



PODRAVKA D.D. ANNUAL REPORT
FOR 2017

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PODRAVKA D.D.

Important events

APPOINTMENTS OF THE PRESIDENT AND MEMBERS OF THE MANAGEMENT BOARD OF PODRAVKA

At the General Assembly session held in February 2017, Marko Kolaković, Slavko Tešija, Luka Burilović and Damir Grbavac were appointed members of the Supervisory Board of Podravka d.d. At the same time, members of the Supervisory Board of Podravka d.d. Mato Crkvenac and Ivo Družić were recalled. The term of the appointed members of Podravka d.d. Supervisory Board started as of 21st February 2017 and ends on 7th September 2018. Dubravko Štimac was appointed President of the Supervisory Board of Podravka d.d., and Luka Burilović Deputy President.

In February 2017, new members were appointed to the Management Board of Podravka d.d. as follows: Marin Pucar – the President of the Management Board of Podravka d.d., Ljiljana Šapina – Member of the Management Board of Podravka d.d., Iva Brajević – Member of the Management Board of Podravka d.d. until 30th April 2017 and Hrvoje Kolarić – Member of the Management Board of Podravka d.d.

In May 2017, Davor Doko was appointed Member of the Management Board of Podravka d.d., and in July 2017 Marko Đerek. The Supervisory Board also adopted the decision that the term of the President Marin Pucar and all Members of the Management Board be prolonged until 23rd February 2022. Thereby, the Management Board gained trust and full support to continue with strengthening market positions in the domestic as well as in foreign markets. Goals of the present Management Board include increasing efficiency of the overall operations and continuing positioning of Podravka as the trendsetter in the segment of product innovation and modern technological solutions.

“WE KNOW WHERE WE ARE GOING, BECAUSE WE KNOW WHERE WE COME FROM” – 70TH ANNIVERSARY OF PODRAVKA

In 2017, Podravka celebrated 70 years of business. The message “We know where we are going because we know where we come from”, the banner of the birthday campaign, highlights Podravka’s values, tradition, traceability, contribution to the Croatian economy and society, as well as the link with consumers around the world.

Podravka builds the quality and competitiveness of its products, which are distributed to over 60 markets across the world, on domestic origin of raw materials, with investment in research and development and new knowledge, following technologies and trends.

The President of the Republic of Croatia, as well as many other guests from public life and Podravka’s business partners, were present at the jubilee ceremony.

PODRAVKA MARKS 50 YEARS OF OPERATIONS IN RUSSIAN MARKET

The Russian market became the first export market of Podravka in 1967. First products on this large and significant market were Vegeta, Podravka chicken soup with noodles and beef soup. They gained trust among consumers very quickly, and were soon followed by a whole range of soups in bags and cubes, baby food, ajvar, tomato-based products, frozen vege-

tables, pâtés, etc. Today, Podravka earns significant sales revenues in this market from food products, and is present across the Russian Federation – from Kaliningrad to Far East.

50 YEARS OF KALNIK FACTORY UNDER PODRAVKA

The quality of Podravka's vegetables largely depends on Kalnik Factory where the majority of the vegetable range is processed and produced. In addition to vegetables, Kalnik also produces condiments. After becoming a part of Podravka in 1967, Kalnik's strong development and significant investments in the vegetables production, but also in new lines, began. Due to investments, in only a few years, Kalnik increased the production volumes by almost 100 percent. Over the years, with significant investments, many new products have been launched that were at the time well accepted by consumers, and which are present until today. Raw materials suppliers for Kalnik Factory are primarily family cooperatives and small family farms organisationally covered by the production organisers. Kalnik Factory is a great example of how Podravka supports domestic agricultural production, as the basis for the long-term sustainability of Croatian production and creating competitive advantages.

VISIT OF THE CROATIAN PRESIDENT TO PODRAVKA

The President of the Republic of Croatia, Kolinda Grabar-Kitarović, visited Podravka.

“Podravka is the standard bearer of our food industry. It was bringing memories of home to us who spent some time abroad. On my part, within the economic diplomacy I conduct as part of state visits and economic forums, I will continue to work on the promotion of the company's products. I will do this in close cooperation with Podravka's management”, President Kolinda Grabar-Kitarović said on this occasion.

Marin Pucar, the president of the Management Board of Podravka, emphasised the President's continuous support to Podravka's export plans and entering foreign markets.

PODRAVKA'S INNOVATION OF SALT SUBSTITUTE PRESENTED

Podravka presented its own innovation, salt substitute with 35 percent less sodium compared to the regular kitchen salt. According to World Health Organisation's recommendations on the reduction of daily salt intake, Podravka's research and development sector in cooperation with an external partner conducted research and developed own salt substitute that due to its contents balances the flavour of food and dishes and represents a simple and efficient solution for the process of reformulating the contents of conventional products, without compromising the flavour.

COOPERATION AGREEMENT BETWEEN THE MINISTRY OF VETERANS' AFFAIRS AND PODRAVKA

The Ministry of Veterans' Affairs and Podravka signed the Cooperation Agreement for the purchase of Croatian veterans cooperatives' products for Podravka's processing needs in the 2018-2020 period. In addition to the business cooperation with veterans' cooperatives, Podravka will also provide expert support in agricultural production from the beginning of the ve-

getation period to harvest, with respect to education, ensuring production materials and supervision of production and product quality.

DIVIDEND DISTRIBUTED TO PODRAVKA'S SHAREHOLDERS

Following the proposition of the Podravka's Management Board, the General Assembly adopted the decision on the dividend distribution to shareholders of Podravka d.d. in the gross amount of HRK 7.00 per share, due to Podravka's net profit for 2016 in the amount of HRK 179,321,686.91. The dividend was paid on 30th August 2017, in the total amount of HRK 48.6 million.

STIMULATION PAYMENTS FOR PODRAVKA'S EMPLOYEES

Podravka paid stimulation to its employees for results achieved in 2016, allocating the amount of almost HRK 4 million. The decision on the stimulation payment was made by the Podravka's Management Board of the basis of the Collective Agreement for the contribution of employees to the business results in 2016.

MICROSOFT IS PODRAVKA'S PARTNER IN DIGITALISATION PROCESS

The president of the Podravka's Management Board Marin Pucar and Microsoft's president for Central and Eastern Europe Don Grantham, agreed partnership on the project of Podravka's digital transformation. The global cooperation of Podravka and Microsoft begins on the Coolinarika project, alongside the development of other innovative solutions and business models based on new technologies.

"The partnership with Microsoft, one of the biggest technological companies in the world, begins a new digital era of Podravka's business. Podravka has been the trendsetter in the food industry in the segment of innovation and modern technological solutions, and the cooperation with Microsoft is the biggest step towards the digital transformation and strong digital competitiveness of Podravka at the global level", the president of Podravka's Management Board Marin Pucar said.

CONTINUED INTERNATIONALIZATION OF PODRAVKA – DISTRIBUTION AGREEMENT WITH MAJOR QATARI DISTRIBUTER

By signing the agreement with the company Arabian Supplies, Podravka gained a strong partner that enables it to enter all selling points in Qatar and long-term business development in one of the key markets of the Middle East and North Africa region.

NEW PRODUCTION LINE IN KALNIK FACTORY IN VARAŽDIN

Since April 2017, sterilized chickpeas are produced in Kalnik Factory in Varaždin, on a new modern production line for sterilised vegetables. The standard of finished product safety, the capacity and high cost efficiency of the production process were increased, which enabled the development of new products and returning a part of the vegetables range from outsourcing to own production.

The beginning of the production of chickpeas in Varaždin is the continuation of a beautiful and successful story that began on the same model in 2014 and was completed in 2016, by transferring more than 3,000 tonnes

of the growing range of canned brown, red and white beans from outsourcing to own production.

**PODRAVKA BREAKS RECORDS
IN PURCHASES OF FIRST-CLASS
TOMATO AND WHEAT**

Podravka's Vegetable factory in Umag, for the purpose of own production, processes tomato coming from Croatian fields from around 70 subcontractors, and what is especially important is the record-high share of first-class tomato with 5 percent dry substance. Podravka's factory for processing tomato in Umag, unique in Croatia, can annually process 12,000 tonnes of tomato. Apart from the domestic market, Podravka distributes tomato-based products to the markets of Poland, Bosnia and Herzegovina, Slovenia and Serbia.

In 2017, Podravka also purchased from domestic producers more than 15 thousand tonnes of wheat, which exceeded the quality of the last-year's wheat, when the purchase included 75 percent of first and second class wheat.

**JUBILEE 20TH TOMATO DAY
HELD IN UMAG**

Organized by Podravka, the City of Umag and the Tourist Board of the City of Umag, the 20th Tomato Day was held in Umag. This charity and culinary project for twenty years attracts attention of numerous tomato fans and wider public. It gathers leading experts and farmers who share experience on recent trends in the production, selection, treatment and processing of tomato. In the evening, the Tomato Festival was held, which is traditionally a charity event. This year funds were raised for the purchase of a radiological device for Health Centre in Umag.

**PODRAVKA AT THE 20TH
MOSTAR ECONOMY FAIR**

Since the beginnings of the Mostar Fair, Podravka understands the strategic importance of participation, and contributes to the abundance of offer and attractiveness of this internationally recognized event. Marking the jubilee confirms the significance of the event, and the excellence of the Mostar Fair lies in opportunities it offers to entrepreneurs and exhibitors to present their products and company's products, to get to know each other, make deals and exchange experience.

**PODRAVKA SIGNED
DIVERSITY CHARTER**

The Diversity Charter is a document signed by business and other organizations for the purpose of promoting diversity as a core value of modern society which enables long-term success. On behalf of Podravka, the Charter was signed by the president of the Management Board, Marin Pucar, whereby Podravka joined around thirty Croatian companies and organisations committed to implementing policies of diversity and non-discrimination in their working and business environment. Diversity enables the fulfilment of each person's full potentials, and the policy of diversity and non-discrimination in the workplace is a precondition for the development of creativity, innovation and individual talents.

**TRADITIONAL ANNUAL
PENSIONERS' MEETING
HELD**

In 2017, Podravka once again organized the annual meeting of its pensioners and employees with jubilee years of service. Podravka is the only company in Croatia which organizes this kind of annual meetings for its former and jubilee employees to thank them for their contribution to the company's success. At the beginning of the meeting, guests were greeted by Marin Pucar, the president of Podravka's Management Board, who thanked them for valuable work they have built in the achievement of Podravka's business results.

**PODRAVKA'S EXPOSURE
TO MAJOR CUSTOMER IN
ADRIA REGION**

As of 10 April 2017, the extraordinary administration over companies in the Agrokor Group headquartered in Croatia was initiated and Podravka pays special attention to monitoring its exposure in operations with these companies. As at 10 April 2017, receivables of Podravka d.d. from Agrokor companies in the Croatian market amounted to HRK 136.7 million. In the extraordinary administration procedure, Podravka claimed receivables in the total amount of HRK 97.4 million, of which HRK 60.9 million is for bills of exchange related to goods sold (Podravka had no financial exposure to the Agrokor Group in terms of loans given, etc.). The extraordinary administration accepted 99.3% of the claimed receivables, while the remaining portion relates to receivables that were recorded in Podravka after 9 April 2017. As at 31 December 2017, receivables of Podravka d.d. from Agrokor companies in the Croatian market amounted to HRK 101.2 million, of which HRK 57.9 million related to "border debt", HRK 6.1 million to "old debt", while the remaining portion relates to receivables from regular operations. In line with available relevant information on the settlement within the extraordinary administration procedure, Podravka d.d. estimated the recoverability of the claimed receivables and recognised value adjustment of receivables in the amount of HRK 44.1 million.

Research and Development

TEACHING BASE IN EDUCATION OF YOUNG PEOPLE

For many years, Podravka's Research and Development has been the teaching base for the Faculty of Food Technology and Biotechnology of the University of Zagreb, Faculty of Food Technology of the University of Osijek and Secondary School in Koprivnica. The activity is aimed at vocational practice, visits of students and pupils to Podravka's facilities, visits by teachers, cooperation in professional and scientific work and teaching classes. Podravka's Research and Development is a part of the system of the Ministry of Science and Education of the Republic of Croatia.

RESEARCH AND DEVELOPMENT PROJECTS AND INNOVATION

The company's investment in research projects in the area of finding solutions for reducing salt content in products in 2017 was marked by continuation of activities in the commercialisation phase. The application of the original and patentable ingredient of the salt mixture with reduced sodium content in the meat programme of semi-durable and durable products in the Croatian market, created a new range of products with the "25% less salt" label. The products are intended for customers who care about health, especially salt intake, as salt/sodium is directly linked to a number of chronic non-communicable diseases such as high blood pressure, heart diseases, obesity, etc. Experts from the Research and Development published the results of their research to international scientific audience in scientific papers and as invited presenters at the 15th Annual Food Innovative Summit in Amsterdam and the 5th International Congress of Nutritionists in Zagreb.

In 2017, two research and development projects were signed with the Faculty of Food Technology of the University of Osijek, in the field of the application of Podravka's patentable ingredient in the development of dairy products with reduced salt content and in the application of food processing by-products as ingredients in the development of products with added value. The innovation cycle continued through the strategic project of the development of products for the markets of Western Europe, the USA, Canada and Australia. The project's goals are aimed at repositioning of the existing products in the market and developing new products and new product platforms.

PODRAVKA'S NUTRITIVE STRATEGY - RESULTS

The development of new products according to the nutritive profile is in line with the goals of the company's Nutritive Strategy regarding the reduction of salt, sugar and fat and/or enrichments with health-friendly ingredients (probiotics, proteins, fibres, etc.) and the Croatian Strategic plan for the reduction of excessive kitchen salt intake and other national and global recommendations and policies. As the regional food industry leader, Podravka continues its activities in the innovation cycle of contents of its products in the following period as well.

PROCESS INNOVATIONS

Informatization of business processes started in 2015 was continued in 2017: continued implementation of the project SAP module RDM (Recipe Development Module), initiated in order to achieve more efficient documentation management, but also to create preconditions for distance sales. At the beginning of 2017, an innovative project was finalised, aimed at creating preconditions for shortening the label texts control time as part of the product development, by applying a completely innovative IT tool, tailored for Podravka.

New products

The Vegeta brand in the Adria region stepped into the world of monospices with the new Vegeta Maestro line. By rebranding monospices from Podravka into Vegeta Maestro, Vegeta strengthens its position as a culinary brand that encourages culinary inspiration, and expands the blue shelf block at sales points. On the other hand, the Maestro brand in the Slovenian market in its new design aims to position itself as a modern, optimistic brand for young people. Modern design and range of carefully selected spices are tailored for young consumers and global culinary trends. In addition to innovation in the spices range, the Culinary business unit sees the continuation of the innovation cycle also in the soups range. For the MENA region markets, onion and lentil soups have been created, adapted to the taste preferences of local consumers. Podravka bouillons, as one of the Podravka's key categories, come to store shelves and consumers' tables with new, redesigned "free-from" recipes based on Podravka's nutritive strategy, as well as in refreshed design that emphasises the pleasure in the recognizable Podravka soup flavour. This innovation is aimed at market development by attracting new consumers, and at further strengthening of Podravka's market positions within the soups category.

In the Baby food, sweets and snacks business unit Podravka responds to current market trends through the redesign of Kviki snacks. By emphasising the information important to consumers and communication on the label "baked, not fried" consumers' search for a "healthier" snack product is facilitated. Filled Dolcela muffins with coconut represent a fusion of favourite chocolate muffins and the popular coconut flavour. Dolcela muffins filled with vanilla cream and lemon cream also represent innovation in the cake mixes segment. Čokolino, the flavour familiar to several generations, shined in a new and innovative packaging design. Made in papercut technique, representing the fusion of paper cutting skill and modern illustration, the design significantly improved the visibility of Čokolino on shelves and additionally highlighted the brand and its functional advantages.

In the tomato subcategory, within the Podravka food business unit, the new design of Passata emphasises the communication of the origin of domestic Istrian tomato and key functional benefits. Processing within 24 hours from harvest contributes to the product's top quality. The product has only one ingredient, fresh processed tomato (no added salt, no additives, source of lycopene). Emphasizing important information enables differentiation that will make choice of product easier for consumers, according to the criteria they find most important.

In the Meat products, meat solutions and savoury spreads business unit, the subcategory cracklings, a well-known traditional product, got their snack variant. By added various flavours in the convenient "on-the-go" packaging, the product approaches young consumers and represents an in-

teresting snack full of flavour and pleasure, for any occasion. In the market of Switzerland, Corned beef has been launched, a brand new product in Podravka's meat range. It is made of the highest quality beef and contains 85% of cooked chopped and salted beef. The combination of natural spices and salt gives it a rounded flavour of extraordinary juiciness and nutritive values make this product an ideal choice for those who consider a balanced diet rich in protein.

Digital innovation

Podravka continuously monitors market trends and needs and successfully adapts to the new, digital era of business. Therefore, 2017 was again marked by the development of communication platforms. The Vegeta brand's range was extended by the new Vegeta Maestro monospice range and for the purpose of promoting spices and their benefits, a new platform was launched, www.prstohvat-inspiracije.hr. Also, two new Lino websites were started (www.lino.al and www.coko.lino.si), as well as the new Facebook page – Lino lada in Montenegro (<https://www.facebook.com/linoladacg/>). Social network profiles Podravka Vegeta Deutschland and Lino lada Montenegro were opened.

Continuous monitoring of global trends reflected in the number of views of the Coolinarika video recipes which are distributed on numerous platforms. More than 200 video recipes were seen by 31 million consumers on Facebook, Instagram, Youtube, websites Coolinarika, Vegeta and Podravka and on 158 city lights in all major shopping centres and squares across Croatia. The trend of importance of video recipes has been recognised, and they are adopted by eight other markets. With 170,000 registered users and more than 445,000 followers on Facebook and 65,000 on Instagram, Coolinarika is definitely one of the strongest, not only websites, but also social networks in the region, and its Facebook profile has an average monthly reach of 1,500,000 users. Facebook and Instagram pages record a strong growth, so Facebook Podravka Croatia has more than 155,000 followers.

The key role of digital competitiveness in successful operations is proved by some of the projects implemented. At the Communication Days, Lino.eu web won the MIXX award for the best web, and two more Podravka's projects were in the MIXX finals – Podravka Facebook in the “Best Social” category and Kvikifunpedia in the “Best Branded Content” category.

RajčiCar is a campaign of innovative creative concept where during the entire harvest season of Istrian tomatoes, consumers could in a way virtually participate in the harvest, trying to guess the amounts of tomatoes picked every week. By launching Lino Viber stickers, in 2017 the strength and importance of mobile chat apps was confirmed. Lino Viber stickers have been, in addition to Croatia, also launched on the market of Bosnia and Herzegovina, Serbia and Macedonia, and during the year, the Lino sticker package was downloaded by over a million people and almost 19 million messages with Lino Viber stickers were sent.

Awards and recognitions

PODRAVKA WON 18 SUPERIOR TASTE AWARDS

All products applied for the international quality assessment in Brussels won prizes, which is the biggest success of Podravka at the prestigious Superior Taste Award competition and the confirmation of the excellence of taste in categories in which they competed. In addition, as many as 5 Podravka's products, the greatest number since Podravka participates in this international quality assessment received the highest grade, 3 STA stars. For the second time, Podravka cream nettle soup, Podravka Urosal bearberry tea and Žito stoletni bread with chia seeds won 3 STA stars, and Podravka cream broccoli and cauliflower soups and Vegeta smoked sweet pepper also received the highest grade.

FOR THIRD CONSECUTIVE YEAR PODRAVKA WAS AWARDED THE EMPLOYER PARTNER CERTIFICATE

For the third consecutive year, Podravka was awarded the Employer Partner Certificate. From year to year Podravka improves human potential management processes and it once again confirmed its dedication to excellence in relations with its employees.

PODRAVKA WON SHINE AWARD – FOR AFFIRMATION OF SOCIALLY RESPONSIBLE BUSINESS AND COMPANY SUSTAINABILITY

Podravka's valuable collection of awards for social responsibility is richer by the SHINE award, awarded for the affirmation of socially responsible business and company sustainability by Good Croatia – Business initiative for the affirmation of socially responsible business and sustainable development with M.E.P. d.o.o. and the Croatian Employers' Association. M.E.P. is active in a responsible way by implementing a number of activities in the society – as an initiator or a participant. It sponsors the activities of associations in the area of safety and in educational activities with the youth. The SHINE award is awarded to companies that stand out in communicating social responsibility, on their websites and in company's other digital media. Among many social responsibility projects of Podravka, the Lino all-rounder project stands out, which for 12 years gathers school-aged children and through socialising and sports activities encourages their healthy habits and active sport lifestyle.

PULS WON THE ANNUAL AWARD FOR CHARITY WORK

Podravka's Association of volunteers – PULS won the Annual award for charity work of the Ministry for Demographics, Family, Youth and Social Policy. This award is the biggest recognition awarded by the Republic of Croatia for exceptional achievements and contribution to the development and improvement of charity work.

VEGETA AGAIN THE STRONGEST DOMESTIC BRAND IN ADRIA REGION, ACCORDING TO IPSOS SURVEY

The survey by one of the leading global research agencies – Ipsos again confirmed that Vegeta is the strongest domestic brand in the Adria region, which includes the markets of Croatia, Slovenia, Bosnia and Herzegovina and Serbia. The list of TOP50 strongest brands in Croatia also includes

other Podravka's brands: Dolcela, Lino lada and Podravka soup. The international agency Ipsos obtained these results by a thorough survey that includes, depending on a particular country, from 1,000 to 2,000 participants aged 15 to 64 years, of various age, education and gender. The unique "brand score" indicator, which enables comparison of brands from various product categories, measures the market strength of individual brands. The calculation takes into account various aspects of consumers' relations with the brand to find out whether it is well recognised and used by the consumers.

**GREAT GLOBAL
RECOGNITION FROM
POLAND FOR
PODRAVKA'S AJVAR**

Mintel, one of the most influential global companies for business intelligence, the authority in monitoring and analysing trends in the food and beverages category, analysed the superfood trend in the savoury spreads category on the market of Poland. The best examples included Podravka's hot ajvar, produced from natural ingredients, without preservatives, additives or artificial colours. The listing among the best in this category once again confirmed the quality of Podravka's ajvar.

**GREEN FROG AWARD FOR
IMPROVEMENT IN REPORTING ON
SUSTAINABLE DEVELOPMENT**

In Deloitte's contest for the best report on sustainable development in Croatia, for the first time a prize was awarded for the biggest improvement in reporting, won by Podravka d.d. For the first time, in the sustainable development report, quantified non-financial impacts of operations in the local context of sustainability were added, which was recognised by an independent expert jury and awarded Podravka.

**W³ AWARDS FOR VEGETA'S
CAMPAIGN IN AUSTRALIA**

Vegeta's campaign "Catch the Thief" in the market of Australia won W³ awards. W³ award creative excellence on the web and recognise creative and marketing experts behind the awarded websites, videos and marketing programs. The campaign's success is even bigger since the campaign won prizes in two categories: user experience and website. The campaign was a fusion of the existing tools, Vegeta's website, social media and an approach requiring engagement and interaction, resulting in involvement and excitement of participants, which was recognised by the Academy of Interactive and Visual Arts that awards W³ awards.

**TWO CZECH SUPERBRANDS 2017
AWARDS, FOR PODRAVKA AND LAGRIS**

For the first time in history, Podravka won two Czech Superbrands 2017 awards in the same year, for Podravka and Lagris brands. Podravka won this renowned recognition several times previously, but for the first time for two brands and for the first time in two years in a row for the Lagris brand. The Superbrand recognition was awarded to Podravka and Lagris by the leading Czech experts for brands, thus placing them in the top recognisable and supreme-quality products.

**MIXX AWARD IN WEBSITE CATEGORY
FOR LINO.EU WEBSITE**

At Communication Days, Podravka's website www.lino.eu took first place, winning the MIXX award in the "Website" category. It was created in cooperation with the digital agency Web.Burza. Innovation is the base of this online platform: three thematically different websites in one. Each of them is adapted to a different group: Lino Baby is an educational centre for parents of children aged up to 3 years, Lino Kids - a gaming platform for a bit older children and their parents and Čokolinologija - an audio-visual ode to Čokolino. Smart filters in the product catalogue facilitate finding the desired product range, a dynamic and visually attractive home page enables faster navigation through themes, and participation in activities on the Lino website enables registered users to win prizes and position higher in rankings. The site is adapted to a device it is used on, regardless of the device type.

**ŽENA.HR – PODRAVKA'S PRODUCTS
BEST IN 3 CATEGORIES**

The žena.hr portal, the most popular women's medium in Croatia and the region, organized the selection of the product of the year according to readers' votes. As many as three Podravka's products were awarded in three categories: Dolcela Premium pudding coconut was the winner in the Ready-to-eat meals and foodstuffs category, Lino lada coconut in the Baby food category, and Eva tuna pâté in the Meat and fish category.

**KRALUŠ BEER PUB AND PODRAVSKA
KLET AMONG TOP RESTAURANTS**

Podravka's catering facilities Kraluš Beer Pub and Podravska klet have won the loyalty of a sufficient number of guests and catering professionals to be listed among top Croatian restaurants – Restaurant Croatica. By being listed in top 100 Croatian restaurants again this year, they proved the quality of their service. The selection was made among 2,450 restaurants in Croatia: the first phase on the www.gastronaut.hr portal, the second phase by votes of managers and owners of restaurants, while the final decision was on the Honourable Committee of the project.

**FLAVOURS OF PODRAVINA AND
PRIGORJE CERTIFICATE**

Podravka klet and Kraluš Beer Pub received, among eight catering facilities in Koprivničko-križevačka County, the Flavours of Podravina and Prigorje certificates. Certification of local catering facilities contributes to the development of continental tourism, and one of the key criteria for receiving the certificate is having four traditional meals on the restaurant's menu.

Social responsibility

Podravka promotes the application of socially responsible business norms, and the compliance of economy with development goals of the social community and preservation of environment for future generations. Socially responsible business is the constituent part of the identity and business activities of Podravka, and it represents yet another added value for the company, in addition to creativity, trust, passion, consumer satisfaction and excellence.

Being aware of its influence and responsibility towards social community, Podravka is actively involved in lives of its employees, but also of the entire community in which it operates. It actively supports and conducts programs of informing and counselling about preserving the health of its employees, members of their families and the local community. Also, with the high standards of product quality, over many years it has built and kept the trust of its consumers. Relationships with partners are built and maintained through mutual respect and trust, and in its production processes, Podravka tends to use as little as possible of the non-renewable resources and to produce less waste, taking special care of the environmental protection. Present in households for over 70 years, it endeavours to be a company which gains consumers' trust by providing culinary pleasure as well as by caring for their health. By specific projects, it contributes to the development and increasing the quality of life of its employees, but also of the wider social community and ever since it was founded, it has been investing in science and education, sustainable development, culture, arts and sports, and promoting corporate social responsibility. During 2017, Podravka initiated and joined many socially responsible and charity projects. Among long-term socially responsible projects, we should mention Lino all-rounder, which for 12 seasons in a row in primary schools across Croatia encourages healthy lifestyle and children's creativity and brightens their childhood. Its charity actions and assistance to the community whenever it is needed, Podravka proved in 2017, by joining the assistance provided to the flooded areas of Zadar and surroundings and providing assistance to Croatian firemen during great fires on the coast.

The Association of Podravka's volunteers – PULS is especially active in charitable activities, and in 2017 it won the Annual Award for charity activities by the Ministry for Demographics, Family, Youth and Social Policy. This award is the biggest recognition awarded by the Republic of Croatia for exceptional achievements and contribution to the development and improvement of the charity work. The Association of Podravka's volunteers – PULS has initiated or partnered many significant activities such as, among others, aid to flooded Slavonia, assistance in the transit of refugees, purchase of therapy horses and purchase of a swing for children with special needs that was installed in Koprivnica's city park.

By promoting healthy lifestyle, professional training of employees and encouraging their excellence and creativity, as well as the sensibility for the needs of the social community, Podravka acts socially responsibly in Croatia, as well as in other regions where it operates.

In its future business, Podravka will readily continue to satisfy the desires and needs of the social community, as well as those of the consumers in more than 60 countries around the world, because their trust is the proof of correct actions.

Activities in environmental protection

Podravka continuously develops and improves processes, products and services, aiming to reduce the negative effect on the environment. In 2017, improvements were achieved in the production of waste, reduced water consumption and power sources and increased level of ecological awareness and responsibility of employees.

WASTE MANAGEMENT

Waste management system advancements were continued, with more efficient waste sorting by placing containers for separating waste in offices, reduced squandering of materials and raw materials, rationalized use of consumables and education of employees, which resulted in reduced production of municipal waste. In 2017, Podravka d.d. produced 15 types of hazardous waste in the amount of 17.81 tonnes, 27 types of non-hazardous waste in the amount of 3.164.10 tonnes, of which 406.18 tonnes of municipal waste. All produced hazardous and non-hazardous waste was submitted with the accompanying documentation to authorised waste collectors who hold effective permits for waste management, in compliance with provisions of the Act on Sustainable Waste Management.

AIR PROTECTION

Podravka d.d. uses natural gas as the primary fuel in all technological processes, and air emissions from stationary sources are regularly measured in line with legal regulations by certified intuitions. The measurement report is delivered to the Croatian Agency for the Environment and Nature.

Podravka d.d. actively participates in activities arising from the obligations defined by the EU Emissions Trading System (EU ETS) for locations Ante Starčevića 32, Koprivnica and Industrial zone Danica, Koprivnica that have a valid licence for emission of greenhouse gases. Podravka's ETS team, consisting of certified and additionally certified representatives, contributes by its activities to timely meeting of legal obligations and submitting the emission units to the Union Registry and provides guidelines for the purchase of emission units.

For the purposes of air protection against fluorinated greenhouse gases, service maintenance and permeability control of all cooling devices are regularly performed by certified maintenance services.

WASTEWATER MANAGEMENT

Treatment and pre-treatment of wastewater of Podravka d.d., analytical tests by certified laboratories of wastewater samples (taken from control points) and their frequency, are performed in line with the effective legal regulations and water management licenses for each location.

RENEWABLE ENERGY SOURCES

In 2017, the boiler-house running on bio-mass in industrial zone Danica became operational. The intended purpose of the new boiler-house is the production of steam, and as basic fuel forest biomass is used. Biomass belongs to the category of renewable energy sources and introducing such technology contributes to measures for reducing CO₂ emissions from the energy sector, another proof that Podravka contributes to preserving the environment.

At location Ante Starčevića 32, Koprivnica a solar collector is installed intended for hot water preparation, which reduces the consumption of natural gas, the primary energy source, and thus reduces the amount of produced CO₂.

COMPLIANCE WITH REGULATIONS

With the purpose of timely informing employees about obligations arising from laws and regulations concerning environmental protection, Podravka continuously monitors and systematically updates the List of laws and regulations, where all amendments to the environmental protection legislation are recorded. All obligations arising from the effective laws and regulations concerning environmental protection are implemented in the existing internal systems for environmental protection.

INSPECTION CONTROLS

As a socially responsible company, Podravka implements all prescribed activities in line with the effective national and international legal provisions from the area of environmental protection and in line with international standards and guidelines.

In monitoring legal regulations and continuous care of environmental protection, during 2017, no irregularities related to non-compliance with laws and regulations concerning environmental protection were recorded, and accordingly, no significant fines or penalties were imposed.

Management systems audits

During 2017, audits by authorised certification authorities were performed on the quality assurance and food safety management systems, compliant to several international standards.

All Podravka's organizational units and processes participating in the safe food production chain – “from field to the table”, were included in the audit: Procurement → Logistics → Quality Control → Development → Marketing → Production → Maintenance → Human Resources → Sales → and others.

Audits confirmed compliance with the following international standards:

NO.	STANDARD	LOCATIONS	AUTHORITY
1	ISO 9001:2008	PODRAVKA D.D. (ALL LOCATIONS IN THE REPUBLIC OF CROATIA)	CERTIFICATION AUTHORITY SGS
2	HACCP ACCORDING TO CODEX ALIMENTARIUSU	PODRAVKA D.D. (ALL LOCATIONS IN THE REPUBLIC OF CROATIA)	CERTIFICATION AUTHORITY SGS
3	IFS FOOD, VERSION 6 INTERNATIONAL FEATURED STANDARDS - FOOD	PODRAVKA D.D. HEADQUARTERS , KOPRIVNICA SOUPS AND VEGETA FACTORY, KOPRIVNICA BABY FOOD AND CREAM SPREADS FACTORY, KOPRIVNICA DANICA FACTORY, KOPRIVNICA FRUIT FACTORY, KOPRIVNICA FOOD SOLUTION FACTORY, KOPRIVNICA KALNIK FACTORY, VARAŽDIN VEGETABLE FACTORY, UMAG	CERTIFICATION AUTHORITY SGS
4	BRC, ISSUE 6 (BRITISH RETAIL CONSORTIUM) GLOBAL STANDARD FOR FOOD SAFETY	PODRAVKA D.D. HEADQUARTERS, KOPRIVNICA SOUPS AND VEGETA FACTORY, KOPRIVNICA BABY FOOD AND CREAM SPREADS FACTORY, KOPRIVNICA	CERTIFICATION AUTHORITY SGS
5	HALAL	DANICA FACTORY, KOPRIVNICA* SOUPS AND VEGETA FACTORY, KOPRIVNICA* BABY FOOD AND CREAM SPREADS FACTORY, KOPRIVNICA* KALNIK FACTORY, VARAŽDIN FRUIT FACTORY, KOPRIVNICA SNACKS FACTORY, KOPRIVNICA* PODRAVSKA KLET, KOPRIVNICA	HALAL QUALITY CERTIFICATION CENTRE *EMIRATES AUTHORITY FOR STANDARDIZATION & METROLOGY
6	KOSHER	KALNIK FACTORY, VARAŽDIN SOUPS AND VEGETA FACTORY, KOPRIVNICA FRUIT FACTORY, KOPRIVNICA SNACKS FACTORY, KOPRIVNICA MILL PRODUCTS FACTORY, KOPRIVNICA	RABIN KOTEL DA-DON
7	BIO	PODRAVKA D.D., KOPRIVNICA ECOLOGICAL TEA	AUSTRIA BIO GARANTIE

Compared to previous years, in 2017 the following changes occurred:

- Studenac factory Lipik is not certified due to the sale;
- Certification of the Fruit factory in line with the IFS standard;
- Certification of the Food solution factory in line with the IFS standard
BIO certification of products: ecological tea.

**SUPERVISORY BOARD AND MANAGEMENT
BOARD MEMBERS BIOGRAPHIES**

Supervisory Board members biographies

DUBRAVKO ŠTIMAC

Dubravko Štimac was appointed president of the Supervisory Board of Podravka d.d. in February 2012. At the beginning of the same year he held the position of the deputy president of the Supervisory Board of Podravka d.d., and he had been a member of the Supervisory Board of Podravka d.d. since 2006. He is a member of the Remuneration Committee and Audit Committee of Podravka d.d.

He started his professional career as an independent sales clerk at Zagrebačka tvornica papira and continued it as an independent officer in foreign trade at PBZ Investholding d.o.o., where he also became the manager of the foreign trade sector. In early 2001, he becomes the project manager for the pension reform in Privredna banka Zagreb d.d., and since October 2001, the president of the Management Board of PBZ Croatia osiguranje d.d. company for management of mandatory pension fund.

He graduated in 1992 from the Faculty of Economy and Business of the University of Zagreb, where he also received his master's degree in Organization and Management two years later. He participated in the Securities Processing Training Program in New York, organized by the Bank of New York, and in the Fund Management program at City University Business School in London.

LUKA BURILOVIĆ

Luka Burilović was appointed deputy president of the Supervisory Board of Podravka d.d. in February 2017. He is the president of the Remuneration Committee and a member of the Corporate Governance Committee of Podravka d.d.

He began his professional career as the owner of Agrotehna Lipovac and in 1996 he becomes the deputy municipal mayor of Nijemci. In April 2004 he becomes an assistant minister in the Ministry of Agriculture, Forestry and Water Management. In early 2006, he was appointed deputy president of the Management Board of Sladorana d.d., Županja, and at the beginning of 2008 the president of the Management Board of Sladorana d.d., Županja. In 2014, he becomes the president of the Croatian Chamber of Economy. He graduated in 2006 from the Faculty of Economy and Business in Banja Luka, and six years later he completed PhD studies in management at the Faculty of Economy and Business in Osijek. He has professional training as an advisor for small sized enterprises in the Ministry of Crafts, Small and Medium-sized Enterprises and in 2008 he obtained the certificate in Corporate management for members of supervisory and management boards at the Faculty of Economy and Business in Osijek.

MARKO KOLAKOVIĆ

Marko Kolaković was appointed as a member to the Supervisory Board of Podravka d.d. in February 2017. He is a member of the Corporate Governance Committee of Podravka d.d.

He began his professional career in 1995 as a trainee in Sloboda d.o.o. Sa-

mobor and Ledo d.d., and in 1996 he becomes a research and teaching assistant at the Faculty of Law in Zagreb. In 2001 he becomes assistant professor at the Faculty of Economy and Business of the University of Zagreb where he works as a full-time professor. He was advisor to the mayor of the City of Samobor for strategic planning and city development.

He graduated in 1994 from the Faculty of Economy and Business of the University of Zagreb. Four years later he obtained his master's degree and in 2001 PhD from the Faculty of Economy and Business of the University of Zagreb.

SLAVKO TEŠIJA Slavko Tešija was appointed as a member to the Supervisory Board of Podravka d.d. in February 2017. He is a member of the Audit Committee of Podravka d.d.

He began his professional career in 1981 in Privredna banka d.d. Zagreb. In 1983 he joined the Croatian National Bank as an inspector in the department for foreign currency operations and monetary inspection, and in 1994 he becomes the director of the department. In 1995 he moved to the Government of the Republic of Croatia as the Director of the Agency for Bank Resolution. In 1996 he returned to the Croatian National Bank where he works until present, first as the director of the department for foreign currency operations and monetary inspection, 2 years later as the director of the department for international banking, and in 2014 he becomes the main advisor in the department for service support.

He obtained his master's degree at the Faculty of Economy and Business of the University of Zagreb. He also holds the certificate of Permanent court expert for finance, banking, foreign currency operations and foreign trade with the Commercial Court in Zagreb.

DAMIR GRBAVAC Damir Grbavac was appointed as a member to the Supervisory Board of Podravka d.d. in February 2017.

He began his professional career in 1978 in Đuro Đaković d.d., advancing from the position of a credit administrator to the deputy general manager of Holding. In 1997 he joined Raiffeisenbank Austria d.d. Zagreb as the director of the Investment banking Sector. In 1997 he becomes a member of the Management Board of Raiffeisen Investment d.o.o., and two years later the president of the Management board of Raiffeisen Vrijednosnice d.o.o. In 2003 he becomes an advisor to the Management Board in Raiffeisenbank Austria d.d. Zagreb. Since 2004 he is the president of the Management Board of Raiffeisen company for management of mandatory and voluntary pension funds. Damir Grbavac is a member of the Supervisory Board of Hrvatski Telekom d.d. and president of the Supervisory Board of Quaestus Nekretnine joint stock company for real estate, in liquidation. He graduated from the Faculty of Economy and Business of the University of Zagreb in 1978, and obtained his master's degree at the same Faculty in 1985.

He is a licensed manager of pension funds and pension insurance companies.

IVANA MATOVINA Ivana Matovina was appointed as a member to the Supervisory Board of Podravka d.d. in June 2017. She is the president of the Audit Committee of Podravka d.d.

She began her professional career in 1996 as the head of accounting and in 1997 she became a director of KPMG Croatia d.o.o. Two years later she became a partner and director of Cinotti revizija d.o.o./Cinotti savjetovanje d.o.o. for audit, internal audit, accounting and business counselling and education services. Since 2011, she is the founder and director of Antares revizija d.o.o./ Antares savjetovanje d.o.o., for audit, internal audit, accounting and business counselling and education services. From 2009 to 2012 she was a member of the Management Council of the Croatian Audit Chamber and since 2012 a member of the Committee for financial reporting standards and a member of the HANFA Council.

She graduated in 1996 from the Faculty of Economy and Business in Zagreb in accounting and finance. In 2000 she becomes a Chartered accountant of Great Britain and two years she obtains the title of Croatian certified auditor.

PETAR VLAIC Petar Vlaić was appointed as a member to the Supervisory Board of Podravka d.d. on 7 September 2010. He is a member of the Audit Committee and the Corporate Governance Committee of Podravka d.d. and the deputy president of the Supervisory Board of Žito d.o.o.

He graduated from the Faculty of Electrical Engineering and Computer Science in Ljubljana. He also received CFA (Chartered Financial Analyst) title, through a program organized by American Institute of Chartered Financial Analysts (CFA Institute). He started his professional career as a broker in Ilirika d.d., Slovenia and later he advanced to the position of a portfolio manager and trade manager. Upon his arrival to Zagreb he became the first fund manager in the Republic of Croatia in the first Croatian investment fund Kaptol Proinvest. Later he worked as a trade manager in IB Austria d.o.o., and later he transferred to the position of fund manager at the Central National Fund. In 2001 he became the Management Board president of Adriatic Invest d.o.o. – company for managing Blue Mandatory Pension Fund. In late 2003 Erste MPF and Helios MPF were merged with the Blue Fund and the fund changed its name to Erste Blue Mandatory Pension Fund. While working in the company for privatization investment fund management, he was also a member of supervisory boards of several Croatian companies.

PETAR MILADIN Petar Miladin was appointed as a member to the Supervisory Board of Podravka d.d. on 7 September 2010. He is a member of the Remuneration Committee and the Corporate Governance Committee of Podravka d.d.

He graduated from the Faculty of Law in Zagreb and in 1999 he received his MA in Commercial and Companies law. He defended his PhD thesis “Payment by remittance” in 2005 at the same faculty, receiving his PhD title in the scientific field of law. Upon graduating he was employed as a trainee at the Municipal and Commercial Courts in Zagreb. He was employed at the

Faculty of Law in Zagreb in 1997 as a junior assistant at the Department for Commercial Law and Companies Law. In December 1999 he became a teaching assistant at the same department where he later worked as senior assistant. He worked as assistant professor from 2005, and since 2009 as associate professor. He published more than twenty scientific papers in the area of commercial law, companies law and banking law.

KSENIJA HORVAT Kseniju Horvat was appointed to the Supervisory Board by the Workers' Council of Podravka d.d. and she is a member of the Supervisory Board of Podravka d.d. since 1 July 2015.

She began her professional career in the Company in 1984 as an administrator, and after successfully continuing her education while working, she took on commercial tasks in the Croatian market sector, where she works until today. In 2001, serving as the representative of the largest union in Podravka d.d., PPDIV, she took on a full-time position in the union and has since been one of the leading union negotiators in improving the rights of Podravka employees through the Collective agreement of the Podravka Group. In 2002, she was first elected into the Podravka Workers' Council, and from 2013 to the present day, she has served as the Council's president. She first served as the workers' representative in the Podravka d.d. Supervisory Board from 2004 to 2012, and in that period also served as the deputy president of the Supervisory Board, and interim president of the Supervisory Board in the 2009-2010 period.

DINKO NOVOSELEC He was a member of the Supervisory Board of Podravka d.d. until 30 June 2017 and a member of the Audit Committee of Podravka d.d.

He started his professional career in the Croatian National Bank on managing foreign reserves. In late 1998 he joined Zagrebačka banka d.d. as the head of the analytics department, and afterwards he transferred to ZB Invest d.o.o., company for managing investment funds as a Management Board member. Since 2001 he is a Management Board member of Allianz ZB d.o.o., company for management of AZ mandatory pension fund, and in April 2003 he was appointed president of the Management Board of Allianz ZB d.o.o., company for management of mandatory pension fund. He graduated math at the Faculty of Science in Zagreb, and in 2000 he received his CFA (Chartered Financial Analyst) title, in a program organized by American Association of Investment Professionals (CFA Institute).

MATO CRKVENAC Mato Crkvenac was the deputy president of the Supervisory Board of Podravka d.d. until 21 February 2017 and a member of the Audit Committee and the Remuneration Committee of Podravka d.d.

He graduated from the Faculty of Economy and Business in Zagreb, and received his MA from the Institute of Economic Sciences in Belgrade. He received his PhD from the Faculty of Economy and Business in Zagreb. He started his professional career at the Republic Institute for Planning, and five years later he became sector director at the Republic Institute for

Economic Trends and Economic Policy. In 1978 he became the general manager of the Republic Institute for Planning and also a member of the Executive Council of the Parliament of the Socialist Republic of Croatia and in 1986 he became a representative and deputy chairman of the Parliament of the Socialist Republic of Croatia. From 2000 to 2004 he was the Minister of Finance in the Croatian Government, and afterwards a representative in the Croatian Parliament. At the Faculty of Economy and Business in Zagreb he was a teaching assistant and research assistant, and was also elected assistant professor. Four years later he was elected associate professor and in 1991 full-time professor.

IVO DRUŽIĆ Ivo Družić was a member of the Supervisory Board of Podravka d.d. until 21 February 2017.

He graduated from the Faculty of Economy and Business in Zagreb in 1973, and received his MA in 1981 and PhD in 1988. He is employed at the Faculty of Economy and Business in Zagreb as a full-time tenured professor, and is the head of the scientific postgraduate study Economy and development. He stayed in Brighton, England at the University of Sussex as a visiting fellow in 1990/91, and as research fellow at the University of Pittsburgh, USA in 1994. He was also a visiting professor in 1995 at the University of Beijing in China, and in 1997/98 at the University of Pittsburgh, USA. He authored two books and co-authored six (two of which he also edited). He also published 19 scientific papers in journals with international review, 10 papers in proceedings from international scientific conferences and 18 papers in domestic journals and proceedings.

Management Board members biographies

MARIN PUCAR Marin Pucar was appointed president of the Management Board of Podravka d.d. in February 2017.

He began his professional career in Gavrilović d.o.o. food industry from where in 2001 he moved to Danica d.o.o. – meat industry of Podravka d.d. where in 2002 he becomes the director of sales, marketing and development. In 2003 he was appointed executive director for the Croatian market in Podravka d.d. He was a member of the Management Board of Podravka d.d. from 2008 to 2012, after which he joined Zvečevo d.d. as a member of the Management Board. He was the president of the Management Board of Zvečevo d.d. from 2014 to August 2016.

He graduated from the Faculty of Economy and Business in Zagreb and completed PhD studies Theory and politics of marketing at the same Faculty. Currently he is finalising his PhD in management with the thesis “Management strategy through brand expansion in Croatian food industry”.

From 2008 to 2012 he was a member of the Supervisory Board of Danica d.o.o. and Belupo d.d. In 2012 he became a member of the Management Committee of the Croatian Chamber of Economy, a njezin zamjenik 2016. čiju ulogu obnaša i danas.

LJILJANA ŠAPINA Ljiljana Šapina was appointed as a member to the Management Board of Podravka d.d. in February 2017.

She has been employed in Podravka d.d. since 1984. She gained work experience on various manager and director positions within the company in Accounting and finance, Retail, Gastro sales, Frozen programme, Joint market tasks and Exports preparation. Since 2012 she worked as a director in the Import-export logistics, and in 2015 she was appointed to the position of the head of the Import-export logistics department.

She graduated foreign trade at the Faculty of Economy and Business in Zagreb, and in 2012 she obtained the master's degree at the same Faculty.

HRVOJE KOLARIĆ Hrvoje Kolarić was appointed as a member to the Management Board of Podravka d.d. in December 2012.

In his career, among many positions held, we should mention: the director of pharmaceuticals and business development at Bristol-Myers Squibb, the director of pharmaceuticals of PharmaSwiss and company director of PharmaSwiss d.o.o., Croatia. He also managed business processes related to cooperation with Belupo in the production of cardiological line of Pravachol. In his early career he also managed the pharmaceuticals department of the Bristol-Myers Squibb representative office for Croatia and Bosnia and Herzegovina, and subsequently the allergology and respiratory line of products of the Schering-Plough representative office in Croatia. In 2005, he was appointed as Management Board member in Belupo, in charge of

marketing, sales and international markets, and has been reappointed in 2010. Two years later, he was appointed president of the Management Board of Belupo.

He graduated from the Faculty of Pharmaceutical and Biochemical Sciences of the University of Zagreb in 1998. He actively participated in numerous education courses to acquire sales and negotiation skills, training for the first management tier, sales efficiency, financial matters etc. In addition to the Master of Pharmacy, he also holds the Master of Business Administration degree.

MARKO ĐEREK Marko Đerek was appointed as a member to the Management Board of Podravka d.d. in July 2017.

He began his professional career in 1995 as a researcher in Pliva Research Institute where he worked until 2003. From 1997 to 2002 he was a member of the initial project team for the functional design of the new Research Institute building in Zagreb. In 2003 he becomes the head of the Research team in Pliva. Since 2004 he is the leader of development projects in Pliva Research institute, and in 2006 he moved to the Global operations in Pliva to the position of the corporate products director. In 2007 he becomes the director of support to markets in Pliva.

In 2009 he joined the Croatian Post as the executive director for trading. In 2011 he joined GlaxoSmithKline as the manager of business development for South-Eastern Europe. In 2013 he takes on the function of the director of sales and hospital operations for South-Eastern Europe in Pliva/TEVA where he worked until 2017.

He graduated in 1995 from the Faculty of Chemical Engineering and Technology of the University of Zagreb. In 2004, he obtained the master's degree in natural sciences, chemistry, at the Faculty of Chemical Engineering and Technology of the University of Zagreb. He completed Master of Business Administration (MBA), Erasmus- Rotterdam School of Management in Rotterdam.

During his career he attended training in many management and science programs and the Acceleration Pool training program in Pliva.

DAVOR DOKO Davor Doko was appointed as a member to the Management Board of Podravka d.d. in May 2017.

He began his professional career in 2000 in the Assets Management department of Zagrebačka banka d.d., as a portfolio manager assistant, where he participated in the establishment of the company for management of investment funds in Zagrebačka banka d.d. He joined the team of Allianz ZB d.o.o. mandatory pension fund in 2002, as a portfolio manager for management of stock share of the portfolio. As a procurator and main portfolio manager in Allianz ZB d.o.o. mandatory pension fund among other tasks he actively participates in the portfolio management and investment process management. Since 2006 he is a member of the Management Board of Allianz ZB d.o.o., company for management of mandatory pension fund, in charge of investments. During his term, he invested in many companies

from the pharmaceutical and food sectors and develops good business relationships with all major business banks in the Republic of Croatia and international financial institutions. In AZ voluntary pension funds as the person responsible for investments, he participates and manages all parts of the investment process.

He graduated from the Faculty of Economy and Business of the University of Zagreb. During his career he attended many training and education courses and participated in conferences related to investments and capital market.

ZVONIMIR MRŠIĆ

He was the president of the Management Board of Podravka d.d. until 23 February 2017.

Zvonimir Mršić graduated from the Faculty of Political Sciences in Zagreb and completed the FBA (Fundamentals of Business Administration) program at the Faculty of Economy and Business, University of Zagreb and a certified program for supervisory board members.

He joined Podravka d.d. in 1990, where for eight years he built professional career as the head and manager of Public Relations Department. Apart from building his professional career, he also accomplished a very successful political career as the deputy mayor of the City of Koprivnica, and later Mayor of the City of Koprivnica in three terms.

He is a member of the Croatian Employers' Association and in October 2014 he was elected deputy president of Croatian Exporters Association (CEA). He was appointed member of the University Council of the University North in October 2015, while in March 2016 he became a member of the Economic council at the Faculty of Food Technology and Biotechnology of the University of Zagreb.

OLIVIJA JAKUPEC

She was a member of the Management Board of Podravka d.d. until 23 February 2017.

Olivija Jakupec graduated from the Faculty of Organization and Informatics in Varaždin, and she also attended international business school Center, Brdo kod Kranja.

She started her professional career in 1992 when she was employed at Podravka d.d. as product manager for Ferrero, being in charge of promotion and implementation of marketing activities in the Croatian market. A year later she became marketing manager in Podravka's subsidiary in Bulgaria, where she was responsible for founding the company and for marketing activities on the market. In 1997 she was appointed director of Podravka's subsidiary in Russia where she also worked on founding the company and setting up Podravka d.d. business model on the Russian market. In 2001 she returned to Koprivnica and became the director of the Market Communication in Podravka d.d.

In 2004 she joined Nexe Group as the director of Nexe in Bosnia and Herzegovina. Since 2007 she worked as assistant director in Jadransko osiguranje d.d. branch office in Koprivnica.

IVA BRAJEVIĆ She was a member of the Management Board of Podravka d.d. until 30 April 2017.

Iva Brajević graduated in accounting and finance from the Faculty of Economy and Business in Zagreb. Through additional training and education she also earned licenses for Head of Investor Relations and Head of Development and Implementation of EU-funded projects, and she also attended numerous professional training courses in the fields of finance, audit and human resources management.

She has gained experience working at the Ernst&Young auditing company from 1997, going on to develop her skills at several subsidiaries of multinational companies in Croatia. From 1998 to 2005 she worked for Unilever d.o.o., where she began her career as a management accountant, moving on to the post of the finance manager where she managed financial and accounting activities of the companies in Croatia and Slovenia. From 2006 to 2012 she worked as the finance manager with similar responsibilities in the Croatian subsidiary of the international logistics corporation DHL.

Since September 2013 she was the director of the Corporate Accounting and Taxes sector in Podravka d.d. Two years later, in September 2015, she took over the post of the director of the Controlling sector in Podravka d.d.

MANAGEMENT'S INTERIM REPORT

Business results

Note: decimal differences in tables are possible due to rounding.

KEY CHARACTERISTICS OF PODRAVKA D.D. BUSINESS RESULTS IN 2017 (CONTINUING AND DISCONTINUED OPERATIONS)

(in HRK millions)	PROFITABILITY OF PODRAVKA D.D.				NORMALIZED			
	2017	2016	Δ	%	2017	2016	Δ	%
Sales revenue	1,904.3	1,888.1	16.2	0.9%	1,904.3	1,888.1	16.2	0.9%
Gross profit	570.9	589.3	(18.4)	(3.1%)	573.5	589.3	(15.8)	(2.7%)
EBITDA*	189.6	222.7	(33.1)	(14.9%)	218.7	214.7	4.0	1.9%
EBIT	(78.7)	117.1	(195.8)	(167.2%)	126.4	118.3	8.2	6.9%
Net profit	86.4	179.3	(92.9)	(51.8%)	278.1	184.1	94.0	51.0%
Gross margin	30.0%	31.2%		-123 bp	30.1%	31.2%		-110 bp
EBITDA margin	10.0%	11.8%		-184 bp	11.5%	11.4%		+11 bp
EBIT margin	(4.1%)	6.2%		-1034 bp	6.6%	6.3%		+38 bp
Net margin	4.5%	9.5%		-496 bp	14.6%	9.8%		+485 bp

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and value adjustment of assets.

In 2017, Podravka d.d. recorded sales of HRK 1,904.3 million, which is 0.9% higher than in the same period of the previous year. At the same time, gross profit amounted to HRK 570.9 million, with the gross margin of 30.0%. Lower gross profit and gross margin compared to 2016 are the result of changed revenue structure. The reported operating profit (EBIT) in 2017 amounted to negative HRK 78.7 million due to significant items treated by the management as one-off, while normalized operating profit amounted to HRK 126.4 million. The reported net profit in the observed period amounted to HRK 86.4 million, under the impact, in addition to the items mentioned above, of finance income in the amount of HRK 202.0 million. The finance income realised was primarily impacted by dividend income from subsidiaries in the amount of HRK 193.3 million. Normalized net profit in 2017 amounted to HRK 278.1 million.

As at 31 December 2017, total assets of Podravka d.d. amount to HRK 3,086.9 million, which is 6.9% lower than at the end of 2016. The most significant decrease on the assets side was recorded on trade and other receivables. On the equity and liabilities side, the most significant decrease was recorded on borrowings in non-current and current liabilities.

In 2017, cash flow from operating activities amounted to positive HRK 191.8 million, as a result of operations and movements of working capital. Cash flow from investing activities at the same time amounted to negative HRK 48.3 million, primarily due to cash used for the purchase of non-current tangible and intangible assets. In the same period, cash flow from financing activities amounted to negative HRK 148.1 million. Overall, in 2017 cash and cash equivalents decreased by HRK 4.5 million, resulting in the amount of cash and cash equivalents of HRK 132.0 million as at 31 December 2017.

**DISCONTINUED OPERATIONS OF
PODRAVKA D.D.**

The decision of the Podravka d.d. Management Board of 20 June 2013 announced the intention to start the procedure of disinvesting the Beverages business unit for the purpose of business improvement, decrease in operating expenses and strengthening company's innovation and competitiveness in its core business units. At the reporting date, Podravka d.d. classified the Beverages unit as discontinued operations in line with IFRS. At the end of 2016, Podravka d.d. sold the 100% share in Studenac d.o.o., and thus sold the Beverages unit that was carried as discontinued operations.

DISCONTINUED OPERATIONS				
(in HRK millions)	2017	2016	Δ	%
Sales revenues	-	69.2	n/a	n/a
Gross profit	-	24.5	n/a	n/a
EBITDA	-	(1.2)	n/a	n/a
EBIT	-	(11.3)	n/a	n/a
Net profit	-	(11.3)	n/a	n/a
Gross margin	-	35.3%		n/a
EBITDA margin	-	(1.8%)		n/a
EBIT margin	-	(16.3%)		n/a
Net margin	-	(16.3%)		n/a

*EBITDA is calculated in a way that EBIT was increased by the value adjustment of non-current assets held for sale.

**NORMALIZATION OVERVIEW FOR PODRAVKA D.D.
(CONTINUING AND DISCONTINUED OPERATIONS)**

PODRAVKA D.D.		
(in HRK millions)	2017	2016
Reported gross profit	570.9	589.3
+ amortization included in COGS	2.6	-
Normalized gross profit	573.5	589.3
Reported EBITDA	189.6	222.7
+ expense related to China closing	1.3	-
+ severance payments	27.0	6.4
+ revenues from sale of Studenac	-	(7.8)
+ leaseback income Umag	-	(6.6)
+ other one-off items	0.8	-
Normalized EBITDA	218.7	214.7
Reported EBIT	(78.7)	117.1
+ expense related to China closing	1.3	-
+ severance payments	27.0	6.4
+ revenues from sale of Studenac	-	(7.8)
+ leaseback income Umag	-	(6.6)
+ value adjustments	173.1	9.1
+ amortization	2.9	-
+ other one-off items	0.8	-
Normalized EBIT	126.4	118.3
Reported Net profit	86.4	179.3
+ expense related to China closing	1.3	-
+ severance payments	27.0	6.4
+ revenue from sale of Studenac	-	(7.8)
+ leaseback income Umag	-	(6.6)
+ value adjustments	173.1	9.1
+ amortization	2.9	-
+ ESOP programme expenses	3.0	2.4
+ one-off items with effect on taxes*	(16.5)	1.3
+ other one-off items	0.8	-
Normalized Net profit	278.1	184.1

* Note: normalization of results does not include all potential tax impacts that would arise from the normalization process.

Expected development

During its rich history, Podravka conquered the world with its products. Today it is the only Croatian multinational food company with offices in 25 countries in the world, and its products are present in over 60 countries on almost all continents.

During 70 years of operations, solid business foundations have been made, respecting the tradition and its values, work and labour of generations of employees. Today we invest in new knowledge and by following technologies and trends we proudly build our future.

“We know where we’re going, because we know where we come from.”

ACHIEVING GROWTH Podravka’s aim is the company growth and development through efficient management of product range, focusing on key brands (Vegeta, Podravka, Lino), operating efficiency and long-term profitability.

Key success characteristics will be further strengthening of operations on international markets and retaining positions on the domestic market, as well as the digitalization and new business models.

In the markets of the Adria region, Podravka aims to be the leading manufacturer of branded products, and in Central and Eastern Europe it aims to achieve additional growth and strengthen market positions.

In Western Europe and Overseas the aim is to expand the presence, come closer to domestic customers and focus on the portfolio development.

GENERAL STRATEGIC GOALS To satisfy the interests of owners and stakeholders, through growth, business development and internal efficiency.

To be the leading food company on defined strategic markets.

To provide new and innovative culinary solutions for the consumers and by implementing nutritive strategy, launch top-quality products with added value.

To keep pace with or be ahead of the average of industries in which Podravka does business on key markets regarding the levels of cost and production efficiency. To reduce costs of procurement, sales and distribution, general and administrative costs and thus enable higher investments in marketing, research and product development, and to improve cash flow, necessary for optimum operations, by better financial management.

To be the leader or strong second place competitor in defined business units on strategic markets and to strengthen the existing international markets.

To contribute to the development of the Croatian economy and to be the consolidator of the food industry in the region.

Key factors of success

1. COMPANY STRENGTHS AND VALUES

Employees

The key of Podravka's success are professional, creative and ambitious employees, willing to contribute to the company's well-being and to invest additional efforts and time in achieving above-average results.

Quality

Every product carrying the name Podravka is a result of long tradition, know-how and care for consumers' health and well-being.

Podravka's brands and consumer trust

Proof of Podravka's brands strength and care for consumers is the trust gained in Croatia, the region, Europe and around the world.

Long-established tradition

Over 70 years, together with customers, we have built the tradition that nourishes Croatian quality, the strength of domestic products and pride of domestic values.

Wide distribution network

Podravka has a developed distribution network in Croatia and twelve countries of the region, including Central and South-Eastern Europe.

Partner relations

The existing and future partners and consumers are the most valuable company's external potential and they are therefore approached with special care in an open and responsible communication. The company builds trust based on mutual respect of employees, as well as clients and consumers.

Social responsibility and sustainable development

Compliant to principles of sustainability and responsible business, Podravka tries to use fewer resources and to produce less waste. We are therefore devoted to listening to the needs of consumers, employees and local communities, dedicated work on the development and quality of products, and constant care for health and the environment.

2. PROFITABLE GROWTH

Strengthening the existing market positions

The focus is on strengthening the existing markets where Podravka's brands have been recognised and which have developed selling and distribution network.

Focus on key brands

Podravka will be focusing on brands that have strong prospects on international markets, from which an above-average growth is expected – Vegeta, Podravka and Lino.

Internationalization

Podravka focuses on increasing the share of income from international markets that will positively impact the reduction in operational risk and ensure the company's long-term growth.

Business investments

By increasing operating efficiency, additional capital is released, and Podravka intends to invest it in further business. Through good investment cycle management and significant investments in marketing, we aim to use the potential of markets of strategic importance.

Strategic partnerships and acquisitions

Podravka plans its business development on both organic and inorganic growth, through acquisitions and strategic alliances.

3. OPERATING EFFICIENCY

More efficient cost management

The key element to more efficient operations is good cost management. Podravka will continue to perfect its processes and activities with the aim of an even better control and management of COGS and operating expenses.

Business units

The creation of business units enables better management of product portfolio and market potentials, faster process implementation and organization complexity reduction.

Continuous monitoring of product range profitability

After abandoning low-profitability segments, Podravka focuses on profitability through restructuring of certain areas and thus intends to release capital for investments in profitable categories. Taking care of the product range and knowing its customers for many years, Podravka understands their needs and offers them top-quality products, thus strengthening own brands.

Internal competencies development

Sharing knowledge among employees, through own education courses and experience, Podravka takes care of the competencies of its employees, improving internal processes and encouraging innovation within the company.

Strategy cascading – clear goals and responsibilities

Podravka gives importance to the strategy, goals and cascading to lower organizational units. This clearly defines individual responsibilities and obligations that need to be fulfilled, in order to realize the goals set.

Risk factors

In its operations, Podravka is exposed to risks typical of economic entities operating on the domestic and foreign markets. Various internal and external factors cause risks manifested in an inability to realize the company's set goals, which impact the company's financial position and operating result.

External factors relate to impacts from the environment such as economic, political, technological, social risks and risks related to changes in legal regulations. These risks may have a significant impact on the industry as a whole or individually on Podravka. Economic and political risks may have an impact on the implementation of strategic business decisions and on the regular operations, whether at the level of a country or beyond. Technological risk refers to innovation and improvement of production processes, or risk of obsolescence of the existing production technologies. The legal regulations of individual countries such as tax legislation, market pricing restrictions, product safety, warranty claims, protection of intellectual property and trademarks, patents, market competition, employee safety and security, corporate policies, employment and labour regulations, etc., also have an impact on the ability to achieve growth and planned profitability in a particular market. The lack of adjustment to these regulations could have a significant impact on expenses related to operations, as well as the company's overall reputation.

Therefore, Podravka uses its own as well as external resources from various fields of expertise in order to ensure compliance with the norms that regulate specific areas. Equally, sales and operations are under influence of social and political events, which becomes evident in situations when companies operate in developing countries, with big growth potentials on the one hand but which expose the companies to increased political, economic and social risks on the other.

In addition to these external factors, Podravka is exposed to various internal risk factors. However, a company has greater ability to impact the internal factors than external ones, through its regular business policies and decisions.

Podravka's continuous activities in the area of risk management are focused on developing the project of Enterprise Risk Management; ERM. The project refers to the process of integrated analyses and reports on key risks that the company is exposed to, identifying potential events which can have negative effects on the company's business results and managing identified risks. Within the project, key risks are divided into three basic groups: strategic, financial and operating risks. Treasury department of Podravka d.d. is in charge of management and supervision of the ERM project. All the risks can be additionally divided into insurable and non-insurable. Insurable risks are managed by the Insurance division within the Treasury

department, and together with uninsurable risks they undergo the analysis and reporting process within the ERM project. During 2017, Podravka continued to extend the scope of the ERM project, including in it additional business units for which the identification and analysis of risk were conducted, for the purpose of building a more efficient risk culture, implying that every business activity holder involved in the project also takes on the role of a “risk manager”.

In addition to being a tool for improving business processes, the purpose of the ERM project is to limit company's potential losses, improve stakeholder management through efficient communication about the risks with employees and other stakeholders, within and outside the company, to increase the company's financial safety and integrate risk reports and analyses into the decision-making process, with the aim of matching return rates with assumed risks arising from operating activities, thus creating an additional value for the company.

BRANDS MANAGEMENT

Business conditions on the markets in which Podravka operates are challenging due to international and local competition, but also due to reduced purchasing power in the domestic and some other markets. In the situation when consumer demand grows slowly and is very price-sensitive, the success of companies that are focused on recognizable brand products largely depends on their ability to be innovative and price-competitive at the same time.

Also, consumer habits, tastes and preferences are constantly changing, so Podravka is constantly facing the need to timely identify and anticipate them in order to adapt its products and brands to these changes. The result is the constant creation and development of innovative solutions of Podravka in line with expectations of its customers, since it is one of the important factors in achieving sales plans, and overall business results.

Through the continuous innovation so far, within the existing product range and by launching new categories, Podravka confirms it is the food industry trendsetter in Croatia and the region.

BUSINESS SEGMENTS MANAGEMENT

As a company that sees the achievement of its goals through both organic and inorganic business growth, the optimum selection of strategic segments of product categories, markets and sales channels have a significant impact on the opportunities for that growth. For that reason, Podravka pays great attention to evaluation and decision-making regarding strategic investments and considering the opportunities that can potentially contribute to realising added value for investors. In addition, special attention is paid to monitoring and analysing the segments and markets that are estimated not to have long-term potentials for realizing the desired business results.

Through acquisition activities, expansion of operations onto new markets and the development of new products Podravka additionally internationalises its operations and diversifies its product portfolio. This way the risk of

dependence on a particular product, market or business partner is reduced.

CLIENT RELATIONS MANAGEMENT

Podravka is aware of the extreme importance of developing and maintaining relationships with its clients in order to ensure the desired position of its products at points of sale.

With its marketing strategies, activity plans at points of sale and those oriented to strengthening the recognisability of brands, Podravka affects the intensity of product demand and thereby also negotiation positions when defining the terms and conditions with clients.

In addition, Podravka makes efforts to ensure, through harmonization and optimization of the existing pricing policies and price levels on the existing markets, preconditions for further successful long-term growth. The profit margins are thereby protected, and the risk of not achieving the planned sales is reduced.

MANAGING THE RISKS OF MANAGEMENT AND HUMAN RESOURCES

An important company's resource is employees and their abilities and skills that help in achieving company's goals and creating added value. Continuous improvement of business processes requires changes in the qualification structure of employees (something that the company intensely worked on over the past years), and with high-quality redundancy labour programs the age structure of the company is improved. Personnel potential is one of the essential factors for Podravka's growth, and it is continuously investing in their professional training and education. Podravka conducts periodic evaluation of management results, including evaluation of their management skills in order to create presumptions for long-term realization of its goals. Additionally, Podravka uses a number of other proactive measures and controls to keep, as much as possible, these risks at an acceptable level. Management and employee risks, monitored by the Human resources and legal department, are included in 2017 in the analysis and reporting process within the ERM project.

QUALITY ASSURANCE AND FOOD SAFETY MANAGEMENT SYSTEM

The quality and safety of Podravka's products are priceless for preserving the reputation of its brands, as well as the company in general. High quality of its products is guaranteed by high-quality raw materials, modern technological processes and knowledge applied in their production. Podravka takes care of health and nutritional needs of its consumers, and convenience in the consumption and safety of its products. Therefore, special attention is paid to defining and implementing activities that are based on assessment of critical areas in the chain of supply and production in order to protect the products from contamination and counterfeiting.

Quality assurance is based on quality control system, implementation, maintenance and development of the integrated management system that is based on norms, regulations and principles in accordance with the Podravka's quality and food safety management system, as well as on continuous employee education.

All products and business processes are based on the principles of quality management, including the selection of key suppliers of raw materials, in order to ensure the required quality of the finished product. Constant and systematic care regarding the sanitary validity and product safety is taken, compliant to legal regulations of the Republic of Croatia, the European Union and other countries where the company operates, as well as on adjustment and safety of IT systems used as a support to the overall business of Podravka.

FINANCIAL RISKS An integral part of the overall ERM project is the reporting procedure for the purpose of managing financial risks. This procedure is applied when it is assessed that due to extraordinary circumstances an immediate decision on some business activities has to be made in a manner that differs from the Podravka's prescribed procedures, which may jeopardise the profitability or cause a significant loss of company's cash (escalation procedure for managing financial risks).

Financial risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The exposure to currency, interest rate and credit risks arises in the normal course of operations. Managing these risks is performed by the Treasury sector, together with active management of excess liquidity investment and active management of financial assets and liabilities.

CURRENCY RISK Podravka conducts certain transactions in foreign currencies, and is therefore exposed to the risk of fluctuations in exchange rates. The most significant exposure to changes in exchange rates of the Croatian kuna during 2017 was in relation to EUR, USD and BAM.

Currency risks arise not only from operations of related parties in foreign markets, but also from the procurement of raw food materials in the international market, which is largely performed in EUR and USD. Likewise, a significant portion of Podravka's borrowings is denominated in EUR. During 2017, the exchange rate of the Croatian kuna against EUR remained stable, but at lower average levels than the year before, as a consequence of appreciation pressures on the Croatian kuna due to favourable economic trends.

During 2017, Podravka performed the balance sheet currency structure analysis and continued to apply the model of managing transaction currency risk called "Layer hedging". This model is applied to the following currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The integral parts of the model include the identification of risk sources and exposure measurement (using Monte Carlo method of Value at Risk simulation), process of contracting derivative financial instruments for hedging purposes and the control and reporting system. Additionally, within the model, exposure limit parameters were set which are triggers for contracting the prescribed hedge levels. Using Bloomberg terminal, macroeconomic projections are regularly monitored and derivative financial instruments for currency risk management are contracted. Also, Podravka endeavours to

maximise the possibilities of “natural hedging” in order to achieve that the inflows from related parties, whenever possible, are forwarded to Podravka d.d. in the domestic currency of the country where the related company operates. This way, the currency risk is largely transferred from related parties to Podravka d.d. that adjusts these cash inflows with outflows, thus reducing the overall exposure to currency risk, and also creating the opportunity to contract derivative financial instruments for the remaining amount of net cash flow at the central level.

During 2017, Podravka d.d. concluded fx forward contracts for managing exchange rate risks for USD, AUD, CAD, RUB, HUF and PLN. For exposure to changes in exchange rates of the Croatian kuna against EUR, no derivative financial instruments for hedging purposes were contracted, due to limited exchange rate volatility and the exchange rate regime implemented by the Croatian National Bank.

INTEREST RATE RISK Podravka manages cash flow interest rate risk in a way to have contracted interest rate swaps, replacing the liabilities at variable interest rates by fixed interest rates. Changes and projections of interest rates are continuously monitored. For a part of its debts, Podravka contracted fixed interest rates. Taking into account this and the fact that the key interest rates are currently at low levels, Podravka is not significantly exposed to interest rate risk.

PRICE RISK Podravka’s business success depends on adequate sources of raw materials, as well as their prices on the market, the efficiency of the production process and product distribution to its customers.

The cost of raw materials could have a significant role in the cost of finished products that Podravka manufactures, and is therefore subject to fluctuations of prices on the market of agricultural and food raw materials, the impact of which cannot always be compensated through the sale price for the buyer.

Protective customs and trade mechanisms in the EU protecting producers from the EU represent a risk in terms of increased customs duties for certain raw materials from third countries. Unavailability of goods in the market due to adverse weather conditions (droughts, floods, etc.), political and social unrest in some countries or speculation with key agri-food products lead to changes in the functioning of supply and demand of certain agri-food products and represent the risk with an increased effect on Podravka’s operations. Also, there is a trend of primary raw materials producers’ consolidation on the European and global levels, which could lead to higher procurement prices in the future.

In order to reduce those impacts, Podravka’s Procurement department manages the strategic procurement categories and key suppliers in a way that it develops partnership relations with the existing and new suppliers. Also, enlarging procurement volumes, fully applying the Commodity Risk Management, conducting e-tenders and using new import regimes are some of the activities Podravka uses to reduce procurement costs, in the conditions of extreme price volatility of individual strategic raw materials.

CREDIT RISK AND RISK OF COLLECTION

Credit risk is the risk of non-payment, i.e. noncompliance with contractual obligations by the customers which may cause possible loss to the company.

Podravka enters into business only with counterparties with good credit ratings, securing, when needed, receivables for the purpose of decreasing the risk of financial loss as a consequence of default. Podravka's exposure based on receivables and the credit ratings of its counterparties are continuously monitored.

As of 10 April 2017, the extraordinary administration over companies in the Agrokor Group headquartered in Croatia was initiated. In the extraordinary administration procedure, Podravka claimed relevant receivables. Podravka continues its business cooperation with companies of the Agrokor Group, taking into account the control of its overall exposure.

The company accepts new customers and continues cooperation with existing customers with payment delays subject to meeting the company's credit rating parameters. Receivables are analysed on a weekly basis and necessary measures are taken with respect to their collection.

Protection measures are defined based on the financial indicators for individual customers, using several services where the required information is available (financial statements, credit ratings etc.). The company's exposure analysis and credit exposure are monitored and controlled through credit limits set by the company and insurer, which are continuously controlled and adjusted if appropriate.

Depending on the needs and collection of receivables on individual markets, during 2017 Podravka contracted insurance of receivables for a selected group of markets.

During 2017, Podravka did not have significant damage claims related to the insurance of collection of receivables.

LIQUIDITY RISK

Podravka manages liquidity risk by setting an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity requirements and by maintaining adequate reserves and credit lines. During 2017, additional efforts were made in planning cash flows and forecast and actual cash flows are continuously monitored, with matching the maturity profiles of receivables and payables. Podravka continuously monitors and analyses cash flows with the aim of an optimum liquidity management in order to ensure sufficient level of cash funds for the purpose of operations using contracted credit lines as necessary. Planning cash flows in this way takes into account Podravka's plans with respect to regular settlement of debt and adjustment to the relations set by contracts.

CORPORATE GOVERNANCE

Statement on corporate governance

In compliance with the main purpose of its business relating to ensuring sustainable business growth and value growth for the shareholders, the Management Board and the Supervisory Board of Podravka d.d. in their work follow the principles of corporate governance.

Podravka d.d. continuously monitors reforms in the area of corporate governance and strives to constant advancement of the relations with the shareholders, investors and the general public, by introducing high standards in communication.

Acting in compliance with effective Croatian legislation and taking into account the OECD guidelines for corporate governance and the Corporate Governance Code by HANFA and Zagreb Stock Exchange, Podravka d.d. was among the first listed stock companies to prepare a Corporate Governance Code with the purpose of equalizing the rights of all shareholders and open, professional and transparent approach to relations with investors and the general public.

Key principles of corporate governance that Podravka d.d. applies are:

- business transparency
- clear procedures for the work of the Management Board, the Supervisory Board and its committees and the General Assembly
- avoiding conflict of interest
- efficient internal control and
- efficient system of responsibility.

Aware of the importance of responsible and ethical behaviour of business entities, Podravka d.d. adopted the Code of Ethics in business, committing to respect ethical principles in all of its business relations and adopting the obligation to act in compliance with principles of responsibility, truthfulness, efficiency, transparency, quality, acting in good faith and respecting good business practice towards business partners, business and social environment and own employees.

Podravka d.d. and all of its related companies in the country and abroad adhere to the ethical principles and principles of modern corporate governance.

The annual consolidated financial statements of Podravka d.d. and the Annual report on the position of Podravka d.d. are submitted as a single annual report of the Podravka Group, which includes the subsidiaries of Podravka d.d. stated below.

Subsidiaries

NAME OF SUBSIDIARY	COUNTRY	2017	PRINCIPAL ACTIVITY
Žito d.o.o., Ljubljana	Slovenia	100.00	Production and sale of food
Belupo d.d., Koprivnica (i)	Croatia	100.00	Production and distribution of pharmaceuticals
Podravka-Lagris a.s., Dolni Lhota u Luhačovic	Czech Republic	100.00	Rice production and sale
Podravka-Polska Sp.z o.o., Warszawa (ii)	Poland	100.00	Sale and distribution
Vegeta Podravka Limited, Dar es Salaam (ii)	Tanzania	85.00	Production and sale of food
Podravka-International Kft, Budapest	Hungary	100.00	Sale and distribution
Mirna d.d., Rovinj (i)	Croatia	90,41	Fish processing and production
Podravka Gulf Fze, Jebel Ali (ii)	UAE	100.00	Sale and distribution
Podravka-Int. Deutschland – “Konar” GmbH München	Germany	100.00	Sale and distribution
Podravka-International s.r.o., Zvolen	Slovakia	75.00	Sale and distribution
Podravka d.o.o., Podgorica	Montenegro	100.00	Sale and distribution
Podravka-International Pty. Ltd, Sydney	Australia	100.00	Sale and distribution
Podravka-International s.r.l., Bucharest	Romania	100.00	Sale and distribution
Podravka d.o.o.e.l., Skopje	Macedonia	100.00	Sale and distribution
Podravka d.o.o., Sarajevo	B&H	100.00	Sale and distribution
Podravka-International D.d. Wilmington	USA	100.00	Sale and distribution
Podravka d.o.o., Moscow	Russia	100.00	Sale and distribution
Podravka d.o.o., Belgrade	Serbia	100.00	Sale and distribution
Sana d.o.o., Hoče (in bankruptcy)	Slovenia	100.00	Production of wafers

(i) Based on the decisions of the Company’s management and the Decision of the Commercial Court, the share capital of subsidiary Belupo d.d. was increased as at 27 January 2017 by HRK 69 million and as at 9 March 2017 by HRK 100 million. In 2017, the Company purchased additional shares of Mirna d.d. in the amount of HRK 863 thousand and as at 31 December 2017 it held 90.41% of the share capital of Mirna d.d.

(ii) In 2017, the Company impaired its share in the subsidiary Podravka-Polska Sp.z o.o., Warszawa in the amount of HRK 19,595 thousand, in the subsidiary Vegeta Podravka Limited, Dar es Salaam in the amount of HRK 9,796 thousand and in the subsidiary Podravka Gulf Fze, Jebel Ali, Dubai in the amount of HRK 1,845 thousand. The Company considers these impairment costs to be one-off.

General Assembly

At the General Assembly the shareholders get to vote in person, through their proxy or authorized person. Shareholders entered in the computer system of the Central Depository & Clearing Company who apply for participation at the General Assembly meeting seven days at the latest before the meeting, have the right to participate and vote at the General Assembly meeting.

The General Assembly can pass valid resolutions if it is represented by at least 30% (thirty percent) of the total number of shares with voting rights. The General Assembly is chaired by the president appointed by the Supervisory Board, at the proposition of the Management Board.

Shareholders, proxies and authorized persons of shareholders get the right to vote at the General Assembly meeting using voting ballots marked with the number of votes belonging to an individual General Assembly participant. All the materials related to the calling and holding the General Assembly meeting are available on the website of Podravka d.d. in the Investors/Corporate governance/General Assembly section.

Supervisory Board

The Supervisory Board of Podravka d.d. has nine members, eight of whom are elected by the shareholders at the General Assembly meeting by three-quarter majority of votes, while one member is appointed by the Workers' Council of Podravka d.d. as stipulated by the provisions of the Labour Act. Members of the Supervisory Board are appointed to a four-year term. The beginning of the term for every member of the Supervisory Board is as of the day of the election, i.e. their appointment, unless otherwise determined by an election resolution. The Supervisory Board supervises business operations of Podravka d.d., and makes decisions on issues in their domain based on law, Articles of Association of Podravka d.d. and the Rules of Procedure of the Supervisory Board.

Podravka d.d. Supervisory Board members in 2017:

1. Dubravko Štimac – President
2. Luka Burilović – Deputy President from 21 February 2017
3. Mato Crkvenac – Deputy President until 21 February 2017
4. Ivo Družić – Member until 21 February 2017
5. Damir Grbavac – Member from 21 February 2017
6. Ksenija Horvat – Member (workers' representative)
7. Marko Kolaković – Member from 21 February 2017
8. Ivana Matovina – Member from 30 June 2017
9. Petar Miladin – Member
10. Dinko Novoselec – Member until 30 June 2017
11. Slavko Tešija – Member from 21 February 2017
12. Petar Vlaić – Member.

The Supervisory Board of Podravka d.d. founded three committees: the Audit Committee, the Remuneration Committee and the Corporate Governance Committee.

The Audit Committee members in 2017 were:

1. Ivana Matovina – President of the Committee
2. Mato Crkvenac – Member until 30 March 2017
3. Dinko Novoselec – Member until 18 July 2017
4. Dubravko Štimac – Member from 18 July 2017
5. Slavko Tešija – Member from 30 March 2017
6. Petar Vlaić – Member.

The Audit Committee is authorised to monitor the financial reporting procedure, the efficiency of the internal control system, internal audit and risk management system, to supervise the audit of the consolidated annual financial statements, to monitor the independence of independent auditors or auditing companies performing the audit, and particularly contracts on additional services, to discuss plans and the annual report by the internal audit, and to discuss significant issues related to this area, to provide recommendations to the Supervisory Board on selecting an independent auditor or an auditing company. The Audit Committee held eight sessions in 2017.

The Remuneration Committee members were:

1. Petar Vlaić – President of the Committee until 30 March 2017
2. Luka Burilović – President of the Committee from 30 March 2017
3. Mato Crkvenac – Member until 21 February 2017
4. Petar Miladin – Member from 30 March 2017
5. Dubravko Štimac – Member.

The Remuneration Committee is authorised to propose the policy of rewarding Management Board members, fixed and variable parts of salaries, retirement plan and severance payments, to suggest objective criteria for evaluation of business success, which are necessary to calculate the variable parts of the remuneration which need to be in line with long-term interests of the shareholders and objectives of Podravka d.d. set by the Supervisory Board, to suggest remuneration for individual Management Board members compliant to the remuneration policy and estimation of individual Management Board member's activities, to suggest additional contents in contracts of Management Board members, to consult at least the Supervisory Board president and the Management Board president about their attitudes regarding remunerations to Management Board members, to track amounts and structure of the remunerations to senior management and to provide general recommendations to the Management Board in this respect, to suggest a remuneration method and amount for Supervisory Board members.

The Remuneration Committee held one session in 2017.

The Corporate Governance Committee was established on 30 June 2017 and consists of:

1. Marko Kolaković – Member of the Committee
2. Luka Burilović – Member
3. Petar Miladin – Member
4. Petar Vlaić – Member.

The Corporate Governance Committee is authorised to improve corporate governance and transparency of operations of Podravka d.d., to propose, advise and supervise the implementation of the business strategy in line with the mission and vision of Podravka d.d., to propose and supervise the procedures for the management bodies of the Company and prevention of the conflict of interest, to provide guidelines to the Management Board, the Supervisory Board and committees and other bodies of Podravka d.d. for the responsible work and mutual reporting for the purpose of a successful performance of tasks and authorities, to harmonise rights and interests of shareholders, investors, stakeholders and other interested parties in Podravka d.d. with management and operations of the management and to propose guidelines for the development of the dividend policy.

The Corporate Governance Committee performed its role in a workshop and sessions of the Supervisory Board and did not hold a separate session in 2017.

Supervisory Board members of Podravka d.d. are entitled to a fixed monthly compensation as determined by the General Assembly Resolution on determining remuneration for the company's Supervisory Board members. In 2017, members of the Supervisory Board of Podravka d.d. were paid HRK 1,323 thousand.

Management Board

Pursuant to the provisions of the Articles of Association of Podravka d.d., the Management Board consists of three to six members appointed by the Supervisory Board. The Management Board is appointed for the period as determined by the Supervisory Board (not longer than five years) and they can be reappointed. If the president or members of the Management Board are appointed during the term of the existing Management Board, their term lasts until the expiry of the term of the Management Board as a whole. The beginning of the term is as of the date the Management Board members are appointed if not otherwise stipulated in the Supervisory Board's decision.

Management Board members manage Podravka d.d.'s affairs, and the manner of work and division of tasks among Management Board members are determined by the Rules of Procedure of the Management Board. At the session held on 23rd February 2017, the Supervisory Board appointed the president and members of Podravka d.d. Management Board. Marin Pucar was appointed president of the Management Board, and members appointed were Iva Brajević, Hrvoje Kolarić and Ljiljana Šapina whose term started as of 24th February 2017 and ends on 31st October 2018, except for Iva Brajević who was appointed until 30th April 2017.

At the same session of the Supervisory Board, Davor Doko was also appointed as a member to the Management Board. His term started as of 1st May 2017 and lasts until the expiry of the term of the Management Board as a whole.

At its session held on 18th July 2017, the Supervisory Board decided to prolong the term of the president and members of the Management Board until 23rd February 2022.

At the same session, the Supervisory Board appointed Marko Đerek as a member to the Management Board of Podravka d.d. His term started as of 19th July 2017 and ends on 23rd February 2022.

The Management Board consists of the President and four members appointed by the Supervisory Board.

Management Board members in 2017:

1. Zvonimir Mršić – President until 23 February 2017
2. Marin Pucar – President from 24 February 2017
3. Olivija Jakupec – Member until 23 February 2017
4. Ljiljana Šapina – Member from 24 February 2017
5. Iva Brajević – Member until 30 April 2017
6. Davor Doko – Member from 1 May 2017
7. Marko Đerek – Member from 19 July 2017
8. Hrvoje Kolarić – Member.

Compensation to an individual Podravka d.d. Management Board member has been determined by the management contract concluded with Podravka d.d. and approved by the Supervisory Board on behalf of Podravka d.d. Gross salaries and compensation paid in 2017 to Podravka d.d. Management Board members amounted to HRK 16,698 thousand.

Remunerations for membership in Supervisory Boards of Podravka d.d. subsidiaries were not approved nor paid to the members of Podravka d.d. Management Board.

During 2017, 32,000 stock options of Podravka d.d. were granted to the members of the Management Board of Podravka d.d.

CORPORATE GOVERNANCE CODE

Annual questionnaire

MAIN COMPANY INFORMATION: PODRAVKA D.D., ANTE STARČEVIĆA 32, KOPRIVNICA,
PIN: 18928523252

CONTACT PERSON AND CONTACT PHONE: BRANKA PERKOVIĆ, +38548651441

DATE OF QUESTIONNAIRE COMPLETE: 23.1.2018.

All the questions contained in this questionnaire relate to the period of one business year to which the annual financial statements also relate.

If a question in the questionnaire asks for an explanation, it is necessary to explain the answer provided. All the answers in the questionnaire will be measured in percentages, as explained at the beginning of each chapter.

COMPANY HARMONIZATION WITH THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

Answers to this questionnaire chapter will be valued with a max. 20% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

1. Has the company accepted implementation of the code of corporate governance of the Zagreb Stock Exchange?

Yes No

2. Does the company have its own code of corporate governance?

Yes No

3. Have any principles of the code of corporate governance been adopted as part of the company's internal policies?

Yes No

4. Does the company disclose harmonization with the principles of corporate governance in its annual financial statements?

Yes No

SHAREHOLDERS AND GENERAL MEETING

Answers to this questionnaire chapter will be valued with max. 30% of whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

5. Is the company in a cross-shareholding relationship with another company or other companies? (If so, explain)

Yes No

6. Does each share of the company have one voting right? (If not, explain)

Yes No

7. Are there cases of different treatment of any shareholders?

(If so, explain)

Yes No

8. Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, explain)

Yes No

9. Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, explain)

Yes No

10. Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, explain)

Yes No

11. Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, explain)

Yes No

12. Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, explain)

Yes No

13. Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, explain)

Yes No

14. Were any shareholders favoured while receiving their dividends or advance dividends? (If so, explain)

Yes No

15. Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, explain)

Yes No

16. Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney etc.? (If so, explain)

Yes No

17. Did the management of the company publish the decisions of the general assembly of the company?

Yes No

18. Did the management of the company publish the data on legal actions, if any, challenging those decisions? (If not, explain)

Yes No

**MANAGEMENT AND
SUPERVISORY BOARD**

Please provide the names of Management Board members and their functions:

Zvonimir Mršić (president of the Management Board until 23.2.2017), Marin Pucar (president of the Management Board from 24.2.2017), Olivija Jakupec (member of the Management Board until 23.2.2017), Ljiljana Šapina (member of the Management Board from 24.2.2017), Iva Brajević (member of the Management Board until 30.4.2017), Davor Doko (member of the Management Board from 1.5.2017), Marko Đerek (member of the Management Board from 19.7.2017) and Hrvoje Kolarić (member of the Management Board).

Please provide the names of Supervisory Board and their functions:

Dubravko Štimac (president of the Supervisory Board), Mato Crkvenac (deputy president of the Supervisory Board until 21.2.2017), Luka Burić (deputy president of the Supervisory Board from 21.2.2017), Ivo Družić (member of the Supervisory Board until 21.2.2017), Damir Grbavac (member of the Supervisory Board from 21.2.2017), Ksenija Horvat (member of the Supervisory Board), Ivana Matovina (member of the Supervisory Board from 30.6.2017), Petar Miladin (member of the Supervisory Board), Dinko Novoselec (member of the Supervisory Board until 30.6.2017), Slavko Tešija (member of the Supervisory Board from 21.2.2017) and Petar Vlajić (member of the Supervisory Board).

Answers to this questionnaire chapter will be valued with a max. 20% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

19. Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, explain)

Yes No

20. Did the Supervisory or Management Board pass its internal code of conduct?

Yes No

21. Does the company have any independent members on its Supervisory or Management Board? (if not, please explain)

Yes No

22. Is there a long-term succession plan in the company? (If not, explain)

Yes No

23. Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)

Yes No

24. Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (If not, explain)

Yes No

25. Have detailed records on all remunerations and other earnings of each member of the management or each executive director received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)

Yes No

26. Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)

Yes No

27. Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company's shares promptly and no later than three business days, after such a change occurs? (If not, explain)

Yes No

28. Were all transactions involving members of the Supervisory or Management Board or persons related to them and the company and persons related to it clearly presented in reports of the company? (If not, explain)

Yes No

29. Are there any contracts or agreements between members of the Supervisory or Management Board and the company?

Yes No

30. Did they obtain prior approval of the Supervisory or Management Board? (If not, explain)

Yes No

31. Are important elements of all such contracts or agreements included in the annual report? (If not, explain)

Yes No

32. Did the Supervisory or Management Board establish the appointment committee?

Yes No

33. Did the Supervisory or Management Board establish the remuneration committee?

Yes No

34. Did the Supervisory or Management Board establish the audit committee?

Yes No

35. Was the majority of the audit committee members selected from the group of independent members of the Supervisory Board? (If not, explain)

Yes No

36. Did the committee monitor the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (If not, explain)

Yes No

37. Did the audit committee assess the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, explain)

Yes No

38. Has the audit committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, explain)

Yes No

39. If there is no internal audit system in the company, did the audit committee consider the need to establish it? (If not, explain)

Yes No

40. Did the audit committee monitor the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, explain)

Yes No

41. Did the committee monitor nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (If not, explain)

Yes No

42. Did the audit committee prepare rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)

Yes No

43. Did the audit committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, explain)

Yes No

44. Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)

Yes No

45. Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)

Yes No

46. Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?

Yes No

47. Are detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the annual report of the company? (If not, explain)

Yes No

48. Are all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the company? (If not, explain)

Yes No

49. Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (If not, explain)

Yes No

50. Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the management of the company, and a special comment on its cooperation with the management? (If not, explain)

Yes No

**AUDIT AND MECHANISMS OF
INTERNAL AUDIT**

Answers to this questionnaire chapter will be valued with a max. 10% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

51. Does the company have an external auditor?

Yes No

52. Is the external auditor of the company related with the company in terms of ownership or interests?

Yes No

53. Is the external auditor of the company providing to the company, him/herself or through related persons, other services?

Yes No

54. Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)

Yes No

55. Does the company have internal auditors?

Yes No

56. Does the company have an internal audit system in place? (If not, explain)

Yes No

Answers to this questionnaire chapter will be valued with a max. 20% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

57. Are the semi-annual, annual and quarterly reports available to the shareholders?

Yes No

58. Did the company prepare the calendar of important events?

Yes No

59. Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?

Yes No

60. Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?

Yes No

61. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company? (if yes, explain)

Yes No

62. Did the management of the company hold meetings with interested investors, in the last year?

Yes No

63. Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?

Yes No

PODRAVKA D.D. SECURITIES

Share

TURNOVER, VOLUME AND PRICE MOVEMENT OF PODRAVKA'S SHARE

The total turnover of Podravka's share in 2017 was 1.2% higher compared to 2016, while total regular turnover of all shares on the Zagreb Stock Exchange in the same period recorded a 37.3% growth. The total regular turnover of Podravka's share in 2017 was HRK 97.3 million, which is 3.7% of the total regular shares turnover on the Zagreb Stock Exchange. Traded volume of Podravka's share in 2017 was 0.2% higher than in 2016, whereas the most intense trading took place in the first quarter.

PODRAVKA'S SHARE TURNOVER AND VOLUMES PER QUARTERS IN 2017

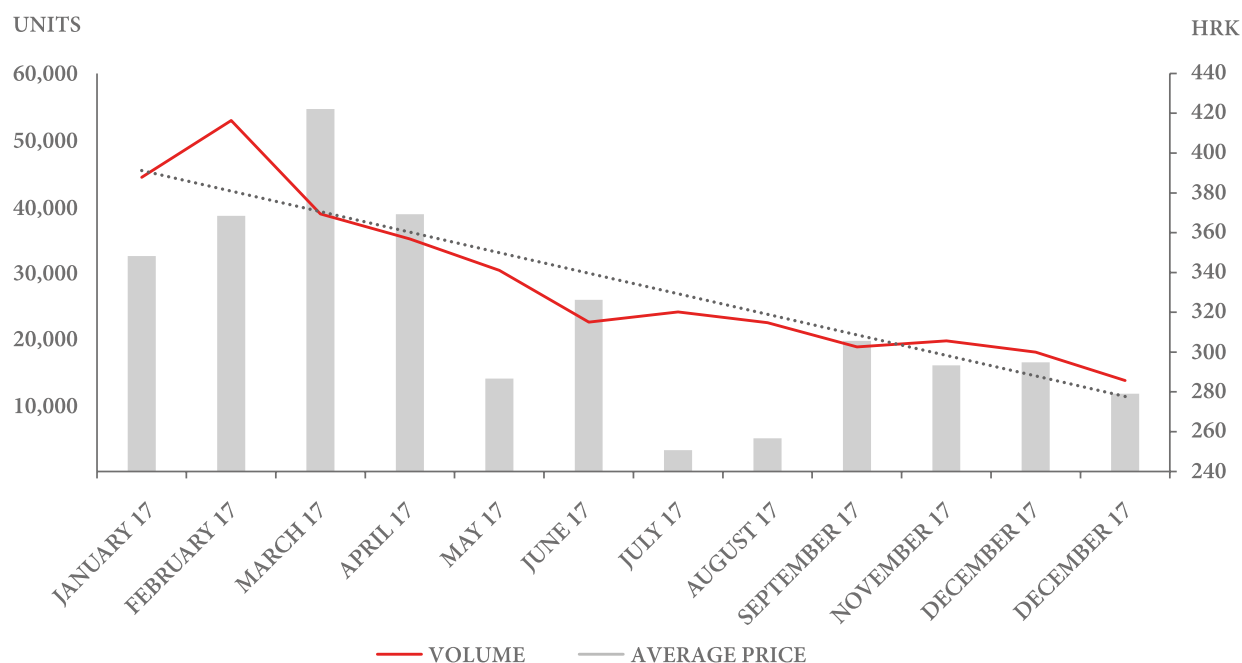
Period	2017		2016	
	Turnover (HRK)	Volume	Turnover (HRK)	Volume
Quarter 1	48,833,340	125,666	18,995,803	59,476
Quarter 2	26,772,149	78,674	23,967,122	71,025
Quarter 3	8,564,684	27,917	31,962,500	88,811
Quarter 4	13,179,295	44,186	21,253,675	56,531
Total	97,349,468	276,443	96,179,100	275,843

Source: ZSE

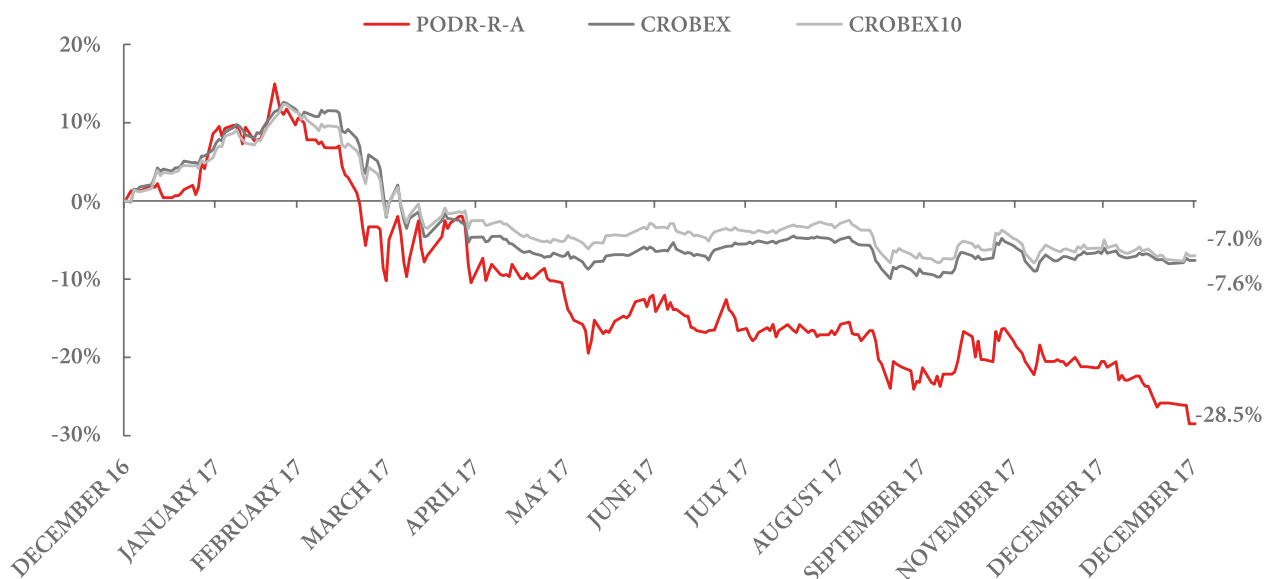
In 2017, the average daily price¹ of Podravka's share was HRK 352.2 and it was 1.0% higher compared to the average daily price in 2016. The closing price of Podravka's share as at 31 December 2017 was HRK 270.0, which is 28.5% lower when compared to the closing price as at 31 December 2016.

¹ Average daily price is calculated as the weighted average of average daily prices in the period, where the weight is daily volume.

VOLUME AND AVERAGE PRICE MOVEMENT OF PODRAVKA'S SHARE IN 2017



MOVEMENT OF AVERAGE DAILY PRICE OF PODRAVKA'S SHARE AND STOCK INDICES CROBEX AND CROBEX10 IN 2017



Podravka's share price dropped 28.5% in 2017, while in the same period domestic stock indices CROBEX and CROBEX10 decreased by 7.6% and 7.0%, respectively.

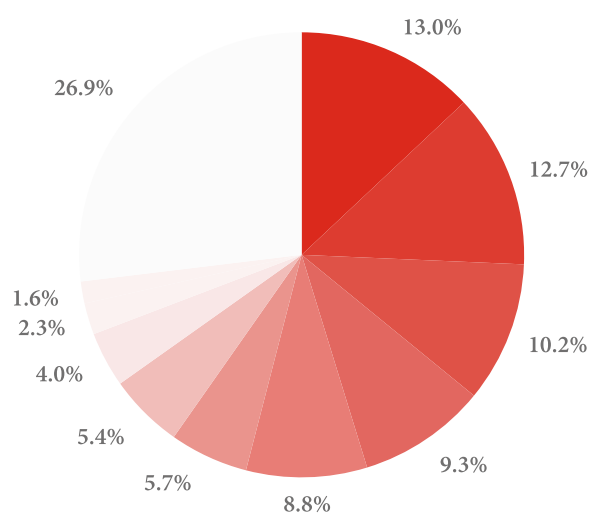
STOCK MARKET INDICES

Podravka's share is listed in four indices of the Zagreb Stock Exchange – CROBEX, CROBEX10, CROBEXnutr and CROBEXtr – and in foreign STOXX® indices.

ANALYST RECOMMENDATIONS AS AT 31 DECEMBER 2017

Recommendation provider	Date of recommendation	Recommendation	Target price
Interkapital securities	-	Under review	-
Raiffeisenbank Austria	19 April 2017	Hold	HRK 380.00
Erste Group Bank AG	27 July 2017	Buy	HRK 370.00
UniCredit Group	24 March 2015	Buy	HRK 398.96
WOOD & Company	13 July 2016	Hold	HRK 376.00

OWNERSHIP STRUCTURE



SHAREHOLDER	NUMBER OF SHARES
PBZ CROATIA OSIGURANJE MANDATORY PENSION FUND, CATEGORY B	925,602
AZ MANDATORY PENSION FUND, CATEGORY B	902,874
RSC* - CROATIAN PENSION INSURANCE INSTITUTE	727,703
ERSTE PLAVI MANDATORY PENSION FUND, CATEGORY B	665,166
RAIFFEISEN MANDATORY PENSION FUND, CATEGORY B	625,298
KAPITALNI FOND D.D.	406,842
RSC* - REPUBLIC OF CROATIA	387,257
REPUBLIC OF CROATIA	286,588
PODRAVKA D.D. - TREASURY ACCOUNT	162,559
AZ PROFIT VOLUNTARY PENSION FUND	113,728
OTHER SHAREHOLDERS	1,916,386
TOTAL	7,120,003

*RESTRUCTURING AND SALE CENTER

TREASURY ACCOUNT STATUS

As at 31 December 2017, Podravka d.d. had 162,559 treasury shares. As at 31 December 2017, Supervisory Board members owned 19 shares of Podravka d.d., while Management Board members owned 570 shares of Podravka d.d.

**UNCONSOLIDATED FINANCIAL
STATEMENTS FOR 2017**

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board is required to prepare the separate financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its operations and its cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. After making enquiries, the Management Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

The Management Board is also responsible for the preparation of the Annual report and the Statement on implementation of the corporate governance code in accordance with the Croatian Accounting Act. The Annual report and the Statement on implementation of corporate governance code are authorised and signed by the Management Board. The Management Board is responsible for the submission to the Supervisory Board of its Annual report together with the annual consolidated and separate financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The consolidated financial statements of the Company and its subsidiaries are published separately and issued simultaneously with the annual separate financial statements.

The separate financial statements were authorised by the Management Board on 25 April 2018 for issue to the Supervisory Board and are signed below to signify this.

Marin Pucar

President of the Management Board

Hrvoje Kolaric

Member of the Management Board

Marko Đerek

Member of the Management Board

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republika Hrvatska

Koprivnica, 25 April 2018



Davor Doko

Member of the Management Board

Ljiljana Šapina

Member of the Management Board



Independent Auditors' report to the shareholders of Podravka d.d.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Podravka d.d. ("the Company"), which comprise the separate statement of financial position of the Company as at 31 December 2017, and the separate statements of comprehensive income, cash flows and changes in equity of the Company for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2017 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Independent Auditors' report to the shareholders of Podravka d.d. (continued)

Report on the Audit of the Separate Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

CUSTOMERS REBATES

Revenue for the year ended 31 December 2017 amounts to HRK 1,904,332 thousand (2016: HRK 1,818,898 thousand), presented net of customer rebates in the amount of HRK 143,265 thousand (2016: HRK 134,753 thousand). Accrued rebates are included within accrued expenses in other liabilities.

Refer to note 3.3 and note 8.

Key audit matter	How our audit addressed the matter
<p>Revenue is measured taking account of discounts, incentives and rebates earned by customers. Reported revenue for the year ended 31 December 2017 is net of these discounts, incentives and rebates the effects of which are significant on the statement of comprehensive income for the reporting period.</p> <p>Although the measurement period for discounts, incentives and rebates generally coincides with the 31 December year-end, not all accruals for discounts, incentives and rebates are confirmed by customers at 31 December and the Company is therefore required to estimate the amount of discounts, incentives and rebates to be recognized at the reporting date.</p> <p>Due to the variety of contractual terms across the Company's markets, the Company is required to monitor a large number of individual customer arrangements in order to estimate the amounts of accruals for discounts, incentives and rebates at the reporting date which is considered complex and includes risk of incorrect inclusion or non-inclusion of discounts, incentives and rebates in the current period and year-end accruals, or incorrect calculation of these amounts recorded as at the reporting date. As a result, we considered this area to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none">• evaluating and testing of controls over the process of estimating and accounting for discounts, incentives and rebates;• for a sample of customers, obtaining customer confirmations of amounts due as at the reporting date, and challenging any significant differences between confirmations received and the Company's records by inspecting the underlying documentation such as contracts with customers and invoices;• evaluating completeness and existence of discounts, rebates and incentives by analysing the historical accuracy of management estimates in this area by comparing, on an aggregate basis, the accrued amounts of discounts, rebates and incentives as of the end of the previous reporting period to subsequent settlements in the current year;• for a sample of key customers, inspecting respective contractual terms and independently recalculating the amounts of discounts, incentives and rebates due by reference to those terms, and also considering post year-end credit notes and payments;• evaluating the overall reasonableness of customer rebates based on our knowledge and understanding of the business and industry in which the Company operates.



Independent Auditors' report to the shareholders of Podravka d.d. (continued)

Report on the Audit of the Separate Financial Statements (continued)

Key Audit Matters (continued)

IMPAIRMENT OF BRANDS

As at 31 December 2017, intangible assets of the Company included brands with indefinite useful lives with a carrying amount of HRK 50,361 thousand (2016: HRK 69,462 thousand). During 2017 the Company recognized HRK 18,331 thousand (2016: -) of impairment losses with respect to brands.

Refer to note 5 (v), note 10 and note 16.

Key audit matter	How our audit addressed the matter
<p>As required by relevant financial reporting standards, intangibles with indefinite useful lives are tested by the Company at least annually for potential impairment, irrespective of whether any related impairment indicators exist, as an integral part of the related cash generating units (CGU).</p> <p>Any such impairment would be recognised in the amount by which the carrying amount of the asset exceeds its recoverable amount. Due to the lack of an active market for such assets and the lack of relevant comparable transactions, the recoverable amount of brands is generally measured by using an appropriate valuation technique, such as present value techniques based on future cash flows discounted using an appropriate discount rate. For brands, the Company applies the relief from royalty technique which is based on the present value of future cash flows arising from assumed royalty payments.</p> <p>This valuation technique requires a significant degree of judgement by management, including, but not limited to; the identification of underlying CGUs; the reasonableness of assumptions with respect to revenue forecasts of the underlying CGUs; and the determination of the appropriate discount rate, growth rate and royalty rate. As a result, we considered this area to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none">• evaluating the appropriateness of allocation of brands to underlying cash-generating units;• assessing the Company's identification of impairment indicators, based on our knowledge and experience considering factors such as, but not limited to; unfavourable developments in the industry; changing laws and regulations, declining financial performance; and changing business models;• assessing the appropriateness of valuation methods applied by the Company for impairment testing in terms of their compliance with the relevant accounting standards;• assessing competence, capabilities and objectivity of internal valuers and external valuation experts engaged by the Company;• involving our own valuation specialists in challenging the key assumptions used by the Company in its impairment testing, which specifically involved:<ul style="list-style-type: none">- evaluating the historical accuracy of management budgeting by comparing historical revenue projections with actual outcomes;- testing the integrity of the impairment tests, including mathematical accuracy, and evaluating the key assumptions applied (such as discount rates, growth rates and royalty rates) for reasonableness compared to both externally derived data and historical financial performance;- sensitivity analysis of the impairment test results to changes in key assumptions;• evaluating the adequacy and completeness of disclosures in the financial statements with respect to impairment testing.



Independent Auditors' report to the shareholders of Podravka d.d. (continued)

Report on the Audit of the Separate Financial Statements (continued)

Key Audit Matters (continued)

IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES AND RELATED LOANS AND RECEIVABLES

As at 31 December 2017, investments in subsidiaries amounted to HRK 946,700 thousand (2016: HRK 808,073 thousand) while loans and receivables to subsidiaries amounted to HRK 389,130 thousand (2016: HRK 428,089 thousand). During 2017 the Company recognized HRK 31,236 thousand (2016: -) of impairment losses with respect to investments in subsidiaries and HRK 80,558 thousand (2016: -) of impairment losses with respect to loans and receivables to subsidiaries.

Refer to note 5 (vii), note 10, note 21 and note 34.

Key audit matter	How our audit addressed the matter
<p>Due to the magnitude of exposure toward subsidiaries (calculated as the sum of the carrying amounts of investments in subsidiaries and related loans and receivables, net of related liabilities), the existence of impairment indicators for any such exposure at the reporting date requires significant judgement by management in determining the appropriate approach to impairment testing in order to assess whether an impairment loss should be recognized.</p> <p>Where impairment indicators are identified for a certain exposure, the Company assesses the potential impairment loss by comparing the carrying amount of the exposure with the estimated value of the underlying subsidiary which is generally measured by using appropriate valuation techniques, such as present value techniques (based on a discounted cash flows models of the underlying entity) supplemented, where available, by techniques based on comparable valuation multiples or prices achieved in actual market transactions for comparable entities.</p> <p>Impairment allowances for loans and receivables to subsidiaries represent management's best estimate of credit losses incurred at the reporting date. Although the Company has control over subsidiaries, this still requires a significant amount of judgment from management over both the timing of recognition and the amounts of any such impairment. In addition, the selection and application of valuation techniques for impairment testing requires a significant degree of judgement by management, including, but not limited to; the determination of the appropriate discount rates and growth rates; the reasonableness of assumptions used in estimation of future cash flows; and the appropriateness of used valuation multiples, and comparable transactions. As a result, we considered this area to be a key audit matter.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • assessing the Company's identification of impairment indicators, based on our knowledge and experience considering factors such as, but not limited to; unfavourable developments in the industry; negative or insufficient net assets; changing laws and regulations; declining financial performance; existence of any overdue loans and receivables and/or rolling of existing facilities; and changing business models; • assessing the appropriateness of valuation methods applied by the Company for impairment testing in terms of their compliance with the relevant accounting standards; • assessing competence, capabilities and objectivity of internal valuers and external valuation experts engaged by the Company; • involving our own valuation specialists in challenging the key assumptions used by the Company in its impairment testing, which specifically involved: <ul style="list-style-type: none"> - evaluating the historical accuracy of management budgeting by comparing historical cash flow projections with actual outcomes; - evaluating the key assumptions applied (such as discount rates and growth rates) for reasonableness compared to both externally derived data and historical financial performance; - where applicable, evaluating the appropriateness of used valuation multiples or comparable transactions; - sensitivity analysis of the impairment test results to changes in key assumptions; • evaluating the adequacy and completeness of disclosures in the financial statements with respect to impairment testing.

This version of our auditors' report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our audit report takes precedence over this translation.



Independent Auditors' report to the shareholders of Podravka d.d. (continued)

Report on the Audit of the Separate Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Company, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act,
- the specific information in the Corporate Governance Statement required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Corporate Governance Statement") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21 and 22 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.



Independent Auditors' report to the shareholders of Podravka d.d. (continued)

Report on the Audit of the Separate Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Independent Auditors' report to the shareholders of Podravka d.d. (continued)

Report on the Audit of the Separate Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 30 June 2017 to audit the separate financial statements of Podravka d.d. for the year ended 31 December 2017. Our total uninterrupted period of engagement is 6 years, covering the periods ending 31 December 2012 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 23 April 2018;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the Company in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Igor Gošek.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

25 April 2018

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>(in thousands of HRK)</i>	<i>Note</i>	2017	2016
Continuing operations			
Revenue from sales	8	1,904,332	1,818,898
Cost of goods sold	11	(1,333,413)	(1,254,018)
Gross profit		570,919	564,880
Other income	9	2,826	19,656
General and administrative expenses	11	(175,752)	(149,887)
Selling and distribution costs	11	(235,663)	(188,761)
Marketing expenses	11	(110,031)	(117,188)
Other expenses	10	(130,996)	(304)
Operating profit		(78,697)	128,396
Finance income	13	202,024	123,442
Finance expenses	14	(40,242)	(36,198)
Net finance income		161,782	87,244
Profit before tax		83,085	215,640
Income tax	15	3,352	(25,065)
Net profit for the year from continuing operations		86,437	190,575
Discontinued operations			
Loss from discontinued operations (net of tax)	7	-	(11,254)
Total profit		86,437	179,321
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial loss (net of deferred tax)		(294)	(440)
Total comprehensive income		86,143	178,881

The accompanying accounting policies and notes form an integral part of these separate financial statements.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

<i>(in thousands of HRK)</i>	<i>Note</i>	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	16	92,249	107,756
Property, plant and equipment	17	827,302	850,156
Investments in subsidiaries	18	946,700	808,073
Deferred tax assets	15	32,518	25,663
Non-current financial assets	19	12,815	59,679
Total non-current assets		1,911,584	1,851,327
Current assets			
Inventories	20	345,616	338,205
Trade and other receivables	21	563,616	843,783
Financial assets at fair value through profit or loss	22	511	751
Income tax receivables		-	5,569
Cash and cash equivalents	23	132,014	136,553
Non-current assets held for sale	24	133,553	140,419
Total current assets		1,175,310	1,465,280
Total assets		3,086,894	3,316,607
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	25	1,688,166	1,679,174
Reserves	26	345,412	216,224
Retained earnings	27	88,993	180,680
Total equity		2,122,571	2,076,078
Non-current liabilities			
Borrowings	29	337,602	398,472
Provisions	30	35,214	31,469
Total non-current liabilities		372,816	429,941
Current liabilities			
Trade and other payables	31	376,613	432,899
Income tax liabilities		3,060	-
Financial liabilities at fair value through profit or loss	28	1,631	3,283
Borrowings	29	201,200	364,280
Provisions	30	9,003	10,126
Total current liabilities		591,507	810,588
Total liabilities		964,323	1,240,529
Total liabilities and shareholders' equity		3,086,894	3,316,607

The accompanying accounting policies and notes form an integral part of these separate financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>(in thousands of HRK)</i>	Share capital	Reserve for treasury shares	Legal reserves	Other reserves	Retained earnings	Total
As at 1 January 2016	1,683,871	147,604	12,653	6,096	100,150	1,950,374
<i>Comprehensive income</i>						
Profit for the year	-	-	-	-	179,321	179,321
Actuarial losses (net of deferred tax)	-	-	-	(440)	-	(440)
Other comprehensive income	-	-	-	(440)	-	(440)
Total comprehensive income	-	-	-	(440)	179,321	178,881
<i>Transactions with owners recognised directly in equity</i>						
Allocation from retained earnings (note 26 (i))	-	-	5,008	45,303	(50,311)	-
Purchase of treasury shares	(12,977)	-	-	-	-	(12,977)
Excercise of options	1,387	-	-	-	-	1,387
Fair value of share-based payment transactions (note 33)	6,893	-	-	-	-	6,893
Dividend paid	-	-	-	-	(48,480)	(48,480)
Total transactions with owners recognised directly in equity	(4,697)	-	5,008	45,303	(98,791)	(53,177)
As at 31 December 2016	1,679,174	147,604	17,661	50,959	180,680	2,076,078
<i>Comprehensive income</i>						
Profit for the year	-	-	-	-	86,437	86,437
Actuarial losses (net of deferred tax)	-	-	-	(294)	-	(294)
Other comprehensive income	-	-	-	(294)	-	(294)
Total comprehensive income	-	-	-	(294)	86,437	86,143
<i>Transactions with owners recognised directly in equity</i>						
Allocation from retained earnings (note 26 (i))	-	-	8,966	120,516	(129,482)	-
Excercise of options	(95)	-	-	-	-	(95)
Fair value of share-based payment transactions (note 33)	9,087	-	-	-	-	9,087
Dividend paid	-	-	-	-	(48,642)	(48,642)
Total transactions with owners recognised directly in equity	8,992	-	8,966	120,516	(178,124)	(39,650)
As at 31 December 2017	1,688,166	147,604	26,627	171,181	88,993	2,122,571

The accompanying accounting policies and notes form an integral part of these separate financial statements.

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

<i>(in thousands of HRK)</i>	<i>Note</i>	2017	2016
Profit before tax		83,085.0	204,386
Depreciation and amortization		95,206	96,481
Reversal of the impairment of assets held for sale		-	(222)
Impairment of assets held for sale, property, plant, equipment and intangibles		19,341	9,299
Reversal of impairment of non-current assets		(2,115)	-
Impairment losses on investments		31,236	-
Remeasurement of financial assets and liabilities at FVTPL		(1,412)	278
Dividend income		(193,265)	(100,000)
Share-based payment transactions		9,087	6,893
Gain on disposal of property, plant, equipment, intangibles and assets held for sale		354	(5,187)
(Gain) on disposal of subsidiary		-	(729)
(Gain) on disposals of shares and interests		-	(3,577)
Impairment losses on trade receivables		53,913	224
Increase/(decrease) in provisions		2,622	(15,400)
Interest income		(7,347)	(11,611)
Impairment of given loans and interests		74,765	-
Interest expense		27,496	33,538
Effect of changes in foreign exchange rates		8,931	(8,689)
		201,897	205,684
Changes in working capital:			
(Increase)/decrease in inventories		(7,411)	25,286
Decrease/(increase) in receivables		68,840	(17,264)
(Decrease)/increase in payables		(41,407)	54,203
Cash generated from operations		221,919	267,909
Income tax paid		(176)	(7,387)
Interest paid		(29,906)	(32,790)
Net cash from operating activities		191,837	227,732
Cash flows from investing activities			
Increase of investments in subsidiaries		(1,374)	(11,795)
Purchase of property, plant, equipment and intangibles		(71,701)	(130,854)
Proceeds from sale of property, plant, equipment and intangibles		3,136	16,288
Proceeds from sale of assets held for sale		593	18,050
Loans given		(48,405)	(143,066)
Proceeds from loans given		16,199	207,681
Interest received		3,280	8,652
Proceeds from disposal of subsidiary		-	52,133
Proceeds from disposal of other investments		-	745
Dividends received		50,000	-
Net cash from investing activities		(48,272)	16,950
Cash flows from financing activities			
Proceeds from borrowings		161,824	464,566
Repayment of borrowings		(268,231)	(609,959)
Purchase of treasury shares		-	(12,977)
Sale of treasury shares		6,945	3,307
Dividend paid		(48,642)	(48,480)
Net cash from financing activities		(148,104)	(203,543)
Net increase of cash and cash equivalents		(4,539)	41,139
Cash and cash equivalents at beginning of year		136,553	95,414
Cash and cash equivalents at the end of year	23	132,014	136,553

The accompanying accounting policies and notes form an integral part of these separate financial statements.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1 – GENERAL INFORMATION

History and incorporation

Podravka prehrambena industrija d.d., Koprivnica ('the Company'), is incorporated in the Republic of Croatia. In 1934, the brothers Wolf opened in Koprivnica a fruit processing unit, the predecessor of the Company. Today, the Company is one of the leading companies in industry operating in the area of South-Eastern and Central and Eastern Europe. The principal activity of the Company comprises production of a wide range of foodstuffs and non-alcoholic beverages.

The Company is headquartered in Koprivnica, Croatia, Ante Starčevića 32.

The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 25.

Corporate governance and management

General Assembly

The General Assembly of the Company consists of the shareholders of Podravka d.d.

Supervisory Board

Members of the Supervisory Board in 2017:

President	Dubravko Štimac
Deputy president	Mato Crkvenac (until 21 February 2017)
Deputy president	Luka Burilović (from 21 February 2017)
Member	Ivo Družić (until 21 February 2017)
Member	Dinko Novoselec (until 30 June 2017)
Member	Petar Miladin
Member	Petar Vlaić
Member	Ksenija Horvat
Member	Damir Grbavac (from 21 February 2017)
Member	Marko Kolaković (from 21 February 2017)
Member	Slavko Tešija (from 21 February 2017)
Member	Ivana Matovina (from 30 June 2017)

Management Board during 2017:

President	Zvonimir Mršić (until 23 February 2017)
President	Marin Pucar (from 24 February 2017)
Member	Olivija Jakupec (until 23 February 2017)
Member	Iva Brajević (until 30 April 2017)
Member	Hrvoje Kolarić
Member	Ljiljana Šapina (from 24 February 2017)
Member	Davor Doko (from 1 May 2017)
Member	Marko Đerek (from 19 July 2017)

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

The unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”).

These financial statements represent those of the Company only. The consolidated financial statements of the Company and its subsidiaries (“the Group”), which the Company is also required to prepare in accordance with EU IFRS and Croatian law, are published separately and issued simultaneously with these unconsolidated financial statements.

These financial statements were authorised for issue by the Management Board on 25 April 2018.

(ii) Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis, except where stated otherwise (see note 6).

(iii) Functional and presentation currency

These financial statements are prepared in the Croatian kuna (“HRK”), which is also the functional currency, rounded to the nearest thousand.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented in these financial statements.

3.1 Investments in subsidiaries

Subsidiaries are entities in which the Company has the power, directly or indirectly, to exercise control over the operations. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

Investments in subsidiaries are accounted for initially at cost and subsequently at cost less impairment losses. Investments in subsidiaries are tested annually for impairment (accounting policy 3.20).

3.2 Non-current assets held for sale and discontinued operations

Non-current assets held for sale

Non-current assets and disposal groups (which may include both non-current and current assets and liabilities directly associated with those assets) are classified in the statement of financial position as 'held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date rather than through continuing use. Non-current assets classified as held for sale in the current period's unconsolidated statement of financial position are not reclassified in the comparative unconsolidated statement of financial position.

Held-for-sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amounts and fair values less costs to sell. Held-for-sale property, plant and equipment are not depreciated.

Discontinued operations

Discontinued business operations are an integral part of the Company's operations representing a separate line of business or a separate geographical unit that is either disposed of or held for sale, or is a subsidiary acquired with a purpose of resale. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative information in the income statement must be restated as if the activity had been suspended since the beginning of the comparative period.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of products, goods and services in the ordinary course of the Company's activities. Revenue is recognized, net of value-added tax, volume rebates, trade discounts, returns, listing fees and various promotional and marketing activities that are an integral part of contracts with customers.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

(i) Revenue from sales of products and merchandise – wholesale

The Company manufactures and sells its own products and goods of third parties (for which the Company is a distributor) in the wholesale market. Sales of goods are recognised when the Company has delivered the products to the wholesaler, there is no continuing management involvement over the goods, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

Delivery does not occur until the products have been shipped to the specified location, the risks of loss have been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Company has objective evidence that all criteria for acceptance have been satisfied.

Products are sold with volume discounts and customers have a right to return products in the wholesale market in case of defects. Sales are recorded based on the price specific in the sales contracts, net of estimated volume rebates and trade discounts and returns. The volume discounts are assessed based on contracts with customers. No element of financing is deemed present in the sales.

(ii) Revenue from sales of products and merchandise – retail

Sales of products and goods sold in retail stores are recognised when the Company sells a product to the customer. Retail sales are usually in cash or by credit card. The Company does not operate any customer loyalty programmes.

(iii) Revenue from services

Sales of services, such as private label production, are recognised in the accounting period in which the services are rendered, by reference to stage of completion, on the basis of the actual service provided as a proportion of the total services to be provided.

(iv) Finance income

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the right to receive payment is established.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Leases

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the statement of comprehensive income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income in financial statements by a seller-lessee. Instead, it is deferred and amortised over the lease term.

3.5 Foreign currency transactions

Transactions and balances in foreign currencies

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates ruling at the date of transaction.

3.6 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the unconsolidated statement of comprehensive income over the period of the borrowing using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are charged to profit or loss in the period in which they are incurred.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Borrowings and borrowing costs (continued)

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

3.7 Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions associated with them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the unconsolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.8 Dividends

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

3.9 Segment reporting

Given that strategic decisions are made at the level of consolidated operating programs, that is segments, the Company does not monitor and report segment information at an unconsolidated level.

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

At the consolidated level, the following segments are internally monitored and reported:

- BP Culinary
- BP Baby food, sweets and snacks
- BP Podravka Food
- BP Žito
 - Žito and related companies
 - Other companies
- BP Meat products, meat solutions and savoury spreads
- BP Fish
- Pharmaceuticals
- Other

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Taxation

(i) *Income tax*

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss to the extent that it relates to items in equity, in which case it is recognised in other comprehensive income. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the statement of other comprehensive income or in equity.

Income tax for the current year is calculated on the basis of the tax laws enacted at the balance sheet date.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) *Deferred tax assets and liabilities*

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences that relate to investments in subsidiaries and joint ventures when it is probable that no significant change is expected in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax asset recognised on the basis of tax losses carried forward is recognised in accordance with tax legislation of the country where the Company operates for the period envisaged by the law and is discharged at the expiry of this period if it is not used until then.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(iii) *Tax exposures*

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(iv) *Value added tax (VAT)*

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Property, plant and equipment

Property, plant and equipment are included in the unconsolidated statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the unconsolidated statement of comprehensive income during the financial period in which they are incurred.

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

Buildings	10 to 50 years
Equipment	3 to 30 years

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3.13).

Gains and losses on disposals are determined as the difference between the income from the disposal and the asset's carrying amount, and are recognised in profit or loss within other income/expenses.

3.12 Intangible assets

Intangible assets may be acquired in exchange for a non-cash asset or assets, or a combination of cash and non-cash items, whereby the cost of such intangible asset is determined at fair value unless the exchange transaction lacks commercial substance or the fair value of items received or assets disposed of cannot be reliably measured, in which case the carrying value is determined as the carrying amount of the asset disposed of.

(i) Brands and distribution rights

Product distribution rights and some brands have a definite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost of distribution rights over their useful lives estimated at 3-15 years.

Rights to acquired trademarks and know-how are carried at cost and have an indefinite useful life, since based on an analysis of all of the relevant factors at the reporting date, there is no foreseeable limit to the period of time over which identified rights are expected to generate net cash inflows. Intangible assets with indefinite useful lives are tested annually for impairment and are stated at cost less accumulated impairment loss (note 3.13).

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their useful lives estimated at 5 years.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Intangible assets (continued)

(iii) Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment loss, on the same basis as intangible assets that are acquired separately.

3.13 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (except for inventories and deferred taxes) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, the Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and other intangible assets are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is expensed immediately.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income immediately.

3.14 Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average cost method, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Merchandise is carried at the lower of purchase cost and selling price (less applicable taxes and rebates).

3.15 Trade receivables

i) Trade receivables

Trade receivables are recognised initially at cost which is equal to the fair value at the moment of recognition and subsequently measured at amortised cost using the effective interest method, if significant; if not, at nominal amount less an allowance for impairment.

ii) Bills of exchange

For the purpose of collecting its receivables, the Company receives security instruments.

Bills of exchange received from customers with respect to outstanding trade receivables may be discounted with factoring companies prior to their maturity. If a bill of exchange bears a recourse right, the factoring company takes over the receivable management, but does not bear the credit risk of a default from the original (principal) debtor. Based on factoring company's payments, the Company recognises collection of receivables from the original (principal) debtor and simultaneously recognises receivables for the discounted bill of exchange and liabilities for recourse right in case of a default.

For bills of exchange collected from the principal debtor upon maturity, receivables from the principal debtor are derecognised following the collection of the bill of exchange.

3.16 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less. Bank overdrafts are included within current liabilities on the unconsolidated statement of financial position.

3.17 Share capital

Share capital consists of ordinary shares. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of those transactions. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Employee benefits

(i) Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company makes payments to mandatory pension funds managed by third parties on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company is not obliged to provide any other post-employment benefits with respect to these pension schemes.

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) Regular retirement benefits

Benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate which is determined as average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income.

(iv) Long-term employee benefits

The Company recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

(v) Short-term employee benefits

The Company recognises a provision for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Share-based compensation

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision to original estimates, if any, in the unconsolidated statement of comprehensive income (profit or loss), with a corresponding adjustment to equity during the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value of shares) and share premium (the difference between the nominal value of shares and the proceeds received) when the options are exercised.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

Provisions for restructuring costs are recognized when the Company has a detailed formal plan for the restructuring that has been communicated to parties concerned.

3.20 Financial assets

Financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified in the category where changes in fair value are recognised in the statement of comprehensive income, which are initially measured at fair value.

Financial assets are classified as ‘financial assets at fair value through profit or loss’ and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts, including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets are classified in the category where changes in fair value are recognised in comprehensive income if the financial asset is either held for trading or it is designated as at that value.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Financial assets (continued)

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in unconsolidated statement of comprehensive income. The net gain or loss recognised in the unconsolidated statement of comprehensive income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 6.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables, loan receivables and other receivables with fixed or determinable payments are measured at amortised cost using the effective interest method, less any cumulative impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For securities classified as available for sale, significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average overdue period of 360 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Financial assets (continued)

When a financial asset held for sale is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment loss previously recognised in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised as investments revaluation reserve. In respect of AFS debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.21 Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated for such disclosure.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial liabilities and equity instruments issued by the Company (continued)

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 6.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Contracts on financial guarantee

Agreement on the financial guarantee is a contract under which the issuer is obligated to pay the holder a certain sum as compensation for loss suffered by the owner because the borrower has not fulfilled its obligation to pay under the terms of a debt instrument.

Financial guarantee contracts issued by the Company are initially measured at fair value and subsequently, if they are not destined for at fair value through profit or loss, the higher of:

- the amount of the obligation under the contract, which is determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”,
- original amount minus the cumulative depreciation, if any, are recognized in accordance with revenue recognition policies.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company’s obligations are settled, cancelled or they expire.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2017 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. Their overview is set out below:

a) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It is not expected that this new standard will have a significant effect on the unconsolidated financial statements of the Company.

b) IFRS 9 *Financial Instruments*

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply IFRS 9 initially on 1 January 2018. It is not expected that this standard will have a significant effect on the unconsolidated financial statements of the Company since the carrying amount of financial assets and liabilities approximates their fair value.

c) IFRS 16 *Leases*

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases of vehicles and IT equipment.

The Company estimated that by applying IFRS 16 Leases it will recognise assets and liabilities under operating leases for vehicles and IT equipment in the amount of HRK 26,794 thousand. The estimate is based on discounted cash outflows using a discount rate of 8.72%.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying EU policies

The preparation of financial statements in conformity with EU IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of EU IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed below.

(i) Deferred tax assets recognition

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see note 15).

(ii) Actuarial estimates used in determining obligations for employee benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 30).

(iii) Consequences of certain legal actions

There are a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions, and the provisions for the Company's obligations arising from these legal actions are recognised on a consistent basis.

The Company recognises a provision in the total expected amount of outflows of economic benefits as a result of the court case, which is generally the claim amount plus the estimated related legal costs and penalty interest (if applicable), if it is more likely than not, based on the opinion of management after consultation with legal advisers, that the outcome of the court case will be unfavourable for the Company. The Company does not recognise provisions for court cases or the expected related legal costs and penalty interest (if applicable) in cases where management estimates that an unfavourable outcome of the court case is less likely than a favourable outcome for the Company.

Where indications exist of a possible settlement in relation to a particular court case, a provision is recognised, based on the best estimate of management made in consultation with its legal advisers, in the amount of the expected settlement less any existing amounts already provided for in relation to that particular court case.

Where the Company is a plaintiff in a particular court case, any economic benefits expected to flow to the Company as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits. Provisions for the Company's obligations arising from legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.19 and 30).

(iv) Recoverability of trade and other receivables

The recoverable amount of trade and other receivables is estimated at present value of future cash flows discounted at the market interest rate at the measurement date. Short-term receivables with no stated interest rate are measured by the amount of original invoice if the effect of discounting is not significant. The Company regularly reviews the ageing structure of trade receivables and monitors the average collection period. In cases where debtors with extended payment periods (generally above 120 days) are identified, the Company reduces the related credit limits and payment days for future transactions and, in cases where it deems it necessary, imposes restrictions on future transactions until the outstanding balance is repaid either entirely or in part.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (*continued*)

Critical judgements in applying EU policies (continued)

(iv) Recoverability of trade and other receivables (continued)

In cases where the Company identifies receivables toward debtors which have entered into pre-bankruptcy or bankruptcy proceedings, an impairment loss is immediately recognised in full.

In the process of regulating the collection of overdue debts, the Company actively negotiates with the respective debtors taking into account expectations of future business relations, significance of exposure to an individual debtor, possibilities of compensation, exercise of instruments of security (if any) or seizure of assets etc.

(v) Impairment testing for brands and rights

The Company tests brands and rights for impairment on an annual basis in accordance with accounting policy 3.13. For the purposes of impairment testing, brands and rights with indefinite useful lives and brands and rights with finite useful lives have been allocated to cash generating units within reportable segments.

The recoverable amount of cash generating units is determined based on value-in-use calculations or fair value. These calculations use cash flow projections from financial budgets approved by management and cover a period of five years.

Brands

Brands relate to acquired rights of use of logos, trademarks and brand names which the Company allocates to business segments in accordance with internal categorisation of products to which the specific brand relates, whereby the brand value is allocated entirely to a specific segment.

The Company annually performs impairment tests in order to assess whether the recoverable amount of brands indicates potential impairment of their carrying amount whereby the primary focus is on brands where the difference between the recoverable amount and the carrying amount indicates a significant sensitivity to changes in key variables used in impairment testing. The calculation of the recoverable amount of brands is based on five year plans for sales of products and categories which comprise a certain brand and which the Company developed bearing in mind its corporate selling and marketing strategy, trends on relevant markets where the brands are sold (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) and the analysis of its competitors. Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for brands as the weighted average cost of capital before tax (WACC) for the primary market the brand is sold on and the food industry.

For the purpose of fair valuation of brands whose dominant market is Poland, as at 31 December 2017 the Company engaged an independent valuer. For fair value estimate of brands, an income approach was used – the method of non-payment of royalties. The relief from royalty method assumes that the value of intangible assets equals the amount that the owner would pay for the asset's licence if it had not been owned, i.e. the value equals expenses saved if royalties, i.e. the compensation for the use of trademarks, are not paid.

The fair value of brands is based on the mean value of the selected value range, depending on changes in the discount rate (10.5%) and royalty rate (2.7%). The estimated compound annual growth rate for revenue in the following five years was 2.5%, and the growth rate in the residual period is 0.8%.

The fair value of brands is estimated at HRK 2,910 thousand. As a result of the independent fair valuation of brands, during 2017 the Company recorded impairment loss in the amount of HRK 17,893 thousand (2016: HRK 0). The Company considers this impairment loss to be one-off.

Brands whose dominant market is Croatia are not sensitive to changes in key variables.

(vi) Impairment test for assets held for sale and discontinued operations

The Company annually performs impairment tests for property, plant and equipment in order to assess whether their recoverable amount indicates potential impairment of their carrying amount. All production facilities and property, plant and equipment which are held for sale or relate to discontinued operations are subject to impairment testing on an annual basis.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(vi) *Impairment test for assets held for sale and discontinued operations (continued)*

For property, plant and equipment held for sale, the Company estimates their recoverable amount upon classification of such assets as held for sale based on an independent expert valuer's estimate of the fair value of these assets less costs to sell and records these assets at the lower of their carrying amount and the recoverable amount. Generally, the Company considers with significant confidence that the recoverable amount of such assets will be realized through sale or disposal in the short term and in cases where there has been a delay in disposal due to circumstances which do not require reclassification of such assets into property, plant and equipment, the Company considers whether there have been significant changes in the circumstances and expectations related to the disposal process which would require re-assessment of their fair value. If a significant change in circumstances has not occurred, but the asset relates to property which is intended to be used until disposal (such as manufacturing plants which are part of discontinued operations), the Company approximates the possible impairment that could arise from the date of classification of such assets as held for sale up to the reporting date at the level of depreciation that would have been recognised had those assets not been classified as held for sale.

During 2017, the Company engaged an independent expert valuer for the estimation of recoverable amount, who used the comparative method in land valuation and the cost method in the business complex valuation. The study showed that the carrying amounts of assets held for sale are recoverable.

During 2017, the Company had no impairment costs for property, plant and equipment held for sale.

During 2017, the Company reclassified assets held for sale to regular tangible assets following the decision not to sell and use them for other purposes. All required adjustments to the carrying amount of the assets no longer classified as held for sale have been made. The Company recognised HRK 790 thousand of net expenses as the effect of the reclassification of these assets (note 24).

During 2016, the Company recognized HRK 9,299 thousand of impairment losses related to production facilities which are part of discontinued operations (the former segment "Beverages") based on approximation of depreciation that would have resulted from the use of those assets had they not been classified as held for sale. The Company considers this impairment cost to be one-off.

(vii) *Impairment test for investments in subsidiaries*

The Company annually performs impairment tests for investments in subsidiaries where indications of impairment exist, based on the results of a static analysis of the Company's exposure compared to the net assets of the subsidiary. For investments identified as such, the Company estimates the recoverable amount and compares it with the carrying amount. The calculation of the recoverable amount is generally based on five year business plans for the respective subsidiaries which the Company developed bearing in mind its corporate selling and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) with respect to the applicable business segment and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected period of 3% in the Czech Republic and Serbia. Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test as the weighted average cost of capital after tax for the respective market and industry (in case of investments in the subsidiary in the Czech Republic where the Company has the most significant exposure, this post-tax discount rate amounted to 6.31%, while for the subsidiary in Serbia it amounted to 9.34%).

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(vii) *Impairment test for investment in subsidiaries (continued)*

As a result of the impairment tests performed, during 2017 and 2016, the Company incurred impairment losses of HRK 31,236 thousand, as follows: in the subsidiary Podravka-Polska Sp.z o.o., Warszawa in the amount of HRK 19,595 thousand, in the subsidiary Vegeta Podravka Limited, Dar es Salaam in the amount of HRK 9,796 thousand and in the subsidiary Podravka Gulf Fze, Jebel Ali, Dubai in the amount of HRK 1,845 thousand (2016: HRK 0). The Company considers these impairment costs to be one-off.

The sensitivity analysis of key variables indicates that an impairment loss with respect to the investment in subsidiary Podravka Lagris a.s. amounting to HRK 127 thousand would occur if the terminal growth rate increased by 45 basis points (assuming an unchanged weighted average cost of capital), while an increase in the weighted average cost of capital of 21 basis points would result in an impairment loss in the amount of HRK 243 thousand (assuming an unchanged terminal growth rate).

Also, the impairment test was performed for the overall exposure to the subsidiary Podravka d.o.o. Beograd. The sensitivity analysis of key variables indicates that there is no need for impairment due to the reasonably expected changes in the terminal growth rate (assuming an unchanged weighted average cost of capital) even with a significant increase in the weighted average cost of capital (assuming an unchanged terminal growth rate).

NOTE 6 – DETERMINATION OF FAIR VALUES

The Company has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and finance department in relation to the monitoring of all significant fair value measurements, consultation with external experts and the responsibility to report, with respect the above, to those charged with corporate governance.

Fair values are measured using information collected from third parties in which case the Management Board and the finance department assess whether the evidence collected from third parties support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified.

All significant issues related to fair values estimates are reported to the Supervisory Board and the Audit Committee.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

If one or more significant inputs are not based on observable market data, the fair value estimate is included in level 3.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 6 – DETERMINATION OF FAIR VALUES (CONTINUED)

In preparing these financial statements, the Company has made the following significant fair value estimates, as further explained in detail in the following notes:

- note 7: Discontinued operations
- note 19: Non-current financial assets
- note 22: Financial assets at fair value through profit or loss
- note 24: Non-current assets held for sale
- note 28: Financial liabilities at fair value through profit or loss
- note 33: Share-based payments

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 7 – DISCONTINUED OPERATIONS

Based on the Management Board decision from 2013, the Company initiated the process of discontinuation of the Beverages business segment in order to improve operational activities, reduce operating costs and strengthen innovation and competitiveness of the Company in its key business areas. At the reporting dates, the Company classified the Beverages segment as discontinued operations in accordance with IFRS 5.

As at 20 September 2016, the Company entered into an agreement for the sale of the Beverages business programme. According to the contractual preconditions for the sale, the Company increased share capital of Studenac d.o.o. with the assets of the disposal group and as of 1 October the business programme Beverages operated through the subsidiary Studenac d.o.o. After fulfilment of all agreed preconditions, at the end of 2016, the Company sold the 100% share in the subsidiary for the amount of HRK 46,648 thousand and thereby sold the Beverages programme that was carried as discontinued operations and realised a gain in the amount of HRK 729 thousand.

During 2016, the Company recognised an impairment loss from discontinued operations amounting to HRK 9,299 thousand (see note 5(vi)), considered to be one-off. The impairment loss is presented within other expenses from discontinued operations.

Statement of comprehensive income for discontinued operations is as follows:

<i>(in thousands of HRK)</i>	Discontinued operations	
	2017	1. - 9. 2016
Revenue from sales	-	69,211
Cost of goods sold	-	(44,746)
Gross profit	-	24,465
Operating expenses	-	(26,420)
Other expenses	-	(9,299)
Operating loss	-	(11,254)
Loss before income tax	-	(11,254)
Income tax	-	-
Net loss for the year	-	(11,254)
Other comprehensive income	-	-
Total comprehensive loss	-	(11,254)

Statement of cash flow for discontinued operations is as follows:

<i>(in thousands of HRK)</i>	2017	2016
Net cash from operating activities	-	60
Net cash used in investing activities	-	(700)
	-	(640)

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 8 – REVENUE FROM SALES

	2017	2016
	<i>(in thousands of HRK)</i>	
Revenue from sale of products and merchandise	1,860,963	1,778,288
Revenue from services	43,369	40,610
	1,904,332	1,818,898

Key customers

Sales to major customers owned or controlled by the same group represent approximately 15% of the Company's total revenue in 2017 (2016: approximately 15% of the total revenue).

NOTE 9 – OTHER INCOME

	2017	2016
	<i>(in thousands of HRK)</i>	
Grant income	1,245	1,168
Interest income relating to trade receivables	453	1,010
Revenue from the sale and leaseback transaction	-	6,609
Profit on disposal of property, plant, equipment and intangibles (note 16 & 17)	-	5,187
Income from reversal of legal provision	-	696
Foreign exchange gains on receivables and payables	-	4,035
Gain on disposal of assets held for sale	23	-
Gain on disposal of subsidiary	-	729
Impairment loss on assets held for sale (note 24)	-	222
Reversal of impairment of property, plant and equipment	1,105	-
	2,826	19,656

Grant income relates to non-refundable government grants for livestock and agriculture.

Interest income relating to trade receivables relates to statutory penalty interests collected by the Company.

Revenue from the sale and leaseback transaction in 2016 relates to the leaseback of production facilities in Umag considered by the Company to be one-off.

NOTE 10 - OTHER EXPENSES

	2017	2016
	<i>(in thousands of HRK)</i>	
Write-off of related party loans (note 34)	74,765	-
Interest expense relating to trade payables	125	304
Foreign exchange differences on trade receivables and trade payables	6,162	-
Impairment loss on brands (note 16)	18,331	-
Impairment of investments (note 18)	31,236	-
Loss from sale and disposal of property, plant, equipment and intangible assets (notes 16 and 17)	377	-
	130,996	304

Impairment of loans to related parties includes impairment of interest receivable in the amount of HRK 4,168 thousand.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 11 – EXPENSES BY NATURE

	2017	2016
	<i>(in thousands of HRK)</i>	
Raw material, supplies and energy	782,935	774,640
Staff costs (note 12)	421,911	397,314
Cost of goods sold	290,786	236,233
Advertising and promotion	70,596	74,927
Depreciation and amortisation	95,206	96,481
Services (i)	66,963	78,771
Changes in value of inventory	(1,690)	(18,457)
Rental costs	16,512	14,820
Transport	14,655	13,803
Taxes and contributions independent of operating results	10,206	10,280
Impairment of trade and other receivables (note 21)	53,913	224
Bank charges	2,129	2,256
Packaging waste disposal fee	2,198	2,154
Daily allowances and other business travel expenses	8,171	8,930
Telecommunications	3,895	3,732
Entertainment	5,336	6,053
Legal expenses	3,154	-
Other expenses	7,983	7,693
Total cost of good sold, selling and distribution expenses, marketing expenses and general and administrative costs	1,854,859	1,709,854

(i) Costs of services include audit fees. Fees for the audit of the Company's financial statements amounted to HRK 1,007 thousand (2016: HRK 941 thousand), while fees for other services amounted to HRK 193 thousand (2016: HRK 102 thousand). Other services relate to transfer pricing studies.

Depreciation and amortisation include HRK 413 thousand of government grants for co-financing of assets (2016: HRK 240 thousand).

In 2017, as part of expenses by nature, the Company recognised HRK 1,284 thousand (2016: HRK 0) of expenses of closing the representative office in China. The Company considers the expense to be one-off.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 11 – EXPENSES BY NATURE (CONTINUED)

The following table shows the reconciliation of costs of goods sold:

	2017	2016
	<i>(in thousands of HRK)</i>	
Raw material and supplies	765,795	769,795
Cost of goods sold	290,786	236,303
Staff costs	182,464	194,300
Depreciation and amortisation	56,078	54,038
Production services	21,316	20,881
Taxes and contributions independent of operating results	5,341	9,221
Other expenses (transport, rent, education etc.)	11,633	14,226
	1,333,413	1,298,764
Cost of goods sold - discontinued operations	-	(44,746)
Cost of goods sold - continued operations	1,333,413	1,254,018

Depreciation and amortisation costs allocated to each function are as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
Cost of goods sold	56,078	54,038
Marketing expenses	138	808
Selling, logistics and distribution costs	20,612	24,734
General and administrative expenses	18,378	16,901
	95,206	96,481

Staff costs allocated to each function are as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
Cost of goods sold	182,464	186,540
Marketing expenses	27,008	24,221
Selling, logistics and distribution costs	95,846	93,796
General and administrative expenses	116,593	92,757
	421,911	397,314

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 12 – STAFF COSTS

	2017	2016
	<i>(in thousands of HRK)</i>	
Salaries	379,950	372,937
Termination benefits	20,642	4,517
Transportation	6,210	6,253
Share options (note 33)	11,403	7,072
Other employee benefits	3,706	6,535
	421,911	397,314

As at 31 December 2017, the number of staff employed by the Company was 3,026 (2016: 3,181).

In 2017, a total of HRK 20,642 thousand was paid with respect to termination benefits for 140 employees (2016: HRK 17,390 thousand paid out for 142 employees of which HRK 12,487 was provided for in the previous year). In 2017, the total taxable termination benefits amount to HRK 26,986 thousand, considered by the Company to be a one-off expense.

NOTE 13 – FINANCE INCOME

	2017	2016
	<i>(in thousands of HRK)</i>	
Interest on related party loans	7,010	10,134
Interest on term deposits	177	284
Remeasurement of financial assets and liabilities at FVTPL	223	-
Dividends income from related parties	193,265	103,559
Net foreign exchange gain on borrowings	-	8,245
Other interest	160	1,193
Unrealized gains on swap contracts	1,189	27
	202,024	123,442

Dividend received refers to income on the basis of declared dividends in subsidiary Belupo d.d. in the amount of HRK 50,000 thousand (2016: HRK 100,000 thousand) and in subsidiary Žito d.d. in the amount of HRK 143,265 thousand (2016: HRK 0).

NOTE 14 – FINANCE EXPENSES

	2017	2016
	<i>(in thousands of HRK)</i>	
Interest expense and similar charges	27,496	33,538
Net foreign exchange loss on borrowings	9,720	303
Capital reserve ESOP	3,026	2,357
	40,242	36,198

During 2017 the benchmark interest rates remained at low levels resulting in reduction of loan related interest expense.

Due to the significant exposure to interest rate risk inherent to floating rate borrowings, the Company hedges the interest rate risk with respect to the syndicated loan facility using derivative financial instruments (interest rate swap) - for details see note 28.

During 2017 and 2016, the Company had no investments for which interest expense could be capitalised.

Other financial expenses relate to the cost of allocated options in the employee stock ownership program through process of increase of share capital by public offering of new ordinary shares, considered by the Company to be a one-off expense. For details see notes 25 and 33 (ii).

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 15 – INCOME TAX

Tax (income)/expense consists of:

	2017	2016
	<i>(in thousands of HRK)</i>	
Current income tax	3,438	-
Deferred tax (income)/expense	(6,790)	25,065
	(3,352)	25,065

Reconciliation of the effective tax rate

A reconciliation of tax expense per the statement of comprehensive income and taxation at the statutory rate is detailed in the table below:

	2017	2016
	<i>(in thousands of HRK)</i>	
Profit before taxation	83,085	204,386
Tax calculated at 18% (2016:20%)	14,955	40,877
Non-taxable income	(34,791)	(20,003)
Non-deductible expenses	16,563	1,649
Tax incentives (research and development, education and other)	(79)	(433)
Effect of a change in the tax rate on deferred tax assets and liabilities	-	2,840
Tax for the previous year	-	135
Income tax	(3,352)	25,065
Effective tax rate	-4%	12%

Unused tax losses

During 2015 in the process of merging its subsidiary Danica d.o.o., the Company acquired tax losses of the merged subsidiary. Since the legal conditions for utilization of the tax losses were met upon merger, they were utilised and as at 31 December 2017 there are no unused tax losses (2016: unused tax losses amounted to HRK 4,362 thousand).

Unused tax losses (gross) at the reporting date were as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
Unused tax losses available until 2020	-	4,362
	-	4,362

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets

Deferred tax assets arose from the following:

2017	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
	<i>(in thousands of HRK)</i>			
Intangible assets	9,967	3,300	-	13,267
Property, plant and equipment/ assets held for sale	3,502	(1,679)	-	1,823
Provisions	4,815	788	65	5,668
Inventory	2,589	215	-	2,804
Financial assets	598	5,468	-	6,066
Share based payments	3,002	(366)	-	2,636
Receivables	405	(151)	-	254
Unutilised tax losses carried forward	785	(785)	-	-
	25,663	6,790	65	32,518

2016	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
	<i>(in thousands of HRK)</i>			
Intangible assets	20,183	(10,216)	-	9,967
Property, plant and equipment/ assets held for sale	12,529	(9,027)	-	3,502
Provisions	5,609	(889)	95	4,815
Inventory	4,442	(1,853)	-	2,589
Financial assets	501	97	-	598
Share based payments	2,547	455	-	3,002
Deferred income	1,321	(1,321)	-	-
Receivables	429	(24)	-	405
Unutilised tax losses carried forward	3,072	(2,287)	-	785
	50,633	(25,065)	95	25,663

In 2017, the Company utilised deferred tax assets recognised on the basis of non-current assets held for sale in the amount of HRK 1,679 thousand, since by the end of 2017 a portion of assets were sold.

During 2017, the Company impaired intangible assets and thus increased deferred tax assets by the one-off amount of HRK 3,300 thousand. The Company also impaired financial assets on the basis of investments in subsidiaries and thus increased deferred tax assets by the one-off amount of HRK 5,622 thousand, while the remaining portion relates to other financial assets.

Deferred tax assets recognised with respect to impairment losses on tangible and intangible assets do not expire as they are utilised in the moment of realisation of the respective assets. Deferred tax assets on long-term provisions for employee benefits (jubilee awards, termination benefits) will be realised in a period longer than one year.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 16 – INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Software	Distribution rights	Brands	Investments in progress	Total
Cost					
At 1 January 2016	167,751	41,410	181,466	12,228	402,855
Additions	-	-	-	12,487	12,487
Transfer on property, plant and equipment	-	-	-	(148)	(148)
Transfers	18,616	-	-	(18,616)	-
Disposals	(63)	-	(45,546)	-	(45,609)
At 31 December 2016	186,304	41,410	135,920	5,951	369,585
Accumulated amortisation and impairment losses					
At 1 January 2016	(147,836)	(28,338)	(103,863)	-	(280,037)
Charge for the year	(9,456)	(9,802)	(8,141)	-	(27,399)
Disposals	61	-	45,546	-	45,607
At 31 December 2016	(157,231)	(38,140)	(66,458)	-	(261,829)
Carrying amount					
As at 31 December 2016	29,073	3,270	69,462	5,951	107,756
Cost					
At 1 January 2017	186,304	41,410	135,920	5,951	369,585
Additions	-	-	-	24,478	24,478
Transfers	13,989	-	7,380	(21,369)	-
Disposals	(42)	(12,000)	-	-	(12,042)
Transfers from assets held for sale	410	-	-	-	410
At 31 December 2017	200,661	29,410	143,300	9,060	382,431
Accumulated amortisation and impairment losses					
At 1 January 2017	(157,231)	(38,140)	(66,458)	-	(261,829)
Charge for the year	(10,234)	(3,270)	(8,150)	-	(21,654)
Disposals	42	12,000	-	-	12,042
Transfers from assets held for sale	(410)	-	-	-	(410)
Impairment	-	-	(18,331)	-	(18,331)
At 31 December 2017	(167,833)	(29,410)	(92,939)	-	(290,182)
Carrying amount					
As at 31 December 2017	32,828	-	50,361	9,060	92,249

Accumulated amortization and impairment losses include a total of HRK 73,701 thousand relating to accumulated impairment losses (2016: HRK 55,370 thousand of accumulated impairment losses).

The total intangible assets with indefinite useful lives as at 31 December 2017 amount to HRK 44,503 thousand and relate to brands.

Intangibles in progress mostly relate to licence agreements.

During 2016, through the realisation of the disposal group, the Company sold the brand Lero.

As of 1 January 2016, the Company changed the useful life of the Warzywko brand from indefinite to definite and accordingly recognized an amortisation charge over a period of 6 years. The effect of this change on the current amortisation cost in 2017 amounted to HRK 5,194 thousand (2016: HRK 5,194 thousand).

In 2017 the Company impaired the Warzywko brand in the amount of HRK 17,893 thousand (2016: HRK 0), and a project in the amount of HRK 438 thousand (2016: HRK 0). The Company considers these impairment costs to be one-off. A more detailed description of the approach and methods used in impairment testing is provided in note 5(v).

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land and buildings	Equipment and fittings	Assets under construction	Total
Cost				
At 1 January 2016	1,690,824	1,097,070	79,380	2,867,274
Additions	-	-	117,980	117,980
Transfers	58,141	64,653	(122,794)	-
Purchase of used assets	-	950	-	950
Transfer from related companies	-	5	28	33
Transfer to related companies	-	(577)	(10,431)	(11,008)
Transfer to intangible assets	-	-	148	148
Transfer to non current assets held for sale (i)	-	(58)	(17,646)	(17,704)
Transfer from assets held for sale (i)	-	1,480	-	1,480
Disposals	-	(12,640)	(27)	(12,667)
At 31 December 2016	1,748,965	1,150,883	46,638	2,946,486
Accumulated depreciation and impairment losses				
At 1 January 2016	(1,201,618)	(836,061)	-	(2,037,679)
Charge for the year	(30,354)	(38,968)	-	(69,322)
Used assets write-offs	-	(591)	-	(591)
Transfer from related companies	-	(5)	-	(5)
Transfer to related companies	-	532	-	532
Transfer from assets held for sale (i)	-	(1,366)	-	(1,366)
Transfer to assets held for sale (i)	-	58	-	58
Disposals	-	12,043	-	12,043
At 31 December 2016	(1,231,972)	(864,358)	-	(2,096,330)
Carrying amount				
As at 31 December 2016	516,993	286,525	46,638	850,156
Cost				
At 1 January 2017	1,748,965	1,150,883	46,638	2,946,486
Additions	-	25	47,061	47,086
Transfers	9,902	40,016	(49,918)	-
Purchase of used assets	-	1,060	-	1,060
Transfer from related companies	-	174	7	181
Transfer to related companies	-	(1,654)	(2,246)	(3,900)
Transfer to assets held for sale (i)	-	-	(585)	(585)
Transfer from assets held for sale (i)	25,848	4,914	469	31,231
Disposals	-	(13,229)	(827)	(14,056)
Impairment	-	-	(1,010)	(1,010)
At 31 December 2017	1,784,715	1,182,189	39,589	3,006,493
Accumulated depreciation and impairment losses				
At 1 January 2017	(1,231,972)	(864,358)	-	(2,096,330)
Charge for the year	(33,430)	(40,535)	-	(73,965)
Used assets write-offs	-	(1,060)	-	(1,060)
Transfer from related companies	-	(44)	-	(44)
Transfer to related companies	-	1,628	-	1,628
Transfer from assets held for sale (i)	(20,201)	(4,149)	-	(24,350)
Disposals	-	12,815	-	12,815
Reversal of impairment	2,115	-	-	2,115
At 31 December 2017	(1,283,488)	(895,703)	-	(2,179,191)
Carrying amount				
As at 31 December 2017	501,227	286,486	39,589	827,302

Accumulated depreciation and impairment losses include a total of HRK 7,683 thousand relating to accumulated impairment losses (2016: HRK 0 of accumulated impairment losses).

During 2017, the Company impaired equipment from Poland in the amount of HRK 1,010 thousand (2016: HRK 0). By returning a portion of property held for sale to property, plant and equipment, the Company recognised additional depreciation of HRK 2,905 thousand (2016: HRK 0) and recognised reversal of impairment of property in the amount of HRK 2,115 thousand (2016: HRK 0). The Company considers these expenses and income to be one-off.

Investments in progress relate mainly to investments in modernisation of production capacities and extension of product assortment and investment in the boiler house on biomass, which shall ensure significant energy efficiency.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(i) *Transfer to and from assets held for sale*

During 2017, the Company transferred property, plant and equipment with a net carrying amount of HRK 585 thousand to assets held for sale (2016: HRK 17,646 thousand). In addition, the Company transferred property and equipment with a net carrying amount of HRK 6,881 thousand from assets held for sale as it will be used in the Company's production facilities (2016: HRK 114 thousand).

(ii) *Reversal of impairment and impairment*

During 2017, the company recognised one-off impairment in the amount of HRK 2,115 thousand (2016: HRK 0) and one-off write-off of project documentation for the fish and tomato factory in the amount of HRK 827 thousand (2016: HRK 0).

(iii) *Mortgaged assets*

As at 31 December 2017, land and buildings of the Company with a net carrying amount of HRK 380,780 thousand (2016: HRK 396,409 thousand) are pledged as collateral against the Company's borrowings.

During 2016, the Company refinanced the syndicated loan facility against which properties of Podravka d.d. and Belupo d.d. were pledged. Due to the refinancing of the syndicated loan with the new EBRD loan of which HRK 236,494 thousand is allocated to the Company, collaterals under the previous syndicated loan were cancelled and the properties of Podravka d.d., Belupo d.d. and Žito d.o.o. were pledged as a new security instrument for the entire loan.

(iv) *Assets held under finance leases*

In 2017 and 2016 the Company has no assets under finance lease agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 18 – INVESTMENTS IN SUBSIDIARIES

Subsidiaries in which the Company has an ownership interest above 50% and control:

Name of subsidiary	Country	Ownership interest in%		Equity share in thousands of HRK		Principal activity
		2017	2016	2017	2016	
Žito d.o.o., Ljubljana	Slovenia	100.00	100.00	440,110	440,110	Sale and distribution of food
Belupo d.d., Koprivnica (i)	Croatia	100.00	100.00	393,153	224,153	Production and distribution of pharmaceuticals
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	68,754	68,754	Rice production and sale
Podravka-Polska Sp.z o.o., Warszawa (ii)	Poland	100.00	100.00	30,122	49,717	Sale and distribution of food and beverages
Vegeta Podravka Limited, Dar es Salaam (ii)	Tanzania	85.00	85.00	-	9,796	Production and sale of food
Podravka-International Kft, Budapest	Hungary	100.00	100.00	5,343	5,343	Sale and distribution of food and beverages
Mirna d.d., Rovinj (i)	Croatia	90.41	84.24	5,115	4,252	Fish processing and production
Podravka Gulf Fze, Jebel Ali, Dubai (ii)	UAE	100.00	100.00	-	1,845	Sale and distribution
Podravka-Int. Deutschland –“Konar” GmbH	Germany	100.00	100.00	1,068	1,068	Sale and distribution
Podravka-International s.r.o., Zvolen	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution
Podravka d.o.o., Podgorica	Montenegro	100.00	100.00	1,029	1,029	Sale and distribution
Podravka-International Pty. Ltd, Sydney	Australia	100.00	100.00	801	801	Sale and distribution
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	84	84	Sale and distribution
Podravka d.o.o.e.l., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution
Podravka d.o.o., Sarajevo	Bosnia & Herz.	100.00	100.00	40	40	Sale and distribution
Podravka-International Inc. Wilmington	USA	100.00	100.00	3	3	Sale and distribution
Podravka d.o.o., Moskva	Russia	100.00	100.00	2	2	Sale and distribution
Podravka d.o.o., Beograd	Serbia	100.00	100.00	-	-	Sale and distribution
Sana d.o.o., Hoče u stečajju	Slovenia	100.00	100.00	-	-	Waffles
				946,700	808,073	

- (i) Based on the decisions of the Company’s management and the Decision of the Commercial Court, the share capital of subsidiary Belupo d.d. was increased as at 27 January 2017 by HRK 69 million and as at 9 March 2017 by HRK 100 million. In 2017, the Company purchased additional shares of Mirna d.d. in the amount of HRK 863 thousand and as at 31 December 2017 it held 90.41% of the share capital of Mirna d.d.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 18 – INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(ii) In 2017, the Company impaired its share in the subsidiary Podravka-Polska Sp.z o.o., Warszawa in the amount of HRK 19,595 thousand, in the subsidiary Vegeta Podravka Limited, Dar es Salaam in the amount of HRK 9,796 thousand and in the subsidiary Podravka Gulf Fze, Jebel Ali, Dubai in the amount of HRK 1,845 thousand. The Company considers these impairment costs to be one-off.

NOTE 19 – NON-CURRENT FINANCIAL ASSETS

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Loans to related companies	9,220	56,465
Loans to third parties	2,126	1,738
Deposits and other	574	581
Other investments	895	895
	<u>12,815</u>	<u>59,679</u>

Loans to related parties are described in note 34.

Loans to third parties bear an average variable interest rate of approximately 5%.

Deposit and other mainly relate to lease deposits and business shares which do not bear interest.

NOTE 20 – INVENTORIES

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Raw materials and supplies	117,037	111,660
Work in progress	44,313	42,880
Finished goods	140,887	140,824
Merchandise	43,379	42,841
	<u>345,616</u>	<u>338,205</u>

During 2017, the Company recognized net impairment loss with respect to some inventories in the amount of HRK 1,192 thousand (2016: HRK 7,822 thousand of reversal of impairment). The movement in inventory impairment provision is included in the statement of comprehensive income in line item 'Cost of goods sold'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2017	2016
	<i>(in thousands of HRK)</i>	
Trade receivables	267,663	302,681
Trade receivables - discounted bills of exchange	60,840	82,720
Accumulated impairment losses on receivables	(150,748)	(106,015)
Net trade receivables	177,755	279,386
Related party trade receivables	294,270	296,174
Provision for related party trade receivables	(5,793)	-
Receivable for dividend	-	169,000
Loans and interest receivable from related parties	91,433	75,450
Loans receivable	593	675
Bills of exchange received	210	306
Advances to suppliers	-	10,222
Prepaid expenses	3,526	5,837
Net VAT receivable	-	1,507
Receivables from employees	648	733
Other receivables	974	4,493
	563,616	843,783

In 2017, the Company recognised impairment of trade receivables from customers owned and controlled by the same group in the amount of HRK 44,094 thousand and receivables from related parties of HRK 5,793 thousand. The Company considers these costs to be one-off.

Loans given to related parties include short-term loans and current portion of long-term loans given to related parties (refer to note 34).

Movements in the impairment allowance for trade receivables are as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
At 1 January	106,015	109,603
Increase	53,912	224
Amounts collected	(830)	(551)
Written off as uncollectible	(2,556)	(3,261)
At 31 December	156,541	106,015

Impairment losses on trade receivables and income from subsequent collection of impaired receivables are included within 'Selling and distribution costs'.

Ageing analysis of trade receivables that are not impaired:

	2017	2016
	<i>(in thousands of HRK)</i>	
Undue	300,652	436,445
Up to 90 days	98,791	91,773
91-180 days	30,635	29,141
181-360 days	36,154	18,201
	466,232	575,560

Major customers

Net trade receivables from major customers owned or controlled by the same group as at 31 December 2017 amount to HRK 57,088 thousand (2016: HRK 137,751 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 22 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Forward contracts	511	751
	<u>511</u>	<u>751</u>

In 2017, the Company used forward contracts with commercial banks with the primary intention of managing the fluctuation of the exchange rates of foreign currencies with respect to the purchase and sale of foreign currencies. The positive fair value of these instruments as at 31 December 2017 amounted to HRK 511 thousand.

The nominal value of forward exchange contracts at 31 December 2017 amounted to HRK 38,970 thousand with maturities between 11 January 2018 and 13 November 2018 (2016: 47,049 thousand with maturities between 12 January 2017 and 14 November 2017).

Gains and losses recognised as changes in the market value of forward exchange contracts are recognized in the statement of comprehensive income, under "financial income/expenses net".

Fair value measurement

The fair value of forward exchange contracts is based on the quotation of the exchange rate. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 2 (see note 6).

NOTE 23 – CASH AND CASH EQUIVALENTS

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Cash in banks	131,976	136,524
Cash in hand	38	29
	<u>132,014</u>	<u>136,553</u>

Cash in banks refers to transaction accounts at commercial banks bearing an average interest rate ranging from 0.0% to 0.6%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 24 – NON CURRENT ASSETS HELD FOR SALE

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Land and buildings	133,553	139,084
Equipment	0	1,335
	<u>133,553</u>	<u>140,419</u>

(i) Land and buildings

Out of total land and buildings held for sale, the amount of HRK 131,283 thousand relates to land and buildings in Rijeka (2016: HRK 131,175 thousand). The remainder of land and buildings held for sale is related to property in Koprivnica and land in Žminj for which the Company is still seeking a buyer and expects to sell during 2018.

Following the Management's decision, a portion of land and buildings and equipment in the amount of HRK 6,881 thousand was reclassified to property, plant and equipment following the decision not to sell and use them for other purposes.

(ii) Fair value measurement

Land and buildings held for sale in the amount of HRK 52,166 thousand are measured at fair value less costs to sell due to the fact that this value was lower than the carrying value upon classification as held for sale. The Company performed a fair value measurement at the classification date and regularly reviews if the measurement needs to be revised. During 2017, management estimated that no new circumstances occurred that would require a new fair value measurement to be performed.

Fair value measurement is classified, according to inputs used in fair value measurement, as level 3 (see note 6). The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value:

<u>Valuation methods and techniques</u>	<u>Significant unobservable inputs</u>
<i>Property</i> For buildings, the valuation model considers the present value of cash flows that asset could generate from rents taking into account the expected net rent based on comparable transactions. For land, the valuation model considers the real sale values achieved in the sale of comparable land at a similar location. The valuation model for investments held for sale is based on techniques and methods for fair value measurement of property as investments relate to investments in subsidiaries in which most of the asset value relates to the estimated fair value of property in their possession.	Average yield: 13 % Among other factors, the estimated discount rate considers the underlying quality of the property, its location and the currently realisable rent conditions for similar locations and the comparative type of property.

Land and buildings held for sale in the amount of HRK 81,387 thousand is measured at the cost of purchase incurred in 2014 since this is considered an adequate approximation of its fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 25 – SHARE CAPITAL

	<i>Number of shares</i>	Ordinary shares	Share premium	Treasury shares	Total
		<i>(in thousands of HRK)</i>			
At 1 January 2016	6,942,492	1,566,401	184,179	(66,709)	1,683,871
Purchase of treasury shares (i)	<i>(36,589)</i>	-	-	<i>(12,977)</i>	(12,977)
Exercise of options (i)	<i>19,200</i>	-	<i>(5,759)</i>	<i>7,146</i>	1,387
Fair value of share based payments (i)	-	-	<i>6,893</i>	-	<i>6,893</i>
At 31 December 2016	6,925,103	1,566,401	185,313	(72,540)	1,679,174
At 1 January 2017	6,925,103	1,566,401	185,313	(72,540)	1,679,174
Exercise of options (i)	<i>32,341</i>	-	<i>(12,133)</i>	<i>12,038</i>	(95)
Fair value of share based payments (i)	-	-	<i>9,087</i>	-	9,087
At 31 December 2017	6,957,444	1,566,401	182,267	(60,502)	1,688,166

As at 31 December 2017, the Company's share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 162,559 relates to treasury shares (2016: HRK 1,566,401 thousand and 7,120,003 shares out of which 194,900 relates to treasury shares). Nominal value of one share amounts to HRK 220.00. All issued shares are fully paid in.

(i) Share-based payments

In 2017, there were no purchases of treasury shares, while during 2016 the Company purchased 36,589 of its own shares for allocation under the stock option plan for employees. During 2017, the Company also issued additional options to employees under the stock option plan for employees, but also as part of the employee stock ownership (ESOP program) in the context of the share capital increase. The share option plan for employees and the ESOP program are described in more detail in note 33 to the unconsolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 25 – SHARE CAPITAL (CONTINUED)

The shareholder structure as at the reporting date was as follows:

Structure of ownership	2017		2016	
	Number of shares	% of ownership	Number of shares	% of ownership
PBZ CO OMF - Category B	925,602	13.00%	925,602	13.00%
AZ OMF category B	902,874	12.68%	902,874	12.68%
CERP -Croatian Pension Insurance Institute	727,703	10.22%	727,703	10.22%
Erste Plavi OMF category B	665,166	9.34%	665,166	9.34%
Raiffeisen OMF category B	625,298	8.78%	625,298	8.78%
Kapitalni fond d.d.	406,842	5.71%	406,842	5.71%
CERP- Republic of Croatia	387,257	5.44%	673,845	9.46%
HPB- Republic of Croatia	286,588	4.03%	-	-
AZ Profit voluntary pension fund	113,728	1.60%	111,752	1.57%
Raiffeisen DMF	99,965	1.40%	99,965	1.40%
Treasury account	162,559	2.28%	194,900	2.74%
Other shareholders	1,816,421	25.51%	1,786,056	25.09%
Total	7,120,003	100.00%	7,120,003	100.00%

NOTE 26 – RESERVES

	Reserves for treasury shares	Legal reserves	Reserve for reinvested profit	Other reserves	Total
<i>(in thousands of HRK)</i>					
At 1 January 2016	147,604	12,653	-	6,096	166,353
Allocation of profits (i)	-	5,008	-	45,303	50,311
Actuarial loss (net of deferred tax)	-	-	-	(440)	(440)
At 31 December 2016	147,604	17,661	-	50,959	216,224
At 1 January 2017	147,604	17,661	-	50,959	216,224
Allocation of profits (i)	-	8,966	-	120,516	129,482
Actuarial loss (net of deferred tax)	-	-	-	(294)	(294)
At 31 December 2017	147,604	26,627	-	171,181	345,412

The legal reserve is required under Croatian law according to which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares are non-distributable. Other reserves mainly relate to (non-distributable) reserves required by the Company's Articles of Association and actuarial gains and losses related to the assessment of long-term provisions for employee benefits.

(i) Allocation of profits

In 2017, the General Assembly reached a decision to allocate the Company's profit from 2016 in the amount of HRK 179,321 thousand as follows: the amount of HRK 8,966 thousand to legal reserves, the amount of HRK 120,516 thousand to other reserves, the amount of HRK 48,642 thousand for the declared dividend, while the remainder of HRK 1,197 thousand is retained in unallocated profit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 27 – RETAINED EARNINGS

The movement in retained earnings is as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
At 1 January	180,680	100,150
- profit for the year (after tax)	86,437	179,321
- transfer to reserves	(129,482)	(50,311)
- dividend paid	(48,642)	(48,480)
At 31 December	88,993	180,680

At the end of April 2018, the Management of the Company will propose a decision to allocate the profit of the Company for 2017 which amounted to HRK 86,437 thousand, whereby HRK 4,322 thousand is proposed to be transferred to legal reserves.

Management also proposed a dividend to the shareholders in the amount of HRK 7.00 per share while the remainder of the profits is to be transferred to other reserves.

NOTE 28 – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	<i>(in thousands of HRK)</i>	
Interest rate swap	1,254	2,443
Forwards	377	840
	1,631	3,283

Detailed overview of the interest rate swaps is as follows:

31 Dec 2017	Nominal	Loan liability	Fair value of	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
	amount of loan under IRS '000	under IRS '000	IRS '000				
	EUR	EUR	HRK				
SWAP 1 - EBRD	20,540	12,329	741	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
SWAP 2 - EBRD	20,540	12,329	513	06.02.2015.	16.08.2019.	3M EURIBOR	0.19%
	41,080	24,658	1,254				

31 Dec 2016	Nominal	Loan liability	Fair value of	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
	amount of loan under IRS '000	under IRS '000	IRS '000				
	EUR	EUR	HRK				
SWAP - EBRD	20,540	16,434	1,467	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
SWAP - EBRD	20,540	16,434	976	06.02.2015.	16.08.2019.	3M EURIBOR	0.19%
	41,080	32,868	2,443				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 28 – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The Company actively hedges against the risk of changes in interest rates on the syndicated loan and has entered into interest rate swaps.

Interest rate swaps 1 and 2 were entered into in 2014 and 2015 for the syndicated loan entered into with the EBRD in 2014. This loan was refinanced prior to its maturity by a new syndicated loan with the EBRD and commercial banks with maturity on 16 August 2022, with a repayment plan adjusted to interest rate swaps that cover 99% of the principal of the new syndicated loan to its maturity on 16 August 2019. For the period after 16 August 2019, it is planned to contract new interest rate swaps that would fix interest expense for the period until the loan maturity.

Fair value measurement

The fair value of interest rate swaps is based on discounted estimated future cash flows based on terms and maturities of underlying contracts and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments which take into account the credit risk of the Company and the counterparty when appropriate. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 2 (see note 6).

NOTE 29 – BORROWINGS

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Non-current borrowings		
Banks in Croatia	189,677	210,000
Banks abroad	147,925	188,472
	<u>337,602</u>	<u>398,472</u>
Current borrowings		
Banks in Croatia	139,813	186,987
Banks abroad	39,447	39,678
Related party borrowings	21,940	137,615
	<u>201,200</u>	<u>364,280</u>
Total borrowings	<u>538,802</u>	<u>762,752</u>

The long-term syndicated loan from 2014 granted by the EBRD and three business banks (in the total amount of HRK 559,417 thousand) with the maturity as at 16 August 2019 and a portion of long-term and short-term borrowings from domestic banks were refinanced in September and October 2016 by a new syndicated loan arranged by the EBRD, in the total amount of EUR 123 million. In addition to the Company, the users of the loan are Belupo d.d. and Žito d.o.o. and a total of EUR 98,850 thousand was used by the Company and two related companies for refinancing the existing borrowings. Of the total amount of the syndicated loan for refinancing, the Company used the amount of EUR 31,500 thousand. In the refinancing procedure, the Company in 2016 had HRK 389,546 thousand of non-cash transactions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 29 – BORROWINGS (CONTINUED)

As part of the above mentioned EBRD loan agreement, the Group (Podravka d.d. and companies controlled by Podravka d.d. (subsidiaries)) is obligated to comply with the following debt covenants.

- a) Interest coverage ratio (ICR). The parameter is calculated as the ratio of consolidated EBITDA and consolidated interest expense for the year. At the reporting dates, the Group was in compliance with this covenant.
- b) Debt coverage ratio (DCR). The parameter is calculated as the ratio of consolidated net debt and consolidated EBITDA. At the reporting dates, the Group was in compliance with this covenant.
- c) Equity ratio (ER). The parameter is calculated as the ratio of consolidated equity and consolidated total assets. At the reporting dates, the Group was in compliance with this covenant.
- d) Cash flow cover ratio (CFC). The parameter is calculated as the ratio of consolidated cash flows and consolidated debt repayments. At the reporting dates, the Group was in compliance with this covenant.

In case of a breach of any of the covenants, corrective compliance is possible within a 30 day period and in case the breach of the covenants continues, a part of the loan or the entire loan can mature immediately on the bank's request.

Bank borrowings in the amount of HRK 187,372 thousand (2016: HRK 228,151 thousand) are secured by mortgages over the Company's land and buildings with a carrying amount of HRK 380,780 thousand (2016: HRK 396,409 thousand) (note 17).

The maturity of non-current borrowings (including the interest rate swap) is as follows:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	156,109	127,121
Between 2 and 5 years	182,747	244,035
Over 5 years	-	29,759
	<u>338,856</u>	<u>400,915</u>

The effective interest rates at the reporting date were as follows:

	<u>2017</u>		<u>2016</u>	
	HRK	EUR	HRK	EUR
Non-current borrowings				
Banks in Croatia	2.24%	0.90%	3.57%	-
Banks abroad	-	1.24%	-	1.49%
Loans from related parties	-	-	-	2.69%
Current borrowings				
Banks	0.88%	-	3.13%	-
Related parties	-	2.10%	-	-

The carrying amounts of the Company's borrowings (including the interest rate swap) are denominated in the following currencies:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Croatian kuna	208,572	396,987
EUR	331,484	368,208
	<u>540,056</u>	<u>765,195</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 29 – BORROWINGS (CONTINUED)

Most of the borrowings are denominated in EUR and the impact of changes in the EUR exchange rates is deemed significant as a result.

The Company has the following undrawn borrowing facilities:

	2017	2016
	<i>(in thousands of HRK)</i>	
Floating rate:		
- expiring within one year	188,401	149,782
	188,401	149,782

These comprise unused short-term revolving facilities, guarantees and letters of credit which the Company has available with several commercial banks.

Reconciliation of movements in liabilities with cash flows from financing activities:

	Loans	Share capital	Retained earnings	Total
<i>(in thousands of HRK)</i>				
At 1 January 2017	762,752	1,679,174	180,680	2,622,606
<i>Cash transactions:</i>				
Loans received	161,824	-	-	161,824
Loans repayment	(268,231)	-	-	(268,231)
Sale of treasury shares	-	6,945	-	6,945
Dividend paid	-	-	(48,642)	(48,642)
Total cash transactions	(106,407)	6,945	(48,642)	(148,104)
<i>Non-cash transactions:</i>				
The impact of changes in exchange rates	169	-	-	169
Other non-cash transactions	(117,713)	-	-	(117,713)
Total other changes related to capital	-	2,047	(43,045)	(40,998)
At 31 December 2017	538,802	1,688,166	88,993	2,315,961

Other non-cash transactions on borrowings mainly relate to repayment of a borrowing by dividend receivable from a related company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 30 – PROVISIONS

<i>(in thousands of HRK)</i>	Jubilee awards	Unused holiday	Retirement benefits	Termination benefits and bonuses	Legal cases	Total
As at 31 December 2016:						
Non-current	7,527	-	10,223	-	13,719	31,469
Current	1,371	4,580	-	4,012	163	10,126
	8,898	4,580	10,223	4,012	13,882	41,595
Increase/(decrease) in provisions	1,174	4,667	963	-	4,793	11,597
Utilised during the year	(1,338)	(4,580)	(12)	(1,094)	(1,951)	(8,975)
At 31 December 2017	8,734	4,667	11,174	2,918	16,724	44,217
As at 31 December 2017:						
Non-current	7,479	-	11,174	-	16,561	35,214
Current	1,255	4,667	-	2,918	163	9,003
	8,734	4,667	11,174	2,918	16,724	44,217

(i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Company which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the unconsolidated statement of comprehensive income within 'Administrative expenses'. Based on the expert opinion of legal advisers, management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2017.

(ii) Termination benefits and bonuses

In 2017, the Company did not recognise provisions for bonuses to key management (2016: HRK 4,012 thousand).

(iii) Jubilee awards and regular retirement benefits

According to the Collective Labour Agreement signed by companies in Croatia, the Company has an obligation to pay jubilee awards, retirement and other benefits to its employees. In accordance with the respective agreement, the employees are entitled to a regular retirement benefit (without stimulating retirement benefit) in the net amount of HRK 10 thousand, of which HRK 2 thousand are taxable. No other post-retirement benefits are provided. The present values of these liabilities, the related current service cost and past service cost were measured using the projected credit unit method.

The actuarial estimates have been derived on the basis of the following key assumptions:

	<i>Estimate</i>	
	2017	2016
Discount rate	2.00%	2.80%
Fluctuation rate	9.76%	9.30%
Average expected remaining working lives (in years)	22	22

Changes in the present value of the defined benefit obligation during the period:

<i>(in thousands of HRK)</i>	2017		2016	
	Jubilee awards	Retirement benefits	Jubilee awards	Retirement benefits
At 1 January	8,898	10,223	9,171	9,338
Disposal of subsidiary effect	-	-	(309)	(272)
Current service cost	392	394	412	365
Interest expense	164	211	231	269
Actuarial (gains) / losses	618	358	831	535
Benefits paid	(1,338)	(12)	(1,438)	(12)
At 31 December	8,734	11,174	8,898	10,223

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 31 – TRADE AND OTHER PAYABLES

	2017	2016
	<i>(in thousands of HRK)</i>	
Trade payables	276,376	263,033
Related party payables	29,467	18,072
Other liabilities	70,770	151,794
	376,613	432,899

As at 31 December 2017 and 31 December 2016 the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other payables include the following:

	2017	2016
	<i>(in thousands of HRK)</i>	
Factoring liabilities	-	82,720
Salaries and other benefits to employees	32,411	30,944
Deferred income	5,536	5,949
Other accrued expenses	22,048	20,491
Package waste disposal fee payable	594	1,866
Accrued interest	1,691	4,140
Taxes, contributions and other duties payable	130	1,710
Dividends payable	1,493	676
Net VAT payable	3,335	0
Other payables	3,532	3,298
	70,770	151,794

Factoring payables relate to bills of exchange with the recourse relating to several customers that are discounted at several factoring companies. Payables are non-interest bearing for the Company. During 2017, the Company repurchased bills of exchange with recourse rights from a factoring company in the amount of HRK 60,862 thousand, while the remaining portion was collected.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 32 – RISK MANAGEMENT

Financial risk management

Categories of financial instruments are as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
Financial assets at amortised cost		
Trade receivables (including bills of exchange received)	466,442	575,866
Cash and cash equivalents	132,014	136,553
Long-term loans	11,346	58,203
Long-term deposits	574	581
Short-term loans	88,469	76,125
	698,845	847,328
Financial assets at fair value through profit or loss		
Forward contracts	511	751
	699,356	848,079
Total financial assets	1,398,201	1,695,407
Financial liabilities at amortised cost		
Borrowings	538,802	762,752
Trade payables, factoring and interest payable	307,534	367,965
	846,336	1,130,717
Financial liabilities at fair value through profit or loss		
Interest swap and forwards	1,631	3,283
	1,631	3,283
Total financial liabilities	847,967	1,134,000

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less the portion repaid. Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation.

At the reporting date, the carrying amounts of cash and cash equivalents, short-term deposits and short-term borrowings approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short-term assets and liabilities are at variable interest rates approximating market interest rates.

Financial assets arising from currency forward contracts are measured at fair value as explained in note 24. The fair value of long-term loans and deposits is approximated by its carrying amount as these assets generally carry a variable interest rate similar to market interest rates.

The Company considers that the carrying amount of investments in unquoted and quoted equity instruments with no active market approximates their fair value due to the fact that the respective instruments were acquired at a price willingly agreed by knowledgeable and unrelated parties.

The carrying amounts of borrowings approximate their fair values as these liabilities bear variable interest rates or fixed interest rate approximating market interest rates.

Financial liabilities relating to the interest rate swaps are measured at fair value as explained in note 28.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

An integral part of the overall Enterprise Risk Management (ERM) project is the reporting procedure for the purpose of managing financial risks. This procedure is applied when it is assessed that due to extraordinary circumstances an immediate decision on some business activities has to be made in a manner that differs from the Company's prescribed procedures, which may jeopardise the profitability or cause a significant loss of Company's cash (Escalation procedure for managing financial risks).

The Company continuously monitors and manages the capital structure and financial risks. Financial risks include credit risk, liquidity risk and market risks (interest rate risk, price risk and currency risk).

The exposure to currency, interest rate and credit risks arises in the normal course of operations. Managing these risks is performed by the Treasury sector, together with active management of excess liquidity investment and active management of financial assets and liabilities.

Capital risk management

The Treasury of the Company reviews the capital structure on a semi-annual basis. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the reporting date was as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
Debt (long- and short-term borrowings including interest swap and forwards)	540,433	766,035
Cash and cash equivalents	(132,014)	(136,553)
Net debt	<u>408,419</u>	<u>629,482</u>
Equity	2,122,571	2,076,078
Net debt to equity ratio	19%	30%

Debt is defined as long-term and short-term borrowings. Equity includes all capital and reserves of the Company. Besides monitoring the ratio of net debt to equity, the Company also monitors the ratio of operating profit before depreciation and amortization (EBITDA) and debt as part of its compliance with the terms of the syndicated loan agreement (see note 29). As at 31 December 2017, the Company was within the defined ratio.

The Company manages its capital to ensure that it will be able to continue as a going concern while simultaneously maximising the return to stakeholders through the optimisation of the debt and equity ratio.

Credit risk management

Credit risk refers to the risk that counterparties will default on their contractual obligations resulting in a possible financial loss for the Company. The Company adopted an upgraded "Collection of due receivables process" applied in operations with customers and it takes security instruments, wherever possible, for the purpose of hedging possible financial risks and loss as a consequence of default. In addition, the Company secured receivables in the country and receivables in foreign markets (Turkey, Qatar, United Arab Emirates, Saudi Arabia, Oman, Bahrain, Kuwait and Egypt) in order to reduce the risk of possible non-collection.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

The Company enters into business only with counterparties with good credit ratings, securing, when needed, receivables for the purpose of decreasing the risk of financial loss as a consequence of default. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

The Company's exposure to major customers

As of 10 April 2017, the extraordinary administration over companies in the Agrokor Group headquartered in Croatia was initiated and the Company pays special attention to monitoring its exposure in operations with these companies. In the extraordinary administration process, total receivables of HRK 97,425 thousand were claimed, of which HRK 60,862 thousand relate to discounted bills of exchange. In the process 99.3% of the claimed receivables were accepted, while the remaining portion relates to receivables that were recognised by the Company after 9 April 2017, which was subsequently adjusted. As at 31 December 2017, the overall exposure of the Company (net of liabilities) amounted to HRK 93,463 thousand, of which HRK 57,862 thousand related to "border debt", HRK 6,145 thousand to "old debt", while the remaining portion relates to receivables from regular operations. In line with available relevant information on the settlement within the extraordinary administration process, the Company estimated the recoverability of the claimed receivables and recognised impairment of receivables in the amount of HRK 44,094 thousand. In 2017, the Company successfully controlled its exposure to Agrokor companies, especially on the Croatian market where additional security measures were agreed with a simultaneous shortening of payment terms. The recoverability of the claimed receivables is currently uncertain since the Agrokor Group is in the extraordinary administration process, regulated by a separate strategic legislation and the final outcome of the concern's operations and the resulting impact on its suppliers is uncertain. The Company continues its business cooperation with companies of the Agrokor Group, taking into account the control of its overall exposure.

The Company accepts new customers and continues cooperation with existing customers with payment delays subject to meeting the Company's credit risk parameters. Receivables are analysed on a weekly basis and necessary measures are taken with respect to their collection.

Risk mitigation instruments are defined based on the financial performance ratios for individual customers, using a service where the required information is available (financial statements, credit ratings etc.). The Company's exposure and credit rating are continuously monitored through credit limits set by the company and insurer, which are continuously controlled and adjusted if appropriate.

The Company has numerous customers of various retail activities and sizes. The most significant concentration of credit risk relates to retail chains.

The Company does not have a significant credit exposure that is not covered by security instruments, or not reflected in the estimates of indications of impairment as at 31 December 2017.

During 2017, the Company did not have significant damage claims related to the insurance of receivable collection.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

Management is responsible for managing liquidity risk by setting an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity requirements. The Company manages liquidity risk by maintaining adequate reserves and credit lines, continuously matching forecast and actual cash flows, monitoring the maturity profiles of receivables and payables.

The Company continuously monitors and analyses cash flows with the aim of an optimum liquidity management in order to ensure sufficient level of cash funds for the purpose of operations with using contracted credit lines as necessary. Planning cash flows in this way takes into account the Company's plans with respect to regular settlement of debt and adjustment to the relations set by contracts.

Liquidity risk analysis

The following tables detail the Company's remaining contractual maturity for its financial liabilities and its financial assets presented in the statement of financial position at each reporting period end.

The tables have been drawn up based on the undiscounted cash flows until maturity and include cash flows from both interest and principal.

The liquidity risk analysis below shows no potential deficit of short-term liquidity for the Company.

<i>as at 31 December 2017</i>	Net book value	Contracted cash flow	Up to one year	1 - 5 years	over 5 years
	<i>(in thousands of HRK)</i>				
<i>Non-interest bearing liabilities:</i>					
Interest rate swap and forward contracts	1,631	1,631	377	1,254	-
Trade payables, factoring and interest payable	307,534	307,534	307,534	-	-
	309,165	309,165	307,911	1,254	-
<i>Interest bearing liabilities:</i>					
Loans and borrowings	538,802	554,610	209,028	345,582	-
	538,802	554,610	209,028	345,582	-
	847,967	863,775	516,939	346,836	-
<i>Non-interest bearing assets:</i>					
Trade receivables (including bills of exchange)	466,442	466,442	466,442	-	-
Forward contracts	511	511	511	-	-
Cash and cash equivalents	132,014	132,014	132,014	-	-
	598,967	598,967	598,967	-	-
<i>Interest bearing assets:</i>					
Long-term and short-term loans	103,372	107,976	95,920	12,056	-
Long-term deposits	574	-	-	-	-
	103,946	107,976	95,920	12,056	-
	702,913	706,943	694,887	12,056	-
Net liquidity position	(145,054)	(156,832)	177,948	(334,780)	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

<i>as at 31 December 2016</i>	Net book value	Contracted cash flow	Up to one year	1 - 5 years	over 5 years
	<i>(in thousands of HRK)</i>				
<i>Non-interest bearing liabilities:</i>					
Interest rate swap and forward contracts	3,283	3,283	3,283	-	-
Trade payables, factoring and interest payable	367,965	367,965	367,965	-	-
	371,248	371,248	371,248	-	-
<i>Interest bearing liabilities:</i>					
Loans and borrowings	762,752	799,403	382,332	417,071	-
	762,752	799,403	382,332	417,071	-
	1,134,000	1,170,651	753,580	417,071	-
<i>Non-interest bearing assets:</i>					
Trade receivables (including bills of exchange)	575,866	575,866	575,866	-	-
Forward contracts	751	751	751	-	-
Cash and cash equivalents	136,553	136,553	136,553	-	-
	713,170	713,170	713,170	-	-
<i>Interest bearing assets:</i>					
Long-term and short-term loans	134,328	143,585	80,175	63,410	-
Long-term deposits	581	581	-	581	-
	134,909	144,166	80,175	63,991	-
	848,079	857,336	793,345	63,991	-
Net liquidity position	(285,921)	(313,315)	39,765	(353,080)	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks

(i) Interest rate risk management

The Company manages cash flow interest rate risk in a manner that it has contracted interest rate swaps that exchanged its variable interest rate liability with the fixed interest rate (note 28). Changes and projections of interest rates are monitored continuously. The Company contracted a part of its debt at a fixed interest rate. Taking into account the stated above and the fact that key interest rates are currently at low levels, the Company is not significantly exposed to interest rate risk.

Exposure to changes in interest rates on borrowings and loans (including the part of loans covered with the interest rate swap agreement at the reporting date) in accordance with the agreed dates of changes in interest rates is as follows:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
EURIBOR based bank loans	187,372	365,765
MF bill of exchange based loans*	20,000	-
	<u>207,372</u>	<u>365,765</u>

*Ministry of Finance bill of exchange

Interest rate sensitivity analysis

The sensitivity analysis below is determined based on the exposure to changes in contractual interest rates at the reporting date. For floating rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on floating rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. A 50 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates. The calculation of the interest rate swap effects takes into account the fact that if the variable interest rate 3 M Euribor is negative (as is currently the case), based on the interest rate swap transaction with a positive fixed interest rate, the Company pays the difference between the fixed interest rate of the swap and the variable 3 M Euribor interest rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

The estimated effect of the reasonably possible change in variable interest rates on the Company's result before tax for the reporting periods is as follows:

as at 31 December 2017

Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
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(in thousands of HRK)

At currently applicable interest rates	214,330	62,535	41,421	110,374	-
At currently applicable interest rates + 50 basis points	215,528	62,637	41,753	111,138	-
Effect of increase of interest rate by 50 basis points	(1,198)	(102)	(332)	(764)	-

as at 31 December 2016

Contractual cash flows	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
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(in thousands of HRK)

At currently applicable interest rates	380,111	183,580	43,143	123,407	29,980
At currently applicable interest rates + 50 basis points	381,579	183,879	43,210	124,435	30,055
Effect of increase of interest rate by 50 basis points	(1,468)	(299)	(66)	(1,028)	(74)

At the reporting date, the Company's exposure to interest rate risk is not deemed to be significant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Operational risk management

(ii) Price risk

The Company's success depends on adequate sources of raw materials, as well as their prices on the market, the efficiency of the production process and product distribution to its customers.

The cost of raw materials could have a significant role in the cost of finished products that the Company manufactures, therefore, it is subject to fluctuations of market prices of agricultural and food raw materials, whose impact cannot always be mitigated through the sale price for the buyer.

The Company realises the majority of the overall procurement in the Croatian market, while the majority of turnover with foreign suppliers is carried out with suppliers from the EU.

Protective customs and trade mechanisms in the EU protecting producers represent a risk in terms of increased customs duties for certain raw materials from third countries. Unavailability of goods in the market due to adverse weather conditions (droughts, floods, etc.), political and social unrest in some countries or speculation with key agricultural and food products lead to changes in the functioning of supply and demand of certain agricultural and food products and represent the risk with an increased effect on the Company's operations.

Also, on the European and global levels there is a consolidation in the sector of primary production of raw materials and supplies, which may result in a future increase in purchase prices.

To minimize these impacts, the procurement function of the Company, through managing the strategic procurement categories and key suppliers, is aiming to develop partnerships with long term suppliers, as well as relationships with new suppliers. Also, consolidating purchasing volumes, fully utilising its Commodity Risk Management system, conducting e-tenders and using new import regulation are only some of the measures taken by the Company to reduce purchase procurement costs in conditions of significant price volatility of some strategic raw materials.

(iii) Currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2017	2016	2017	2016
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
European Union (EUR)	478,349	496,433	241,882	315,863
USA (USD)	6,719	7,405	31,391	81,865
Russia (RUB)	-	-	26,796	29,684
Australia (AUD)	-	-	10,708	12,375
Poland (PLN)	297	-	30,855	20,652
Other currencies	1,029	6,051	7,886	6,780
	486,394	509,889	349,518	467,219

Foreign currency sensitivity analysis

The Company performs certain transactions in foreign currencies and is therefore exposed to risks of changes in exchange rates, with the highest exposure during 2017 to changes in the exchange rate of the Croatian kuna against RUB, EUR and USD.

In addition, by defining the internal policy for hedging currency risk with the corresponding early warning indicators, and by implementing the project aimed at the centralisation of corporate risks management (Enterprise Risk Management) at the end of 2014, the Company decided to proactively manage key risks (including currency risk).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Foreign currency sensitivity analysis (continued)

Currency risks arise from operation of subsidiary companies in foreign markets and the purchase of food raw materials in the international market which is largely in Euro and US dollar. Similarly, the Company has a significant part of borrowings denominated in EUR. During 2017, the Company performed the balance sheet currency structure analysis and continued to apply the model of managing transaction currency risk called “Layer hedging”. This model is applied to the following currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The integral parts of the model include the identification of risk sources and exposure measurement (using Monte Carlo method of Value at Risk simulation), process of contracting derivative financial instruments for hedging purposes and the control and reporting system. Additionally, within the model exposure limit parameters were set which are triggers for contracting prescribed hedging levels. Using Bloomberg terminal, macroeconomic projections are regularly being monitored and derivative financial instruments for currency risk management are being contracted. Also, the Company endeavours to maximise the possibilities of “natural hedging” in order to achieve that the inflows from related parties, whenever possible, are forwarded to Podravka d.d. in the domicile currency of the country where the related company does business.

In addition, as part of the model, parameters of the exposure limit are set, which are triggers for contracting the prescribed hedging levels. This way, the currency risk is largely transferred from related parties to the Company that adjusts these cash inflows with outflows (natural hedging), thus reducing the overall exposure to currency risk, and also creating the opportunity to contract derivative financial instruments on the remaining amount of net cash flow at the central level.

During 2017, the Company concluded fx forward contracts for managing currency risk of the following foreign currencies: USD, AUD, CAD, RUB, HUF and PLN. For the exposure to changes in exchange rate of the Croatian kuna against the Euro no derivative financial instruments for hedging purposes were contracted due to the limited volatility of the exchange rate and the exchange rate regime implemented by the Croatian National Bank.

The currency risk analysis is based on the official exchange rates for the currencies analysed above as per the Croatian National Bank which were as follows, except for the Russian ruble for which the ECB exchange rate is used:

	31 Dec 2017	31 Dec 2016
EUR	7.513648	7.557787
USD	6.269733	7.168536
RUB	0.108278	0.11754
AUD	4.90287	5.180114
PLN	1.800409	1.708592

The following table details the Company’s sensitivity to a 1 % increase in Croatian kuna against the relevant foreign currencies where the Company has significant exposure (EUR, USD, RUB, AUD and PLN). The sensitivity analysis includes only outstanding cash items in foreign currency and their translation at the end of the period based on the percentage change in currency exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of the Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 32 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Foreign currency sensitivity analysis (continued)

	EUR exposure		USD exposure	
	2017	2016	2017	2016
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Increase/(decrease) in net result	(2,365)	(1,806)	247	745

	RUB exposure		AUD exposure	
	2017	2016	2017	2016
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Increase/(decrease) in net result	268	297	107	124

	PLN exposure	
	2017	2016
	<i>(in thousands of HRK)</i>	
Increase/(decrease) in net result	306	207

(iv) Sales function based risks

The Company generates approximately 52.1% (2016: 53.1%) of its revenue on the domestic market, whereas around 47.9% (2016: 46.9%) of the sales are generated on international markets, mainly through related entities. The Company determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

As for domestic operations, the Company expects increased risks associated with maintaining market position. To lessen this effect, the Company aims to further strengthen its competitiveness by increasing productivity, modernising its technology and strengthening its product brands.

The Company is making efforts through harmonization and optimization of existing pricing policies and price levels for existing markets in the EU/CEE to secure a basis for the continuing successful long-term growth and avoid decrease in profit margins.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 33 – SHARE-BASED PAYMENTS

(i) Employee share options

Options for the purchase of Podravka d.d. shares were granted to key management of the Company. The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares as per the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the date of option contract signed. Options are acquired separately for each business year.

All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, leaving the company, relocation within the company, etc., in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above.

The following share-based payment arrangements were effective in the current and comparative reporting periods:

Date of issue	Number of options	Vesting terms	Contracted vesting period
<i>Options granted to key management</i>			
As at 9 October 2014	2,500	Employment until contracted vesting period	30.05.2020.
As at 3 January 2013	2,000	Employment until contracted vesting period	31.12.2017.
As at 31 December 2015	18,651	Employment until contracted vesting period	22.02.2020.
As at 31 December 2015	2,500	Employment until contracted vesting period	30.05.2020.
As at 31 December 2015	2,000	Employment until contracted vesting period	31.12.2018.
As at 2 February 2015	6,307	Employment until contracted vesting period	31.12.2017.
As at 22 March 2016	5,359	Employment until contracted vesting period	30.04.2020.
As at 15 February 2016	17,150	Employment until contracted vesting period	22.02.2020.
As at 1 June 2016	2,000	Employment until contracted vesting period	22.02.2020.
As at 1 June 2016	4,000	Employment until contracted vesting period	31.12.2021.
As at 1 June 2016	2,500	Employment until contracted vesting period	30.05.2020.
As at 1 June 2016	2,000	Employment until contracted vesting period	28.08.2020.
As at 1 June 2016	2,000	Employment until contracted vesting period	06.08.2020.
As at 12 December 2017	8,000	Employment until contracted vesting period	31.12.2022.
As at 17 March 2017	2,000	Employment until contracted vesting period	31.12.2022.
As at 17 May 2017	17,000	Employment until contracted vesting period	31.12.2022.
As at 21 July 2017	5,000	Employment until contracted vesting period	31.12.2022.
Total	100,967		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 33 – SHARE-BASED PAYMENTS (CONTINUED)

(i) Employee share options (continued)

Fair value measurement

The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the share price, particularly over the historical period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). In accordance with the input variables used, the fair value estimate of the option is categorised in the fair value hierarchy as level 1. Service and non-market performance conditions are not taken into account in determining fair value.

Input variables for calculation of fair value:

Share option programme for key management	2017	2016
Fair value at grant date in kuna (weighted average)	77	91
Share price in kuna at grant date (weighted average)	324	311
Exercise price in kuna (weighted average)	333	303
Expected volatility (weighted average)	17%	21%
Expected life (weighted average in years)	2.1	4.3
Risk-free interest rate (based on government bonds)	5.41%	5.58%
Expense recognised in profit or loss	2017	2016
	<i>(in HRK thousands)</i>	
Equity-settled share-based payment transactions	11,403	7,072

In accordance with the input variables used, the estimate is categorised in the fair value hierarchy as level 1 (note 6).

The exercise price of share options for key management falls within the range HRK 245 to HRK 352.

Movement in the number of share options and respective exercise prices in HRK is as follows:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 January	137,662	303	127,153	281
Exercised	(68,395)	276	(37,953)	283
Expired	(300)	261	-	-
Granted	32,000	352	48,462	349
At 31 December	100,967	333	137,662	303
Exercisable at 31 Dec	64,967	323	41,865	275

As at 31 December 2017, there are 100,967 of outstanding options (2016: 137,662 options). During 2017 68,395 options were exercised (2016: 37,953).

The weighted average exercise price of outstanding options at the end of 2017 is HRK 333 (2016: HRK 303).

The weighted average remaining validity of options is 2.1 years at year end (2016: 4.3 years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 33 – SHARE-BASED PAYMENTS (CONTINUED)

(ii) Employee Stock Ownership Program

In accordance with the decision of the General Assembly dated 3 June 2015, the Company launched Employee Stock Ownership Program (ESOP) for the part of the Group which consists of Podravka d.d., Danica d.o.o., Belupo d.d. and Deltis Pharm Pharmacies. ESOP includes giving rights to workers of the Company to the primary subscription and payment of shares in the share capital increase by public offering, conducted in June 2015. The program also includes a system of rewarding employees who have acquired shares in the first round of public offering in such a way that if a worker-shareholder retains all acquired shares for two years, he will receive one additional share for every ten acquired, and if shares are retained for three years, he will receive two additional shares for each ten acquired.

As at 31 December 2017, the number of shares within the ESOP is 84,076 (2016: 86,077), of which 69,395 (2016: 71,956) relates to the Company. During 2017, qualifying employees were granted shares, whereby capital reserve was reduced by the amount of HRK 2,316 thousand (2016: HRK 179 thousand). The fair value of the shares at the date of issue amounted to HRK 300 and exercise price of additional shares was also HRK 300. As at 31 December 2017, the Company recognized HRK 4,160 thousand (2016: HRK 6,476 thousand) of capital reserve based on ESOP for 2018.

In 2017, the one-off net ESOP cost amounts to HRK 3,026 thousand (2016: HRK 2,357 thousand).

NOTE 34 – RELATED PARTY TRANSACTIONS

Transactions with subsidiaries

REVENUE

Sales revenue

	Revenue from sale of products and merchandise		Revenue from services	
	2017	2016	2017	2016
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Company:				
Podravka d.o.o., Sarajevo	158,294	138,352	1,523	2,355
Podravka d.o.o., Ljubljana	100,888	90,630	2,431	2,627
Podravka d.o.o., Beograd	68,747	64,220	380	515
Podravka-Int.Deutschland-"Konar" GmbH	63,402	75,455	632	399
Podravka d.o.o.e.l., Skopje	53,606	54,309	494	690
Podravka-International Pty. Ltd., Sydney	30,951	28,905	444	293
Podravka d.o.o., Podgorica	29,884	27,913	603	769
Podravka-International Inc. Wilmington	37,535	40,524	367	468
Podravka-Polska Sp.z o.o., Warszawa	84,547	82,160	519	430
Podravka-International Kft., Budapest	16,989	16,250	315	391
Podravka-International s r.o., Zvolen	15,988	15,695	304	304
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	10,350	13,480	638	746
Studenac d.o.o., Koprivnica	-	4,011	-	1,145
Belupo d.d., Koprivnica	74	296	18,976	16,303
Mirna d.d., Rovinj	12,878	3,800	1,613	1,026
Vegeta Podravka Limited, Dar es Salaam	487	1,329	58	151
Podravka Gulf Fze, Jebel Ali	1,174	1,260	103	140
Podravka d.o.o., Moskva	30,724	24,279	25	26
Podravka International s. r. l., Bukurešt	-	-	-	7
Žito d.o.o., Ljubljana	2,997	1,181	3,233	432
Belupo doel Skopje	-	-	29	-
Belupo d.o.o. Ljubljana	-	-	35	-
Farmavita	-	-	288	-
Total related party sales	719,515	684,049	33,010	29,217

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

Investment revenue

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Interest income	7,010	10,134
Dividends from subsidiaries	193,265	100,000
Income from other long-term investments	-	3,559
	<u>200,275</u>	<u>113,693</u>

EXPENSES

Remuneration to key management and Supervisory Board members

Remuneration to the Management board and executives were as follows:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Salaries	25,001	27,317
Termination benefits	5,602	657
Share-based payments (note 33)	11,403	7,072
	<u>42,006</u>	<u>35,046</u>

Key management of the Company comprises the Management Board and executive directors and consists of 33 persons (2016: 28 persons).

During 2017, the Company paid HRK 1,323 thousand to the members of the Supervisory Board (2016: HRK 1,269 thousand).

LOANS RECEIVABLE

Loans receivable

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
At beginning of year	128,567	144,192
Increase during the year	63,651	170,230
Repayments received	(15,770)	(189,202)
Write-offs	(70,597)	-
Other changes	-	587
Foreign exchange difference	(8,755)	2,760
At end of year	<u>97,096</u>	<u>128,567</u>
Maturity: within one year	(87,876)	(72,102)
Non-current loans receivable	<u>9,220</u>	<u>56,465</u>

In 2017, the Company impaired loans given to companies Vegeta Podravka Limited, Tanzania and Podravka Gulf FZE, Dubai in the total amount of HRK 70,597 thousand (2016: HRK 0 thousand). The Company treats the impairment as one-off.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

LOANS RECEIVABLE (CONTINUED)

Loans receivable (continued)

The reported net receivables from related parties include loans to subsidiaries as follows:

	Interest rate	2017	2016
		<i>(in thousands of HRK)</i>	
Mirna d.d., Rovinj	4.97% p.a.	84,308	56,326
Podravka Gulf FZE, Dubai	4.97% p.a.	-	21,627
Vegeta Podravka Limited, Tanzania	4.97% p.a.	-	34,838
Podravka-International USA Inc., Wilmington	4.97% p.a.	577	660
Podravka d.o.o., Beograd	4.97% p.a.	11,270	7,558
Podravka d.o.o., Rusija	4.97% p.a.	-	7,558
Vegeta Limited, Kenia	4.97% p.a.	940	-
		97,096	128,567

The effective interest rate is 4.97 % p.a.

The maturity of long-term loans is as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
Between 1 and 2 years	4,610	17,109
Between 2 and 5 years	4,610	39,356
	9,220	56,465

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

TRADE RECEIVABLES AND PAYABLES

	Current trade receivables		Current trade payables	
	2017	2016	2017	2016
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Company:				
Podravka d.o.o., Sarajevo	63,905	64,646	-	9
Podravka d.o.o., Beograd	66,222	61,662	3	155
Podravka d.o.o., Ljubljana	13,918	23,703	-	11
Podravka d.o.o., Podgorica	12,317	14,116	-	-
Belupo d.d., Koprivnica	4,134	21,884	349	365
Podravka d.o.o.e.l., Skopje	5,331	7,691	-	-
Podravka-International Inc. Wilmington	10,949	13,388	-	-
Podravka-International Pty. Ltd., Sydney	9,225	9,040	-	-
Podravka-Polska Sp.z o.o., Warszawa	30,652	18,104	502	24
Podravka-Int.Deutschland-„Konar“ GmbH	781	3,337	-	2,725
Podravka-International Kft., Budapest	1,498	2,203	-	-
Podravka-International s r.o., Zvolen	1,885	2,541	16	-
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	2,404	516	807	5,831
Podravka d.o.o., Rusija	25,279	25,467	-	-
Mirna d.d., Rovinj	38,075	21,709	6,065	2,861
Vegeta Podravka Limited, Dar es Salaam	-	5,247	-	-
Podravka Gulf Fze, Jebel Ali	465	543	1,302	512
Žito d.o.o., Ljubljana	1,323	377	20,400	5,579
Belupo doel Skopje	2	-	-	-
Belupo d.o.o. Ljubljana	9	-	-	-
Ljekarne Deltis Pharm	3	-	23	-
Farmavita	96	-	-	-
Šumi bomboni d.o.o. Ljubljana	4	-	-	-
Total related party receivables and payables	288,477	296,174	29,467	18,072

In 2017, the Company performed one-off impairment of receivables for goods in the amount of HRK 5,793 thousand.

OTHER RECEIVABLES

Other interest receivables from related parties

	2017	2016
	<i>(in thousands of HRK)</i>	
Mirna d.d., Rovinj	3,258	2,038
Podravka International USA Inc., Wilmington	3	32
Vegeta Podravka Limited, Tanzania	2,957	1,002
Podravka Gulf FZE, Dubai	1,211	-
Podravka d.o.o., Beograd	290	276
Vegeta Limited Kenia	6	-
Write-offs	(4,168)	-
	3,557	3,348

In 2017, the Company performed one-off impairment of interest receivable on loans to companies Vegeta Podravka Limited, Tanzania and Podravka Gulf FZE, Dubai in the total amount of HRK 4,168 thousand (Vegeta Podravka Limited, Tanzania: HRK 2,957 thousand, Podravka Gulf FZE, Dubai: HRK 1,211 thousand).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 34 – RELATED PARTY TRANSACTIONS (CONTINUED)

GUARANTEES AND WARRANTIES

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Belupo d.d., Koprivnica	354,373	327,346
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	29,399	27,990
Podravka d.o.o., Sarajevo	500	7,728
Podravka d.o.o., Beograd	1,933	1,435
Podravka-International S.R.L., Bukurešt	1,243	1,250
Podravka - International Kft, Budapest	751	756
Mirna d.d., Rovinj	77,136	24,673
Podravka d.o.o., Podgorica	-	1,134
	<u>465,335</u>	<u>392,312</u>

DIVIDEND RECEIVABLE

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Belupo d.d., Koprivnica	-	169,000
	<u>-</u>	<u>169,000</u>

BORROWINGS

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Žito d.o.o., Ljubljana	-	137,615
Podravka Int. Bratislava	14,652	-
Podravka Int. Deutschland - Konar	3,231	-
Podravka Int. Budapest	4,057	-
	<u>21,940</u>	<u>137,615</u>

During 2017, the Company received short-term borrowings from related parties Podravka International s.r.o. Zvolen, Podravka Int. Deutschland-"Konar" GmbH and Podravka International Kft. Budapest in the total amount of EUR 2.9 million with maturity until 31 May 2018 and effective interest rate of 2.10%.

During 2016, the Company received a borrowing from the related party Žito d.o.o. in the amount of EUR 19 million with maturity until 31 December 2017 and effective interest rate of 2.69%. By the end of 2017 the borrowing was repaid in full.

INTEREST PAYABLE

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of HRK)</i>	
Žito d.o.o., Ljubljana	-	909
Podravka-International s.r.o. Zvolen	26	-
Podravka-Int. Deutschland-"Konar" GmbH	6	-
Podravka-International Kft. Budapest	7	-
	<u>39</u>	<u>909</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 35 – CONTINGENT LIABILITIES

	2017	2016
	<i>(in thousands of HRK)</i>	
Guarantees – third parties	4,258	4,162
Guarantees – related parties	465,336	392,312
	469,594	396,474

Guarantees mainly relate to the potential liability of the Company on the basis of Customs Authorities' guarantee, guarantees for transit procedures, and partly relate to performance guarantees given to customers.

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the unconsolidated statement of financial position as at 31 December, as management estimated that as at 31 December 2017 and 2016 it is not probable that they will result in liabilities for the Company.

NOTE 36 – COMMITMENTS

In 2017, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 31,666 thousand (2016: HRK 29,869 thousand), which are not yet realised or recognised in the statement of financial position.

Contracted payments of liabilities under the contract on mutual guarantees concluded with Belupo d.d. and Žito d.o.o. amount to HRK 14,200 thousand (2016: HRK 20,840 thousand).

The future payments under operating leases for the usage of vehicles, forklift trucks and IT equipment are as follows:

	2017	2016
	<i>(in thousands of HRK)</i>	
Up to 1 year	11,291	10,325
From 1 to 5 years	20,575	19,021
	31,866	29,346

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 37 – EVENTS AFTER THE BALANCE SHEET DATE

The Government of the Republic of Croatia initiated the extraordinary administration procedure over companies in the Agrokor Group headquartered in Croatia and the Company pays special attention to monitoring its exposure in operations with these companies taking special care of the exposure of the receivables collection by contracting additional security measures and shortening payment periods.

As at the date of the extraordinary administration initiation, the Company had HRK 136,691 thousand receivables from the companies in the Agrokor Group over which the extraordinary administration was initiated, while in the extraordinary administration procedure the Company claimed total receivables of HRK 97,425 thousand, of which HRK 60,862 thousand relate to discounted bills of exchange.

Taking into account the recoverability of the claimed receivables affected by the separate strategic legislation, in line with available relevant information on the settlement, the Company estimated the recoverability of the claimed receivables and recognised impairment loss in the amount of HRK 44,094 thousand.

As described in note 21, as at 31 December 2017 the Company had significant trade receivables from customers owned and controlled by the Agrokor Group after impairment in the amount of HRK 57,088 thousand, whose level has been significantly reduced compared to the previous period (2016: HRK 137,751 thousand).

In 2018, the Company continues normal deliveries to and collections from the companies in the Agrokor Group and as at 13 April 2018 the total Company's net receivables from Agrokor companies in the Croatian market amount to HRK 49,296 thousand.