAL ASSETS (021 to 028)	020	5.343.367	5.606.408
1. Investments (shares) with related parties	021	0	0
2. Loans given to related parties	022	0	0
3. Participating interest (shares)	023	983.600	983.600
4. Loans to entrepreneurs in whom the entity holds participating interests	024	0	0
5. Investments in securities	025	167.438	169.480
6. Loans, deposits and similar assets	026	4.192.329	4.453.328
7. Other long - term financial assets	027	0	0
8. Investments accounted by equity method	028	0	0
IV. RECEIVABLES (030 to 032)	029	0	0
1. Receivables from related parties	030	0	0
2. Receivables from based on trade loans	031	0	0
3. Other receivables	032	0	0
V. DEFERRED TAX ASSETS	033	35.420.000	49.573.027
C) SHORT TERM ASSETS (035+043+050+058)	034	1.881.578.696	1.923.619.896
I. INVENTORIES (036 to 042)	035	695.533.146	727.969.978
1. Raw-material and supplies	036	225.184.409	176.250.040
2. Work in progress	037	40.020.809	31.984.461
3. Finished goods	038	213.453.413	208.246.290
4. Merchandise	039	152.458.369	165.101.788
5. Prepayments for inventories	040	0	0
6. Long - term assets held for sales	041	64.416.146	146.387.399
7. Biological assets	042	0	0
II. RECEIVABLES (044 to 049)	043	1.062.608.440	1.009.434.944
1. Receivables from related parties	044	0	0
2. Accounts receivable	045	1.011.101.739	979.013.843
3. Receivables from participating parties	046	0	0
4. Receivables from employees and members of related parties	047	2.569.918	1.682.393
5. Receivables from government and other institutions	048	46.107.062	23.614.508
6. Other receivables	049	2.829.721	5.124.200
III. SHORT TERM FINANCIAL ASSETS (051 to 057)	050	5.229.582	6.753.946
1. Shares (stocks) in related parties	051	0	0
2. Loans given to related parties	052	0	0
3. Participating interests (shares)	053	0	0
4. Loans to entrepreneurs in whom the entity holds participating interests	054	0	0
5. Investments in securities	055	4.002.211	5.574.691
6. Loans, deposits, etc.	056	1.227.371	1.179.255
7. Other financial assets	057	0	0
IV. CASH AT BANK AND IN CASHIER	058	118.207.528	179.461.028
D) PREPAID EXPENSES AND ACCRUED REVENUE	059	14.949.622	16.774.405
E) TOTAL ASSETS (001+002+034+059)	060	3.617.672.309	3.458.156.505
F) OFF-BALANCE RECORDS	061	858.816.749	940.027.349

Obligator: Podravka prehrambena industrija d.d., Koprivnica

Item	AOP code	Last year (net)	Current year (net)
1	2	3	4
LIABILITIES AND CAPITAL			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	1.627.791.411	1.691.388.136
I. SUBSCRIBED CAPITAL	063	1.626.000.900	1.084.000.600
II. CAPITAL RESERVES	064	26.465.000	45.931.894
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	105.899.405	181.715.439
1. Reserves prescribed by law	066	18.325.000	11.474.469
2. Reserves for treasury shares	067	21.761.692	21.761.692
3. Treasury stocks and shares (deduction)	068	67.604.502	67.604.502
4. Statutory reserves	069	35.243.962	39.293.993
5. Other reserves	070	98.173.253	176.789.787
IV. REVALUATION RESERVES	071	0	0
V. RETAINED EARNINGS OR ACCUMULATED LOSS (073-074)	072	-148.498.899	279.099.580
1. Retained earnings	073	0	279.099.580
2. Accumulated loss	074	148.498.899	0
VI. PROFIT/LOSS FOR THE CURRENT YEAR (076-077)	075	-14.101.876	66.600.774
1. Profit for the current year	076	0	66.600.774
2. Loss for the current year	077	14.101.876	0
IX. MINORITY INTERESTS	078	32.026.882	34.039.849
B) PROVISIONS (080 to 082)	079	46.777.777	49.279.968
1. Provisions for pensions, severance pay, and similar liabilities	080	25.838.060	24.349.842
2. Reserves for tax liabilities	081	0	0
3. Other reserves	082	20.939.717	24.930.126
C) LONG - TERM LIABILITIES (084 to 092)	083	733.553.063	578.448.370
1. Liabilities to related parties	084	0	0
2. Liabilities for loans, deposits etc.	085	0	0
3. Liabilities to banks and other financial institutions	086	727.255.063	572.871.848
4. Liabilities for received prepayments	087	0	0
5. Accounts payable	088	0	0
6. Liabilities arising from debt securities	089	0	0
7. Liabilities to entrepreneurs in whom the entity holds participating interests	090	0	0
8. Other long-term liabilities	091	0	0
9. Deferred tax liability	092	6.298.000	5.576.522
D) SHORT - TERM LIABILITIES (094 to 105)	093	1.106.272.027	1.041.986.074
1. Liabilities to related parties	094	0	0
2. Liabilities for loans, deposits etc.	095	0	0
3. Liabilities to banks and other financial institutions	096	477.866.741	499.511.380
4. Liabilities for received prepayments	097	3.155.766	1.719.050
5. Accounts payable	098	546.406.547	467.521.148
6. Liabilities arising from debt securities	099	0	0
7. Liabilities to entrepreneurs in whom the entity holds participating interests	100	0	0
8. Liabilities to employees	101	55.823.800	54.520.705
9. Liabilities for taxes, contributions and similar fees	102	9.408.218	13.808.302
10. Liabilities to share - holders	103	681.378	681.138
11. Liabilities for long-term assets held for sale	104	0	0
12. Other short - term liabilities	105	12.929.577	4.224.351
E) DEFERRED SETTLEMENTS OF CHARGES AND INCOME DEFERRED TO FUTURE	106	103.278.032	97.053.957
F) TOTAL – CAPITAL AND LIABILITIES (062+079+083+093+106)	107	3.617.672.309	3.458.156.505
G) OFF-BALANCE RECORDS	108	858.816.749	940.027.349
APPENDIX to balance sheet(to be filled in by entrepreneur that prepares consolidated annual financial report)			
CAPITAL AND RESERVES			
1. Attributed to equity holders of parent company	109	1.595.764.529	1.657.348.287
2. Attributed to minority interest	110	32.026.882	34.039.849

PROFIT AND LOSS ACCOUNT
for the period 1.1.2013. to 31.12.2013.

Obligator: Podravka prehrambena industrija d.d., Koprivnica			
Item	AOP code	Last year	Current year
1	2	3	4
I. OPERATING REVENUE (112+113)	111	3.700.062.176	3.693.549.702
1. Sales revenue	112	3.626.666.307	3.626.011.410
2. Other operating revenues	113	73.395.870	67.538.292
II. OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114	3.602.375.014	3.558.262.017
1. Changes in value of work in progress and finished products	115	51.503.557	12.135.674
2. Material costs (117 to 119)	116	2.305.898.688	2.293.685.425
a) Raw material and material costs	117	1.236.106.240	1.129.136.984
b) Costs of goods sold	118	519.827.650	589.447.024
c) Other external costs	119	549.964.798	575.101.417
3. Staff costs (121 to 123)	120	720.698.292	666.283.968
a) Net salaries and wages	121	436.406.334	406.683.344
b) Cost for taxes and contributions from salaries	122	186.869.837	172.476.260
c) Contributions on gross salaries	123	97.422.121	87.124.364
4. Depreciation	124	153.689.989	148.302.573
5. Other costs	125	249.529.826	263.616.347
6. Impairment (127+128)	126	51.107.288	66.752.289
a) Impairment of long-term assets (financial assets excluded)	127	20.100.000	29.945.077
b) Impairment of short-term assets (financial assets excluded)	128	31.007.288	36.807.212
7. Provisions	129	15.573.299	2.690.660
8. Other operating costs	130	54.374.074	104.795.081
III. FINANCIAL INCOME (132 to 136)	131	38.065.425	44.186.986
1. Interest income, foreign exchange gains, dividends and similar income from related parties	132	10.944.360	8.408.060
2. Interest income, foreign exchange gains, dividends and similar income from non-related parties	133	26.965.946	31.449.556
3. Share in income from affiliated entrepreneurs and participating interests	134	0	0
4. Unrealized gains (income) from financial assets	135	155.119	4.329.370
5. Other financial income	136	0	0
IV. FINANCIAL EXPENSES (138 do 141)	137	105.638.899	109.651.818
1. Interest expenses, foreign exchange losses, dividends and similar expenses from related parties	138	11.788.369	7.739.946
2. Interest expenses, foreign exchange losses, dividends and similar expenses from non-related	139	90.382.619	101.910.759
3. Unrealized losses (expenses) on financial assets	140	3.467.911	1.113
4. Other financial expenses	141	0	0
V. INCOME FROM INVESTMENT - SHARE IN PROFIT OF ASSOCIATED ENTREPRENEURS	142	0	0
VI. LOSS FROM INVESTMENT - SHARE IN LOSS OF ASSOCIATED ENTREPRENEURS	143	0	0
VII. EXTRAORDINARY - OTHER INCOME	144	0	0
VIII. EXTRAORDINARY - OTHER EXPENSES	145	0	0
IX. TOTAL INCOME (111+131+142 + 144)	146	3.738.127.601	3.737.736.688
X. TOTAL EXPENSES (114+137+143 + 145)	147	3.708.013.913	3.667.913.835
XI. PROFIT OR LOSS BEFORE TAXATION (146-147)	148	30.113.689	69.822.853
1. Profit before taxation (146-147)	149	30.113.689	69.822.853
2. Loss before taxation (147-146)	150	0	0
XII. PROFIT TAX	151	45.569.724	1.445.908
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-15.456.035	68.376.945
1. Profit for the period (149-151)	153	0	68.376.945
2. Loss for the period (151-148)	154	15.456.035	0
APPENDIX to P&L account (to be filled in by entrepreneur that prepares consolidated financial report)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Attributed to equity holders of parent company	155	-14.101.876	66.600.774
2. Attributed to minority interest	156	-1.354.159	1.776.171
STATEMENT OF OTHER COMPREHENSIVE INCOME (IFRS)			
I. PROFIT OR LOSS FOR THE PERIOD (= 152)	157	-15.456.035	68.376.945
II. OTHER COMPREHENSIVE INCOME / LOSS BEFORE TAX (159 do 165)	158	13.639.170	-6.137.970
1. Exchange differences on translation of foreign operations	159	13.639.170	-6.137.970
2. Movements in revaluation reserves of long-term tangible and intangible assets	160		
3. Profit or loss from reevaluation of financial assets available for sale	161		
4. Gains or losses on efficient cash flow hedging	162		
5. Gains or losses on efficient hedge of a net investment in foreign countries	163		
6. Share in other comprehensive income / loss of associated companies	164		
7. Actuarial gains / losses on defined benefit plans	165		
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166		
IV. NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (158-166)	167	13.639.170	-6.137.970
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	-1.816.865	62.238.975
APPENDIX to Statement of other comprehensive income (to be filled in by entrepreneur that prepares consolidated financial report)			
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD			
1. Attributed to equity holders of parent company	169	-491.865	60.226.008
2. Attributed to minority interest	170	-1.325.000	2.012.967

STATEMENT OF CASH FLOWS - INDIRECT METHOD
for the period 1.1.2013. to 31.12.2013.

Obligator: Podravka prehrambena industrija d.d., Koprivnica			
Item	AOP code	Last year	Current year
1	2	3	4
CASH FLOW FROM OPERATING ACTIVITIES			
1. Profit before tax	001	30.113.689	69.822.853
2. Depreciation	002	153.689.989	148.302.573
3. Increase in short term liabilities	003	17.104.000	0
4. Decrease in short term receivables	004		17.604.000
5. Decrease in inventories	005	46.364.731	49.533.970
6. Other increase in cash flow	006	84.216.223	120.227.000
I. Total increase in cash flow from operating activities (001 to 006)	007	331.488.632	405.490.396
1. Decrease in short term liabilities	008		95.762.000
2. Increase in short term receivables	009	41.939.000	0
3. Increase in inventories	010		0
4. Other decrease in cash flow	011	41.216.632	17.916.000
II. Total decrease in cash flow from operating activities (008 to 011)	012	83.155.632	113.678.000
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	248.333.000	291.812.396
A2) NET DECREASE IN IN CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	0	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash inflows from sales of long-term tangible and intangible assets	015	4.249.000	1.016.000
2. Cash inflows from sales of equity and debt instruments	016	92.686.000	159.669.000
3. Interests receipts	017	7.098.000	1.248.000
4. Dividend receipts	018		0
5. Other cash inflows from investing activities	019	2.524.000	661.400
III. Total cash inflows from investing activities (015 to 019)	020	106.557.000	162.594.400
1. Cash outflow for purchase of long-term tangible and intangible assets	021	94.682.000	96.422.000
2. Cash outflow for acquisition of equity and debt financial instruments	022	92.819.000	159.069.000
3. Other cash outflow for investing activities	023	3.358.000	2.658.500
IV. Total cash outflow for investing activities (021 do 023)	024	190.859.000	258.149.500
B1) NET INCREASE IN CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	0	0
B2) NET DECREASE IN CASH FLOW FROM INVESTING ACTIVITIES (024-020)	026	84.302.000	95.555.100
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash inflow from issuing property and debt financial instruments	027	0	0
2. Proceeds from the credit principal, promissory notes, borrowings and other loans	028	187.669.400	269.897.000
3. Other proceeds from financial activities	029	0	0
V. Total cash inflows from financial activities (027 to 029)	030	187.669.400	269.897.000
1. Cash outflow for repayment of credit principal and bonds	031	373.693.714	378.479.690
2. Cash outflow for dividends paid	032	1.435.000	0
3. Cash outflow for financial lease	033	4.324.000	26.421.310
4. Cash outflow for purchase of treasury shares	034	0	0
5. Other cash outflow for financial activities	035	0	0
VI. Total cash outflow for financial activities (031 to 035)	036	379.452.714	404.901.000
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (030-036)	037	0	0
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES (036-030)	038	191.783.314	135.004.000
Total increase in cash flow (013 – 014 + 025 – 026 + 037 – 038)	039	0	61.253.296
Total decrease in cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	27.752.314	0
Cash and cash equivalents at the beginning of the period	041	145.959.842	118.207.528
Increase of cash and cash equivalents	042	0	61.253.500
Decrease of cash and cash equivalents	043	27.752.314	
Cash and cash equivalents at the end of the period	044	118.207.528	179.461.028

STATEMENT OF CHANGES IN EQUITY
for the period 1.1.2013. to 31.12.2013.

Obligator: Podravka prehrambena industrija d.d., Koprivnica			
Item	AOP code	Last year	Current year
1	2	3	4
1. Subscribed capital	001	1.626.000.900	1.084.000.600
2. Capital reserves	002	26.465.000	45.931.894
3. Reserves from profit	003	105.899.405	181.715.439
4. Retained earnings or accumulated loss	004	-148.498.899	279.099.580
5. Profit or loss for the current year	005	-14.101.876	66.600.774
6. Revaluation of long - term tangible assets	006	0	0
7. Revaluation of intangible assets	007	0	0
8. Revaluation of financial assets available for sale	008	0	0
9. Other revaluation	009	32.026.882	34.039.849
10. Total capital and reserves (AOP 001 do 009)	010	1.627.791.411	1.691.388.136
11. Currency gains and losses arising from net investement in foreign operations	011	13.639.170	-6.137.970
12. Current and deferred taxes (part)	012	0	0
13. Cash flow hedging	013	0	0
14. Changes in accounting policy	014	0	0
15. Correction of significant errors in prior period	015	0	0
16. Other changes of capital	016	-14.995.139	69.734.695
17. Total increase or decrease in capital (AOP 011 do 016)	017	-1.355.969	63.596.725
17 a. Attributed to equity holders of parent company	018	-1.796.183	61.583.758
17 b. Attributed to minority interest	019	440.214	2.012.967

Notes

The accounting policy for impairment of accounts receivables in process of pre-bankruptcy settlement was amended in 2013 year.



COMPANY MANAGEMENT

Koprivnica, 1st April 2014

MANAGEMENT REPORT ON THE ACHIEVED BUSINESS RESULTS OF THE PODRAVKA GROUP FOR THE YEAR 2013

Main business characteristics and significant events in for year 2013

1. All levels of profitability of the Podravka Group recorded a significant increase in the year 2013 and all profit margins achieved a considerable positive shift.
2. Gross profit has climbed to HRK 1,502.7 million, which is 6% higher compared with prior year. Gross profit margin has reached a level of 41.4%, representing an increase of 240bp.
3. The EBITDA is showing HRK 360.1 million, representing an increase of 22%, while EBITDA margin has reached level of 9.9%. Adjusted for non-recurring items effects, EBITDA would reached HRK 423.7 million, which is an increase of 18% compared to last year's EBITDA, presented in a comparable manner.
4. Podravka Group 2013 business results were significantly impacted by non-recurrent items which had totaled HRK 133.4 million, mainly relating to assets value adjustments and severance payments in line with restructuring process. These extraordinary items also had a major impact on the Group's consolidated net profit and overshadowed the underlying operating improvement.
5. The Podravka Group net profit excluding non-recurrent items has climbed to HRK 200.0 million, which is an increase of 78% compared to the previous year's results, presented in a comparable manner. Reported net profit amounted to HRK 66.6 million, which is HRK 80.7 million higher compared to previous year.
6. Total operating costs have decreased by 2%, driven by lower labour costs due to the completion of the redundancy program and favourable trends in raw material prices.
7. Total Podravka Group sales in 2013 amounted HRK 3,626.0 million, and remained at last year's level. Sales in the Strategic Business Area (SBA) Food and Beverages totalled HRK 2,773.2 million which is a 0.9% decrease compared to the same period last year. However, adjusted for the lower sales effects in programmes under restructuring (fresh meat, beverages, frozen and bakery products) total sales of SBA F&B were 1.1% higher compared to previous year.

Podravka Inc., Koprivnica, Ante Starčevića 32, The Commercial Court Varaždin, MBS: 010006549, PIN: 18928523252,
foundation capital: 1.084.000.600,00 HRK, paid in full, total number of shares issued: 5.420.003, nominal share value: 200,00 HRK,
Privredna banka Zagreb d.d., Zagreb, Račkoga 6, bank account: 2340009-1100098526, President of the Supervisory Board: D. Štimac,
President of the Management Board: Z. Mršić, members of the Management Board: J. Ivanković, O. Jakupec, M. Klepač, H. Kolaric, J. Pedersen



COMPANY MANAGEMENT

Sales in SBA Pharmaceuticals amounted to HRK 852.8 million, which is an increase of 3%.

8. Sales on foreign markets recorded a growth of 6%, driven by the both SBAs in all foreign markets.
9. The net debt as of 31 December 2013 amounted HRK 886.5 million and is 18% lower compared to the year-end of 2012, totaling HRK 193 million.

Significant events in the year 2013

1. At the General Meeting held on 20 June 2013 the following decisions relating to the amendments to the Articles of Association were made:
 - Reduction of share capital in the amount of HRK 542 million, aiming to cover accumulated losses from previous periods. The reduction of the share capital was carried out by reducing the nominal value of ordinary shares from the nominal value of HRK 300.00 to the nominal value of HRK 200.00 per share. It has created preconditions for shareholders to decide on the allocation of future profits (dividend payment, retention of profits, capital increase, etc.)
 - Possibility of share capital increase, enabling Management Board, with the consent of the Supervisory Board, to decide on the capital increase of up to half of the share capital,
 - Equality of all shareholders has been defined because the state has no longer the option of direct appointment of two members of the Supervisory Board.
 - Podravka continues the business restructuring process, and accordingly shall divest the Beverage, Bakery and a part of the Frozen products business programs.
2. The General Assembly of Belupo d.d has passed the resolution to increase its share capital from the realised profit, thus the share capital has increased by the HRK 50 million and is now amounting HRK 204,025,800.00.
3. Management and Supervisory Board of Podravka d.d., have approved investment cycle in two factories in Belupo d.d.. These are semi-solid and liquid drugs and solid drugs factories, with investment value of HRK 390 million allocated in three years. It is expected that investment would be activated in first quarter 2017.
4. The redundancy program for surplus labour has been implemented and shall continue in the year 2014.



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5. A decision was made to merge related companies Ital-Ice Ltd., Lero Ltd., Poni Ltd., Podravka Inženjering Ltd. and KOTI Nekretnine Ltd. to the company Podravka Inc. Decision was driven by restructuring programme and business efficiency improvements initiatives. Podravka Ltd. as the holder of 100% of shares in the stated companies, would become the legal successor of the merged companies.

Expected future development

Podravka Group's strategic direction is to be the leading food and pharmaceutical company in the European region and amongst the top companies in other markets. Its objective is to increase value to the owners, continue to improve employee satisfaction and successfully fulfil customer and consumer requirements.

The Podravka Group is committed to significantly increase business efficiency and strengthen its competitive position on both the domestic and foreign markets. This will be achieved by greater internal efficiency, improvements to product range, supply chain optimisation, increased production volume, rationalisation and management of general and administrative expenses, changes within the purchasing process and effective sales and distribution networks.

Key strategic markets for the Podravka Group include the local Croatian market and also South-Eastern, Central and Eastern European markets. Podravka has a clear strategy to maintain market leadership with high quality products and the expansion of its current product range. The Group's growth strategy is to further expand its international presence, achieve a turnaround on the Central European markets, realize significant growth on Eastern European markets and invest in markets where an above average growth is anticipated in the forthcoming years. It also strives towards inorganic growth through acquisitions and strategic alliances in the markets of South-Eastern, Central and Eastern European countries.

Research and Development activities

The basic activities of Research and Development are focused on the development of new products and the advancement of current products by following the developments of food science and consumer trends and the products are continuously tailored to meet the present public awareness of a proper and healthy diet. Special attention is given to the organoleptic quality and nutrient features as well as the design and quality of information on product declarations.

Research and development is constantly working on the improvement of production and controlling processes. The use of modern technology and the



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Central semi-industrial lab, unique in this region, create new opportunities that are essential for company progress and growth.

Information on the redemption of own shares

There was no redemption of own shares in the previous period, nor is there any intention of own share redemption.

Related companies

The Podravka Group consists of the parent company Podravka d.d. and 24 subsidiary companies of which 8 companies are located in Croatia and 16 abroad.

Financial risk management and company exposure to price, credit, liquidity and cash flow risks

As the Group is exposed to price changes of raw material for the food industry, world trends on the commodity exchange are carefully monitored and "market reports" of strategic suppliers are used as the grounds to react on a spot market at the moment when prices of raw material are most favourable.

Credit risk and the risk of outstanding payments or non-fulfilment of contractual liabilities from customers have impact on the Group's contingent financial loss which is the reason why the Group has adopted the "Credit Risk Management Procedure" that it applies in dealing with customers. The Group collects payment insurance instruments whenever possible in order to protect itself from contingent financial risk and loss due to non-fulfilled payments or contractual liabilities.

The Group is largely financed by loans in foreign currency and therefore exposed to the risk of exchange rate differences. The Group uses loans with fixed and variable interest rates where the majority of loans has been agreed with variable interest rates and is therefore exposed to the risk of interest rate changes.

The Management establishes an adequate frame of liquidity risk management in order to manage short-term, medium-term and long-term financial and liquidity requirements. The Group manages liquidity risk by maintaining adequate reserves and credit lines, continuously comparing the planned and realized cash flow and monitoring due receivables and current liabilities.

Comments on the reported period

Total Group sales in 2013 amounted HRK 3,626.0 million, and remained at last year's level. Sales in the Strategic Business Area (SBA) Food and Beverages totalled HRK 2,773.2 million which is a 1% decrease compared to the same period last year.

Podravka Inc., Koprivnica, Ante Starčevića 32, The Commercial Court Varaždin, MBS: 010006549, PIN: 18928523252, foundation capital: 1.084.000.600,00 HRK, paid in full, total number of shares issued: 5.420.003, nominal share value: 200,00 HRK, Privredna banka Zagreb d.d., Zagreb, Račkoga 6, bank account: 2340009-1100098526, President of the Supervisory Board: D. Štimac, President of the Management Board: Z. Mršić, members of the Management Board: J. Ivanković, O. Jakupec, M. Klepač, H. Kolaric, J. Pedersen



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Lower sales were driven by decrease in SBA F&B on Croatian market, however the main impact came from businesses included in the restructuring programme, with underperforming profitability.

Group has intentionally reduced the sales of fresh meat, and has initiated divestment process of Beverages, Bakery and a part of the Frozen businesses in 2013. As a result, respective sales were HRK 56 million lower compared to prior year, including sales of fresh meat HRK 31 million, Beverages around HRK 19 million and the Frozen and Bakery programs about HRK 6 million lower sales in 2013.

According to decision of Management Board of Podravka Group and announcement of discontinuing operation from Beverages with intent to upgrade business, decrease operating costs and increase innovations as well as competitiveness of core business, separate business results from discontinued operation is reported according to related MSFI. Sales from discontinued operation of Beverages amounted HRK 125 million and is 13% lower than last year.

However, adjusted for the lower sales effects in programmes under restructuring (fresh meat, beverages, frozen and bakery products) total sales of SBA F&B were 1.1% higher compared to previous year.

Other markets recorded good sales results in the SBA F&B, with the highest contribution coming from the markets of Poland, Slovenia, Russia and Austria.

The SBA Pharmaceuticals achieved sales in the amount of HRK 852.8 million, which is a 3% increase of sales compared to the year 2012. Sales increase is especially generated on foreign markets, which have recorded a 9% growth with the highest contribution from the markets of Russia and Bosnia and Herzegovina. Sales volumes on the Croatian market grew compared to prior year, but the stronger pressure on prices led to total sales decline of 2%. Price drop occurred on the whole ethical drug market in Croatia as a result of changes in Croatian health system.

Croatian market achieved sales of HRK 1,594.5 million, which accounted for 44% of the total sales. The domestic market declined 7% in 2013 compared with the year 2012, partly as a result of the targeted reduction in sales of the low profitable program, partly from the continuing recession in Croatian economy, which in 2013 showed no signs of recovery. With the exception of sales drop of restructuring programmes in Croatia (fresh meat, beverages, frozen and bakery products), sales drop was 5% compared to year 2012.

Total sales in foreign markets amounted to HRK 2,031.5 million and were higher by 6% compared to a prior year, with an increase in all foreign markets. The largest absolute increase was in the market of South-Eastern Europe, with the most significant contribution from Slovenia, Serbia and Macedonia and the rest of the markets also growing. Central Europe achieved sales growth of 6%, which is primarily derived from sales growth in Poland. Eastern Europe achieved sales growth of 12%, generated in the Russian market and the markets of Western Europe, overseas countries and new markets recorded a growth of 5% primarily resulting from higher sales in Austria and Germany.



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Total operating expenses reported in P&L by cost/income nature in the period 1. - 12. 2013. reached HRK 3,558.3 million and compared to the year end of 2012 are at the same level. The majority of operating expenses refers to material costs (64%) and employee costs (19%) and have showed a decrease compared to previous year.

Impairment and other operating costs show increase due to asset impairment of discontinued operations and assets held for sale.

Financial expenses reached HRK 109.7 million and were 4% higher than last year.

Net profit attributed to equity holders of parent company.in the period 1.-12.2013. is HRK 66.6 million.

The total value of assets of the Podravka Group as of 31 December 2013 is HRK 3,458.2 million and is HRK 159.5 million lower compared to the year end of 2012. The highest contribution in asset decrease is coming from long term assets which have decreased for HRK 182.5 million and inventories which have decreased for HRK 49.5 million.

Trade account payables recorded a significant decrease in amount of HRK 78.9 million due to valid Law of financial operation and pre-bankruptcy settlement.

The indebtedness of the Podravka Group as of 31 December 2013 is HRK 1,066 million and compared to the year end of 2012 has been decreased by HRK 131.9 million. The net debt as of 31 December 2013 is HRK 886.5 million which is a decrease of HRK 193.1 million compared to the year 2012.

According to Management Board resolution simple reduction of company share capital was made in amount of HRK 542.0 million. Nominal amount of regular share is decreased for HRK 100,00 per share. Decrease of share capital is used to cover Podravka d.d. retained loss from previous years in amount of HRK 523.9 million and the remaining amount of HRK 18.1 million is allocated in capital reserves of Podravka d.d.



President of the Management Board:

Zvonimir Mršić



COMPANY MANAGEMENT

Koprivnica, 1st April 2014

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Consolidated financial statements of the Podravka Group for the period January – December 2013 have been prepared in compliance with the Accounting Act of the Republic of Croatia and International Financial Reporting Standards (IFRS) and provide an overall and true presentation of assets, liabilities, profit and loss, financial position and business operations of the Group and all related companies involved in the consolidation.

Corporate accounting and taxes Director:
Iva Brajević



Board Member:
Miroslav Klepač



SUPERVISORY BOARD

No: NO-103-1-2014.

Koprivnica, 1 April 2014

Pursuant to Articles 300.c and 300.d of the Company Act (Official Gazette no. 152/11.-clear version, 111/12 and 68/13), the Supervisory Board of PODRAVKA Inc. at its 103rd session held on 1 April 2014 adopted the following

DECISION

on Approval of the Management Board Decision regarding establishing of the Annual Financial Statements of PODRAVKA Inc. and its related companies and Annual Report on the Status of the Company for the business year 2013

I

The Annual Financial Statements of PODRAVKA Inc. and its related companies (Consolidated Statements of Podravka Group) for the business year 2013 with the Reports and opinion of certified auditors are hereby established.

II

The Annual Financial Statements for the business year 2013, prepared by the Management Board of PODRAVKA Inc. in compliance with applicable regulations, are hereby established as follows:

1. Statement on Total Income
2. Statement on the Company's Financial Position
3. Statement on Changes in Equity
4. Statement on Cash Flow
5. Notes to Financial Statements
6. Annual Report on the Status of the Company.

III

The Statement on Total Income for the business year 2013, in which the profit in the amount of HRK 60.601 thousand has been declared, is hereby established.

The Statement on Financial Position as of 31 December 2013 shows the sum of assets and liabilities, respectively, in the amount of HRK 3.458.157 thousand.

IV

The Annual Report of the Management Board of PODRAVKA Inc. on the business operations of PODRAVKA Inc. and its related companies and of the Status of the Company for the business year 2013 is hereby established.

V

This Decision shall enter into force on the day of its adoption.

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 173

President of the Supervisory Board:

Dubravko Štimac