Podravka Group Business Results

for 1-12 2014 period

CONTENT

Key indicators in 2014

(in HRK millions)	**2014**	**2013[1]**	**% change**
Sales revenue	3,502.6	3,626.0	(3.4%)
Normalized Gross profit	1,476.6	1,507.8	(2.1%)
Normalized Gross profit margin	42.2%	41.6%	+57 bp
Normalized EBITDA	380.5	423.6	(10.2%)
Normalized EBITDA margin	10.9%	11.7%	-82 bp
Normalized Net profit after MI	182.6	200.0	(8.7%)
Normalized Net profit margin after MI	5.2%	5.5%	-30 bp
Cash flow from operating activities	286.9	291.8	(1.7%)
Capital expenditures	163.0	96.4	69.1%

(in HRK; market capitalization in HRK millions)	**31.12.2014**	**31.12.2013**	**% change**
Net debt[2] / Normalized EBITDA	2.3	2.1	7.6%
TTM Earnings per share	33.7	36.9	(8.7%)
Last price at the end of period	293.5	254.6	15.3%
Market capitalization	1,590.6	1,379.7	15.3%

Normalized – indicates that the figure is without one-off items.

[1] A reclassification has been made for 2013 within particular functional parts of the Profit and Loss Account, whereby the most significant part refers to banking fees that have been, due to their nature, reallocated from General expenses to Financial expenses.
[2] Net debt calculated as: non-current borrowings + current borrowings + financial liabilities at fair value through profit and loss - cash and cash equivalents.

Significant events in 2014

Refinancing of loan liabilities

In early July Podravka signed a syndicated loan contract with the European Bank for Reconstruction and Development and three other commercial banks (Erste Group Bank AG, Raiffeisen Bank International AG and Unicredit Bank Austria AG) in the amount of EUR 73.4 million. With this contract Podravka has refinanced its existing loans at significantly lower interest rates and prolonged due dates.

The European Bank for Reconstruction and Development, as the arranger of this syndication participated with EUR 30.0 million of own funds, whilst EUR 43.4 million were provided from other banks in the syndication - Erste Group Bank AG, Raiffeisen Bank International AG and Unicredit Bank Austria AG. In the previous years Podravka has achieved significant improvements at both operating and financial levels, which the European Bank for Reconstruction and Development and the syndicated banks have recognised and signed this contract confirming their trust in the stability and business operations of our company. With this facility Podravka continues its restructuring process, with the aim of further regional and international growth and development.

The stated amount will be used to restructure the company balance sheet, and savings in the amount of HRK 7.5 million are expected on interest expenses by the end of 2015. The loan term is five years, where 75% of the loan is amortized with equal quarterly payments of the principal, starting as of 16 November 2014. The remaining EUR 17.6 million is due in the final instalment. Significantly reduced costs of financing will make investment opportunities even more attractive and thus contribute to Podravka's future growth.

Continuation of the restructuring process

Podravka continued restructuring its business operations in 2014 by closing the low-profit segment of the bakery in early April, whilst at the end of the last year the company discontinued the segments of fresh meat and frozen food which we believe will have an impact on the further increase in profitability. In the beverages segment, which is classified as a programme Podravka needs to divest, the optimizing of operations has continued, thus resulting in better cost structure, better gross margins and positive EBITDA level. In June Podravka together with JM Fundus d.o.o. and Questus Private Equity d.o.o. submitted a joint non-binding offer to the public tender for strategic alliance and capital increase of the company BADEL 1862 d.d.. Upon the completion of the due diligence process, the company could not provide a sufficient amount of data required for the adoption of strategic decisions therefore a binding bid was not submitted, whilst the process of collecting bids for strategic alliance and capital increase finished in September with the refusal of the only binding offer. Podravka continues its intensive search for a beverages segment buyer.

In accordance with the company's restructuring process, in 2014 Podravka initiated two redundancy programmes. The first programme was initiated at the beginning of 2014 and ended as at 31 March 2014. This programme covered 218 employees in 2014, while the total number of employees who left the company and received severance payments in 2014 is 420. Thus, in 2014 severance payments amounted to HRK 59.3 million (accrued and paid in 2014). The saving in the entire 2014 on the basis of these 420 employees amounts to HRK 41.1 million. The second programme was initiated at the end of 2014 and ended as at 31 January 2015. Under this programme, 82 employees accepted voluntary redundancy in exchange for severance payments. These 82 employees were employed by the company during the entire 2014 and they leave the company in 2015 with the total severance payments cost of HRK 11.8 million (accrued in 2014, paid in 2015). The saving that will be made in 2015 on the basis of the employees who left the company with severance payments in 2014 and those who accepted voluntary redundancy in exchange for severance payments until 31 January 2015 amounts to HRK 53.6 million. By the severance programmes, Podravka solves redundancy in a socially responsible way, and at the same time forms the basis for hiring younger professionals, thus creating presumptions for the company's further growth and development.

Acquisition of PIK Vrbovec d.d. canned meat programme and brands

On 7 April 2014 contracts were signed on the transfer of trademarks, recipes and equipment and on acquiring the business of production and sales of canned meat pâtés and canned meat products between the companies Podravka Inc. and PIK Vrbovec d.d. These contracts have enabled Podravka Inc. to take over the canned meat programme and brands of PIK Vrbovec d.d. for further production and sales in all markets. This acquisition has significantly increased Podravka's market share, thus taking a solid second place in the segment of meat pâté, and with a good position for expansion into regional markets. This strategic acquisition has strengthened one of the most profitable categories in the segment of meat and meat products, all in accordance with the present focus, strategic portfolio optimization and recent capital investments in this category. Increasing the production by controlling the supply chain has opened the potential for achieving cost synergies. The potential for synergy also exists through the increased use of the existing operational potentials of Podravka.

Acquisition of shares of Mirna d.d. from Rovinj

On 25 August 2014, at public auctions for the sale of shares of Mirna d.d. through the trading system of Zagrebačka burza d.d. in the procedure of out-of-court settlement, Podravka d.d. acquired 198,209 shares of Mirna d.d., which represents 53.9% of the total issued shares of the company. Podravka d.d. acquired shares of Mirna d.d. at HRK 38.02 per share, or for a total of HRK 7.5 million. The shares of the company carried the voluntary lien on behalf of Podravka d.d. as security for loans granted by Podravka during 2009.

By acquiring these shares, on 29 September 2014 Podravka d.d., in accordance with the Act on the Takeover of Joint Stock Companies, issued a bid for taking over the remaining shares of Mirna d.d. at the price of HRK 38.02 per share, other than those carrying pledges. The takeover bid was accepted by seven shareholders, whereby Podravka d.d. acquired additional 37,153 shares, or additional 10.09% of the total issued shares of Mirna d.d. Following the takeover bid, Podravka d.d. became the holder of 235,362 shares of Mirna d.d. or 63.95% of the total issued shares.

On 21 November 2014, the General Assembly of Mirna d.d. was held, where the following members of the Supervisory Board of Mirna d.d. were dismissed: David Ilijevski, member and president of the Supervisory Board, Željko Bošnjak, member and vice president of the Supervisory Board, and Ivana Jagačić, member of the Supervisory Board. New members of the Supervisory Board of Mirna d.d. were appointed: Mario Baburić, Branka Perković and Marina Diminić Visintin, as representatives of Podravka. Following the General Assembly of Mirna d.d., a constituent meeting of the Supervisory Board of Mirna d.d. was held, where the decision was made to appoint Vladimir Bunić as the sole member of the Management Board and director of Mirna d.d., and to recall and cancel all mandates issued by the previous Management Board.

In relation to the public auction of shares of Mirna d.d. and the Company's previous lien on these shares, legal proceedings were initiated following a lawsuit by third parties, including also the ownership right over shares in company Ribolov d.o.o., a subsidiary of Mirna d.d. In addition, in December 2014, Management of Mirna d.d. submitted a request to initiate the pre-bankruptcy settlement proceeding following the freezing of Mirna d.d. account, which was rejected. However, as at 29 January 2015, the Commercial Court in Rijeka decided to initiate the preliminary procedure for determining whether the conditions are met for initiating the bankruptcy procedure of the company Mirna d.d. As part of this, the temporary bankruptcy manager was appointed, and the hearing was scheduled for 30 March 2015.

Although as at 31 December 2014 Podravka d.d. held 63.95% shares of Mirna d.d. with voting rights and managed the company's processes through the appointed Management Board, due to significant legal uncertainties related to initiated but not finalised legal actions, significant operational restrictions in the company management related to the frozen account and significant administrative uncertainties related to possible initiation of bankruptcy procedure whereby the control over the company would be taken by the bankruptcy manager, Podravka d.d. considers that the conditions which would result in gaining control over the company Mirna d.d. and consequently in the consolidation of the company into the Group have not been met.

Termination of production in Poland

Following the accession of Croatia to the European Union and entering the zone of free movement of goods across EU member states, Podravka decided to produce the same product types for EU markets on a single location, in Koprivnica. Accordingly, for the purpose of further operations rationalization, the decision was made to terminate the production in Podravka's Polish plant in Kostrzyn, operating within Podravka's subsidiary, Polska Sp.z.o.o.

The process of terminating the production in Poland began as of 15 December 2014, and should be finalised until 31 March 2015. Podravka Polska Sp. z.o.o. will, as agreed with unions, pay termination benefits to approximately 45 employees through the redundancy programme.

This decision will have positive impacts on operations in 2015 through an increase in the utilization of production capacities in plants in Koprivnica, whereby costs will be reduced per product unit, and through lower staff costs. The decision on closing production capacities in Poland is expected to have no negative impact on Podravka's sales in Poland and the existing product range offered to Polish customers will be further extended.

Euromoney award for business leadership

Podravka has been acknowledged as the "Best Managed Company in CEE" in the opinion poll of the prominent magazine Euromoney. Podravka's leadership has been rated very high out of 50 companies whose business was analyzed on the grounds of extensive data by a special expert team under Euromoney sponsorship. This year Podravka has made the greatest progress among all companies in Central and Eastern Europe and was ranked in the very top of the best-managed companies in Croatia. The survey involved analysts from leading international banks and institutions who nominated best-run companies taking into account the business strategy, corporate governance system, the availability of senior management, transparency, value for shareholders, informativeness and efficiency of web pages, etc.

Strong innovation cycle in food

During 2014, Podravka had a strong innovation cycle across all food categories, in the domestic market as well as in many international markets.

In the **culinary category** in the markets of Croatia and Slovenia, the product portfolio has been extended with Podravka broths, a completely new modern generation of products. In addition, in the Croatian market Podravka has entered the category of monospices where it has not been present until now, while in the Polish market it has launched Vegeta cubes and Vegeta marinade, thus also entering new categories in this market. Vegeta cubes have also been launched to the market of Hungary, which is a significant step forward for the Vegeta brand in

the markets of Central Europe. A new line within cream soups has been introduced in the soup segment in the market of Croatia, *Richness of vegetables,* a unique combination of ingredients and the rich vegetable flavour. The segment of dish mixes with the Fant brand has been added new product lines in the regional markets[3] and in the USA.

In the **category of baby food, breakfast cereals and other food**, the existing portfolio has been

extended in the regional markets with extensions of the existing products, but also with new product categories, mainly in the segment of baby food and breakfast cereals,

such as baby biscuits, semolina and impulsive range, where Lino vafelades represent the most

important product. During 2014, efforts were also made to consolidate complementary categories of fish, tomato, pasta and sauces into a single Mediterranean concept with the main aim to further build up the Mediterranean category and consolidate the communication platform for the Mediterranean food.

In the **category of sweets, snacks and beverages** there was an extension of the range of powdered sweets in the ready-made sweets line (innovation in no-bake cake mixes Dolcela Cheesecake and Chococake), Želina line, baking additives line, frozen desserts and base products for the preparation of sweets (e.g. coconut, ground sugar, cocoa, etc.) in the regional markets under the Dolcela brand, and three new flavours of Kviki crackers in the snack segment.

In the **meat products category** there was a significant change in the pâtés subcategory in April when, by acquiring Piketa and Classic brands from the company PIK Vrbovec, Podravka became the strong second seller of pâtés in the Croatian market, with the tendency of further strengthening

and growth in the regional markets. In the subcategory of sausage products, the focus in 2014 was on the internationalization of the existing product range (to the markets of Macedonia, Sweden, Bosnia and Herzegovina) and on the extension of the product range in the value segment in the Croatian market (through the "Danica" brand). At the end of the year, the product range in the Croatian market was extended by new products, Špek salama, XXL Gurmanske kobasice and Safalada.

In September 2014 the **prescription drugs category** launched to the Croatian market Eminens SR prolonged release tablets used to treat Parkinson's disease. Since March 2014,

[3] Regional markets include: Bosnia and Herzegovina, Slovenia, Serbia, Montenegro, Macedonia, Kosovo.

Moksonidin tablets with central effect on the central nervous system have been available on the market, being the second generic parallel to the originator. Since April 2014, VINER MINT chewing tablets, used for erectile dysfunction, have also been available on the market.

In 2014, the **non-prescription programme category** was extended by two new products of the Lupocet brand: Lupocet 500 mg and Lupocet forte 1000 mg. Lupocet 500 mg is used to relieve pain and to reduce fever in adults and children aged over 4 years. Lupocet forte 1000 mg is used to relieve mild to moderate pain (including osteoarthritis) and to reduce fever in adults and children aged over 16 years.

Strength and quality of Podravka products

According to research from Best Buy Award (award for the best price-quality ratio) conducted in Bosnia and Herzegovina, Serbia, Slovenia and Croatia for the period 2013/2014 and 2014/2015 Podravka is the food brand which has won the most first places among all tested countries in the region, in as many as 11 categories (Vegeta universal food seasonings, Podravka instant soups, Dolcela vanilla sugar and baking powder, Kviki salty sticks, Lino cream spread, Podravka flour, Podravka ready-made sauces, Podravka canned vegetables, Podravka jam, Podravka mustard and Eva canned fish.

In the markets of both Slovakia and the Czech Republic Podravka won the Superbrands 2014 award for Vegeta that is sold in this market under the name Podravka, thereby confirming its strength and brand awareness. Podravka had already received this award, given by the leading experts in Slovakia, in 2006 and in 2013.

Vegeta as the strongest brand in universal food seasonings in the Polish market was awarded the Laur consumenta of the decade for the period 2004 – 2014. It is the most prestigious award a product can be given in Poland that has placed Vegeta alongside global brands.

Seven of Podravka's products received recognition for superior quality and taste from the International Taste and Quality Institute – Superior Taste Award 2014 in Brussels. The winners are decided by a jury of 120 top chefs, sommeliers and experts coming from 12 most famous European culinary associations. The award went to Podravka lemon and lime tea, plum flavoured tea, Vegeta marinade with garlic, Podravka beef

goulash, and three types of stock – chicken, beef and vegetable broth. These results allow the awarded Podravka products to communicate the internationally recognized quality label «Superior Taste Award» on their packaging over the next three years, thus establishing them among high quality food products. Podravka has so far won 34 Superior Taste Awards as a result of continual investments in production, food safety and customer satisfaction.

Podravka has for the first time won the award for best packaging on the Croatian market, CROPAK OF THE YEAR 2014 for *creamy, rich soups*. Packaging is the basic and most durable means of communication, which at the point of sale has a major role in attracting consumers to purchase. The award-winning design is the result of the work of a large team of Podravka's top experts.

Halal certificates

Four Podravka factories have received Halal certificates from the Centre for Halal Quality Certification – Vegeta and Soups Factory, Baby Food Factory, Fruit Factory and Kalnik Factory. The certificates certify that the products in these factories are produced according to Halal requirements and standards and are suitable for consumption to people of Muslim faith. The company has moved forward to the markets where Halal certification is a prerequisite for products to be sold. The fact that 70 percent of the Muslim community around the world live and feed in accordance with Halal standards, so that the global Halal market is a population of 1.6 billion Muslims in the world, indicates the very scope of the underlying potential.

Significant events after the balance sheet date

New organization of markets management and further strengthening of international operations

In the Podravka d.d. Management Board meeting held on 13 January 2015, the decision was made to form new market regions and to further strengthen business internationalization. There are four newly-formed regions: the Adria region including the market of Croatia and the previous South East Europe market, the Europe region including the previous markets of Western Europe and Central Europe, the Russia, CIS and Baltic region and the New markets region including America, Asia, Australia and Africa. The new organisation of markets management significantly simplifies the previous markets management complexity, increases the opportunities for a more efficient utilisation of own size and knowledge and provides a better and more cost efficient support to markets where the Podravka Group operates.

One of the preconditions for the commencement of operations in international markets estimated as very potent was to register Podravka's company in Dubai (United Arab Emirates), and the procedures for the registration of a company in Dar es Salaam (Tanzania) and the representative office in Beijing (China) have been initiated.

Sales by strategic business areas in 2014

	REPORTED			NORMALIZED		
(in HRK millions)	2014	2013	2014/2013	2014	2013	2014/2013
SBA Food and Drinks	2,662.4	2,774.7	(4.1%)	2,556.7	2,572.5	(0.6%)
SBA Pharmaceuticals	840.3	851.3	(1.3%)	867.4	851.3	1.9%
Podravka Group	3,502.6	3,626.0	(3.4%)	3,424.1	3,423.7	0.0%

***Normalized:** excluding programmes under restructuring, acquisition of PIK product range and effect of foreign exchange differences. Foreign exchange differences were calculated as the difference between sales in kuna at the 2014 exchange rate and sales in kuna at the 2013 exchange rate of the companies that are consolidated.

Strategic Business Area Food and Drinks impacted by the the programmes under restructuring and foreign exchange losses:

- HRK -94.8 million negative impact of programmes under restructuring,
- HRK -13.7 million net effect of foreign exchange differences,
- adverse weather conditions during the summer season negatively impacted sales in the beverages segment,
- poor macroeconomic situation and pressure on business by foreign competition and private labels in the largest market with respect to sales, the Croatian market.

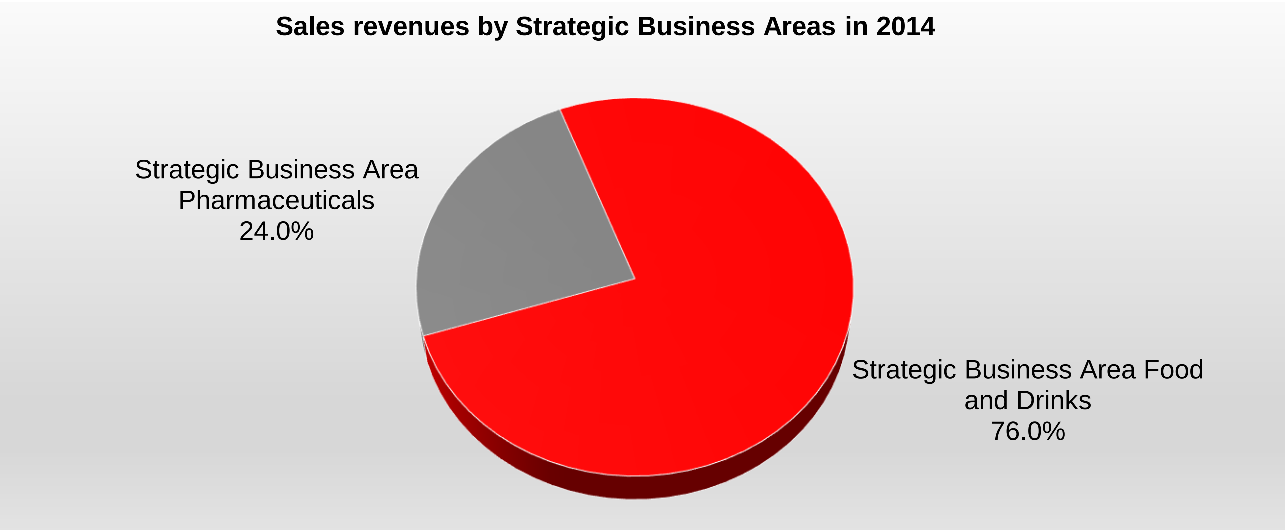
Strategic Business Area Pharmaceuticals impacted by external factors:

- estimated impact of HRK -57.2 million due to the decision by the Croatian Health Insurance Fund to decrease the prices of prescription drugs in May 2013 and February 2014,
- HRK -27.1 million net effect of foreign exchange differences,
- if the effect of foreign exchange differences is excluded, there was a 1.9% increase in sales, while if the estimated effect of the prescribed decrease in drug prices is also excluded, the increase is 8.6%.

The most significant impact on reported sales of the **Strategic Business Area Food and Drinks** was recorded by the programmes under restructuring. As part of the restructuring process, at the end of 2013 the company abandoned unprofitable segments of fresh meat and frozen food, in April 2014 it abandoned the unprofitable bakery segment, while the beverages segment was classified as held for sale and the scope of its operations was reduced. As a result of abandoning these programmes, and their restructuring, the sales recorded in 2014 are lower by HRK 94.8 million compared to the same period of 2013.

Foreign exchange differences (especially related to the Czech koruna and Australian dollar) also significantly contributed to the decrease in reported sales, whereby this income would have been higher by HRK 13.7 million if the exchange rates had remained at the 2013 levels.
If sales of the programmes under restructuring, the acquisition of the PIK product range and the effect of foreign exchange differences are excluded in both years, the food segment would record sales mildly below the last year's, primarily due to the domestic market.

Reported sales of the **Strategic Business Area Pharmaceuticals** in 2014 were impacted by two negative factors that the company was unable to fully compensate by increasing the sales volume on one hand or by some forms of foreign exchange risk hedge on the other.
In May 2013 and February 2014, the Croatian Health Insurance Fund prescribed a decrease in prices of a large portion of prescription drugs, resulting in a direct negative effect on sales of this category in the Croatian market, estimated at HRK 57.2 million. The negative effect of this prescribed price reduction is partly compensated by a 7.0% volume growth in the market of Croatia.
Furthermore, the decrease in value of the Russian ruble against the Croatian kuna, but also many other currencies, resulted in lower sales recorded in kuna. If the Russian ruble exchange rate had remained at 2013 levels, HRK 29.3 million higher sales would have been recorded in kuna. It should be pointed out that the volume of sales in the Russian market is higher by 4.9% and in Russian rubles by 13.0%. If the effect of foreign exchange differences is excluded, sales of the pharmaceuticals segment are 1.9% higher, and if the estimated effect of the prescribed decrease in prices of prescription drugs is also excluded, the growth in sales would be 8.6%.



Sales revenue per category in 2014

	REPORTED			NORMALIZED*		
(in HRK millions)	2014	2013	2014/2013	2014	2013	2014/2013
Culinary	899.4	931.2	(3.4%)	902.0	931.2	(3.1%)
Sweets, snacks and beverages	261.8	300.2	(12.8%)	171.3	173.8	(1.4%)
Baby food, breakfast foods and other food	887.3	913.3	(2.8%)	888.8	893.9	(0.6%)
Meat products	300.8	280.9	7.1%	278.4	268.9	3.5%
Prescription drugs	597.1	615.6	(3.0%)	623.5	615.6	1.3%
Non-prescription programme	90.0	83.9	7.4%	91.6	83.9	9.2%
Other sales	466.2	501.0	(7.0%)	468.5	456.5	2.6%
Podravka Group	3,502.6	3,626.0	(3.4%)	3,424.1	3,423.7	0.0%

***Normalized:** excluding programmes under restructuring, acquisition of PIK product range and effect of foreign exchange differences. Foreign exchange differences are allocated to categories according to the sales structure in 2014 of the companies that are consolidated.

If the negative effect of foreign exchange differences is excluded, the prescription drugs category recorded 1.3% higher sales:

- **Culinary category** → sales growth in the market of Western Europe, especially Germany, did not compensate the negative effect of results in the markets of Poland, Croatia and Slovenia,
- **Sweets, snacks and beverages category** → reported sales were negatively impacted by the programmes under restructuring and adverse weather conditions during the summer season,
- **Baby food, breakfast foods and other food category** → reported sales were negatively impacted by the programmes under restructuring and lower results in the Slovenian market, while the Mediterranean food subcategory recorded sales growth,
- **Meat products category** → strong growth in sales of the sausage products subcategory in the Croatian market,
- **Prescription drugs category** → volume sales growth in the Croatian and Russian markets resulted in the sales growth of 1.3%, excluding the effect of foreign exchange differences, while the prescribed decrease in prices of prescription drugs by the Croatian Health Insurance Fund and negative effect of foreign exchange differences reduced reported sales,
- **Non-prescription programme category** → sales growth in the Croatian market and the market of Eastern Europe,
- **Other sales category** → reported sales were negatively impacted by programmes under restructuring.

CULINARY CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	899.4	931.2	(3.4%)
Programmes under restructuring	-	-	n/a
Positive / (negative) foreign exchange impact	(2.6)	-	n/a
Normalized sales revenues	902.0	931.2	(3.1%)

Sales of the **culinary category** in 2014 were negatively impacted by foreign exchange differences and lower results in the markets of Poland, Croatia and Slovenia. In the Polish market, deliveries were intentionally decreased in the fourth quarter in order to optimise inventories at distributors and sellers. The culinary category in the Croatian market in 2014 was negatively impacted by poor macroeconomic situation, as well as under the pressure on business by foreign competition and private labels. In line with internal procedures of risk management, in the fourth quarter of 2014 the company intentionally reduced the exposure to some key customers in the Slovenian market, which was especially reflected on lower deliveries of the culinary category product range. We should point out the growth in sales of the culinary category in the market of Western Europe, especially German, Austrian and Scandinavian markets, as a result of achieving the strategic goal of strengthening positions in Western Europe.

SWEETS, SNACKS AND BEVERAGES CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	261.8	300.2	(12.8%)
Programmes under restructuring	90.4	126.4	(28.5%)
Positive / (negative) foreign exchange impact	0.1	-	n/a
Normalized sales revenues	171.3	173.8	(1.4%)

Reported sales of the **sweets, snacks and beverages category** were negatively impacted by the beverages subcategory which is classified as a programme being abandoned by the company, mainly present in the Croatian market. The beverages subcategory was, other than the reduced scope of operations following the decision on abandoning the subcategory, negatively affected by adverse weather conditions in 2014. **If the effects of the beverages subcategory and foreign exchange differences are excluded**, sweets and snacks recorded sales slightly below the last year's level, as a result of lower sales in the Slovenian market, which was a consequence of the intentionally decreased exposure to some key customers.

BABY FOOD, BREAKFAST FOOD AND OTHER FOOD CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	887.3	913.3	(2.8%)
Programmes under restructuring	3.2	19.4	(83.3%)
Positive / (negative) foreign exchange impact	(4.7)	-	n/a
Normalized sales revenues	888.8	893.9	(0.6%)

Reported sales of the **baby food, breakfast foods and other food category** in 2014 were negatively impacted by programmes under restructuring, which the company abandoned at the end of 2013 (frozen food) and at the beginning of April 2014 (bakery). These programmes were fully present in 2013, so the comparative period is higher. Analysing the category **without programmes under restructuring and foreign exchange differences**, recorded sales was slightly lower than the last year's as a result of lower sales in the Slovenian market, which was a consequence of the intentionally decreased exposure to some key customers. The strongest growth was achieved by the Mediterranean food subcategory with the Eva brand and tomato-based products.

MEAT PRODUCTS CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	300.8	280.9	7.1%
Programmes under restructuring and PIK	22.5	11.9	88.6%
Positive / (negative) foreign exchange impact	(0.1)	-	n/a
Normalized sales revenues	278.4	268.9	3.5%

In 2014, the **meat products category** recorded a 7.1% growth in reported sales, as a result of a double-digit growth rate of the sausage products subcategory in the Croatian market. The category was negatively impacted by the programme under restructuring, abandoned by the company at the end of 2013 (fresh meat) and positively impacted by the acquisitions of a portion of the PIK product range. **If the effect of the programmes under restructuring, acquisition of a portion of the PIK product range and foreign exchange differences are excluded,** the category recorded 3.5% higher sales.

PRESCRIPTION DRUGS CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	597.1	615.6	(3.0%)
Programmes under restructuring	-	-	n/a
Positive / (negative) foreign exchange impact	(26.4)	-	n/a
Normalized sales revenues	623.5	615.6	1.3%

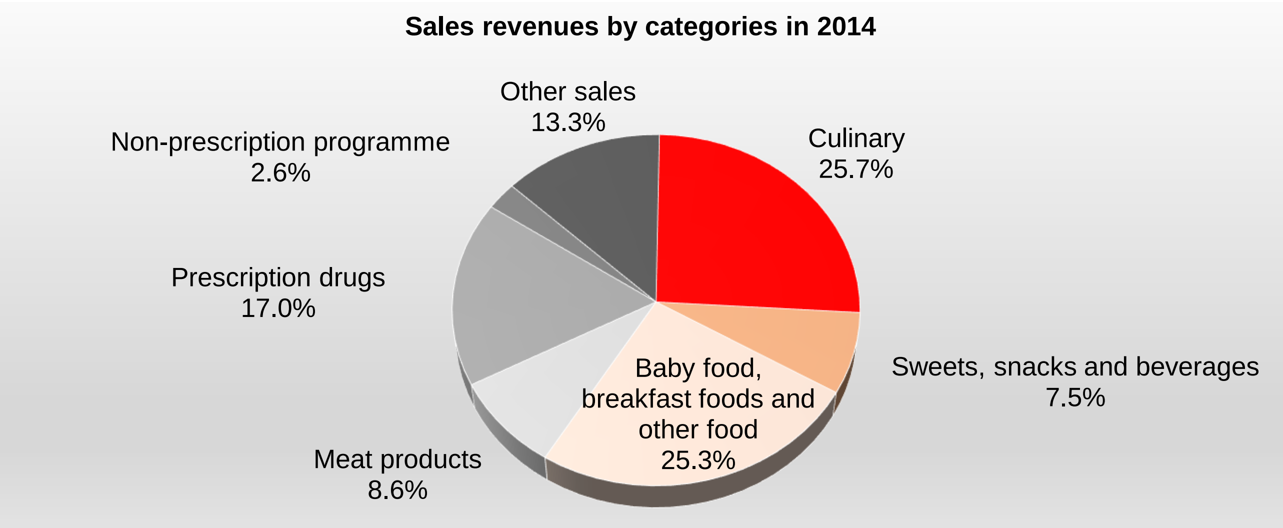
Reported sales of the **prescription drugs category** in 2014 were negatively affected by the decision of the Croatian Health Insurance Fund on the decrease in prices of prescription drugs in the market of Croatia in May 2013 and February 2014. The estimated effect of this decision is a decrease in sales of HRK -57.2 million. It is important to note that in 2014 sales in the Croatian market were 7.0% higher in terms of volume compared to 2013, which mitigated the effect of the prescribed decrease in prices of prescription drugs. The second negative effect is attributed to the depreciation of the Russian ruble, causing a drop in sales of HRK 29.3 million. We should point out that the reported income relates to sales by the Podravka Group to the distributors in Russia, while the sales of the distributors in the Russian market are higher in terms of volume by 4.9%, and in the local currency by 13.0%. The positive effect is recorded in the markets of Bosnia and Herzegovina and Poland, where a double-digit growth rate in sales was achieved. **If the effect of foreign exchange differences is excluded**, sales of the prescription drugs category were 1.3% higher compared to 2013.

NON-PRESCRIPTION PROGRAMME CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	90.0	83.9	7.4%
Programmes under restructuring	-	-	n/a
Positive / (negative) foreign exchange impact	(1.5)	-	n/a
Normalized sales revenues	91.6	83.9	9.2%

The **non-prescription programme category** recorded a growth in reported sales of 7.4%, mainly due to the growth in sales of the OTC medicine subcategory in the Croatian and Russian markets. **If the effect of foreign exchange differences is excluded**, the non-prescription programme category achieved a growth in sales of 9.2%.

OTHER SALES CATEGORY			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	466.2	501.0	(7.0%)
Programmes under restructuring	3.2	44.5	(92.8%)
Positive / (negative) foreign exchange impact	(5.5)	-	n/a
Normalized sales revenues	468.5	456.5	2.6%

Reported sales of the **other sales** category in 2014 were negatively impacted by the abandoning of a programme under restructuring (cooled products distribution) at the end of 2013, whereby the comparative period is higher. **If the effect of the programme under restructuring is excluded**, a 2.6% growth in sales was achieved, largely affected by the distribution of the Zvečevo product range in the market of Bosnia and Herzegovina.



Sales by markets in 2014

	REPORTED			NORMALIZED		
(in HRK millions)	2014	2013	2014/2013	2014	2013	2014/2013
Croatia	1,436.8	1,594.5	(9.9%)	1,328.5	1,406.3	(5.5%)
South-East Europe	960.0	929.5	3.3%	948.4	916.1	3.5%
Central Europe	540.6	546.6	(1.1%)	550.8	546.6	0.8%
Western Europe	190.4	174.9	8.9%	189.8	174.9	8.6%
Eastern Europe	239.3	242.1	(1.1%)	268.5	242.1	10.9%
Overseas and New Markets	135.5	138.4	(2.1%)	138.1	137.8	0.2%
Podravka Group	3,502.6	3,626.0	(3.4%)	3,424.1	3,423.7	0.0%

***Normalized:** excluding programmes under restructuring, acquisition of a portion of PIK product range and effect of foreign exchange differences. Foreign exchange differences are allocated to markets according to the registered address of a company that is consolidated. Thereby, foreign exchange differences resulting from the consolidation of the company in the Czech Republic are allocated to Central Europe.

Foreign markets grew by 3.9% if the programmes under restructuring and effect of foreign exchange differences are excluded:

- **The market of Croatia** → reported sales negatively impacted by the programmes under restructuring, the prescribed decrease in prices of prescription drugs by the Croatian Health Insurance Fund, poor macroeconomic situation and pressures on business by foreign competition and private labels,
- **The market of South-East Europe** → sales growth recorded in most countries, lower sales in the Slovenian market due to an intentionally decreased exposure to some key customers,
- **The market of Central Europe** → reported sales negatively impacted by foreign exchange differences and lower service production (other sales),
- **The market of Western Europe** → sales growth in all categories, primarily the culinary category in the market of Germany,
- **The market of Eastern Europe** → reported sales negatively impacted by foreign exchange differences, however, volume growth and growth in local currency are recorded in the market of Russia in the food and pharmaceuticals segments,
- **Overseas Countries and New Markets** → reported sales negatively impacted by foreign exchange differences, changed distribution model in Australia and replacement of the distributor in the USA.

THE MARKET OF CROATIA			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	1,436.8	1,594.5	(9.9%)
Programmes under restructuring and PIK	108.3	188.3	(42.5%)
Positive / (negative) foreign exchange impact	-	-	n/a
Normalized sales revenues	1,328.5	1,406.3	(5.5%)

Reported sales of the **market of Croatia** were negatively impacted by the programmes under restructuring (from the beginning of 2014 there are almost no sales of fresh meat and frozen programme, from April 2014 there are no sales of bakery products, while in the beverages segment, classified as held for sale, the scope of operations has been decreased) and the decision to decrease the prices of prescription drugs by the Croatian Health Insurance Fund in May 2013 and February 2014. The estimated effect of the prescribed decrease in prices of prescription drugs is HRK 57.2 million. **If the programmes under restructuring and the acquisition of the PIK product range are excluded**, sales in the market of Croatia are 5.5% lower, particularly reflected in lower sales of the culinary category and the baby food, breakfast foods and other food category. The drop in sales of these categories was partly mitigated by the growth in sales of the sausage products subcategory and the non-prescription programme category. It should also be mentioned that the overall operations in the Croatian market were impacted by the unfavourable economic situation characterized by the trend of a decrease in gross domestic product in all three quarters of 2014, a high average registered unemployment rate of 19.7%, and the decrease in prices of food and non-alcoholic beverages of 2.2%[4]. The pressure of competition could also be felt, by renowned brands as well as by private labels, aimed at increasing their market shares primarily through discount prices.

THE MARKET OF SOUTH-EAST EUROPE[5]			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	960.0	929.5	3.3%
Programmes under restructuring	9.9	13.4	(26.2%)
Positive / (negative) foreign exchange impact	1.8	-	n/a
Normalized sales revenues	948.4	916.1	3.5%

The market of South-East Europe recorded a 3.3% growth in reported sales, while **normalized sales**, excluding the sales of programmes under restructuring and foreign exchange differences,

[4] The source of these macroeconomic data: Croatian Bureau of Statistics.
[5] The market of South-East Europe: Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Slovenia, Serbia.

grew by 3.5%. The sales growth was recorded in all markets of South-East Europe, except for the Slovenian market due to an intentional decrease in exposure to some key customers. In the fourth quarter of 2014, Podravka intentionally reduced deliveries to some key customers in the Slovenian market in order to decrease its exposure to them, in line with internal procedures for receivables risk management.

THE MARKET OF CENTRAL EUROPE[6]			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	540.6	546.6	(1.1%)
Programmes under restructuring	0.0	0.0	578.4%
Positive / (negative) foreign exchange impact	(10.2)	-	n/a
Normalized sales revenues	550.8	546.6	0.8%

Note: for the purpose of adjustment with internal reporting, the market of Central Europe has been reclassified where the markets of Bulgaria and Romania have been transferred from the markets of Eastern Europe to the markets of Central Europe.

Reported sales of the **market of Central Europe**, negatively impacted by foreign exchange differences and lower service production (classified as other sales), recorded 1.1% lower sales in 2014. **If the effects of the programmes under restructuring and foreign exchange differences are excluded**, sales in 2014 are slightly higher compared to 2013. Double-digit growth in sales of the prescription drugs category in the market of Poland should be pointed out, while in the food segment, deliveries were intentionally decreased in the fourth quarter in order to optimise inventories at distributors and sellers.

THE MARKET OF WESTERN EUROPE[7]			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	190.4	174.9	8.9%
Programmes under restructuring	-	-	n/a
Positive / (negative) foreign exchange impact	0.5	-	n/a
Normalized sales revenues	189.8	174.9	8.6%

The market of Western Europe records an 8.9% increase in reported sales in 2014 compared to 2013. The large majority of the markets of Western Europe recorded growth in sales, especially significant in the markets of Germany, Austria and Scandinavia. **If the effect of foreign exchange differences is excluded**, the market of Western Europe recorded an increase in sales of 8.6%.

[6] The market of Central Europe: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia.
[7] The market of Western Europe: Austria, Italy, Germany, Scandinavia, Switzerland, other Western European countries.

THE MARKET OF EASTERN EUROPE[8]			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	239.3	242.1	(1.1%)
Programmes under restructuring	-	-	n/a
Positive / (negative) foreign exchange impact	(29.2)	-	n/a
Normalized sales revenues	268.5	242.1	10.9%

Note: for the purpose of adjustment with internal reporting, the market of Eastern Europe has been reclassified where the markets of Bulgaria and Romania have been transferred from the markets of Eastern Europe to the markets of Central Europe.

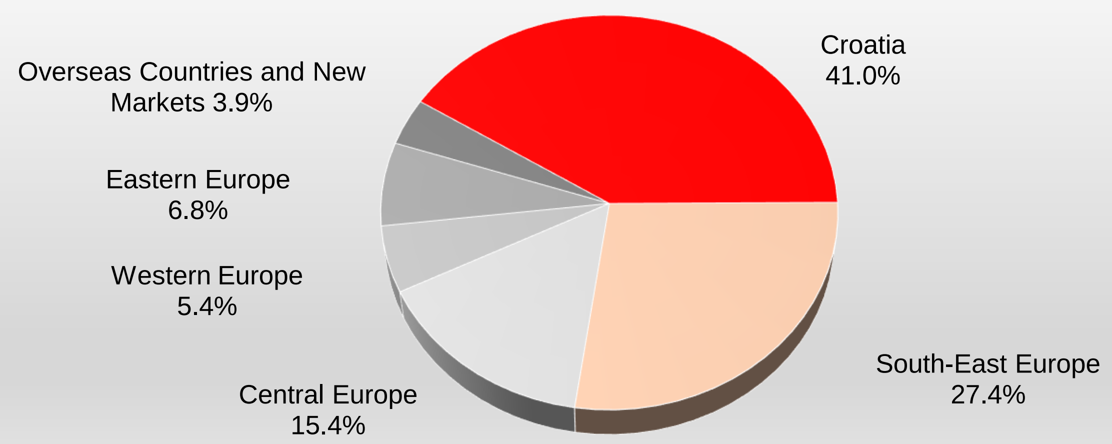
Reported sales of the **market of Eastern Europe** were negatively impacted by the depreciation of the Russian ruble resulting in 1.1% lower reported sales in the period under consideration. **If the effect of foreign exchange differences is excluded**, sales are 10.9% higher compared to 2013. It should be pointed out that sales in the market of Russia present the sales of the Podravka Group to its distributors, not the sales to customers in the market itself. The sales of the Podravka Group's products by the distributors in the Russian market in the food segment are 25.0% higher with respect to the volume, and in the local currency 22.0% higher, while in the pharmaceutical segment they are 4.9% higher with respect to the volume, and in the local currency 13.0% higher. These results indicate that the demand for the Podravka Group's products is increasing.

[8] The market of Eastern Europe: the Baltic states, Russia, Ukraine, other Eastern European countries.

OVERSEAS COUNTRIES AND NEW MARKETS[9]			
(in HRK millions)	2014	2013	2014/2013
Reported sales revenues	135.5	138.4	(2.1%)
Programmes under restructuring	-	-	n/a
Positive / (negative) foreign exchange impact	(3.7)	-	n/a
Normalized sales revenues	139.2	138.4	0.6%

Reported sales of **Overseas Countries and New Markets** were negatively impacted by the depreciation of the Australian and American dollar. **If the effect of foreign exchange differences is excluded**, sales are slightly higher by 0.6% compared to the same period of the previous year. The changed distribution model in the market of Australia and replacement of the distributor in the market of the USA had additional negative effects on sales. These activities resulted in a short-term change in the delivery dynamics.

Sales revenues by markets in 2014



[9] Overseas Countries and New Markets: Africa, Australia, Middle East, Canada, USA, other countries.

Profitability in 2014

Profitability of the Strategic Business Area Food and Drinks in 2014

SBA F&D	REPORTED RESULT			EXCLUDING ONE-OFF ITEMS		
(in HRK millions)	**2014**	**2013**	**% change**	**2014**	**2013**	**% change**
Sales revenue	2,662.4	2,774.7	(4.1%)	2,662.4	2,774.7	(4.1%)
Gross profit	1,012.4	1,018.6	(0.6%)	1,013.1	1,023.7	(1.0%)
EBITDA	197.6	186.1	6.2%	251.6	242.6	3.7%
EBIT	75.4	13.7	450.1%	158.6	137.3	15.5%
Net profit after MI	28.8	(23.4)	n/a	112.0	89.3	25.5%
Gross margin	38.0%	36.7%	+132 bp	38.1%	36.9%	+116 bp
EBITDA margin	7.4%	6.7%	+72 bp	9.5%	8.7%	+71 bp
EBIT margin	2.8%	0.5%	+234 bp	6.0%	4.9%	+101 bp
Net profit margin after MI	1.1%	(0.8%)	n/a	4.2%	3.2%	+99 bp

***EBITDA** was calculated in a way that EBIT was increased by the depreciation and amortization and impairment of intangible and non-current tangible assets.

Considerable growth of profit margins in 2014:

- **Reported gross margin** grew by 132 basis points compared to 2013, which was the result of reduced cost of goods sold due to favourable price trends of key raw materials and lower depreciation and staff costs,
- The increase in **reported operating margin (EBIT)** of 234 basis points was, along with the effect above the level of gross profit, positively impacted by effects of a more efficient collection of trade receivables, lower impairment costs of a portion of non-current assets, and the saving made in the logistics and marketing functions. In 2013, impairment costs of non-current assets were considerably higher and amounted to HRK 67.1 million,
- **Reported net profit margin after minority interests** in 2014 was 1.1% due to the effects above the level of operating profit, lower finance costs related to more favourable terms of refinanced borrowings and the positive impact of tax benefits related to the intention to reinvest a portion of profit. In 2013 net loss was recorded, considerably affected by higher expenses related to impairment of non-current assets compared to 2014,
- Analysing profitability **without one-off items**, due to lower costs of goods sold, lower total operating expenses, and lower net finance costs, an increase in profit margins was recorded on all levels.

One-off items of the Strategic Business Area Food and Drinks

Net effect of one-off items in 2014 amounted to HRK -83.2 million:

- Increase in reported cost of goods sold in the total amount of HRK 0.7 million, without the effect on cash items,
- Increase in reported other income in the amount of HRK 8.8 million, without the effect on cash items,
- Increase in reported general and administrative expenses in the amount of HRK 63.5 million. The largest share relates to severance payments in the amount of HRK 64.2 million, of which cash items amount to HRK 55.5 million,
- Decrease in reported costs of sale and distribution in the amount of HRK 1.4 million, without the effect on cash items,
- Increase in reported other expenses in the amount of HRK 29.2 million, without the effect on cash items. The largest share relates to impairment of the factory in Poland in the process of closing down.

Net effect of one-off items in 2013 amounted to HRK -112.7 million:

- Increase in reported cost of goods sold in the total amount of HRK 5.1 million, without the effect on cash items,
- Increase in reported other income in the amount of HRK 4.4 million, without the effect on cash items,
- Increase in reported general and administrative expenses in the amount of HRK 53.9 million. The largest share relates to severance payments of HRK 50.1 million, which is fully a cash item,
- Increase in reported costs of sale and distribution in the amount of HRK 1.9 million, without the effect on cash items,
- Increase in reported other expenses in the amount of HRK 67.1 million. This is related to impairment costs of non-current assets, without the effect on cash items,
- Decrease in income tax in the amount of HRK 10.9 million relates to impairment costs of non-current assets, without the effect on cash items.

Profitability of the Strategic Business Area Pharmaceuticals in 2014

SBA Pharmaceuticals	REPORTED RESULT			EXCLUDING ONE-OFF ITEMS		
(in HRK millions)	**2014**	**2013**	**% change**	**2014**	**2013**	**% change**
Sales revenue	840.3	851.3	(1.3%)	840.3	851.3	(1.3%)
Gross profit	463.5	484.1	(4.3%)	463.5	484.1	(4.3%)
EBITDA	122.0	174.0	(29.9%)	128.9	181.1	(28.8%)
EBIT	80.2	117.3	(31.6%)	87.1	138.0	(36.9%)
Net profit after MI	63.6	90.0	(29.4%)	70.5	110.7	(36.3%)
Gross margin	55.2%	56.9%	-171 bp	55.2%	56.9%	-171 bp
EBITDA margin	14.5%	20.4%	-591 bp	15.3%	21.3%	-592 bp
EBIT margin	9.5%	13.8%	-423 bp	10.4%	16.2%	-584 bp
Net profit margin after MI	7.6%	10.6%	-301 bp	8.4%	13.0%	-462 bp

***EBITDA** was calculated in a way that EBIT was increased by the depreciation and amortization and impairment of intangible and non-current tangible assets.

Despite the sales volume growth, the prescribed decrease in prices of prescription drugs and foreign exchange losses considerably affected profitability in 2014:

- Sales volume growth led to a mild increase in cost of goods sold which, along with lower sales following the prescribed decrease in prices of prescription drugs in the Croatian market and the depreciation of the Russian ruble, reduced **the reported gross margin**,
- **Reported operating margin** in 2014 was negatively impacted by a considerable increase in other expenses, dominated by net realised foreign exchange losses, which is directly related to the depreciation of the Russian ruble, the effect of which could not be fully avoided by the company,
- Lower finance costs following the repayment of a portion of borrowings, and lower tax liability due to lower profit after tax mitigated the decrease in **reported net profit margin after minority interests**,
- Profitability of the Strategic Business Area Pharmaceuticals **without one-off items** also decreased compared to 2013.

One-off items of the Strategic Business Area Pharmaceuticals

Net effect of one-off items in 2014 amounted to HRK -6.9 million:

- Increase in reported general and administrative expenses in the amount of HRK 6.9 million, of which HRK 3.8 million relates to cash items.

Net effect of one-off items in 2013 amounted to HRK -20.7 million:

- Increase in reported general and administrative expenses in the amount of HRK 7.1 million, which is the cost of severance payments, fully a cash item,

- Increase in reported other expenses in the amount of HRK 13.6 million. This is related to the impairment costs of intangible assets, without the effect on cash items.

Profitability of the Podravka Group in 2014

Podravka Group	**REPORTED RESULT**			**EXCLUDING ONE-OFF ITEMS**		
(in HRK millions)	**2014**	**2013**	**% change**	**2014**	**2013**	**% change**
Sales revenue	3,502.6	3,626.0	(3.4%)	3,502.6	3,626.0	(3.4%)
Gross profit	1,475.9	1,502.7	(1.8%)	1,476.6	1,507.8	(2.1%)
EBITDA	319.6	360.0	(11.2%)	380.5	423.6	(10.2%)
EBIT	155.7	131.0	18.8%	245.8	275.3	(10.7%)
Net profit after MI	92.5	66.6	38.8%	182.6	200.0	(8.7%)
Gross margin	42.1%	41.4%	+69 bp	42.2%	41.6%	+57 bp
EBITDA margin	9.1%	9.9%	-80 bp	10.9%	11.7%	-82 bp
EBIT margin	4.4%	3.6%	+83 bp	7.0%	7.6%	-58 bp
Net profit margin after MI	2.6%	1.8%	+80 bp	5.2%	5.5%	-30 bp

***EBITDA** was calculated in a way that EBIT was increased by the depreciation and impairment of intangible and non-current tangible assets.

Improvement in profitability of the Podravka Group affected by a considerable increase in the food segment profitability in 2014:

- Cost of goods sold at the Group level decreased due to favourable price trends of key raw materials and lower depreciation and staff costs. In terms of percentage, the decrease in costs of goods sold was higher than the decrease in sales, whereby **the reported gross margin** grew by 69 basis points,

- Effects of a more efficient collection of trade receivables, lower impairment costs of a portion of non-current assets, and the saving made in the logistics and marketing functions in the food segment compensated the increase in net realised foreign exchange losses related to the depreciation of the Russian ruble, which resulted in the growth of the **reported operating margin** on the Group level by 83 basis points,

- Lower finance costs, related to more favourable terms of refinanced borrowings, along with the aforementioned impacts, had an additional positive effect on **the reported net profit margin after minority interests**, which grew by 80 basis points,

- **Excluding the effects of one-off items**, in 2014 the Podravka Group achieved an increase in gross margin of 57 basis points compared to 2013, while other profitability levels were lower than in 2013,
- **Effective tax rate** amounts to 9.0% due to a significant impact of tax benefits related to the intention to reinvest a portion of profit.

Key characteristics of the income statement in 2014

Other income

Increase mainly due to income of HRK 8.8 million on the basis of lease return.

Cost of goods sold

Cost of goods sold was reduced by 4.5% due to favourable price trends of key raw materials and lower depreciation and staff costs.

General and administrative expenses

General and administrative expenses grew by 4.9% in the period under consideration mainly due to higher costs of severance payments in 2014 and advisory services related to business development.

Selling and distribution costs

Selling and distribution costs recorded a significant drop of HRK 35.2 million primarily due to the improvement in the organisation of logistics functions, i.e. the saving made in costs of distribution and warehousing of finished goods of 10.7% compared to the same period of the previous year. A more efficient collection of trade receivables, resulting in lower provisions for receivables, as well as lower staff costs also made a significant contribution.

Marketing expenses

Marketing expenses are 2.5% lower due to a somewhat reduced number of campaigns in certain categories in the fourth quarter of 2014 and focusing on digital advertising channels, resulting not only in planned communication reach, but also in savings in costs of their realisation.

Other expenses

Other expenses record a significant decrease of 19.4%. They mainly include impairment costs of non-current assets and net realised foreign exchange losses. In 2014, impairment costs of non-current assets were 63.8% lower than in 2013, while net realised foreign exchange losses were almost four times higher than in 2013.

Net finance costs

In 2014, net finance costs are lower by significant 16.1% due to lower interest expense on borrowings, which is a consequence of refinancing borrowings under more favourable terms and repayment of a portion of borrowings, and lower foreign exchange losses on borrowings.

Income tax

Income tax is higher in 2014 as it was significantly reduced in 2013 due to utilisation of tax losses from previous years. The decision to utilise tax benefits for reinvested profit had a significant effect on the tax recorded in 2014.

Key characteristics of the balance sheet as at 31 December 2014

Intangible assets

Intangible assets as at 31 December 2014 are 12.1% higher compared to the end of 2013, mainly due to the acquisition of canned meat programme and brands of PIK Vrbovec d.d. for further production and sales for all markets, whereby certain intangible assets such as trademarks, recipes, etc. were also acquired.

Inventories

As at 31 December 2014, inventories are 4.6% higher compared to the end of 2013, mainly as a result of purchasing a larger amount of wheat, to meet the needs for this raw material until the following season, and decrease the risk of purchasing it at higher prices. Due to adverse weather conditions during 2014, the company also ensured larger amounts of the tomato concentrate required for normal production. The inventories of trade goods i.e. finished products also increased due to the takeover of inventories of canned fish finished goods following the terminated cooperation with one of the contractual producers, and due to the introduction of new products in 2014.

Trade and other receivables

Trade receivables decreased by 10.0% compared to the end of 2013 not only due to a more efficient collection in the food segment, but also due to the settlement of a portion of the Croatian Health Insurance Fund's liabilities to wholesale drugstores in November 2014, which had a positive impact on settlement of their liabilities to the company. For the purpose of improving the collection of receivables, during the first half of 2014, Podravka concluded the agreement on insurance of receivables in the Croatian market.

Assets available for sale

Non-current tangible assets of merged companies Ital-ice d.o.o. and Lero d.o.o. and non-current tangible assets of the Studenac factory in Lipik (beverages segment under restructuring) are classified as assets available for sale. The company owned a half of a property on the Croatian coast related to the beverages segment under restructuring. The other half of the property was purchased in 2014 with the purpose of creating preconditions to sell the property as a whole. For this reason, assets available for sale grew compared to the end of 2013.

Reserves and retained earnings

By the decision of the General Assembly in 2014, profit from 2013 was allocated to reserves and retained earnings. A portion of retained earnings, following the planned decision on reinvestment, was recorded in reserves at the end of the year.

Long-term borrowings

Borrowings within non-current liabilities increased by 30.7%, due to a long-term borrowing in the amount of HRK 95 million in the first half of 2014, with the purpose of severance payments under the redundancy programme, and for the acquisition of the canned meat programme and brands of PIK Vrbovec d.d.. In addition, at the end of 2013, Podravka received a long-term borrowing in the amount of HRK 200 million, used to refinance the existing liabilities. The funds from this arrangement were used in the first half of 2014, so they impacted the increase in long-term debt as at 31 December 2014. Refinancing of borrowings in the third quarter of 2014 did not significantly change the structure of long-term and short-term borrowings in relation to the period before refinancing, since the refinanced borrowings were long-term.

Short-term borrowings

Borrowings within current liabilities decreased by 33.6% following the refinancing of borrowings in the first half of 2014, whereby a portion of short-term borrowings was converted into long-term borrowings, and due to regular repayments of borrowings. Refinancing of borrowings in the third quarter of 2014 did not significantly change the structure of long-term and short-term borrowings in relation to the period before refinancing, since the refinanced borrowings were long-term.

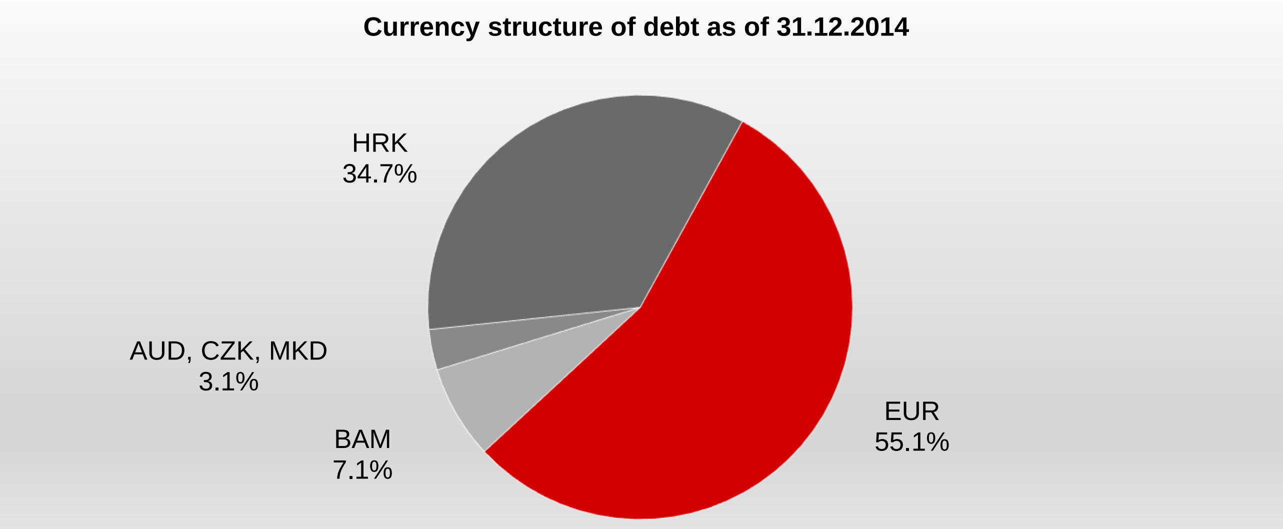
Trade payables

Trade payables decreased compared to the end of 2013 as a consequence of further harmonization of payment terms to suppliers, and the positive effect of shorter payment periods on the decrease in cost of certain raw materials and supplies.

Indebtedness

As at 31 December 2014, the total debt of the Podravka Group related to borrowings and other interest-bearing financial liabilities was HRK 1,077,306 thousand, of which HRK 749,013 thousand relates to long-term borrowings, HRK 325,541 thousand to short-term borrowings, and HRK 2,752 thousand to swap contract liabilities. The **average weighted cost of debt** on all the stated liabilities was 3.4% as at 31 December 2014.

Analysing the debt currency structure, the highest exposure, of 55.1%, was toward the Euro, while 34.7% of the debt was in the domestic currency. 7.1% of the debt was in the Bosnia and Herzegovina convertible mark, while the remainder of 3.1% relates to the Australian dollar (AUD), Czech koruna (CZK) and Macedonian denar (MKD).



(in HRK thousands)	**2014**	**2013**	**% change**
Net debt	856,769	886,533	(3.4%)
Interest expense	43,543	52,926	(17.7%)
Net debt / Normalized EBITDA	2.3	2.1	7.6%
Normalized EBITDA / Interest expense	8.7	8.0	9.2%
Equity to total assets ratio	50.9%	48.9%	+197 bp

As at 31 December 2014, net debt was by 3.4% lower compared to the end of 2013, due to the increase in cash and cash equivalents of HRK 41.1 million. Interest expense in 2014 recorded a decrease of 17.7%, as a consequence of refinancing liabilities under more favourable commercial terms. The ratio of net debt and normalized EBITDA at the end of 2014 was 2.3, which represents an increase compared to the end of 2013. The increase in the aforementioned indicator is a result of lower normalized EBITDA in 2014.

Key characteristics of the cash flow statement in 2014

Cash flow from operating activities

In 2014, net cash flow from operating activities amounted to HRK 286.9 million, which is 1.7% lower than in 2013.

Working capital records an increase in inventories, primarily as a result of purchasing a larger amount of wheat, to meet the needs for this raw material until the following season, and decrease the risk of purchasing it at higher prices, as explained in the “Key characteristics of the balance sheet as at 31 December 2014” section. The decrease in receivables is a result of a more efficient collection in the food segment and the settlement of a portion of the Croatian Health Insurance Fund’s liabilities to wholesale drugstores in November 2014, which had a positive impact on settlement of their liabilities to the company. Trade payables decreased compared to the end of 2013 as a consequence of further harmonization of payment terms to suppliers, and the positive effect of shorter payment periods on the decrease in cost of certain raw materials and supplies.

Cash flow from investing activities

Net cash flow from investing activities at the end of 2014 was negative HRK 239.0 million, primarily due to capital expenditure in the amount of HRK 163.0 million. The most significant capital expenditure in 2014 was related to:

- Purchase of the brand, know-how and equipment from the company PIK Vrbovec d.o.o. as a precondition for extending the existing pâté range with new Piketa and Classic brands,
- Replacement of the existing production line with a new line and purchase of the machine for the can packaging process in the company Danica d.o.o.. This investment not only increases production capacities, but also additionally automates the production, creating preconditions for its growth, and the growth in sales and profitability,
- Increasing storage capacities in the company Farmavita d.o.o.,
- Extension of the existing line for baby food production and the purchase of a machine for automated process of filling cream spreads,
- Purchase of machines that increase production capacities and automate the soup packaging process, creating preconditions for the increase in sales and profitability,
- Replacement of the existing line for small packages of mill products with the new line of increased capacity and potential for packaging new products, enabling automatization of the packaging process, production of new products and increase in sales and profitability, and
- Commencement of activities for the strategic investment in the construction of a new factory for solid and semi-solid drugs. The new factory of solid and semi-solid drugs will increase the

existing production capacities and thus enable meeting the growing needs of the domestic and foreign markets.

Capital expenditure in 2014 amounted to HRK 163.0 million. In the following period, capital expenditure can be expected to grow, primarily due to the construction of the new solid and semi-solid drugs factory. In line with this, capital expenditure in 2015 is expected to be at a level of HRK 500-550 million, and in 2016 at a level of HRK 200-300 million, after which it should stabilize at the level of approximately HRK 135 million.

Cash flow from financing activities

In 2014, borrowings were received that were used for operating activities and refinancing the existing borrowings, of which the most significant relate to: (i) received syndicated loan of HRK 495 million for the purpose of refinancing the existing borrowings (ii) borrowing of HRK 95 million for the purpose of severance payments under the redundancy programme and for the acquisition of the canned meat programme and brands of PIK Vrbovec d.d. for further production and sale for all markets, (iii) borrowing of HRK 200 million on the basis of a credit arrangement made at the end of 2013, and (iv) borrowing of HRK 95 million within the short-term ‘bridge’ loan.

At the same time, the most significant repayments were HRK 620 million for refinancing the existing borrowings and HRK 95 million for repayment of the short-term ‘bridge’ loan. The remaining amount of repayments relates to regular repayments of borrowings of companies within the Group.

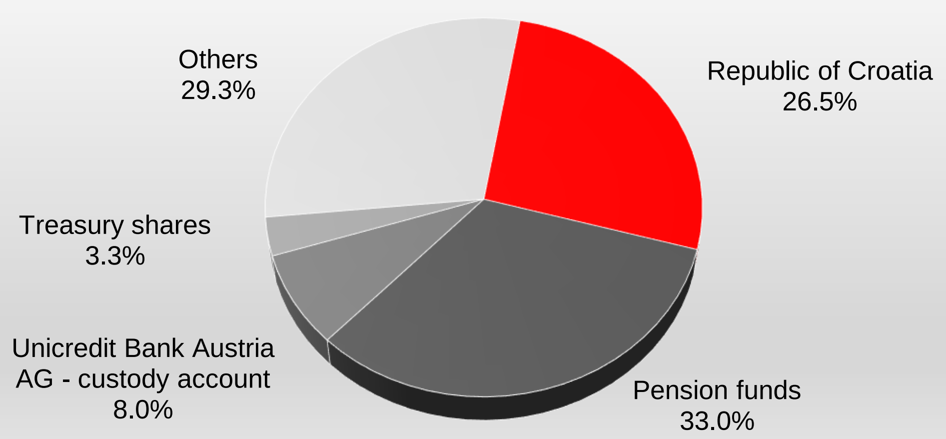
Share in 2014

List of top 10 shareholders as of 31 December 2014

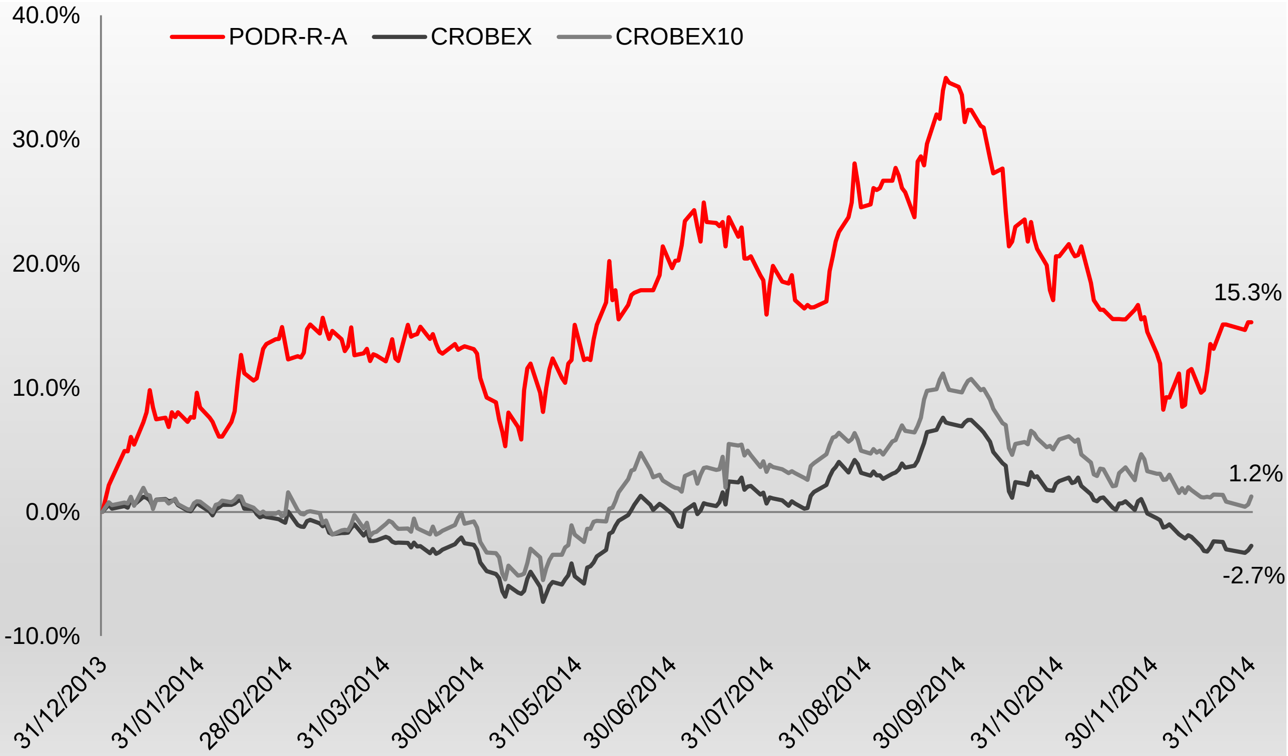
No.	Shareholder	Number of shares	% of ownership
1	SPMA - Croatian Pension Insurance Institute	575,598	10.6%
2	SPMA - Republic of Croatia	536,259	9.9%
3	Erste Plavi mandatory pension fund, category B	514,863	9.5%
4	AZ mandatory pension fund, category B	488,106	9.0%
5	PBZ Croatia Osiguranje mandatory pension fund, category B	480,921	8.9%
6	Unicredit Bank Austria AG - custody account	435,910	8.0%
7	Kapitalni fond d.d.	321,804	5.9%
8	Raiffeisen mandatory pension fund, category B	197,766	3.6%
9	Podravka d.d. - treasury account	177,511	3.3%
10	Zagrebačka banka d.d. - custody account	118,475	2.2%
	Other shareholders	1,572,790	29.0%
	Total	**5,420,003**	**100.0%**

The company has a stable ownership structure where the most significant share is held by the Republic of Croatia and institutional investors. The Republic of Croatia through the State Property Management Administration (SPMA) holds 20.5% of the company ownership and through Kapitalni fond d.d. additional 5.9% of ownership. The ownership structure also includes all four Croatian mandatory pension funds that hold a total of 31.0% of the company ownership. The company has 3.3% of treasury shares. The company's shares have been listed on the Official Market of the Zagreb Stock Exchange since 7 December 1998, under the PODR-R-A ticker symbol.

Ownership structure as of 31.12.2014



Share price movement in 2014



(closing price in HRK; closing points)	**31.12.2014**	**31.12.2013**	**% change**
PODR-R-A	293.5	254.6	15.3%
CROBEX	1,745.4	1,794.3	(2.7%)
CROBEX10	1,007.1	994.9	1.2%

In 2014, Podravka's share recorded a 15.3% growth, whereby it outperformed stock indices CROBEX and CROBEX10, which in the same period dropped by 2.7% and grew by 1.2%, respectively.

Performance in the Croatian capital market in 2014

(in HRK; in units) [10]	**2014**	**2013**	**% change**
Average daily price	296.3	254.8	16.3%
Average daily number of transactions	13	10	39.6%
Average daily volume	1,562	760	105.4%
Average daily turnover	463,450.7	197,904.8	134.2%

[10] Calculated as average of average daily prices/transactions/volumes/turnover.

In 2014, the average daily number of transactions in the company's shares increased by 39.6% compared to the same period of the previous year, while at the same time the average daily volume of the shares traded doubled. As the average daily price also grew by 16.3%, the average daily turnover of the company's shares more than doubled in the period under consideration and recorded a 134.2% growth.

Valuation

(in HRK millions; earnings per share in HRK)	**2014**	**2013**	**% change**
Last price	293.5	254.6	15.3%
Market capitalization	1,590.6	1,379.7	15.3%
EV[11]	2,484.0	2,300.2	8.0%
Normalized Earnings per share	33.7	36.9	(8.7%)
EV / Normalized Sales revenue	0.7	0.6	11.8%
EV / Normalized EBITDA	6.5	5.4	20.2%
EV / Normalized EBIT	10.1	8.4	21.0%
Last price / Normalized Earnings per share ratio	8.7	6.9	26.3%

As a consequence of the increase in the price of Podravka's share, the market capitalisation also increased so as at 31 December 2014 it amounts to HRK 1.6 billion. Following the increase in market capitalisation, the EV grew by 8.0% compared to the end of 2013, which reflected in the multiplier growth. Profit per share, due to lower net profit after minority interests, is 8.7% lower in 2014 compared to 2013. Following the increase in price per share and the decrease in profit per share, the multiplier that presents the ratio of price per share and profit per share increased.

[11] Enterprise Value: market capitalization + net debt + minority interest.

Additional tables

Sales revenues per Category in 2014

(in HRK millions)	2014	% of sales revenues	2013	% of sales revenues	2014/ 2013
SBA Food and Drinks	**2,662.4**	**76.0%**	**2,774.7**	**76.5%**	**(4.1%)**
Culinary	**899.4**	**25.7%**	**931.2**	**25.7%**	**(3.4%)**
Food seasonings and bouillons	630.6	18.0%	660.5	18.2%	(4.5%)
Podravka dishes and food mixes	268.8	7.7%	270.7	7.5%	(0.7%)
Sweets, snacks and beverages	**261.8**	**7.5%**	**300.2**	**8.3%**	**(12.8%)**
Beverages	116.3	3.3%	153.8	4.2%	(24.4%)
Sweets and snacks	145.5	4.2%	146.4	4.0%	(0.6%)
Baby food, breakfast foods and other food	**887.3**	**25.3%**	**913.3**	**25.2%**	**(2.8%)**
Baby food and breakfast foods	314.8	9.0%	323.2	8.9%	(2.6%)
Other food	572.5	16.3%	590.1	16.3%	(3.0%)
Meat products	**300.8**	**8.6%**	**280.9**	**7.7%**	**7.1%**
Other sales	**313.1**	**8.9%**	**349.2**	**9.6%**	**(10.3%)**
SBA Pharmaceuticals	**840.3**	**24.0%**	**851.3**	**23.5%**	**(1.3%)**
Prescription drugs	597.1	17.0%	615.6	17.0%	(3.0%)
Non-prescription programme	90.0	2.6%	83.9	2.3%	7.4%
Other sales	153.1	4.4%	151.8	4.2%	0.8%
Podravka Group	**3,502.6**	**100.0%**	**3,626.0**	**100.0%**	**(3.4%)**

Sales revenues per Market in 2014

(in HRK millions)	**2014**	**% of sales revenues**	**2013**	**% of sales revenues**	**2014/2013**
Croatia	**1,436.8**	**41.0%**	**1,594.5**	**44.0%**	**(9.9%)**
South-East Europe	**960.0**	**27.4%**	**929.5**	**25.6%**	**3.3%**
Bosnia and Herzegovina	453.8	13.0%	417.6	11.5%	8.7%
Macedonia	86.1	2.5%	82.6	2.3%	4.1%
Slovenia	177.8	5.1%	192.8	5.3%	(7.8%)
Serbia	136.0	3.9%	133.0	3.7%	2.2%
Other countries	106.4	3.0%	103.5	2.9%	2.8%
Central Europe	**540.6**	**15.4%**	**546.6**	**15.1%**	**(1.1%)**
Czech Republic	166.7	4.8%	177.8	4.9%	(6.2%)
Hungary	55.5	1.6%	53.2	1.5%	4.3%
Poland	193.8	5.5%	195.2	5.4%	(0.7%)
Slovakia	85.3	2.4%	90.1	2.5%	(5.4%)
Other countries	39.3	1.1%	30.3	0.8%	29.7%
Western Europe	**190.4**	**5.4%**	**174.9**	**4.8%**	**8.9%**
Austria	47.3	1.4%	42.8	1.2%	10.6%
Germany	77.1	2.2%	71.1	2.0%	8.4%
Other countries	65.9	1.9%	60.9	1.7%	8.1%
Eastern Europe	**239.3**	**6.8%**	**242.1**	**6.7%**	**(1.1%)**
Russia	204.9	5.9%	213.6	5.9%	(4.1%)
Other countries	34.4	1.0%	28.5	0.8%	20.9%
Overseas Countries and New Markets	**135.5**	**3.9%**	**138.4**	**3.8%**	**(2.1%)**
Australia	60.7	1.7%	63.6	1.8%	(4.6%)
USA	43.3	1.2%	42.6	1.2%	1.8%
Other countries	31.4	0.9%	32.2	0.9%	(2.3%)
Podravka Group	**3,502.6**	**100.0%**	**3,626.0**	**100.0%**	**(3.4%)**

Historical sales of the markets of Central Europe and the markets of Eastern Europe according to the new classification

(in HRK millions)	2014	2013	2012	2011	2010
Central Europe	**540.6**	**546.6**	**518.4**	**534.3**	**529.5**
Eastern Europe	**239.3**	**242.1**	**209.5**	**180.3**	**154.7**

For the purpose of adjustment with internal reporting, the markets of Central and Eastern Europe have been reclassified, where the markets of Bulgaria and Romania have been transferred from the markets of Eastern Europe to the markets of Central Europe. For transparency purposes, we provide the historical overview of sales in the markets of Central and Eastern Europe according to the new classification.

Normalization of strategic business areas

NORMALIZATION OF STRATEGIC BUSINESS AREA FOOD AND DRINKS IN 2014

(in HRK millions)	Reported result	COGS*	Other revenu.	G&A*	S&D*	Other expen.	Normalized result
Sales revenue	2,662.4	-	-	-	-	-	2,662.4
Gross profit	1,012.4	0.7	-	-	-	-	1,013.1
EBITDA	197.6	0.7	(8.8)	63.5	(1.4)	-	251.6
EBIT	75.4	0.7	(8.8)	63.5	(1.4)	29.2	158.6
Net profit after MI	28.8	0.7	(8.8)	63.5	(1.4)	29.2	112.0

NORMALIZATION OF STRATEGIC BUSINESS AREA FOOD AND DRINKS IN 2013

(in HRK millions)	Reported result	COGS*	Other revenu.	G&A*	S&D*	Other expen.	Income tax	Normalized result
Sales revenue	2,774.7	-	-	-	-	-	-	2,774.7
Gross profit	1,018.6	5.1	-	-	-	-	-	1,023.7
EBITDA	186.1	5.1	(4.4)	53.9	1.9	-	-	242.6
EBIT	13.7	5.1	(4.4)	53.9	1.9	67.1	-	137.3
Net profit after MI	(23.4)	5.1	(4.4)	53.9	1.9	67.1	(10.9)	89.3

NORMALIZATION OF STRATEGIC BUSINESS AREA FARMACEUTICALS IN 2014

(in HRK millions)	Reported result	COGS*	Other revenu.	G&A*	S&D*	Other expen.	Normalized result
Sales revenue	840.3	-	-	-	-	-	840.3
Gross profit	463.5	-	-	-	-	-	463.5
EBITDA	122.0	-	-	6.9	-	-	128.9
EBIT	80.2	-	-	6.9	-	-	87.1
Net profit after MI	63.6	-	-	6.9	-	-	70.5

NORMALIZATION OF STRATEGIC BUSINESS AREA FARMACEUTICALS IN 2013

(in HRK millions)	Reported result	COGS*	Other revenu.	G&A*	S&D*	Other expen.	Normalized result
Sales revenue	851.3	-	-	-	-	-	851.3
Gross profit	484.1	-	-	-	-	-	484.1
EBITDA	174.0	-	-	7.1	-	-	181.1
EBIT	117.3	-	-	7.1	-	13.6	138.0
Net profit after MI	90.0	-	-	7.1	-	13.6	110.7

***COGS** – cost of goods sold; **G&A** – general and administrative expenses; **S&D** – sale and distribution costs.

Consolidated financial statements

Consolidated Profit and Loss Statement in 2014

(in HRK thousands)	**2014**	**% of sales revenues**	**2013**	**% of sales revenues**	**2014/ 2013**
Sales revenue	3,502,615	100.0%	3,626,011	100.0%	(3.4%)
Cost of goods sold	(2,026,690)	(57.9%)	(2,123,286)	(58.6%)	(4.5%)
Gross profit	**1,475,926**	**42.1%**	**1,502,726**	**41.4%**	**(1.8%)**
Other income	12,775	0.4%	9,589	0.3%	33.2%
General and administrative expenses	(338,381)	(9.7%)	(322,440)	(8.9%)	4.9%
Selling and distribution costs	(469,036)	(13.4%)	(504,261)	(13.9%)	(7.0%)
Marketing expenses	(452,408)	(12.9%)	(463,789)	(12.8%)	(2.5%)
Other expenses	(73,225)	(2.1%)	(90,795)	(2.5%)	(19.4%)
Operating profit	**155,650**	**4.4%**	**131,029**	**3.6%**	**18.8%**
Financial income	2,214	0.1%	5,314	0.1%	(58.3%)
Other financial expenses	(8,329)	(0.2%)	(5,690)	(0.2%)	46.4%
Interest expenses	(43,543)	(1.2%)	(52,926)	(1.5%)	(17.7%)
Net foreign exchange differences on borrowings	(1,671)	(0.0%)	(7,907)	(0.2%)	(78.9%)
Net finance costs	**(51,329)**	**(1.5%)**	**(61,209)**	**(1.7%)**	**(16.1%)**
Profit before tax	**104,321**	**3.0%**	**69,820**	**1.9%**	**49.4%**
Current income tax	(10,091)	(0.3%)	(16,552)	(0.5%)	(39.0%)
Deferred tax	715	0.0%	15,105	0.4%	(95.3%)
Income tax	**(9,376)**	**(0.3%)**	**(1,447)**	**(0.0%)**	**548.0%**
Net profit for the year	**94,945**	**2.7%**	**68,373**	**1.9%**	**38.9%**
Net profit / (loss) attributable to:					
Equity holders of the parent	**92,459**	**2.6%**	**66,601**	**1.8%**	**38.8%**
Non-controlling interests	2,486	0.1%	1,776	0.0%	40.0%

Consolidated Profit and Loss Statement in 4Q 2014

(in HRK thousands)	4Q 2014	% of sales revenues	4Q 2013	% of sales revenues	4Q 2014/ 4Q 2013
Sales revenue	967,012	100.0%	1,007,087	100.0%	(4.0%)
Cost of goods sold	(538,295)	(55.7%)	(584,510)	(58.0%)	(7.9%)
Gross profit	**428,716**	**44.3%**	**422,577**	**42.0%**	**1.5%**
Other income	1,122	0.1%	4,979	0.5%	(77.5%)
General and administrative expenses	(96,340)	(10.0%)	(88,442)	(8.8%)	8.9%
Selling and distribution costs	(129,620)	(13.4%)	(134,963)	(13.4%)	(4.0%)
Marketing expenses	(132,437)	(13.7%)	(154,055)	(15.3%)	(14.0%)
Other expenses	(62,934)	(6.5%)	(82,244)	(8.2%)	(23.5%)
Operating profit	**8,506**	**0.9%**	**(32,148)**	**(3.2%)**	**n/a**
Financial income	595	0.1%	512	0.1%	16.1%
Other financial expenses	(404)	(0.0%)	(1,601)	(0.2%)	(74.8%)
Interest expenses	(9,437)	(1.0%)	(12,237)	(1.2%)	(22.9%)
Net foreign exchange differences on borrowings	(2,781)	(0.3%)	(2,043)	(0.2%)	36.1%
Net finance costs	**(12,028)**	**(1.2%)**	**(15,369)**	**(1.5%)**	**(21.7%)**
Profit before tax	**(3,521)**	**(0.4%)**	**(47,517)**	**(4.7%)**	**(92.6%)**
Current income tax	19,224	2.0%	2,521	0.3%	662.6%
Deferred tax	(4,289)	(0.4%)	14,683	1.5%	n/a
Income tax	**14,934**	**1.5%**	**17,204**	**1.7%**	**(13.2%)**
Net profit for the year	**11,413**	**1.2%**	**(30,314)**	**(3.0%)**	**n/a**
Net profit / (loss) attributable to:					
Equity holders of the parent	**10,535**	**1.1%**	**(30,692)**	**(3.0%)**	**n/a**
Non-controlling interests	878	0.1%	383	0.0%	129.4%

Consolidated Balance Sheet on 31.12.2014

(in HRK thousands)	31.12.2014	% of assets	31.12.2013	% of assets	% of change
ASSETS					
Non-current assets					
Goodwill	25,687	0.7%	25,881	0.7%	(0.7%)
Intangible assets	244,794	7.0%	218,438	6.3%	12.1%
Property, plant and equipment	1,202,589	34.3%	1,218,264	35.2%	(1.3%)
Deferred tax assets	50,169	1.4%	49,573	1.4%	1.2%
Non-current financial assets	7,602	0.2%	5,607	0.2%	35.6%
Total non-current assets	**1,530,841**	**43.6%**	**1,517,763**	**43.9%**	**0.9%**
Current assets					
Inventories	599,163	17.1%	572,616	16.6%	4.6%
Trade and other receivables	924,077	26.3%	1,026,635	29.7%	(10.0%)
Income tax receivable	19,520	0.6%	6,329	0.2%	208.4%
Cash and cash equivalents	220,537	6.3%	179,461	5.2%	22.9%
Non-current assets held for sale	214,432	6.1%	155,354	4.5%	38.0%
Total current assets	**1,977,729**	**56.4%**	**1,940,395**	**56.1%**	**1.9%**
Total assets	**3,508,570**	**100.0%**	**3,458,158**	**100.0%**	**1.5%**

(in HRK thousands)	31.12.2014	% of liabilities	31.12.2013	% of liabilities	% of change
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	1,063,547	30.3%	1,062,328	30.7%	0.1%
Reserves	467,542	13.3%	249,321	7.2%	87.5%
Retained earnings / (accumulated losses)	217,568	6.2%	345,701	10.0%	(37.1%)
Attributable to equity holders of the parent	**1,748,657**	**49.8%**	**1,657,350**	**47.9%**	**5.5%**
Non-controlling interests	36,605	1.0%	34,040	1.0%	7.5%
Total shareholders' equity	**1,785,262**	**50.9%**	**1,691,390**	**48.9%**	**5.5%**
Non-current liabilities					
Borrowings	749,013	21.3%	572,872	16.6%	30.7%
Provisions	39,793	1.1%	49,279	1.4%	(19.2%)
Deferred tax liability	5,544	0.2%	5,577	0.2%	(0.6%)
Total non-current liabilities	**794,350**	**22.6%**	**627,728**	**18.2%**	**26.5%**
Current liabilities					
Trade and other payables	563,922	16.1%	620,781	18.0%	(9.2%)
Income tax payable	2,599	0.1%	2,849	0.1%	(8.8%)
Financial liabilities at fair value through profit and loss	2,752	0.1%	2,709	0.1%	1.6%
Borrowings	325,541	9.3%	490,413	14.2%	(33.6%)
Provisions	34,144	1.0%	22,288	0.6%	53.2%
Total current liabilities	**928,958**	**26.5%**	**1,139,040**	**32.9%**	**(18.4%)**
Total liabilities	**1,723,308**	**49.1%**	**1,766,768**	**51.1%**	**(2.5%)**
Total equity and liabilities	**3,508,570**	**100.0%**	**3,458,158**	**100.0%**	**1.5%**

Consolidated Cash Flow Statement in 2014

(in HRK thousands)	**2014**	**2013**	**2014/2013**
Profit / (loss) for the year	94,945	68,377	38.9%
Income tax	9,376	1,446	548.4%
Depreciation and amortization	134,796	148,303	(9.1%)
Impairment loss on property, plant, equipment and intangibles	14,446	16,341	(11.6%)
Impairment loss on assets held for sale	13,637	50,840	(73.2%)
Impairment loss on goodwill	0	13,605	100.0%
Impairment of investments	483	0	100.0%
Remeasurement of financial instruments at fair value	43	(4,066)	n/a
Share based payment transactions	1,219	1,359	(10.3%)
Loss on disposal of property, plant, equipment and intangibles and assets held for sale - net	566	61	827.9%
Impairment of trade receivables	12,739	32,313	(60.6%)
Increase in provisions	2,370	1,812	30.8%
Interest income	(2,214)	(1,248)	77.4%
Value adjustment (write-down) of loans and interest	1,500	0	100.0%
Interest expense	51,872	58,616	(11.5%)
Effect of changes in foreign exchange rates	1,305	4,762	(72.6%)
Changes in working capital:			
(Increase) / decrease in inventories	(22,300)	47,630	n/a
Decrease / (increase) in trade receivables	88,004	17,604	399.9%
(Decrease) / increase in trade payables	(38,539)	(93,877)	(58.9%)
Cash generated from operations	**364,248**	**363,878**	**0.1%**
Income tax paid	(23,388)	(12,602)	85.6%
Interest paid	(54,010)	(59,464)	(9.2%)
Net cash from operating activities	**286,850**	**291,812**	**(1.7%)**
Cash flow from investing activities			
Acquisition of subsidiaries and shares, net of cash	(1,428)	0	(100.0%)
Purchase of property, plant, equipment and intangibles	(163,025)	(96,421)	69.1%
Acquisition of assets held for sale	(81,386)	0	(100.0%)
Proceeds from sale of property, plant, equipment and intangibles	5,326	1,016	424.2%
Net repayment of loans and investments	(674)	(1,398)	(51.8%)
Collected interest	2,214	1,248	77.4%
Net cash from investing activities	**(238,973)**	**(95,555)**	**150.1%**
Cash flow from financing activities			
Proceeds from borrowings	1,050,846	269,897	289.4%
Repayment of borrowings	(1,057,648)	(404,901)	161.2%
Net cash from financing activities	**(6,802)**	**(135,004)**	**(95.0%)**
Net increase / (decrease) of cash and cash equivalents	**41,076**	**61,253**	**(32.9%)**
Cash and cash equivalents at beginning of the year	179,461	118,208	51.8%
Cash and cash equivalents at the end of year	220,537	179,461	22.9%

Consolidated Statement of Changes in Equity in 2014

(in HRK thousands)	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings / (Accumulated losses)	Total	Non-controlling interests	Total
As at 1 January 2013	**1,584,862**	**21,762**	**18,325**	**50,000**	**35,244**	**48,172**	**(162,600)**	**1,595,765**	**32,027**	**1,627,792**
Comprehensive income										
Loss for the year	-	-	-	-	-	-	66,601	66,601	1,776	68,377
Other comprehensive income	-	-	-	-	-	(6,375)	-	(6,375)	237	(6,138)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(6,375)**	**66,601**	**60,226**	**2,013**	**62,239**
Transactions with owners recognised directly in equity										
Simplified reduction of share capital	(542,000)	-	-	-	-	-	523,892	(18,108)	-	(18,108)
Capital reserves arising from the reduction of share capital	18,108							18,108		18,108
Fair value of share-based payment transactions	1,359	-	-	-	-	-	-	1,359	-	1,359
Transfers from retained earnings	-	-	-	86,075	-	-	(86,075)	-	-	-
Transfers from reserves	-	-	(6,851)	-	4,050	(1,082)	3,883	-	-	-
Total transactions with owners recognised directly in equity	**(522,533)**	**-**	**(6,851)**	**86,075**	**4,050**	**(1,082)**	**441,700**	**1,359**	**-**	**1,359**
As at 31 December 2013	**1,062,329**	**21,762**	**11,474**	**136,075**	**39,294**	**40,715**	**345,701**	**1,657,350**	**34,040**	**1,691,390**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	92,459	92,459	2,486	94,945
Other comprehensive income	-	-	-	-	-	(2,371)		(2,371)	79	(2,292)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(2,371)**	**92,459**	**90,088**	**2,565**	**92,653**
Transactions with owners recognised directly in equity										
Fair value of share-based payment transactions	1,219							1,219	-	1,219
Transfers from retained earnings		45,842	5,069	162,063	4,662	2,955	(220,591)	-	-	-
Transfers from reserves								-	-	-
Total transactions with owners recognised directly in equity	**1,219**	**45,842**	**5,069**	**162,063**	**4,662**	**2,955**	**(220,591)**	**1,219**	**-**	**1,219**
As at 31 December 2014	**1,063,548**	**67,604**	**16,543**	**298,138**	**43,956**	**41,299**	**217,569**	**1,748,657**	**36,605**	**1,785,262**

Notes to the Consolidated Financial Statements

The accounting policy in 2014 year did not change.

Statement of liability

Koprivnica, 13th February 2015

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Consolidated financial statements of the Podravka Group for the period January – December 2014 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:
Iva Brajević

Board Member:
Miroslav Klepač

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