PODRAVKA INC.
ANNUAL REPORT
FOR 2018

PODRAVKA

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WE KNOW WHERE WE'RE GOING BECAUSE WE KNOW WHERE WE COME FROM

1 Introductory words of the President of the Management Board

DEAR STAKEHOLDERS OF THE PODRAVKA GROUP,

The year 2018 has been one of the most successful in the longstanding history of Podravka. We have obtained outstanding, best ever, business results due to our excellent performance in all business segments and the utmost efforts of our employees.

The year delivered more than HRK 1.9 billion of sales revenue, with an operating profit of HRK 112.1 million. We have also obtained significant steps forward in key export markets, giving us a lot of reasons to be satisfied and optimistic for the challenges ahead. All our achievements are the result of organic sales growth along with concurrent control of operating costs, additionally confirming the success of Podravka's business activity.

Amongst the most significant economic events in 2018 that have influenced Podravka's business activity, I would like to point out the settlement agreement in Agrokor, where we have been participating actively within the Agrokor Suppliers Association. It was a great challenge to protect and preserve the rights and interests of suppliers, without jeopardizing the survival of Agrokor and Konzum, the biggest Croatian retail sales chain. Forming the Association has placed Podravka at the top of the most relevant companies in Croatia and absolutely confirms the strength, power and importance Podravka stands for in Croatian economy.

In 2018, Podravka achieved its planned business targets, including those related to the improvement of rights and material conditions of its employees, being the most valuable company resource. Thus in 2018, the lowest salaries in Podravka were increased by about HRK 1000, along with other measures enabling significant improvement of the material position of all Podravka employees.

Along with respecting the tradition woven into all its products, some of which already enjoy a legendary status, Podravka is continuously active in advancing the existing and creating new products, carefully following the latest food trends and fulfilling the needs of our customers.

The excellence of Podravka's brands and products is confirmed every day, but there is another aspect that distinguishes Podravka from its competition. These are partnerships with famous people from various segments of Croatian society, like for instance a very successful relationship between Lino Lada Gold and Zlatko Dalić, coach of the Croatian national football team and world known athlete Sandra Perković and Vegeta Natur, in promoting values such as hard work, high-set goals, and aspirations towards excellence.

Besides its orientation towards achieving the best business results and creating top quality brands and products, Podravka is also committed to the community in which it operates and to caring for its employees as a highly responsible employer.

We promote applying standards of socially responsible business activities and the alignment of economy with the development goals of the community as well as preservation of the environment for future generations.

Our future focus will be on further organic growth and strengthening market positions in all export markets, through upgrading our brands and developing new products. Our greatest success is definitely the trust of our consumers in more than 60 countries all over the world and we shall be ready and eager to continue to meet their wishes and needs in all future business activities.

President of the Management Board

Marin Pucar

2 Podravka profile

COMPANY NAME AND HEADQUARTERS LOCATION

Podravka Food Industry Inc., in Koprivnica ("Company") was established in Croatia. Company headquarters located Koprivnica, Croatia, Ante Starčevića 32.

During the year 2018, Podravka was registered for conducting a total of 63 business activities (according to the extract from the Register of Companies of the Commercial Court of Varaždin) and on the 31 December 2018 had a total of 3,096 employees.

ORGANIZATIONAL STRUCTURE

Business operations of the SBA Food can be followed through the activities of the **business programmes related to certain product groups:**

- SIX BUSINESS PROGRAMMES – Žito and Lagris, Culinary, Podravka food, Baby food, sweets and snacks, Meat products, meat solutions and savoury spreads and Fish.

In accordance with the strategic goal to strengthen business internationalization, market operations are organized through the following **market regions**:

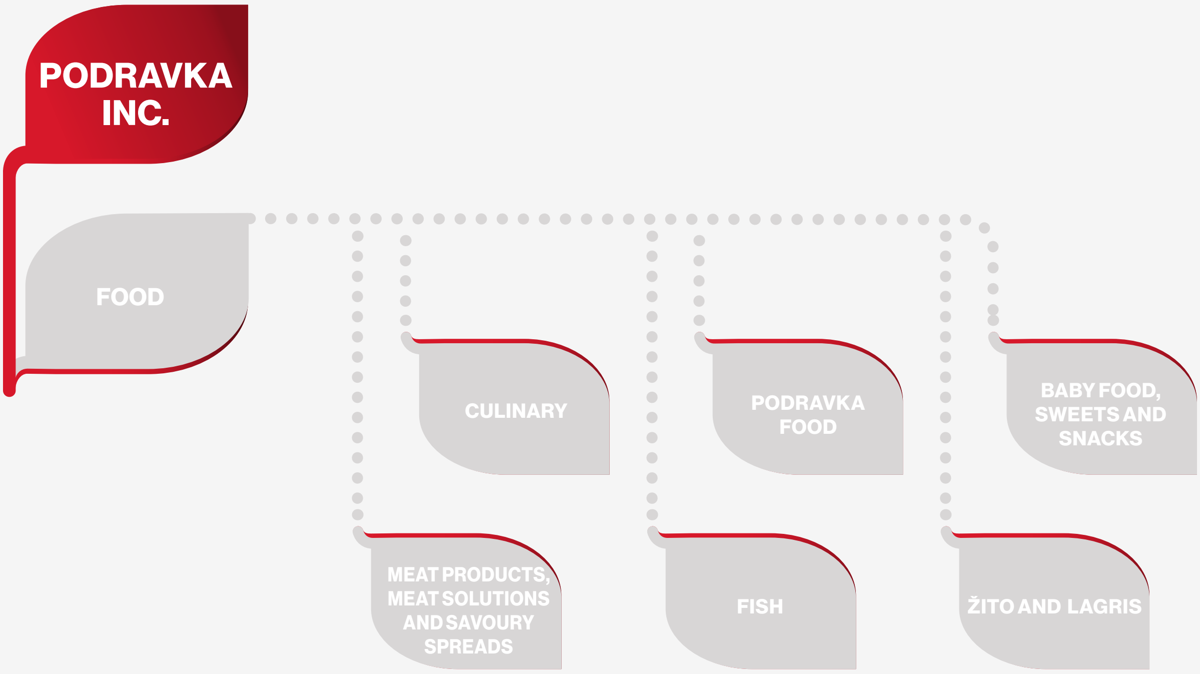
- ADRIA REGION
- INTERNATIONAL MARKETS.

The Adria region consists of the Market of the Republic of Croatia and Southeast European Market. International markets include the Central European Market, the Western European Market and Overseas Countries, the Eastern European Market and the New Markets.

The third important area is **Operative Efficiency and Supply Chain Management**, which maintains focus on profitability and cost efficiency, with particular emphasis on supply chain management through the functions of Production, Logistics, Purchasing and Agriculture.

An important part of the business organization of Podravka Inc. are also **corporate functions.**

Corporate functions support the overall business operations and ensure the application of unique corporate standards. Corporate functions are supported by a central organization.



Corporate functions are: **Human Resources and Law, Corporate and Information Security, Treasury, Corporate Accounting and Taxation, Controlling and Informatics.**

Corporate functions include **Corporate Marketing and Communications** and **Research and Development**, whose role is to apply corporate standards for marketing and development as well as to support marketing and development in business programmes.

The organizational structure of Podravka Inc. also includes **Internal Audit**, which acts as an independent function.

Furthermore, business operations are supported by the following management functions: **the Management Board's Office, Global Business Development, Business Quality and Sustainable Development and Offices of the Vice Presidents.**

Global Business Development is in charge of providing support to the Management Board in the segment of strategic management, defining and implementing long-term development strategy and business development as well as determining strategic goals.

Business Quality and Sustainable Development are responsible for the implementation, maintenance and development of an integrated management system based on the ISO 9001, ISO 22 000, HACCP and other standards and regulations relating to the food industry and markets, such as the International Food Standard, British Retail Consortium, NSF, Halal, Kosher, as well as other standards not directly related to the food industry: ISO 27001, ISO 14001, OHSAS 18001, SA 8000, etc.


PODRAVKA

Consumer trust is the underlying reason why Podravka has become **the number 1 food brand** not only in Croatia but also throughout the region and a recognizable brand on other foreign markets. The high quality of products is guaranteed by **excellent raw materials, modern technology processes and knowledge.**

Podravka's products are characterized by **quick and easy preparation** leaving at the same time enough space for culinary imagination. Respecting tradition and combining cutting-edge creative methods and technological achievements, **we set standards and create the latest trends.**

VEGETA is Podravka's most renowned brand and has been closely following every move made in our consumers' kitchens for the past 59 years giving them the freedom to prepare the most delicious dishes for themselves, their family and friends. The product range of the Vegeta brand has grown considerably and today Vegeta is a culinary brand, with its range of exclusive products of the highest quality, including universal seasoning, special condiments, ready-made mixes, soups, bouillon cubes and spices.

PODRAVKA SOUPS are favoured among consumers, easy to prepare, yet leave consumers just enough space for their own creativity. All those who love cream or clear soups have been able to find their favourite taste for the past 60 years.

Delicious and healthy **LINO BABY FOOD** provides all the ingredients necessary for child growth and development and is also a favourite treat. Along with baby food, Lino has a range of delicious cream spreads Lino Lada, the perfect treat for all generations.

DOLCELA offers a sweet touch of fantasy in each of its products. High quality desserts that are quick and easy to prepare, from simple little desserts to festive cakes, pastry and ready-made cakes. Cakes and desserts created to enjoy at any time.

EVA and **MIRNA** make the richest fish range of products prepared from the finest parts of fish. These products are rich in valuable proteins that contain essential amino acids and minerals.

A wide range of **FANT** seasoning mixes will enrich your culinary skills and significantly reduce time necessary for preparing a meal. Fant mixes are the perfect answer to the common question: "What to cook today?", enabling quick and easy preparation of even the most complex dishes.

PODRAVKA TOMATO can be found in every cuisine, especially in the Mediterranean, an indispensable ingredient that combines well with a whole range of culinary foods. Healthy and natural tomato products contribute to health, provide creativity in cooking dishes and enjoying the best fruits of modern cuisine.

For the past 70 years **PODRAVKA FRUIT** products have been prepared by processing high-quality fruits of controlled origin with no additional aroma, artificial colours and sweeteners. Podravka smooth plum jam is a recognizable and appreciated traditional Croatian product thanks to its high content of fruit and proudly carries the Croatian Chamber of Commerce label "Genuine Croatian Product".

PODRAVKA VEGETABLES perfectly preserve and enrich the original vegetable flavours throughout the year and bring them to the tables of our consumers. Sterilized and pickled, they can be used throughout the year with no significant changes to their nutritional value. Harvested at the best time and prepared without additives, Podravka vegetables are used for salads, side dishes, sauces, stews and sandwiches.

Perfect texture and proven flavour make **PODRAVKA CONDIMENTS** - chutney, mustard, ketchup and horseradish the ideal addition to the most varied meals. Podravka's delicious and aromatic condiments are an essential product in every kitchen and whether used with grilled meat, potatoes or pasta, practical and simple, they will enhance the taste of each and every dish.

PODRAVKA TEAS are produced from carefully selected raw materials, strong and recognizable herbal and fruity aromas. Podravka teas are the result of listening to the desires of true tea lovers which has continued for more than four decades. The wide product range is constantly expanding, enabling consumers to enjoy a wide selection of herbal, fruit and real teas. The filter bags are packed in an aroma sachet, a special foil that preserves the freshness and scent, so Podravka teas today have a recognizable taste and strong aroma.

PODRAVKA MEAT PRODUCTS AND MEAT SOLUTIONS with a wide range of traditional and modern flavours - patés, ready-made meals, meat sauces and luncheon meat - are a delicious meal in any occasion. They are enriched with a special mixture of spices that gives each product a distinctive and recognizable aroma and are the ideal solution for every occasion.

The **KVIKI** snack range contains snacks in salty and sweet varieties. The products are roasted to ensure the fullness of flavour and recognizable supreme quality, while carefully selected raw materials guarantee high quality of the finished products.

Podravka Inc. is a joint stock company that was registered as such in 1993 - resulting from the transformation a former social enterprise.

Podravka Inc. shares were listed on the 1st Zagreb Stock Exchange on 7 December 1998 and have been traded on the Zagreb Stock Exchange since 8 December 1998.

The ownership structure of Podravka Inc. as of 31.12.2018 was the following:

SHAREHOLDER	NUMBER OF SHARES	SHARE IN SHARE CAPITAL
ADDIKO BANK D.D./ PBZ CO OMF - CATEGORY B (1/1) MANDATORY PENSION FUND	1,052,100	14.78 %
OTP BANKA D.D./ AZ OMF CATEGORY B (1/1) MANDATORY PENSION FUND	902,874	12.68 %
CERP (0/1) / HZMO (1/1) CROATIAN PENSION INSURANCE INSTITUTE	727,703	10.22 %
OTP BANKA D.D./ ERSTE PLAVI OMF CATEGORY B (1/1) MANDATORY PENSION FUND	674,669	9.48 %
ADDIKO BANK D.D./ RAIFFEISEN OMF CATEGORY B (1/1) MANDATORY PENSION FUND	625,298	8.78 %
HPB D.D./ KAPITALNI FOND D.D. (1/1)	406,842	5.71 %
CERP (0/1) / REPUBLIC OF CROATIA (1/1)	404,233	5.68 %
HPB D.D. (0/1) / REPUBLIC OF CROATIA (1/1)	167,281	2.35 %
PRIVREDNA BANKA ZAGREB D.D./ CLIENT SAFE CUSTODY ACCOUNT	105,441	1.48 %
TREASURY ACCOUNT	145,775	2.05 %
OTHER SHAREHOLDERS	1,907,787	26.79 %
TOTAL:	**7,120,003**	**100.00 %**

MARKETS ON WHICH THE COMPANY OPERATES

Podravka's business activities take place within the strategic business area of Food on both domestic and international markets that are divided as follows:

- **Adria region** that includes Croatia and South Eastern Europe (Slovenia, Serbia, Macedonia, Montenegro, Kosovo, Albania, Greece) and
- **International markets** that include:
  - **Central Europe** that covers the countries of Poland, the Czech Republic, Slovakia, Hungary, Romania and Bulgaria
  - **Western Europe and Overseas Countries** that include the countries of Germany, Austria, Switzerland, France, Great Britain, Italy, the Benelux and other West European countries, Scandinavia, North America, Australia and New Zealand
  - **Eastern Europe** that includes Russia, Ukraine, Kazakhstan, the Baltics and other East European countries
  - **New markets** that include the countries of Africa (East Africa, West Africa, Central Africa), MENA countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE, Iraq, Iran, Levant countries and North Africa), and Asia (China and other Asian countries).

Users of Podravka products can be divided into customers and consumers. Customers are distributors, retail chains (wholesale and retail), hotels, restaurants and catering (HoReCa channel) and institutional customers. Consumers are people of different age groups, gender, faith, and preferences around the world, or end users of the above mentioned sales channels.

CHARACTERISTICS OF THE SUPPLY CHAIN

Podravka's supply chain is based on two basic principles, Supply Category Management and Supplier Relationship Management.

The entire purchasing range of Podravka is divided into procurement categories led by Supply Category Managers - they lead the Category strategy, negotiate, contract, execute roof contracts and monitor their realization, accordingly. For all procurement categories, tenders are prepared or a targeted approach, through market research and competition monitoring is applied, seeking offers from potential partners, depending on the type of goods, locally or around the world. According to the results obtained, the purchasing volume is divided according to selected suppliers. For this purpose, the Ensolva application is a very important platform for tenders and e-auctions as it allows **better negotiation and more favourable prices of materials and services.**

Supplier Relationship Management is of strategic importance to Podravka, since the suppliers are segmented according to their strategic importance, i.e. added value to the company. **Creating partnerships with suppliers is one of the main objectives of the supply chain.** This ensures timely delivery of the product in agreed quality and quantity at a competitive and sustainable price. **The same strict quality parameters and behaviours are required from all suppliers,** regardless of their geographic position, economic status or degree of partnership, in line with our corporate strategy and business ethics.

Regular ISO supplier audits that evaluate suppliers according to different criteria give the company the most complete picture of the suppliers. It is of utmost importance that the supplier has all the necessary certifications (IFS, BRC, GLOBALGAP, FSSC 22000, ISO 9001, ISO 14001, HACCP, OHSAS 18001, AOECS and others) and takes care of environmental protection and sustainable development.

For the development of new products, Podravka uses know how suppliers, related to innovation and / or optimization of materials that are the subject of procurement. Therefore, it is important for Podravka that the approved suppliers meet the prerequisites for quality, pricing and delivery deadlines, successfully realize their development potential and offer solutions in line with the latest achievements within their industry.

3 122
total nuber of suppliers

58
countries around the world

64%
total supplier turnover realized at local level

TYPES OF SUPPLIERS INVOLVED

According to the type of supplier, Podravka cooperates with direct manufacturers, primary producers, small crafts, family farms (OPGs), sub-contractors, distributors, wholesalers and large multinational companies.

In 2018, turnover at the Podravka Inc. level was generated with a total of 3,122 suppliers.

Podravka generates turnover with suppliers from 58 countries around the world, of which the **majority is realized on the domestic market**. In the import structure, most of them are suppliers from the EU (437 suppliers), while the majority of non-EU countries trade with suppliers from Switzerland, Turkey, Thailand and countries of the region (Serbia, Macedonia, Bosnia and Herzegovina).

Respecting high quality standards of incoming raw materials, the aspect of sufficient quantities and the required level of technical and technological capacity of packaging and raw material manufacturers, the company draws a significant share of turnover with local and primary manufacturers and thus **contributes to the development and stability of local communities.** Following this criteria, a high 64% of the total supplier turnover is realized at local level.

IMPORTANT CHANGES IN THE COMPANY AND ITS CHAIN OF SUPPLIERS

CHANGES IN PLACE OF BUSINESS OR ACTIVITY

Based on the Decision of the General Assembly of PODRAVKA Inc. on the amendments to the Articles of Association of the Company dated 12 June 2018, the Company apart from the registered ones also carries out the following activities: Activities of verification of legal measuring instruments and/or preparation of legal measuring instruments for verification.

CHANGES IN THE SUPPLY CHAIN

Given the large number of suppliers with whom Podravka cooperates, changes in the supply chain occur almost daily. The trend of supplier consolidation is continuing in a way that big multinational companies buy less, which leads to changes on the market. During 2018, focus was placed on selecting local suppliers while no significant changes occurred in the structure of the supply chain and in the relationships with suppliers.

PRECAUTIONARY APPROACH

Podravka applies a precautionary approach to **protect the health of its employees and people in general** by eliminating the potential dangers of real and irreparable damage to human health. This has been achieved in the following ways:

- referring employees who work in special work conditions and, where appropriate, other employees, to **regular medical examinations** at occupational medicine surgeries
- developing new products that promote **better health and life quality,** viewed from the aspect of price, quality of ingredients and packaging
- developing **nutritionally balanced products** targeted at human health
- reformulating existing products, especially in reducing nutrients with negative impact on health (salt, sugar, fat, etc.)
- communicating the results of development and reformulation and **nutrition declaration easier for consumers to understand**
- providing information on a **proper and balanced diet** (internally to employees, externally to all age groups, social and educational structures of people).

The company also applies a precautionary approach **to reduce and avoid negative environmental impacts** in the following ways:

- **utilization of processing by-products**
- investing in new, *"green"* food processing technologies (reducing emissions, waste, water consumption and effective consumption of resources)
- **increasing the capacities** of own technological resources by developing innovative products.

EXTERNAL INITIATIVES

Podravka is committed to the following external initiatives:

- Corporate Governance Codex of the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange;
- Code of Ethics in Business of the Croatian Chamber of Commerce (HGK);
- Biotechnical Foundation of the Faculty of Food Technology and Biotechnology;
- Foundation of the Croatian Chamber of Commerce of the County Chamber of Koprivnica for student scholarships
- Charter of Diversity Croatia.

Also, Podravka supports the following voluntary external initiatives through its business activities:

- OECD corporate governance guidelines;
- The United Nations Global Compact, which represents the world's largest socially responsible business initiative;
- Food without GMOs Policy;
- Strategic Plan for the Reduction of Intake of Table Salt in the Republic of Croatia 2015 - 2019

3 Corporate governance

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

Podravka Inc., as the parent company, 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 the Zagreb Stock Exchange, Podravka Inc. was among the first publicly 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 Inc. applies are as follows:

- 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 Inc. adopted the Code of Ethics in Business of the Podravka Group, 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, the business and social environment and own employees. Podravka Inc. continuously **promotes the policy of diversity and non-discrimination** as regulated by the Code of Ethics in Business of the Podravka Group. Employee diversity is one of the strengths of Podravka Inc. and all employees are equal, and any form of discrimination and harassment of employees based on bias or prejudices such as discrimination on the basis of race or ethnicity or the colour of the skin, gender, language, religion, political or other beliefs, national or social origin, property status, union membership, education, social status, marital or family status, age, health status, disability, genetic heritage, gender identity, expression or sexual orientation and any other characteristics protected by applicable regulations. **Podravka Inc. promotes equality among all employees,** and provides the same opportunity for employment, education, promotion and rewarding for all its employees. In accordance with such policy, Podravka Inc. is a signatory to the Charter of Diversity Croatia.

Podravka Inc. 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 the Company and the Annual Report on the Position of the Company are submitted as a single annual report of the Podravka Group, which includes the subsidiaries of Podravka Inc.

SYSTEM OF VALUES AND ETHICAL PRINCIPLES

Podravka operates in its corporate system of values **in accordance with the principles of modern corporate governance,** subject to the provisions of the Corporate Governance Code of the Croatian Financial Services Supervisory Agency (HANFA), the Zagreb Stock Exchange and the Zagreb Stock Exchange Rules.

Consequently, in terms of ethics and integrity, the Company has **adopted the basic ethical principles and guidelines of ethical conduct** of the Code of Ethics in Business - in the content and text that was established and adopted by the Assembly of the Croatian Chamber of Commerce (HGK). In accordance with the recommendation from the adopted Code of Ethics in Business of the Croatian Chamber of Commerce, the Company has also adopted its own Code of Ethics in Business on the grounds of which Podravka Inc. develops its own ethical principles - following the principles of modern corporate governance.

The Code of Ethics of Podravka incorporates the Company's traditionally good business practice and promotes new standards in line with the best business practices - with the desire to maintain a high reputation in all areas of activity. The Code is based on **the principles of orderly and conscientious business behaviour and the corporate system of values** implemented by the Management Board, the management and all employees of the Podravka Group - **with the purpose of creating and maintaining a recognizable company identity in relation to competition, creating loyalty among consumers and trust among investors, business partners and the public in general.**

BUSINESS PRINCIPLES OF PODRAVKA

The basic business principles which Podravka in its business operations abides by are as follows: **legality and transparency of business, professionalism and objectivity in work, importance of public relations, importance of the relationship towards the environment and relationship with the social community, clearly described procedures for the work of the Supervisory Board, the Management Board and the General Assembly, avoiding conflicts of interest, effective internal control and system of responsibility.**

In relation to the environment, the Company especially takes care - both of its own sustainable development and that of the wider community - and **regularly invests in environmental protection.** Therefore, all employees are obliged to respect environmental standards and applicable regulations, properly and responsibly treat all types of waste and rationally use all raw materials.

Also, in terms of social relations, the Company has **traditionally grown balancing interests with the local community,** always respecting its interests and significantly supporting the development of numerous humanitarian organizations, sports clubs, scientific institutions and similar organizations. In addition, the company continuously participates and supports community projects aimed at improving education, environment, health and social standards in the environment in which it operates - with substantial incentives for both Podravka and its employees to participate in all charitable organizations, sports clubs and similar organizations.

In relation to conflict of interest, all employees, and in particular managers, are **expected to be fully committed to Podravka** and are not allowed to participate in any activity, in particular that of a commercial or financial nature, that may cause a conflict of the employee's personal interests with the company's interests, nor to engage in activities that compete with company business.

Also, **it is not acceptable to double the performance of duties within Podravka** and it should be avoided that employees who are in managerial positions be members of the Supervisory Board of Podravka Inc. If there is a potential conflict of interest, the employee must immediately inform in writing his/her direct superior manager and/or the Management Board. Employees who, in addition to their job in Podravka, perform duties in some other organizations, civic associations and similar institutions, may not take advantage of their position by extricating or demanding donations or sponsorships.

Every employee of Podravka has the right to notify in writing the responsible director of the sector (authorized person) about possible or committed violations of the stated values - for which he or she cannot suffer any sanctions or discrimination in future work.

The procedure of reporting a violation is detailed in the provisions of Podravka's Code of Ethics and sanctions are foreseen by the authorized person for the offender for non-compliance or violation of the provisions of the Code.

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 Inc. in the Investors / Corporate governance / General Assembly module.

SUPERVISORY BOARD

The Supervisory Board of Podravka Inc. 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 Inc. as stipulated by the provisions of the Labour Act. Members of the Supervisory Board are appointed to a four-year term of office. 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 a decision on the election and appointment, respectively. The Supervisory Board supervises business operations of Podravka Inc., and makes decisions on issues in their domain based on the Law, the Articles of Association of Podravka Inc. and the Rules of Procedure of the Supervisory Board.

Podravka Inc. Supervisory Board members in 2018:

1. Dubravko Štimac – president
2. Luka Burilović – deputy president
3. Damir Grbavac – member
4. Petar Vlaić – member
5. Ivana Matovina – member
6. Petar Miladin – member
7. Ksenija Horvat – member (workers' representative)
8. Marko Kolaković – member until 7 September 2018
9. Dajana Milodanović – member since 8 September 2018
10. Slavko Tešija – member until 7 September 2018
11. Krunoslav Vitelj - member since 8 September 2018

The Supervisory Board of Podravka Inc. has established three committees: **the Audit Committee, the Remuneration Committee and the Corporate Governance Committee.**

The **AUDIT COMMITTEE** members in 2018 were:

1. Ivana Matovina – president of the Committee
2. Dubravko Štimac – member
3. Petar Vlaić – member
4. Slavko Tešija – member until 7 September 2018

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 2018.

The **REMUNERATION COMMITTEE** members were:

1. Luka Burilović – president of the Committee
2. Petar Miladin – member
3. Dubravko Štimac – member

The Remuneration Committee is authorised to propose the policy of rewarding Management Board members, the fixed and variable parts of salaries, retirement plan and severance payments, to suggest objective criteria for performance assessment, 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 Inc. 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 monitor amounts and structure of 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 2018.

The **CORPORATE GOVERNANCE COMMITTEE** was established on 30 June 2017 and consists of:

1. Marko Kolaković – member of the Committee until 7 September 2018
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 Company operations, to propose, advise and supervise the implementation of the business strategy in line with the mission and vision of the Company, to propose and supervise the procedures for the management bodies of the Company and the prevention of conflict of interest, to provide guidelines to the Management Board, the Supervisory Board and committees and other bodies for responsible work and mutual reporting for the purpose of successful performance of tasks and authorities. It is also responsible to harmonise the rights and interests of shareholders, investors, stakeholders and other interested parties in the Company with the management and operations of the Company management and to propose guidelines for the development of the dividend policy.

The Corporate Governance Committee performed its role at workshops and sessions of the Supervisory Board and did not hold a separate session in 2018.

Supervisory Board members of Podravka Inc. are entitled to a fixed monthly compensation as determined by the General Assembly Resolution on determining remuneration for Podravka Inc. Supervisory Board members.

In 2018, members of the Supervisory Board of Podravka Inc. were paid HRK 1,412 thousand, and if the remunerations to members of the Supervisory Boards of Belupo Inc., Mirna Inc. and Žito Ltd. are added to this amount, Supervisory Board members at the Podravka Group level were paid HRK 1,929 thousand.

DUBRAVKO ŠTIMAC

President of the Supervisory Board

Dubravko Štimac was appointed president of the Supervisory Board of Podravka Inc. in February 2012. At the beginning of the same year he held the position of the deputy president of the Supervisory Board of Podravka Inc., and he has been a member of the Supervisory Board of Podravka Inc. since 2006.

He is a member of the Remuneration Committee and Audit Committee of Podravka Inc.

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 at Privredna banka Zagreb d.d., and since October 2001, the president of the Management Board of PBZ Croatia osiguranje d.d., company for the management of the mandatory pension fund.

He graduated in 1992 from the Faculty of Economy and Business of the University of Zagreb, where he also received his MA 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 programme at the City University Business School in London.

LUKA BURILOVIĆ

Deputy president of the Supervisory Board

Luka Burilović was appointed deputy president of the Supervisory Board of Podravka Inc. in February 2017.

He is the president of the Remuneration Committee of Podravka Inc.

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 Inc., Županja, and at the beginning of 2008 the president of the Management Board of Sladorana Inc., Županja. In 2014, he becomes the president of the Croatian Chamber of Commerce.

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.

KSENIJA HORVAT

Member of the Supervisory Board

Ksenija Horvat was appointed to the Supervisory Board by the Workers' Council of Podravka Inc. and she has been a member of the Supervisory Board of Podravka Inc. 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 Inc., 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 Inc. 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.

PETAR VLAIĆ

Member of the Supervisory Board

Petar Vlaić was appointed as a member to the Supervisory Board of Podravka Inc. in September 2010.

He is a member of the Audit Committee of Podravka Inc.

He started his professional career as a broker in Ilirika Inc., 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 Ltd. 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 Ltd. – company for managing the 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.

He graduated from the Faculty of Electrical Engineering and Computer Science in Ljubljana. He also received CFA (Chartered Financial Analyst) title, through a programme organized by the American Institute of Chartered Financial Analysts (ICFA).

PETAR MILADIN

Member of the Supervisory Board

Petar Miladin was appointed as a member to the Supervisory Board of Podravka Inc. in September 2010.

He is a member of the Remuneration Committee of Podravka Inc.

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 since 2005, and since 2009 as associate professor. He has published more than twenty scientific papers in the area of commercial law, company law and banking law. Upon graduating he was employed as a trainee at the Municipal and Commercial Courts in Zagreb.

He graduated from the Faculty of Law in Zagreb and in 1999 he received his MA in Commercial and Company 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.

DAMIR GRBAVAC

Member of the Supervisory Board

Damir Grbavac was appointed as a member to the Supervisory Board of Podravka Inc. 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 Inc. 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 Ltd. In 2003 he becomes an advisor to the Management Board in Raiffeisenbank Austria Inc. 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 Inc. 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

Member of the Supervisory Board

Ivana Matovina was appointed as a member to the Supervisory Board of Podravka Inc. in June 2017.

She is the president of the Audit Committee of Podravka Inc.

She began her professional career in 1996 as the head of accounting and in 1997 she became a director of KPMG Croatia Ltd. Two years later she became a partner and director of Cinotti revizija Ltd./Cinotti savjetovanje Ltd. for audit, internal audit, accounting and business counselling and education services. Since 2011, she is the founder and director of Antares revizija Ltd./ Antares savjetovanje Ltd., 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 later she obtains the title of Croatian certified auditor.

KRUNOSLAV VITELJ

Member of the Supervisory Board

Krunoslav Vitelj was appointed as a member of the Supervisory Board of Podravka Inc. in June 2018, to a term of office commencing on 8 September 2018.

He began his professional career in 1977 in Podravka, where he worked in a number of positions until 1991, including Transport Director. In 1991, he became the Head of Fire Protection of the Koprivnica Municipal Assembly, and in 1993, he took on the post of Head of the Civil Protection Unit, Fire Protection and Inspection at the Police Directorate of Koprivnica-Križevci County, Ministry of the Interior. He returned to Podravka in 1995 as Advisor to the CEO for personnel and legal matters, and in 1996 became the Director of the Koprivnica County Chamber of Commerce, where he remains to this day.

He graduated from the University of Zagreb, Faculty of Economics and Business in 1993 and received his Master's degree from the same faculty in 1995.

In 2008, he earned the qualifications for Corporate Management for members of supervisory and management boards from the University of Zagreb, Faculty of Economics and Business.

DAJANA MILODANOVIĆ

Member of the Supervisory Board

Dajana Milodanović was appointed as a member of the Supervisory Board of Podravka Inc. in June 2018, to a term of office commencing on 8 September 2018.

She began her professional career at the Banka Kovanica Inc., Varaždin in 2004 in the position of Head of the Office for Bjelovar, Virovitica and Koprivnica. In 2011, she took up the post of Head of the Koprivnica Branch, Varaždin Regional Centre at Hrvatska Poštanska Banka Inc., Zagreb). She continued her career in this bank and since 2015 has worked in the Households Sector, first in the Directorate for Sales Management as a Senior specialist for sales and sales supervision, and then in the Directorate for Business Development as a Senior specialist for education and enhancing sales, where she still works today.

Dajana Milodanović is a member of the City Council of the Town of Đurđevac, the County Assembly of Koprivnica-Križevci County, and the Executive Council of the PORA Development Agency for Podravina and Prigorje for promoting and implementing development activities in Koprivnica-Križevci County. She also serves as the Chairperson of the Executive Council of the Maslačak Preschool in Đurđevac and Chairperson of the Supervisory Board of the municipal services company Komunalne usluge Đurđevac Ltd.

In 2004, she graduated in Accounting and Finance from the University of Zagreb, Faculty of Economics, and in 2011 attained the title of Professional economic specialist upon completing Management of Finances, Banking and Insurance at the Libertas Business College in Zagreb.

MARKO KOLAKOVIĆ

Member of the Supervisory Board

Marko Kolaković performed the duties of member to the Supervisory Board of Podravka Inc. until 7 September 2018.

He began his professional career in 1995 as a trainee in Sloboda Ltd. Samobor and Ledo Ltd., 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

Member of the Supervisory Board

Slavko Tešija performed the duties of member to the Supervisory Board of Podravka Inc. until 7 September 2018 and was a member of the Audit Committee of Podravka Inc.

He began his professional career in 1981 in Privredna banka Inc. 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.

MANAGEMENT BOARD

Pursuant to the provisions of the Articles of Association of Podravka Inc., 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.

The members of the Management Board manage the Company's business affairs, and the way the Board operates and the division of tasks among the members of the Management Board are regulated by the Rules of Procedure of the Management Board.

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

Management Board members in 2018:

1. **Marin Pucar – president**
2. Ljiljana Šapina – member
3. Davor Doko – member
4. Marko Đerek – member
5. Hrvoje Kolarić – member.

Compensation to an individual Podravka Inc. Management Board member has been determined by the management contract concluded with the Company and approved by the Supervisory Board on behalf of the Company. Gross salaries and compensation paid in 2018 to Management Board members of Podravka Inc. amounted to HRK 4,763 thousand and if remunerations for Management Board members of Belupo Inc. and Žito Ltd. are added to this amount, Management Board members at the Podravka Group level were paid a total of HRK 9,419 thousand.

Remunerations for membership in Supervisory Boards of Podravka Group companies were not approved nor paid to the members of the Podravka Inc. Management Board.

During 2018, the Company's stock options in the amount of 44,500 were granted to the members of the Management Board of Podravka Inc.

MARIN PUCAR

President of the Management Board

Marin Pucar was appointed president of the Management Board of Podravka Inc. in February 2017.

He began his professional career in Gavrilović Ltd. food industry from where in 2001 he moved to Danica Ltd. – meat industry of Podravka Inc. 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 Inc. He was a member of the Management Board of Podravka Inc. from 2008 to 2012, after which he joined Zvečevo Inc. as a member of the Management Board. He was the president of the Management Board of Zvečevo Inc. 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 the Croatian food industry"*. From 2008 to 2012 he was a member of the Supervisory Board of Danica Ltd. and Belupo Inc. In 2012 he became a member of the Management Committee of the Croatian Chamber of Economy, and since 2016 he has been the vice president of this Committee.

In 2018, he was awarded Businessman of the Year according to the choice of the readers of Večernji list and Poslovni dnevnik.

LJILJANA ŠAPINA

Member of the Management Board

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

She has been employed in Podravka Inc. 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 a master's degree at the same Faculty.

DAVOR DOKO

Member of the Management Board

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

He began his professional career in 2000 in the Assets Management department of Zagrebačka banka Inc., as a portfolio manager assistant, where he participated in the establishment of the company for management of investment funds in Zagrebačka banka Inc. He joined the team of Allianz ZB Ltd. 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 Ltd. mandatory pension fund among other tasks he actively participates in the portfolio management and investment pro- cess management. Since 2006 he is a member of the Management Board of Allianz ZB Ltd., 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 educational courses and participated in conferences related to investments and the capital market.

MARKO ĐEREK

Member of the Management Board

Marko Đerek was appointed as a member to the Management Board of Podravka Inc. 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.

HRVOJE KOLARIĆ

Member of the Management Board

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

In his career, among many positions held, we should mention: the director of Pharmaceutics and Business Development at Bristol-Myers Squibb, the director of Pharmaceutics of PharmaSwiss and company director of PharmaSwiss Ltd., Croatia. He also managed business processes related to cooperation with Belupo in the production of the 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 acquired title of Master of Pharmacy, he also holds the Master of Business Administration degree, President module, IEDC Bled.

4 Expected development

During its rich history, Podravka has **conquered the world** with its products. Today, it is the only Croatian multinational food company with offices in 24 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, as well as the 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

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

The key factors of development will be **further strengthening of operations on international markets and retaining positions on the domestic market,** as well as 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 Countries, the aim is to expand the presence, come closer to domestic consumers and focus on 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 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 operates 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 Croatian economy and to be the consolidator of the food industry in the region.

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.

PODRAVKA BRANDS AND CONSUMER TRUST

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

QUALITY

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

WIDE DISTRIBUTION NETWORK

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

LONG-ESTABLISHED TRADITION

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

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 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 brands have been recognised and which have a 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, and these are Vegeta, Podravka and Lino.

INTERNATIONALIZATION

Podravka focuses on increasing the share of income from international markets that will positively impact the reduction of business 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 effective investment cycle management and significant investments in marketing, we aim to exploit all the potentials of strategic markets.

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 effective cost management. Podravka will continue to perfect its processes and activities with the aim of an even better control and management of cost of goods sold and operating expenses.

BUSINESS UNITS

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

CONTINUOUS MONITORING OF THE PRODUCT RANGE PROFITABILITY

After abandoning low-profitability segments, Podravka focuses on profitability through the restructuring of certain areas and thus intends to release capital for investments in profitable categories. Caring about its product range and long-term understanding of consumer needs enables Podravka to provide high-quality products and strengthen its own brands.

DEVELOPMENT OF INTERNAL COMPETENCIES

Sharing knowledge among employees through own training 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 set goals.

In its operations, Podravka is exposed to risks typical of economic entities operating on the domestic and foreign markets, especially to those common in food industries. 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 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. 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 the 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. The Treasury department of Podravka Inc. is in charge of the management and supervision of the ERM project. All the stated 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 2018, Podravka finished extending the scope of the ERM project for Podravka Inc., including in it all the business units of Podravka Inc. for which 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 the 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 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 most important factors in achieving sales forecasts, 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 SEGMENT MANAGEMENT

As a company that sees the achievement of its goals through both organic and inorganic business growth, an optimal selection of the strategic segments of product categories, markets and sales channels has a significant impact on the opportunities for that growth. For that reason, Podravka Group 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 significantly reduces any risk of dependence on a particular product, market or business partner.

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 recognizability 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 MANAGEMENT AND EMPLOYEE RISKS

Recognizing and valuing knowledge, innovation and performance, promoting individuality as well as teamwork, with dynamic, creative and successful employees is the foundation of our success.

Different employee programmes have created added value to the Company and a higher level of culture clearly visible in the behaviour of Podravka employees at all occasions.

Podravka offers additional opportunities for those who are determined and eager to develop their professional skills. Personal development planning is recognized and supported by individuals who have achieved significant results in their work so far, and whose potential suggests further opportunities for career advancement and development.

Management and employee risks, monitored by the Human Resources and Law 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 special care of the 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 the 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 the quality control system, implementation, maintenance and development of the integrated management system that is based on norms, regulations and principles in accordance with Podravka's quality and food safety management system, as well as ongoing 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 sanitary validity and product safety is taken,** compliant to legal regulations of the Republic of Croatia, the European Union and other countries where the Group operates, as well as on the adjustment and safety of IT systems used as support to the overall business of Podravka.

FINANCIAL RISKS

An integral part of the overall ERM project is the Escalation procedure for 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 Podravka's prescribed procedures, which may jeopardise the profitability or cause a significant loss of the Company's financial assets.

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 within the usual course of business operations. Managing these risks is performed by the Treasury sector and finance departments of individual companies, 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 2018 was in relation to EUR, USD, BAM, HUF and RUB.

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 2018, 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 2018, 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 the 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 the 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 Inc. 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 Inc. 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 central level.

During 2018, Podravka Inc. 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, yet only for achieving short-term positive currency effects.

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. Podravka contracted fixed interest rates for a part of its debts. Taking this into account and the fact that the key interest rates are currently at low levels, Podravka is **not significantly exposed to any interest rate risk.**

PRICE RISK

Podravka's business success depends on the sources of adequate raw materials, as well as their market prices, the efficiency of the production process and the distribution of products to the customers.

The cost of raw materials could have a significant role in the cost of finished products that the Company 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 sales price for the buyer.

Protective customs and trade mechanisms in the EU that protect EU manufacturers 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 the supply and demand of certain agri-food products and represent a risk with an increased effect on Podravka's operations.

Also, there is a consolidating trend in the sector of primary production of raw materials at European and global levels, which could lead to higher procurement prices in the future.

In order to reduce these impacts, Podravka's Purchasing 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 Commodity Risk Management, implementing e-tenders and e-auctions and using new import regimes are some of the activities Podravka uses **to reduce procurement costs**, in conditions of extreme price volatility of particular strategic raw materials.

CREDIT RISK AND RISK OF DEBT COLLECTION

Credit risk is the risk of non-payment, i.e. noncompliance with contractual obligations by the customers which may cause possible financial 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 unfulfillment of contractual liabilities. Podravka's exposure based on receivables and the credit ratings of its counterparties is continuously monitored.

In continuance to the extraordinary administration over companies in the Agrokor Group headquartered in Croatia, Podravka continues its business cooperation with companies of the Agrokor Group, by controlling its overall exposure.

The Company accepts new 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 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 revised and adjusted if appropriate.

Depending on the needs and collection of receivables on individual markets during 2018, the Podravka Group contracted insurance of receivables for a selected group of markets. (The Company secured receivables on the markets of the Republic of Croatia, Turkey, Qatar, Cyprus, Zambia, the United Arab Emirates, Saudi Arabia, Oman, Bahrain, Kuwait, Egypt, Japan and Kenya).

During 2018, Podravka did not have any significant damage claims related to the insurance of debt collection.

LIQUIDITY RISK

Podravka manages liquidity risk by setting an appropriate liquidity risk management framework for the management of short, medium and long-term funding and liquidity requirements and by maintaining adequate reserves and credit lines. Additional efforts in the cash flow planning at the level of all related companies made in earlier periods resulted in the **optimization of the liquidity** of Podravka in 2018. This results from continuous monitoring of planned and realized cash flows and observing the maturity of receivables and liabilities that Podravka has towards its customers, suppliers, banks and other financial institutions. In addition, Podravka continuously monitors and analyses cash flows with the aim of optimizing liquidity management to ensure a sufficient level of cash flow for business purposes. In this way, cash flow planning follows Podravka's guidelines regarding regular settlement of contractual obligations and the harmonization of all other contractual relationships.

NON-FINANCIAL REPORT

1 Research and Development

"GO WEST" PROJECT

Well aware of the changes of nutrition habits, but also the orientation towards export markets of East Europe, the USA and Australia, have encouraged the Company to initiate the *"Go West"* strategic project (2017). The Research and Development sector has been assigned **the role of creative and project leader,** with Global Business Development, IT, Markets and Business Units also included.

After market researches and visits to the targeted markets (2017), in the period of three months in 2018 **eight innovative concepts** (platforms for new products development) were proposed and **over 40 new products developed** (products with extensions) to the level of calculation of cost of sold goods that can be produced using the Company's existing technologies. As a special and separate project, a radically new product in cooperation with the famous European *chef* was developed. All the developed products are connected with the *Super foods* eating trends, the convenient *"to-go"* eating while walking, Croatian tradition, but also oriental tastes, individual creativity and *sustainable product development*.

Simultaneously with the innovative products development, **the technological mapping of Podravka was implemented,** an innovative project conceived as a tool contributing to faster product development, costs optimization, transparency, process integration and especially, to improve the investment planning process. The project was designed, managed and implemented by Podravka's internal resources.

SUSTAINABLE PRODUCT DEVELOPMENT

Due to the estimate that within the whole chain (production, distribution, consumption), about one third of food is thrown away on the annual level[1] (value of about €143 billion), the new policies of circular economy stimulate companies to direct their strategies towards sustainable product development. Consequently, this initiated research projects in cooperation with the Faculty of Food Technology, University of J. J. Strossmayer Osijek (2017) in the field of using side products during the processing of fruit and vegetables in Podravka. In 2018, the project results revealed the **possibility of producing commercially acceptable products and/or ingredients of high nutritive value,** while the processing technologies need to be considered more precisely in the context of finding optimal solution for commercialization, therefore, the projects shall be continued in 2019.

1 Source. FAO (Food and Agriculture Organization of the United Nations)

SALT REDUCTION

During 2018, the research-development project of testing the acceptability of Podravka's **innovative salt with 35 percent less sodium as a complete substitute for kitchen salt in dairy products** in cooperation with the Faculty of Food Technology from Osijek was completed. The results on a major sample of consumers showed sensor acceptability of the new dairy products containing Podravka salt, thus offering the option of declaring "25% less salt" on products. This project concluded the cycle of planned activities of using Podravka's innovative salt in a wide range of products (2016-2018), and the total results showed that Podravka's patent is an acceptable alternative for the industry and consumers in reducing the intake of salt in everyday life.

NUTRITIVE STRATEGY (2014 - 2020) – CONTINUED

Activities related to the development of new products according to the nutritive profile in compliance with the scopes of the Company's nutritive strategy regarding the **reduction of salt, sugar and fat and/or *"clean label"* tactics and the enrichment with healthy positive ingredients** (probiotics, proteins, fibres etc.) continued.

PROCESS INNOVATION

In the fourth year of implementing the SAP Recipe Development Module (RDM) for the purpose of providing product specification documents, integration into other processes (for example quality control, document issuing) and creating preconditions for remote sales, the **input of raw material specifications and a major part of packaging material and finished products from Podravka's product range was completed** and targets for 2019-2020, when the project is expected to be finished, were set.

A YEAR OF SCIENTIFIC AND PROFESSIONAL PUBLICATIONS

Along with the research efforts, the year of 2018 shall be remembered by an impressive number of oral and written communications at scientific and professional conferences both in Croatia and abroad. A special award was given for the **best oral presentation** under the title *''Salt reduction: Translation of consumer expectations into wishful taste product attribute''* at the 4th International Conference on Food and Agricultural Engineering in Lisbon, Portugal.

COOPERATION WITH THE LOCAL COMMUNITY

In 2018, the Koprivnica –Križevci County and nutrition experts from Podravka's Research and Development started a joint project under the title *"A clever meal for clever children"* with the aim **to develop a nutrition system and organize the work of school canteens in primary schools** (18) founded by the Koprivnica – Križevci County.

PARTICIPATION IN CREATING THE LEGISLATIVE FRAMEWORK OF THE REPUBLIC OF CROATIA, STUDY PROGRAMMES, EU PROJECTS

Although the participation of employees from our Research and Development department in creating the legislative framework of the Republic of Croatia is not anything new, in 2018, **even six employees were chosen to participate** in the work of the *Codex Alimentarius*[2] Commission at the Ministry of Agriculture over the next period.

Podravka has acquired its representative in the Scientific Council for Technological Development at the Croatian Academy of Science and Art, as well as in the *Thematic Innovation Council for Food and Bio – Economy.* These Thematic Innovation Councils have been established for the purpose of building the innovation system of the Republic of Croatia, creating and proposing the strategies for research, development and innovations and proposing projects and policies within the defined area, according to the Croatian Smart Specialization Strategy for the period 2016 - 2020.

Research and development experts have been chosen to take part in designing new studies at university level, participating also as outsourced lecturers and taking part in some European scientific projects *(COST Action POSITIVe)*, thus continuing the longstanding fruitful cooperation with the academic community.

For many years Podravka's Research and Development has been a lecturing basis for the Faculty of Food Technology and Biotechnology of the Zagreb University, the Faculty of Food Technology of the Osijek University and the Secondary School in Koprivnica. The activities are oriented towards practical professional training, student visits to Podravka's plants, visits of lecturers and mutual cooperation in professional and scientific work and lecturing.

2 Wikipedia: Codex Alimentarius (lat. "Book on Food" is a summary of internationally recognized standards, procedure rules, guidelines and other recommendations regarding food, food production and processing and food safety for use. It has been accepted in Croatia by the Government of the Republic of Croatia.

2 Certification

During 2018, 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 the 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 9001:2015**	1. Podravka Inc. (all locations in Croatia)	**Certification Authority SGS**
2	**HACCP** According to Codex Alimentarius	1. Podravka Inc. (all locations in Croatia)	**Certification Authority SGS**
3	**IFS Food, Version 6** International Featured Standards - Food	1. Podravka Inc. headquarters, Koprivnica Soups & Vegeta Factory, Koprivnica Baby Food & Cream Spreads Factory, Koprivnica Danica Factory, Koprivnica Fruit Factory, Koprivnica Meat Solution Factory, Koprivnica 2. Kalnik Factory, Varaždin 3. Vegetable Factory, Umag	**Certification Authority SGS**
4	**BRC, Issue 6** (British Retail Consortium) Global Standard for Food Safety	1. Podravka Inc. headquarters, Koprivnica Soups & Vegeta Factory, Koprivnica Baby Food & Cream Spreads Factory, Koprivnica	**Certification Authority SGS**

5	**HALAL**	1. Danica Factory, Koprivnica* 2. Soups & Vegeta Factory, Koprivnica* 3. Baby Food & Cream Spreads Factory, Koprivnica* 4. Kalnik Factory, Varaždin 5. Fruit Factory, Koprivnica 6. Snacks Factory, Koprivnica* 7. Podravska klet - restaurant, Koprivnica	**Halal Quality Certification Centre** ***Emirates Authority For Standardization & Metrology**
6	**KOSHER**	1. Kalnik Factory, Varaždin 2. Soups & Vegeta Factory, Koprivnica 3. Fruit Factory, Koprivnica 4. Snacks Factory, Koprivnica 5. Mill, Koprivnica	**Rabin Kotel Da-Don**
7	**BIO**	1. Podravka Inc., Koprivnica › Ecological tea › Ecological grits › Ecological rice › Ecological puree › Ecological cereal › Ecological seeds › Ecological tomato products	**Austria Bio Garantie**

Compared to the previous years, the following changes occurred in 2018:

- ✔ Recertification of the Vegetable Factory Umag according to the latest version of IFS Food, Version 6.1
- ✔ Recertification of Podravka Inc. (all locations) according to the latest version of ISO 9001: 2015
- ✔ BIO product certification - expansion of the product range

3 New products

CULINARY BUSINESS UNIT

The Vegeta brand from the Culinary Business Unit is successfully adapting to the habits and needs of its consumers, which in 2018 resulted in the introduction of **new Vegeta Natur products** with an improved recipe. Vegeta Natur products are made from well known, natural ingredients **according to mother nature's recipe.**

The wide assortment of Vegeta Natur products offers **universal seasonings, a range of special condiments and bouillon cubes,** which all share common values such as transparency and well-known ingredients. Along with the process of reformulation, all Vegeta Natur products have undergone a redesign process and are now placed on shelves in a new, modern design that clearly communicates all the functional benefits of the product.

In line with the **naturalness trend, innovation and modernization** were also made in the Fant seasoning mix segment in the Adria region. Fant now offers products with no flavour enhancers, in a modern range of products refreshed with **Fant chicken with mushrooms in cream sauce** and **Fant cheese sauce** that are visually tailored to appeal to younger consumers. At the same time, the most famous, traditional range has also been redesigned and refreshed, thus enabling easier detection at points of sales.

Innovations also occurred in the assortment of soups, bouillon cubes and semi-prepared meals. The assortment of Podravka soups is complemented by **new, grain-rich soups** which contain a variety of vegetables and cereal grains with no added flavour enhancers. The assortment consists of three products: **Rich soup with mushrooms and buckwheat, Rich barley and vegetable soup, and Rich soup with 5 cereal grains.** Their launch results from the monitoring of the consumers' highest expectations regarding product quality and the "experience" they convey when consuming.

Since 2018, Podravka has embarked to conquer Australian consumers with **premium liquid stock.** Liquid stock is the most significant segment of food condiments on the advanced Australian market. Using the name of **Vegeta Superior**, the premium quality of this product line is additionally highlighted.

In the pursuit of a modern lifestyle and listening to the needs of our consumers, in 2018, the Talianetta product range was expanded in the Adria region with new rice-based products: **Rice with tomato and mozzarella, Rice with chicken and curcuma and Rice with mushrooms.** Along with the launch of this new category, Talianetta also embraced a new packaging design in order to emphasize its shelf position and reach new consumers.

The Lino World launched a new product, **Lino Lada Gold in the category of cream spreads.** Its richness of hazelnuts, creamy taste and texture, golden name and design conquered the market of cream spreads and immediately upon launching Lino Lada Gold **won the title of Product of the Year and Superior Taste Award,** winning a maximum number of three stars.

A **large packaging of Lino Lada duo of 1 kg was also launched** with four different messages that enables Lino Lada's passionate consumers to get just the right portion with their favourite message by buying just one packaging.

With these innovations as well as a series of promotional activities, Lino Lada has **taken the lead in the cream spread market** of Croatia.

Čokolino Baby - a new milky cereal puree in the assortment of Lino dehydrated baby food for six months of age was launched for our youngest consumers. Čokolino Baby has **no added sugar, is prepared with water, contains even five types of cereal:** wheat, oats, corn, rice and buckwheat and cocoa instead of chocolate.

Dolcela entered a new category of ready-made desserts with **Dolcela's cakes and Dolcela's cake2go biscuit rolls,** which currently show a great tendency of growth. In the category of cake mixes, **four new blends with ancient cereals** were launched, which are unique because they give consumers the ability to sweeten their cake according to their taste, and they also **contain whole grain oats and spelt flour, quinoa and chia seeds.**

The Kviki product range returned to its red design and launched new products. Kviki entered a new subcategory of extrudate snacks with three salty flavoured products: **Kviki salty stix, Kviki ketchup stix and Kviki cheese balls** and five sweet flavoured products: Kviki choco #LOLs in chocolate, coconut, raspberry, strawberry and orange flavour. All together and focused on the standard range resulted in a **significant revenue increase** over the previous year and a market share increase of over 5 percent.

PODRAVKA FOOD BUSINESS UNIT

For the categories within the Podravka Food Business Unit, 2018 is characterized by a **large innovation cycle, primarily in fruit spreads and in the assortment of so-called *"food for winter"*.** Podravka's chutney, horse-radish, ketchup, pickled and canned vegetables have undergone a slight redesign and **refreshed its visual expression** to enhance visibility at points of sales and ease navigation within the range.

Podravka **jams obtained a new visual identity** and extra jams added completely new flavours tailored to consumer expectations.

In the tomato category, a new product segment was launched focusing on the Polish market - **dried tomatos**, which expanded to the Adria region at the end of the year. Also, within particular assortment lines, **new taste extensions** such as tomato sauce *Napoletana* have been added.

FISH BUSINESS UNIT

The Fish Business Unit started a new innovation cycle in 2018, aimed at winning new consumer segments through unique marketing concepts and different ways of consuming canned fish. This innovation cycle is led by new **Eva tuna salads,** a product developed for those consumers who are looking for a **fast, but healthy and very nutritious and rich meal.** Six new tuna salads are enriched with new combinations of ingredients and tastes like red quinoa, wild rice and couscous, but what makes them an ideal meal is their **practical packing** in bowls, so they are ready to consume right away.

Five new Delicates Adriatic sardines prepared in extra virgin olive oil **in combination with tasty and intriguing ingredients** such as mint, chilli, black olives and dried tomatoes have come out of the production facilities in Rovinj.

Proof that *"fish goes with everything"* is the **new tuna and chutney pâté.** A combination of the south and east has resulted in a perfect flavour that offers consumers a whole new gastronomic experience. For those consumers who are faithful to renowned products, **new sardine pâtés**, rich in omega 3 fatty acids, calcium and vitamin D have been developed.

MEAT PRODUCTS, MEAT SOLUTIONS AND SAVOURY SPREADS BUSINESS UNIT

In the Business Unit Meat Products, Solutions and Savoury Spreads, **the focus has been on the sausage range** that underwent great innovation in product and packaging development. The whole cycle has been rounded off by an attractive new design. The aim of the innovation was to increase profitability and stabilize the range of products.

Podravka's Tea sausage is **the best-selling sausage in the Croatian marke**t and has been innovated through additional tastes - **classic, chilli and delicates.** The new Tea chilli contains carefully selected spices that perfectly mingle with famous chilli peppers, while Tea delikates contains a high 43% of beef.

In the subcategory of cooking and baking sausages, along with the **Kranjska classic**, a spicy variant of **Kranjska sausage with cayenne pepper** was prepared. Given that in the subcategory of sausages for cooking the economy segment is expanding, **Pikant and Vikend sausages** have been launched.

The offer of semi-durable products expanded with two new products, **Ham in wrapping piquant and "Šunkarica"**. Ham in wrapping piquant contains the finest meat and sharp, paprika spices, while "Šunkarica" is a combination of pork and beef meat.

All sausage products **contain no gluten, lactose or artificial colouring,** making them the ideal choice for those who follow a balanced and healthy diet.

A limited series of **jubilee promotional packages of Beef goulash and Classic chicken pâté was produced to celebrate the 60th anniversary** of the presence of these Podravka icons in the market.

The **category of canned ready-made meals launched a new product line for the market of Australia under the brand Vegeta** that by taste, composition and consistency are tailored to satisfy the local consumer. The benchmark for product development were the existing products in the market as well as the inputs of domestic consumers who participated in the development part. **Four ready-made meat meals** (beef, pork, chicken) **with vegetable supplements** were launched. The products are ready for consumption, prior to short heating. In the segment of cold ready-made meals, work on expanding the offer of main course dishes and salads for the HORECA segment continued in 2018.

4 Relationship with employees

MATERIAL STATUS OF PODRAVKA GROUP EMPLOYEES IMPROVED SUBSTANTIALLY

After negotiations within Podravka between negotiation teams of the employer and trade unions, **some measures have been agreed in order to additionally improve the material status and rights of Podravka's employees.** Consequently, employees with the lowest salaries received an increase of about HRK 1000 in net amount, the lowest coefficient being thus increased from the current 1.20 to 1.67. The agreed measures also include the following: an increase of the fixed supplement for employees from the previous net HRK 400 to HRK 470 and a local transport supplement in the net amount of HRK 170 per month. Also, the employer will pay a savings of HRK 1000 into the 3rd pension pillar for each employee every year, proportionate to the number of months in which the employee was employed. Furthermore, the amount of the jubilee award has been increased, and also financial assistance in the case of death of an immediate family member, from net HRK 2500 to 3000. A 50% increase in the one-off bonus to the salary for Easter, from net HRK 400 to 600, was also agreed.

110 EMPLOYEES HIRED FULL-TIME

Podravka would not be such a successful company if it were not aware of the fact that **satisfied employees are the key to success** in achieving excellent operating results and producing outstanding products. For that reason, Podravka actively manages its highest potential, and they are its employees. Today the safety of having full-time employment has multiple positive effects on employees' engagement at the workplace and also on their personal time. Therefore, a resolution has been passed on hiring 110 young employees as full-time. The majority of new contracts was signed with employees in the Production department, but also in other parts of the Company, such as Logistics, Sales, Business programmes and Corporate functions.

PODRAVKA EMPLOYEES RECEIVED AN ADDITIONAL AMOUNT OF HRK 3000 WITH THEIR SALARY IN DECEMBER

The employees of Podravka in Croatia **received a Christmas bonus in the net amount of HRK 1500 and an additional annual bonus in the same amount for successful business results in 2018.** Therefore, employees received HRK 2000 in money in December with the salary for November, while the remaining HRK 1000 as an in-kind gift.

TRADITIONALLY, PODRAVKA ORGANIZES THE REUNION AND GATHERING FOR MORE THAN 3000 FORMER EMPLOYEES AND PENSIONERS

In 2018, Podravka also organized the annual reunion of its retired employees and employees with jubilee long-service. For this traditional reunion, held in front of the Soups and Vegeta Factory in Koprivnica, all the 3001 retired employees were invited, together with 219 of employees with 30, 35 and 40 years of service at Podravka. Well aware of the great importance of employees in company success, **Podravka is one of rare companies in Croatia still organizing such reunions and gatherings of former and jubilee employees.**

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OVER 800 OF PODRAVKA EMPLOYEES ATTENDED CORPORATE GAMES

Employees make the essence and identity of a company and good corporate culture is an essential part of its business success. Podravka therefore, decided to reward its employees and with them to celebrate the outstanding business results achieved in the first quarter this year at educational - sports corporate games which were held from 17th to 20th May 2018 in Baško Polje. During three days of spending time together, with a rich musical programme, employees of Podravka from Croatia, the entire Adria region, the Czech Republic, Slovakia, Poland and Hungary showed their skills in numerous sport events, while others displayed their talents in singing, dancing and acting.

With these corporate games **Podravka joined the best world examples of companies who investment into their employees and practices of advancing their satisfaction,** which provides multiple benefits reflected mostly in building a positive corporate image.

5 Social responsibility

Since its very beginnings, Podravka has been striving **to contribute to the development of the general community in its many activities and passionately investing in science and education, sustainable development, culture, art, sports thus promoting corporate social responsibility.** Guided by the Company's cultural values; creativity, trust, passion, innovation and excellence, it proudly supports the projects that underline these true values.

The foundation for the Company's success and development are responsible, creative and satisfied employees, always ready to make their own contribution to the Company's well-being and devote more effort and time in achieving over-average results. Podravka's approach to business and employees provides a **dynamic working environment and the opportunity for both professional and personal growth and development.** It actively supports and conducts informative and counselling programmes about **preserving the health of its employees,** members of their families and the local community in general. Apart from caring about its current employees, Podravka gives recognition to its retired employees as well, who gather at the traditional annual meeting of pensioners and employees with jubilee long service.

In more than 70 years of successful business, **Podravka has built a strong trust of its consumers,** above all with the outstanding quality of products and by following consumer trends and needs. Its core focus is the **production of high quality, safe and health-friendly products** based on good manufacturing practice and on the principles of quality management, food safety and environmental care.

During 2018, Podravka initiated and **participated in numerous socially responsible and charity projects.** Podravka's Lino All-rounder has for 13 consecutive seasons encouraged sport, healthy lifestyle and fellowship among primary school children throughout Croatia. Podravka has also demonstrated its care for the youngest by supporting the children's race as part of the Poreč half-marathon.

Podravka is particularly **devoted to humanitarian activities** in which Podravka's Association of volunteers - PULS is a prominent leader that has initiated or partnered with many worthwhile causes. Podravka is also the proud partner of *"The Pride of Croatia"* manifestation, which primarily highlights ordinary people with big hearts and promotes true values. In its charity work, Podravka has been a long-term partner with the Croatian Red Cross and Caritas in providing day-to-day assistance to the needy in the community through various programmes and activities. Within its social responsibility programme, numerous social, cultural and sport events, such as the Memorial Handball Tournament *"Josip Bepo Samaržija"*, the Renaissance Festival in Koprivnica, Autumn in Vinkovci, the Rijeka street race *"Homo si teć"* and many others have been generously supported.

In its future business, Podravka will continue **to invest in relationships with its employees and strengthen consumer trust by recognizing their desires and needs** as well as **feeling the needs of the community in which it operates.**

6 Activities in the field of environmental protection

Podravka Inc. continuously develops and improves processes, products and services, aiming to reduce the negative impact on the environment. In 2018, improvements were achieved in the reduction of produced waste and an increased level of ecological awareness and responsibility of employees.

WASTE MANAGEMENT

Waste management system advancements were continued, with **more efficient waste sorting by placing waste separating containers 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** compared to the year 2017. In 2018, Podravka Inc. produced 23.26 tonnes of hazardous waste, 3,540.78 tonnes of non-hazardous waste of which 382.83 tonnes of municipal waste.

All produced hazardous and non-hazardous waste was submitted with the accompanying documentation to authorised waste collectors who hold effective waste management permits, in compliance with the provisions of the Act on Sustainable Waste Management.

Data on the total quantities and types of waste and manner of disposal for all locations of Podravka Inc. are submitted to the Environmental Pollution Register (ROO) database maintained by the Croatian Agency for the Environment and Nature.

AIR PROTECTION

Podravka Inc. **uses natural gas as the primary fuel in all technological processes,** and air emissions from stationary sources are regularly measured by certified intuitions in line with legal regulations. The emission border values are within the limits allowed, and the Annual Report on emissions is submitted to the Croatian Agency for the Environment and Nature.

Data on pollutants released into the air by type of fuel and discharge points for all locations of Podravka Inc. are submitted to the Environmental Pollution Register (ROO) database maintained by Croatian Agency for the Environment and Nature.

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.

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

WASTE WATER MANAGEMENT

Treatment and pre-treatment of wastewater of Podravka Inc., 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 waste water discharge for each location.

Data on the total quantities of waste water discharged and pollutant measuring results for all locations of Podravka Inc. are submitted to the Environmental Pollution Register (ROO) database maintained by the Croatian Agency for the Environment and Nature.

COMPLIANCE WITH REGULATIONS

For the purpose of timely informing of employees on their obligations arising from laws and regulations concerning environmental protection, Podravka **systematically monitors all amendments to the relevant laws and regulations.** All obligations arising from the effective laws and regulations concerning environmental protection are implemented in the existing internal environmental management systems.

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.**

During the monitoring of legal regulations and continuous care of environmental protection, in 2018 no irregularities related to non-compliance with laws and regulations concerning environmental protection were recorded, and accordingly, no significant fines or penalties were imposed.

7 Significant promotional activities

PODRAVKA PARTICIPATED AT THE BUSINESS FORUM KALININGRAD DISTRICT - CROATIA, THE PERSPECTIVES OF COOPERATION

As part of the initiative organized by the Croatian Chamber of Commerce *"Sport connects business"*, the business forum Kaliningrad District - Croatia, the perspectives of cooperation was held in Kaliningrad, Russia and attended by representatives of Podravka. **For more than 50 years, Podravka has been successfully operating in the Russian Federation market** and positive business trends continue as a result of communication made during business meetings like this. The *"Sport connects business"* initiative is **aimed at improving economic relations and cooperation between Russia and Croatia** and consolidating business relations.

CONFERENCE "TAX REFORM - FROM AN ECONOMIC PERSPECTIVE" HELD AT PODRAVKA

"Večernji list" and Podravka organized a conference *"The Croatia we need - Tax reform - from an economic perspective"* in Koprivnica, where representatives of national authorities, businessmen, economic and financial experts spoke about **tax reform measures and solutions that could contribute to economic growth and development, employment and improvement of the standard of Croatian citizens.**

Speaking about the synergies of the food industry and primary production, Marin Pucar, President of the Management Board, emphasized that Podravka had chosen to support export and in cooperation with the Ministry of Agriculture started projects related to **increasing the share of domestic raw material in its products** that are dominantly exported to foreign markets. He noted that the balance sheets of some raw materials show that Podravka cannot meet its needs on the domestic market and it is, therefore, necessary to nurture a cult of labour to encourage people to engage in agriculture and prosper in rural areas. He also concluded that economic growth needs investments and announced that Podravka will also increase its investment fund to modernize and be competitive on the foreign market.

SANDRA PERKOVIĆ BECAME THE AMBASSADOR OF PODRAVKA VEGETA NATUR

Connecting Croatian companies and athletes is important for **strengthening the image of Croatian products in the world.** Therefore, the best Croatian sportswoman of all times, Sandra Perković, and Marin Pucar, President of the Management Board of Podravka, signed a cooperation agreement **naming Sandra Perković the ambassador of Podravka products under the brand Vegeta Natur.**

Throughout the years, Vegeta has upgraded to new categories including Vegeta Natur in line with trends in the culinary market. Vegeta Natur products are enhanced with **new recipes and a combination of carefully selected vegetables and spices** with the message *"Mother Nature's recipe"*. Sea salt brings out the recognizable taste of quality and naturalness, turmeric the golden colour, and the specific aroma and scent of a home garden comes from lovage.

ZLATKO DALIĆ BECAME THE BRAND AMBASSADOR OF PODRAVKA

Mr Marin Pucar, President of the Management Board of Podravka Inc. and the Croatian national football team's coach, Zlatko Dalić, signed a cooperation agreement, by which **Zlatko Dalić became the brand ambassador of Podravka.** This cooperation aims to stimulate **building awareness of the importance of maintaining true values and loyalty to Croatian products from a very early age,** as Podravka's range includes products for all age groups of consumers.

VEGETA AT MICHAEL JORDAN'S NEW YORK RESTAURANT

Vegeta, the most famous Podravka brand, has **once again proved that it can be found in every corner of the world,** including New York, where the famous restaurant, owned by NBA legend Michael Jordan, *"The Michael Jordan's Steak House N.Y.C"* also uses Podravka's famous food seasoning. Vegeta spices up numerous dishes served at this prominent restaurant located at the Grand Central Terminal in the centre of Manhattan, daily visited by over 700,000 of New Yorkers and tourists.

FINALS OF THE 12th LINO ALL-ROUNDER IN NEDELIŠĆE

In 2018, the educational sports project of Podravka and "Sportske novosti" continued with the aim of encouraging school sports, developing healthy habits and promoting cultural creativity. The 12th Lino All-rounder season **gathered 12,000 primary school students from 19 primary schools from all Croatian counties.** The top 24 competed in the finals held in Nedelišće, where along with the best athletes the best student writers were also awarded, all supported by famous athletes: Branko Ivanković, Tom Alen Tomić, Josip Šutalo, Roko Baturina, Snježana Petika, Korina Karlovčan, Kristina Tomić and Deni Andru Razić.

NEW PRODUCTION LINE FOR TOMATO PROCESSING

At the 21st Tomato Day celebrations held at the Tomato Processing Factory in Umag, Podravka introduced the new Tetra Pak A3 Flex production line worth more than HRK 7 million which, thanks to modern technology, **enables faster tomato processing and higher processing capacity, improves production planning and contributes to safety and savings in energy costs.**

SIXTY YEARS OF UNFORGETTABLE FLAVOURS

Podravka's products - Chicken and Beef soup, Beef goulash and Chicken pâté, launched in far 1958, have retained their stable recipe, but also a recognizable design with symbols of a rooster and a cow. During 2018, **Podravka's legends celebrated their 60th anniversary** in co-operation with the famous fashion couple, ELFS, who made three new designs with Podravka's recognizable and long-lasting symbols.

VEGETA NATUR & MAMMA MIA: HERE WE GO AGAIN! ON TOUR OF THE ADRIA REGION

As part of the closing ceremony of the Pula Film Festival, the ceremonial premiere of the film Mamma Mia: Here We Go Again! took place and was among many spectators and distinguished guests attended by the director Ol Parker, actors Jeremy Irvine, Hugh Skinner, Josh Dylan, and producer Judy Craymer. Vegeta Natur was the leading partner of the film tour in the Adria region.

HALF A MILLION FACEBOOK FANS OF COOLINARIKA HAVE CONFIRMED THAT THE LARGEST CULINARY SOCIAL NETWORK IN THE REGION IS REALLY COOL.

Podravka's Facebook page, Coolinarika, **has exceeded the magical number of 500,000 fans,** further confirming its popularity and recognizability both in Croatia and the entire region. According to Socialbakers, Coolinarika's Facebook page is convincingly **the largest Croatian Facebook page in the segment of food** and with this new achievement has become the third brand on Facebook in Croatia.

PODRAVKA'S COOLINARIKA WEBSITE CELEBRATED 15 YEARS OF SHARING CULINARY PASSION

The favourite destination for admirers of fine food and good company is **the largest culinary online community in the region**, whose popularity continues to strengthen and grow. Launched in November 2003, Coolinarika started as the first Croatian culinary magazine type web site, later to become the largest regional culinary site on food and cooking topics. Today, **it has 123 million visits per year by 25 million users.** Over 183,000 recipes can be found on Coolinarika's site, viewed 310 million times over a year.

123 mil
visits per year

25 mil
users

183 000
recipes

viewed
310 mil
times over a year

8 Digital Innovation

In today's communication the biggest expansion is recorded by the one happening online. Changes in this field are ongoing, so **the focus of digital innovations in 2018 was the technological upgrading and optimization of Podravka's existing online platforms as well as redefining the standards of online communication.**

A great deal of attention was given to the continuation of the project **Podravka.io**. This project represents the modernization of Podravka's digital ecosystem from the aspect of its technological sustainability for the next 7 to 10 years, providing Podravka with greater technological agility and flexibility.

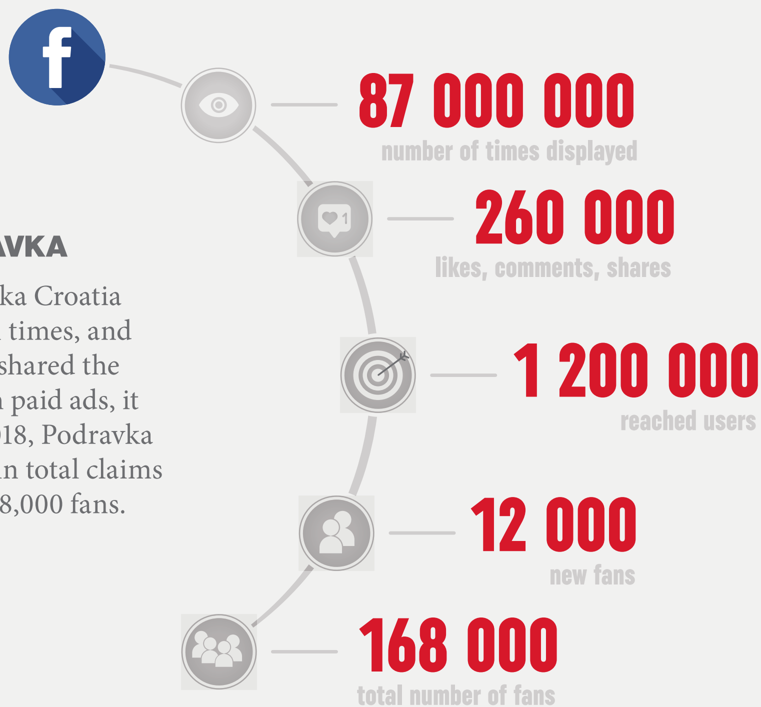
The development of new web pages and mobile applications will be enabled in line with the expansion of a large number of different devices (desktop, mobile, IoT ...), because this project bears in mind the diversity of user experience that each device brings.

With the aim of attracting the younger target audience, **new social network channels were opened** - Podravka Hrvatska, Podravka Češka and Dolcela Hrvatska on Instagram and Dolcela Hrvatska on Facebook.

The existing social networking platforms **record continuous metric growth.**

FACEBOOK PODRAVKA

In 2018, Facebook's Podravka Croatia site was displayed 87 million times, and users liked, commented or shared the contents 260,000 times. With paid ads, it reached 1,200,000 users. In 2018, Podravka attracted 12,000 new fans and in total claims more than an impressive 168,000 fans.



FACEBOOK LINO

Lino exceeded the set KPIs on its Facebook profiles in 2018, so the most important FB Lino profile metric, the *engagement rate*, averaged 4.65%. In 2018, the FB Lino Baby profile reached 431,654 people and achieved an average *engagement rate* of 4.91%.

4,65%
Lino - engagement rate

4,91%
Lino Baby - engagement rate

5,82%
engagement rate

89 010
average paid reach

12 000
new followers

FACEBOOK KVIKI

Facebook Kviki collected more than 12,000 new followers in a year, with an *engagement rate* of 5.82% (95% above the set target), with an average paid reach of 89.010 (37% above the target).

INSTAGRAM KVIKI

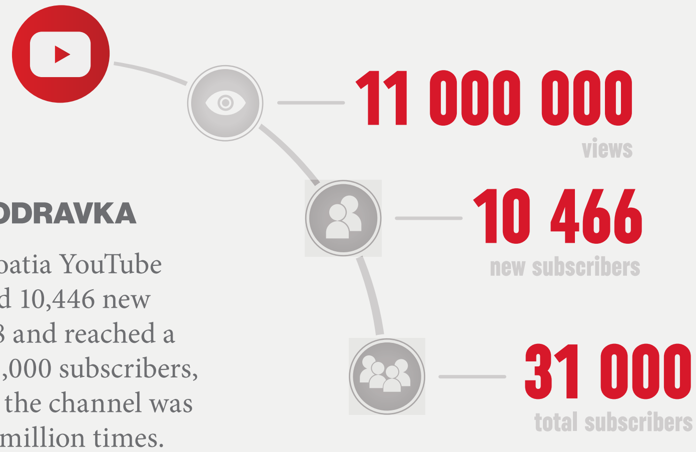
On average, Instagram Kviki has 1,700 interactions (88% above the set target), and the average annual reach is 116,857 (80% above the set target).

116 857
average annual reach

1 700
interactions

YOUTUBE PODRAVKA

The Podravka Croatia YouTube channel collected 10,446 new subscribers in 2018 and reached a total of more than 31,000 subscribers, while the content of the channel was viewed almost 11 million times.



This year, Podravka **intensified cooperation with influencers and bloggers** to promote the majority of its brands by recognizing their potential and importance on social networking channels. Lino started a very successful cooperation with YouTube stars, while Kviki entered the *gaming* territory by taking part at the Infogamer Fair with the great Fortnite arena.

The Vegeta brand expanded with a new range of Vegeta Maestro monospices and Vegeta Natur, which was accompanied by the **launch of their web platform *www.prstohvat-inspiracije.hr* and *www.vegeta-natur.hr.*** Podravka Tea sausage revealed its most hidden secrets in the "*Tea Kitchenette*" on the new platform ***www.cajna.hr.*** The Podravka catering website and the redesigned website of Lagris - Czech Republic were also launched.

In order to facilitate the understanding of social networks and their importance to the Company, the educational material **Social Media Playbook** was developed, **addressing in a very exact way each individual social network platform, explaining the rules of corporate communication, the benefits they provide and the goals for which they can be used.**

COOLINARIKA

In 2018, Coolinarika marked its 15 years of existence during which it “touched” the plates, customs, habits, but above all - the hearts of millions of people. **It recorded 123 million visits made by 25 million users,** and on its site one can choose just the right recipe from an impressive offer of more than 183,000 recipes. Over the past year, its contents were viewed 310 million times. It has more than 185,500 active registered users as well as over 1,396 million photos. The site is **one of the most visited websites in Croatia** (8th place) according to Gemius Audience.

87 000 000
views

500 000
likes, comments, shares

FACEBOOK COOLINARIKA

Its Facebook site gathered more than 105,000 new followers in 2018 and their total number has climbed to over 552,000. It has reached 2,400,000 users and the contents of the Facebook page were viewed 87 million times. The users have liked, commented or shared the contents 500,000 times.

2 400 000
reached users

105 000
new followers

552 000
total number of followers

37 000 000
views

380 000
likes, comments, shares

INSTAGRAM COOLINARIKA

In 2018, Instagram collected more than 75,000 new fans reaching a total of 141,000 followers and a reach of 2,500,000 users, displaying contents 37 million times that users liked, commented or shared 380,000 times.

2 500 000
reached users

75 000
new followers

141 000
total number of followers

8 000 000
views

Coolinarika's video recipes in 2018 were viewed over 8 million times on Facebook, Instagram, YouTube and Coolinarika websites.

Coolinarka is one of the most powerful, not just web sites, but also social networks in the region. Socialbakers website statistics show that Coolinarika is **the largest Croatian Facebook page in the food segment and the third strongest brand on Facebook Croatia.** At least every third user of Facebook and Instagram in the region follows Coolinarika's contents on social networks.

All these impressive figures give even more incentive for **further sharing of culinary secrets with equal enthusiasm and bringing pleasure to people around the world.**

GDPR (GENERAL DATA PROTECTION REGULATION)

All Podravka's websites have in compliance with the European Data Protection Regulation, which obliges all EU members to a completely new level of personal data protection for each individual, implemented all the guidelines that apply to the aforementioned Regulation, to which all business entities that have access to personal information on individuals are bound.

9 Awards and recognitions

THE GREATEST NUMBER OF PODRAVKA PRODUCTS SO FAR AWARDED WITH THE HIGHEST SUPERIOR TASTE AWARDS

At the international quality assessment, Podravka was awarded with Superior Taste Awards, the most distinguished reward in the food segment in the world. Thus, again **confirmed the excellence of taste** of products in the categories in which they competed.

Podravka Lemon and lime tea and Podravka Urosal Uvin tea along with the 3 STA stars, also won crystal awards which are awarded to products that have in the past 3 years in a row been awarded with the highest STA reward. Vegeta Maestro smoked paprika, Podravka cream of broccoli and cauliflower and Lino Lada Gold won 3 STA stars.

Apart from that, the Superior Taste Award was this year received by Vegeta Natur, Eva fillets in olive oil, Mirela sardines in vegetable oil, Salut, Eva sardines in vegetable oil, Podravka Alpine soup, Dolcela brownies and Corned beef.

Superior Taste Awards are being awarded to those products which successfully pass blind tests conducted by the jury composed of top *world chefs and sommeliers*, where among others, **particular attention is given to the evaluation of taste, aroma, texture and product appearance.**

RECOGNITION FOR PODRAVKA FROM THE BELGRADE STOCK EXCHANGE FOR RELATIONS WITH INVESTORS

At the International Conference of the Belgrade Stock Exchange held in Belgrade, Podravka was awarded the Plaque for **long term outstanding performance in investor relations,** following the criteria of openness towards the investment public.

The Belgrade Exchange Stock Conference was attended by the representatives of the 15 biggest shareholding companies, whose shares are traded not only at the Belgrade Stock Exchange but also at those in Ljubljana, Zagreb, Skopje and Sofia.

In the past years, Podravka has been a regular participant at the Investors Conference of the Belgrade Stock Exchange, being an excellent platform for contacts with the international community of investors and for the improvement and promotion of cooperation with companies within the region.

PODRAVKA WAS AWARDED REGIONAL BUSINESS PARTNER FOR 2018

Podravka, as leader of South-East Europe in the food processing industry, **received the award for the best company in Croatia** *"Regional Business Partner 2018."*

The annual Business Partner Award was established 24 years ago, in order to draw public attention and to promote companies and institutions with **high professional standards and targets, firm ethic norms and that achieve good business results.**

The Business Partner Award is confirmation of business success and a recognizable regional symbol of awarded companies. Assessment is based on 10 criteria evaluated by business partners, consumers and clients, as well as on the results of independent market researches.

MR. MARIN PUCAR WAS PROCLAIMED BUSINESSMAN OF THE YEAR

Marin Pucar, President of the Management Board of Podravka was **proclaimed Businessman of the Year according to the choice of the readers of Večernji list (Evening News) and Poslovni dnevnik (Business Daily News).** This very prestigious award is the crown of Podravka's extremely successful business year, confirming its top quality in all segments of business activities.

Since February 2017, when Mr. Pucar took over the leadership of Podravka, **the Company has been registering only positive trends at all levels of business activities.** Along with his head position at Podravka, in the past period Mr. Marin Pucar has had another very important role as the leader of the Association of Agrokor's Suppliers. Successful managing and leading of this extremely complex process has resulted in the stabilization of Agrokor's business activities and a significant part of the Croatian economy as well as maintaining the stability of Agrokor's suppliers.

PODRAVKA WAS RECOGNIZED AGAIN AS LEADER IN THE FOOD PROCESSING INDUSTRY

As the leading Croatian digital female brand, miss7 has initiated the first comprehensive research on women of the millennial generation, in order to get the answer who is in fact the millennial woman. Based on the performed research conducted by an independent agency Ipsos Adria, the Millennial Brand Awards powered by miss7 were given. A total of 12 brands, chosen by lady readers as the most popular during a huge research on the Croatian millennial woman, were awarded.

In the category of the most popular food brand the award went to Podravka. This award is recognition to Podravka for **keeping pace with the latest trends as the leader in the food processing industry, not just with elder generations, but with the new ones as well.**

LINO LADA GOLD AND ČOKOLINO BABY RECEIVED AWARDS FROM THE LIFESTYLE PORTAL ŽENA.HR

For the seventh time in a row the Lifestyle portal žena.hr has organized the Product of the Year contest according to the votes of both female and male readers. New and redesigned products divided into 28 categories competed for these prestigious awards.

Lino Lada Gold won the award in the category of Sweets and snacks, while in the category of Baby food, the highest number of votes went to Čokolino baby.

CROPAK AWARD FOR DOLCELA CAKE2GO

The CROPAK awards have been presented for the past 15 years in a row. Among the nominated products, according to the expert judging panel, Podravka **received the CROPAK award for the packaging of Dolcela Cake2Go series** of products in the category of the Croatian product/series packaging.

The CROPAK competition is organized with the aim ***to* promote and highlight the advantages and benefits of packaging** as an important tool helping to protect, promote and identify a product, and at the same time motivating the packaging manufacturer and user to expand technical, technological and quality boundaries in packaging design as an inseparable part of the product.

PODRAVKA RECEIVED RECOGNITION FOR EXTRAORDINARY ACHIEVEMENTS FROM THE KOPRIVNICA – KRIŽEVCI COUNTY

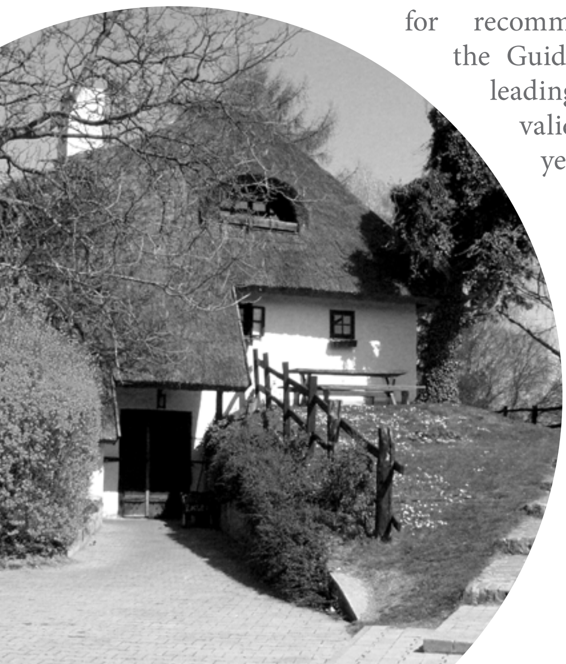
Podravka has received another valid recognition for extraordinary achievements given by the Koprivnica – Križevci County. At the formal session of the County Assembly on the occasion of the Day of the County, being also the 25th anniversary of the County, Mr. Marin Pucar, the President of the Management Board received the award **confirming the importance of Podravka but also the recognition of its efforts invested in creating a positive image not only for itself, but also for the whole area Podravka comes from.**

This recognition substantiates Podravka's importance for the Koprivnica – Križevci County in the past year and strengthens motivation for further efforts contributing to enhance company standards and consequently to those of the County.

THE RESTAURANT "PODRAVSKA KLET" HAS AGAIN BEEN LISTED AMONG 100 LEADING CROATIAN RESTAURANTS

Based on research on the opinion of restaurant guests and owners in more than 1500 restaurants in Croatia, the restaurant "Podravska klet" once again **won the trust of both consumers and catering professionals, finding its place on the list of 100 leading restaurants in Croatia.**

The project "100 leading Croatian restaurants - Restaurant Croatica" has been active for 23 years and the process of selecting the best is carried out in three steps. The first part is through the Gastronaut site, where restaurant guests vote. In the second part managers and owners of restaurants vote for five restaurants which should be among 100 leading restaurants in their opinion. At the end, the final and decisive word and decision is given by the Project's Board of Honour according to the criteria set in the conditions for recommendation in the Guidebook of 100 leading restaurants, valid for the whole year.



JUBILEE MEDAL TO PODRAVKA FOR GREAT AND UNSELFISH CONTRIBUTION

The Croatian Red Cross Organization celebrated its 140th anniversary with a big humanitarian concert and as part of the 140th birthday celebrations handed over 159 jubilee plaques and 1593 letters of gratitude to those who have been supporting for years the humanitarian work of the Croatian Red Cross Organization. The jubilee Red Cross plaque was also presented to Podravka for its **extraordinary contribution and unselfish help and assistance in implementing the principles of the Croatian Red Cross.**

FINANCIAL STATEMENTS

1 Business results

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

KEY CHARACTERISTICS OF PODRAVKA D.D. BUSINESS RESULTS IN 2018.

PROFITABILITY OF PODRAVKA INC.					NORMALIZED			
(in HRK millions)	2018	2017	Δ	%	2018	2017	Δ	%
Sales revenue	1,937.1	1,904.3	32.8	1.7%	1,937.1	1,904.3	32.8	1.7%
Gross profit	604.1	570.9	33.2	5.8%	604.1	573.5	30.6	5.3%
EBITDA*	222.0	189.6	32.4	17.1%	232.1	218.7	13.4	6.1%
EBIT	111.0	(78.7)	189.7	(241.1%)	144.2	126.4	17.8	14.1%
Net profit	113.1	86.4	26.7	30.9%	137.8	278.1	(140.3)	(50.5%)
Gross margin	31.2%	30.0%		-121 BP	31.2%	30.1%		-107 BP
EBITDA margin	11.5%	10.0%		-150 BP	12.0%	11.5%		-50 BP
EBIT margin	5.7%	(4.1%)		-986 BP	7.4%	6.6%		-81 BP
Net margin	5.8%	4.5%		-130 BP	7.1%	14.6%		+749 BP

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

In 2018, Podravka Inc. recorded sales of HRK 1,937.1 million, which is 1.7% higher than in same period of the previous year. At the same time, gross profit amounted to HRK 604.1 million, with the gross margin of 31.2%. Higher gross profit and gross margin are the result of higher sales revenues and changed sales structure. The reported operating profit (EBIT) in 2018 amounted to HRK 111.0 million due to higher sales revenues, positive impact from lower operating expenses and lower items treated by the management as one-off, while normalized operating profit amounted to HRK 144.2 million. The reported net profit in the observed period amounted to HRK 113.1 million, under the impact, in addition to the items mentioned above, of finance income partially lowered by higher tax expanses. Normalized net profit in 2018 amounted to HRK 137.8 million.

As at 31 December 2018, total assets of Podravka Inc. amount to HRK 2,994.0 million, 3.0% lower compared to the end of 2017. The most significant change on the assets side was in the line item cash and cash equivalents, while on the equity and liabilities side, the most significant decrease was recorded in the line item non-current borrowings.

Cash flow from operating activities in 2018 amounted to positive HRK 160.4 million, as a consequence of operations and movements in the working capital. Cash flow from investing activities at the same time amounted to negative HRK 46.9 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 177.4 million due to the repayment of a portion of borrowings. In total, in 2018 cash and cash equivalents decreased by HRK 63.8 million, and consequently the amount of cash and cash equivalents as at 31 December 2018 was HRK 68.2 million.

	2018	2017
(in HRK million)	Podravka Inc.	Podravka Inc.
Reported gross profit	**604.1**	**570.9**
+ depreciation and amortization included in COGS	-	2.6
Normalized gross profit	**604.1**	**573.5**
Reported EBITDA	**222.0**	**189.6**
+ expense related to China closing	-	1.3
+ severance payments[3]	4.7	27.0
+ initial impact of IFRS 9	0.2	-
+ other one-off items	5.2	0.8
Normalised EBITDA	**232.1**	**218.7**
Reported EBIT	**111.0**	**(78.7)**
+ expense related to China closing	-	1.3
+ severance payments	4.7	27.0
+ initial impact of IFRS 9	0.2	-
+ value adjustments related to Agrokor	(7.9)	44.1
+ other impairments	21.6	129.0
+ depreciation and amortization	9.4	2.9
+ other one-off items	5.2	0.8
Normalized EBIT	**144.2**	**126.4**

3 In 2018, the total cost of termination benefits is HRK 5.5 million, but for normalization purposes, only the amount related to termination benefits for seriously ill employees on long-term sick leave was taken into account.

	2018	2017
(in HRK million)	Podravka Inc.	Podravka Inc.
Reported net profit	**113.1**	**86.4**
+ expense related to China closing	-	1.3
+ severance payments	4.7	27.0
+ initial impact of IFRS 9	0.2	-
+ value adjustments related to Agrokor	(7.9)	44.1
+ other impairments	21.6	129.0
+ depreciation and amortization	9.4	2.9
+ other one-off items	5.2	0.8
+ ESOP programme expenses	1.6	3.0
+ estimated impact on taxes	(10.2)	(16.5)
Normalised net profit	**137.8**	**278.1**

2 Code of corporate governance Annual questionnaire

MAIN COMPANY INFORMATION:	**Podravka Inc., Ante Starčevića 32, Koprivnica, PIN: 18928523252**
CONTACT PERSON AND CONTACT PHONE:	**Branka Perković, +38548651441**
DATE OF QUESTIONAIRE COMPLETE:	**11.01.2019**

All the questions contained in this questionnaire relate to the period of one bussines 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 beggining 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

Question No.	Questions	Answer YES/NO	Explanation
1	Has the company accepted implementation of the code of corporate governance of the Zagreb Stock Exchange?	YES	
2	Does the company have its own code of corporate governance?	YES	
3	Have any principles of the code of corporate governance been adopted as part of the company's internal policies?	YES	
4	Does the company disclose harmonization with the principles of corporate governance in its annual financial statements?	YES	

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

Question No.	Questions	Answer YES/NO	Explanation
5	Is the company in a cross-shareholding relationship with another company or other companies? (If so, explain)	NO	
6	Does each share of the company have one voting right? (If not, explain)	YES	
7	Are there cases of different treatment of any shareholders?? (If so, explain)	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	
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)	NO	Shareholders, who are not able to vote at the assembly in person, by themselves, acting at their own discretion, determine proxies who are obliged to vote in accordance with instructions received from the shareholders.
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	
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	
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	
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)	NO	According to article 223 of the Company Law dividend payment claim will be due not later than 60 days from the date of decision making.
14	Were any shareholders favoured while receiving their dividends or advance dividends? (If so, explain)	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)	NO	There are no preconditions for such participation of shareholders at the General Assembly.

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	Registration of participants in advance as a condition of participating at the General Assembly is stipulated due to a large number of small shareholders, with the intention of maintaining order and regularity of the session being held.
17	Did the management of the company publish the decisions of the general assembly of the company?	YES	
18	Did the management of the company publish the data on legal actions, if any, challenging those decisions? (If not, explain)	NO	There were no such legal actions.

MANAGEMENT AND SUPERVISORY BOARD

Please provide the names of Management Board members and their functions	Marin Pucar (presidenf of the Management Board), Ljiljana Šapina (member of the Management Board), Davor Doko (member of the Management Board), Marko Đerek (member of the Management Board) 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), Luka Burilović (deputy president of the Supervisory Board), Damir Grbavac (member of the Supervisory Board), Ksenija Horvat (member of the Supervisory Board), Ivana Matovina (member of the Supervisory Board), Petar Miladin (member of the Supervisory Board), Marko Kolaković (member of the Supervisory Board until 07 September 2018), Dajana Milodanović (member of the Supervisory Board from 08 September 2018),Slavko Tešija (member of the Supervisory Board until 07 September 2018), Krunoslav Vitelj (member of the Supervisory Board from 08 September 2018) and Petar Vlaić (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

Question No.	Questions	Answer YES/NO	Explanation
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	
20	Did the Supervisory or Management Board pass its internal code of conduct?	YES	
21	Does the company have any independent members on its Supervisory or Management Board? (if not, please explain)	YES	
22	Is there a long-term succession plan in the company? (If not, explain)	YES	
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)	NO	The remuneration is fixed and in no part does it depend on efficiency of Company's business.

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	
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)	NO	The Supervisory Board members are entitled to a fixed monthly remuneration as stated in the General Assembly Resolution on remunerations for the Supervisory Board members of Podravka Inc. Remunerations and other incomes given by the Company for the Management Board and Supervisory Board members are published in the Company's Annual Report for 2018.
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)	NO	There were no such remunerations and other earnings.
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	
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)	NO	There were no such transactions.
29	Are there any contracts or agreements between members of the Supervisory or Management Board and the company?	NO	
30	Did they obtain prior approval of the Supervisory or Management Board? (If not, explain)	NO	There is no such contract or agreement.
31	Are important elements of all such contracts or agreements included in the annual report? (If not, explain)	NO	There is no such contract or agreement.
32	Did the Supervisory or Management Board establish the appointment committee?	NO	Entire Supervisory Board has performed the function of the appointment committee.
33	Did the Supervisory or Management Board establish the remuneration committee?	YES	
34	Did the Supervisory or Management Board establish the audit committee?	YES	
35	Was the majority of the audit committee members selected from the group of independent members of the Supervisory Board? (If not, explain)	YES	
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	

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	
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	
39	If there is no internal audit system in the company, did the audit committee consider the need to establish it? (If not, explain)	NO	Internal audit function exists.
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	
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	
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	
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	
44	Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)	YES	
45	Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)	YES	
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?	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)	NO	There is no obligation of submitting requested information.
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)	NO	There is no obligation of submitting requested information. Remunerations and other incomes given by the Company for the Management Board and Supervisory Board members are published in the Company's Annual Report for 2018.

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)	NO	There were no such transactions.
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 anagement of the company, and a special comment on its cooperation with the management? (If not, explain)	YES	

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

Question No.	Questions	Answer YES/NO	Explanation
51	Does the company have an external auditor?	YES	
52	Is the external auditor of the company related with the company in terms of ownership or interests?	NO	
53	Is the external auditor of the company providing to the company, him/herself or through related persons, other services?	YES	The external auditor is providing services related to study on trasferred prices for some subsidiares of the Group.
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)	NO	There is no obligation of submitting requested information.
55	Does the company have internal auditors?	YES	
56	Does the company have an internal audit system in place? (If not, explain)	YES	

TRANSPARANCY AND THE PUBLIC OF ORGANIZATION OF BUSINESS

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

Question No.	Questions	Answer YES/NO	Explanation
57	Are the semi-annual, annual and quarterly reports available to the shareholders?	YES	
58	Did the company prepare the calendar of important events?	YES	
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	
60	Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?	YES	
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)	NO	
62	Did the management of the company hold meetings with interested investors, in the last year?	YES	

3 Company securities

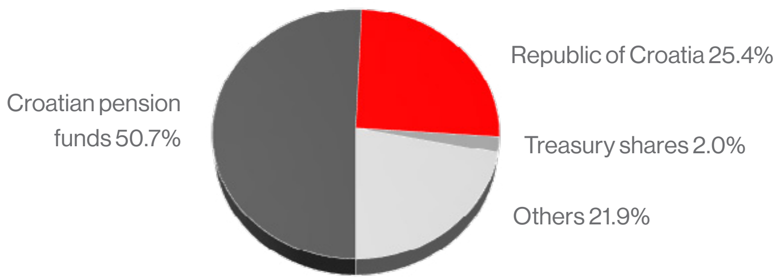
LIST OF MAJOR SHAREHOLDERS AS AT 31 DECEMBER 2018

No.	Shareholder	Number of shares	% of ownership
1	REPUBLIC OF CROATIA	1,808,390	25.4%
2	PBZ CROATIA OSIGURANJE MANDATORY PENSION FUND, CATEGORY B	1,052,100	14.8%
3	AZ MANDATORY PENSION FUND, CATEGORY B	902,874	12.7%
4	ERSTE PLAVI MANDATORY PENSION FUND, CATEGORY B	674,669	9.5%
5	RAIFFEISEN MANDATORY PENSION FUND, CATEGORY B	625,298	8.8%
6	PODRAVKA INC. - TREASURY ACCOUNT	145,775	2.0%
	OTHER SHAREHOLDERS	1,910,897	26.8%
	Total	**7,120,003**	**100.0%**

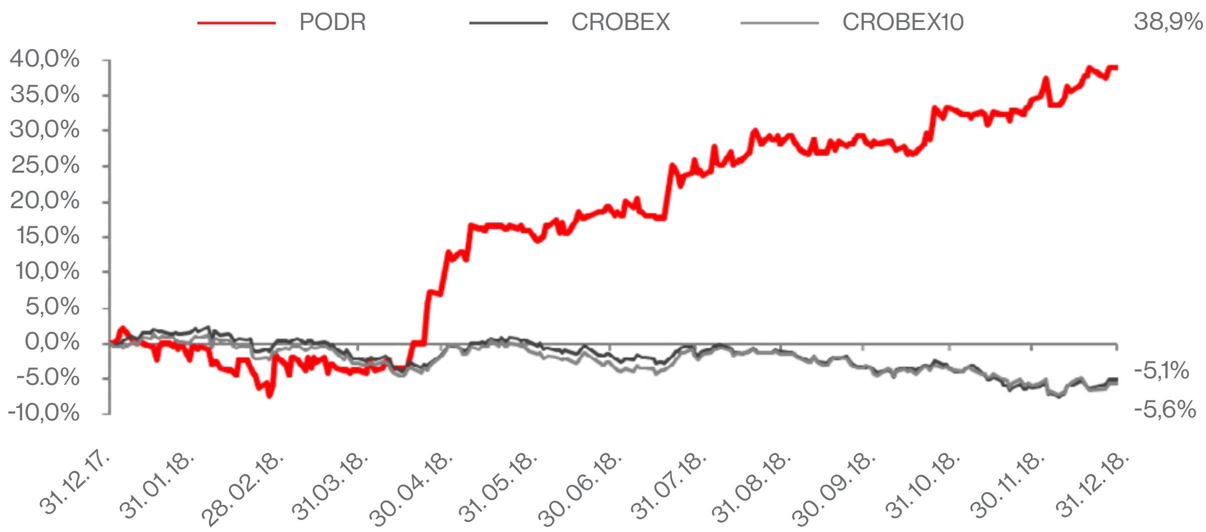
Podravka Inc. has a stable ownership structure where the most significant share is held by domestic pension funds and the Republic of Croatia. As at 31 December 2018, domestic pension funds (mandatory and voluntary) hold a total of 50.7% shares, the Republic of Croatia holds 25.4% shares and Podravka Inc. has 2.0% of treasury shares. As at 31 December 2018, Supervisory Board members owned 19 shares of Podravka Inc., while Management Board members owned 970 shares of Podravka Inc.

Podravka Inc.'s shares have been listed on the Prime Market of the Zagreb Stock Exchange since 27 December 2018, under the PODR ticker symbol, while in the period from 7 December 1998 to 26 December 2018 they were listed on the Official Market of the Zagreb Stock Exchange.

OWNERSHIP STRUCTURE AS AT 31 DECEMBER 2018



SHARE PRICE MOVEMENT IN 1-12 2018



(closing price in HRK; closing points)	31 December 2017	31 December 2018	%
PODR	270.0	375.0	38.9%
CROBEX	1,842.9	1,748.8	(5.1%)
CROBEX10	1,076.9	1,017.1	(5.6%)

In 2018., the price Podravka's share grew by 38.9%, while domestic stock indices Crobex and Crobex10 dropped by 5.1% and 5.6%, respectively.

(in HRK; in units)[4]	2017	2018	%
Weighted average daily price	352.2	316.5	(10.1%)
Average daily number of transactions	16	12	(26.0%)
Average daily volume	1,128	1,450	28.5%
Average daily turnover	397,344.8	458,850.9	15.5%

In 2018, the average weighted daily price of the Podravka's share was 10.1% lower than in the comparative period. At the same time, the average daily number of transactions decreased, while the average daily volume and daily turnover increased.

4 Average daily price calculated as the weighted average of average daily prices in the period, where the weight is daily volume. Other indicators calculated as the average of average daily transactions/volume/turnover.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2018

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board is required to prepare the unconsolidated 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 unconsolidated 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 unconsolidated 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 annual financial statements for the Company and the Group, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The annual financial statements for the Group (the Company and its subsidiaries) are published separately and issued simultaneously with the unconsolidated financial statements.

The unconsolidated financial statements were authorised by the Management Board on 29 April 2019 for issue to the Supervisory Board and are signed below to signify this:

Marin Pucar
President of the Management Board

Davor Doko
Member of the Management Board

Hrvoje Kolarić
Member of the Management Board

Ljiljana Šapina
Member of the Management Board

Marko Đerek
Member of the Management Board

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 173

Koprivnica, 29 April 2019

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 2018, and its separate statements of comprehensive income, cash flows and changes in equity 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 2018 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 separate 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.

KPMG

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.

CUSTOMER REBATES

Revenue for the year ended 31 December 2018 amount to HRK 1,937,102 thousand (2017: HRK 1,904,332 thousand), presented net of customer rebates which include volume discounts and other costs agreed in contracts with customers. 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
Revenue is measured taking account of discounts, incentives and rebates earned by customers. Reported revenue for the year ended 31 December 2018 is net of these discounts, incentives and rebates the effects of which are significant on the statement of comprehensive income for the reporting period. The Company needs to consider whether it receives a distinct good or service in return for payments to customers. If so, then it is required to recognize such payments as expenses when the good or service is consumed. If not, they are recognized as a reduction of revenue. The above adds to the complexity of judgments required from management in establishing an appropriate accounting for said payments. In addition, although the measurement period for discounts, incentives and rebates generally coincides with the reporting date, not all accruals for discounts, incentives and rebates are confirmed by customers at the reporting date and the Company is therefore required to estimate the amount of discounts, incentives and rebates to be recognized. Due to the variety of contractual terms across the Company's markets, it 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. This 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 of the above, this area required our increased attention, and as such was considered by us to be a key audit matter.	Our audit procedures in this area included, among others: • evaluating and testing of controls over the process of estimating and accounting for discounts, incentives and rebates; • considering whether the payments to customers represent expenditure for distinct goods or services or sales incentives. This included, among other things: o inquiries of management and key sales personnel to gain an understanding of the key typical contract terms agreed with customers and the different types of payments defined therein; o assessing, on a sample of contracts, the substance and nature of payments to customers focusing on: - whether the payments are agreed in exchange for distinct goods or services; - whether the fair value of goods or services can be reliably measured; - how the value of the payments correlates to the fair value of goods or services received; • for a sample of receivables, obtaining customer confirmations of amounts outstanding 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 based on the comparison, on an aggregate basis, of the accrued amounts of discounts, rebates and incentives as of the end of the previous reporting period with subsequent settlements in the current year; • on 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; • obtaining a sample of outgoing invoices to compare the existence and accuracy of total net amount on the invoice (including on-invoice rebates) with goods delivery notes and general ledger entries; • 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 2018, intangible assets included brands with indefinite useful lives stated at HRK 44,504 thousand (2017: HRK 50,361 thousand). During 2018 the Company did not recognize any impairment losses with respect to brands (2017: impairment loss of HRK 18,331 thousand).

Refer to note 6 (v), note 10 and note 16.

Key audit matter	How our audit addressed the matter
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). 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 absence 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. 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 of the above, this area required our increased attention, and as such was considered by us to be a key audit matter.	Our audit procedures in this area included, among others: • evaluating the appropriateness of allocation of brands to underlying cash-generating units; • 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 and external appraisers engaged by the Company; • assisted by our own valuation specialists, challenging the key assumptions used by the Company in its impairment testing, which specifically involved: - 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.

KPMG

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 2018, investments in subsidiaries amounted to HRK 939,068 thousand (2017: HRK 946,700 thousand) while loans and receivables to subsidiaries amounted to HRK 346,755 thousand (2017: HRK 389,130 thousand). During 2018, the Company recognized HRK 8,031 thousand (2017: 31,236 thousand) of impairment losses with respect to investments in subsidiaries and HRK 11,910 thousand (2017: 80,558 thousand) of impairment losses with respect to loans and receivables to subsidiaries.

Refer to note 6 (vii), note 10, note 19 and note 35.

Key audit matter	How our audit addressed the matter
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. Where impairment indicators are identified for a given exposure, the Company assesses potential impairment loss by comparing the carrying amount of the exposure with the recoverable amount generally measured by applying a valuation technique, such as a present value technique (based on a discounted cash flows models) supplemented, where available, by techniques based on comparable valuation multiples or prices achieved in actual market transactions for comparable entities or comparison with the reported net assets of the subsidiary. 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 of the above, this area required our increased attention, and as such was considered by us to be a key audit matter.	Our audit procedures in this area included, among others: • 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 and external appraisers engaged by the Company; • assisted by our own valuation specialists, challenging the key assumptions used by the Company in its impairment testing, which specifically involved: - 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.

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.

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.

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

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.

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.

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 12 June 2018 to audit the separate financial statements of Podravka d.d. for the year ended 31 December 2018. Our total uninterrupted period of engagement is 7 years, covering the periods ending 31 December 2012 to 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 29 April 2019;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

KPMG

KPMG Croatia d.o.o. za reviziju **29 April 2019**

Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

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.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)	***Note***	**2018**	**2017**
Revenue from sales	*8*	1,937,102	1,904,332
Cost of goods sold	*11*	(1,333,006)	(1,333,413)
Gross profit		**604,096**	**570,919**
Other income	*9*	5,431	2,826
General and administrative expenses	*11*	(147,146)	(175,752)
Selling and distribution costs	*11*	(176,310)	(235,663)
Marketing expenses	*11*	(136,723)	(110,031)
Other expenses	*10*	(38,331)	(130,996)
Operating profit		**111,017**	**(78,697)**
Finance income	*13*	34,672	202,024
Finance expenses	*14*	(14,485)	(40,242)
Net finance income		**20,187**	**161,782**
Profit before tax		**131,204**	**83,085**
Income tax	*15*	(18,063)	3,352
Net profit for the year		**113,141**	**86,437**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss)- (net of deferred tax)		259	(294)
Total comprehensive income		**113,400**	**86,143**

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

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

(in thousands of HRK)	***Note***	**31 Dec 2018**	**31 Dec 2017**
ASSETS			
Non-current assets			
Intangible assets	*16*	83,551	92,249
Property, plant and equipment	*17*	821,940	827,302
Investment property	*18*	121,866	-
Investments in subsidiaries	*19*	939,068	946,700
Deferred tax assets	*15*	29,673	32,518
Non-current financial assets	*20*	5,631	12,815
Total non-current assets		**2,001,729**	**1,911,584**
Current assets			
Inventories	*21*	368,256	345,616
Trade and other receivables	*22*	554,525	563,616
Financial assets at fair value through profit and loss	*23*	296	511
Cash and cash equivalents	*24*	68,167	132,014
Non-current assets held for sale	*25*	1,075	133,553
Total current assets		**992,319**	**1,175,310**
Total assets		**2,994,048**	**3,086,894**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*26*	1,690,066	1,688,166
Reserves	*27*	382,267	345,412
Retained earnings	*28*	116,836	88,993
Total equity		**2,189,169**	**2,122,571**
Non-current liabilities			
Borrowings	*30*	181,202	337,602
Provisions	*31*	32,817	35,214
Total non-current liabilities		**214,019**	**372,816**
Current liabilities			
Trade and other payables	*32*	359,748	376,613
Income tax liabilities		12,604	3,060
Financial liabilities at fair value through profit or loss	*29*	415	1,631
Borrowings	*30*	205,313	201,200
Provisions	*31*	12,780	9,003
Total current liabilities		**590,860**	**591,507**
Total liabilities		**804,879**	**964,323**
Total liabilities and shareholders' equity		**2,994,048**	**3,086,894**

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

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)	Share capital	Reserve for treasury shares	Legal reserves	Other reserves	Retained earnings	Total
As at 1 January 2017	**1,679,174**	**147,604**	**17,661**	**50,959**	**180,680**	**2,076,078**
Comprehensive income						
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**
Transactions with owners recognised directly in equity						
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 34)	9,087	-	-	-	-	9,087
Dividend declared	-	-	-	-	(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**
Comprehensive income						
Profit for the year	-	-	-	-	113,141	113,141
Actuarial gains (net of deferred tax)	-	-	-	259	-	259
Other comprehensive income	-	-	-	259	-	259
Total comprehensive income	**-**	**-**	**-**	**259**	**113,141**	**113,400**
Transactions with owners recognised directly in equity						
Allocation from retained earnings (note 26 (i))	-	-	4,321	32,275	(36,596)	-
Purchase of treasury shares	(2,557)	-	-	-	-	(2,557)
Excercise of options	7,360	-	-	-	-	7,360
Fair value of share-based payment transactions (note 34)	(2,903)	-	-	-	-	(2,903)
Dividend declared	-	-	-	-	(48,702)	(48,702)
Total transactions with owners recognised directly in equity	**1,900**	**-**	**4,321**	**32,275**	**(85,298)**	**(46,802)**
As at 31 December 2018	**1,690,066**	**147,604**	**30,948**	**203,715**	**116,836**	**2,189,169**

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

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of HRK)	*Note*	2018	2017
Profit before tax		**131,204**	**83,085**
Depreciation and amortization		87,898	95,206
Loss of impairment of assets held for sale, property, plant, equipment and intagibles		15,421	19,341
Reversal of impairment of non-current assets		-	(2,115)
Impairment losses on investments		8,916	31,236
Remeasurement of financial instruments at FVTPL		(1,000)	(1,412)
Dividend income		(21,651)	(193,265)
Share-based payment transactions		2,729	9,087
Gain on disposal of property, plant, equipment, intangibles and assets held for sale		(15)	354
Gain from sale and disposal of non-current assets		(246)	-
Gain from disposal of ownership interests		(121)	-
Impairment losses on trade receivables		(1,546)	53,913
Increase in provisions		1,380	2,622
Interest income		(6,670)	(7,347)
Impairment of given loans and interests		6,648	74,765
Interest expense		12,863	27,496
Effect of changes in foreign exchange rates		(4,425)	8,931
		231,385	**201,897**
Changes in working capital:			
Increase in inventories		(22,640)	(7,411)
(Increase)/decrease in receivables		(17,346)	68,840
Decrease in payables		(11,897)	(41,407)
Cash generated from operations		**179,502**	**221,919**
Income tax paid		(5,480)	(176)
Interest paid		(13,588)	(29,906)
Net cash from operating activities		**160,434**	**191,837**
Cash flows from investing activities			
Increase of investments in subsidiaries		(200)	(1,374)
Purchase of property, plant, equipment and intangibles		(82,068)	(71,701)
Proceeds from sale of property, plant, equipment and intangibles		3,178	3,136
Proceeds from sale of assets held for sale		15	593
Loans given		(9,298)	(48,405)
Proceeds from loans given		36,231	16,199
Interest received		5,081	3,280
Proceeds from disposal of other investments		121	-
Dividends received		21	50,000
Net cash from investing activities		**(46,919)**	**(48,272)**
Cash flows from financing activities			
Proceeds from borrowings		99,565	161,824
Repayment of borrowings		(227,738)	(268,231)
Purchase of treasury shares		(2,557)	-
Sale of treasury shares		2,092	6,945
Dividend paid		(48,724)	(48,642)
Net cash from financing activities		**(177,362)**	**(148,104)**
Net increase of cash and cash equivalents		**(63,847)**	**(4,539)**
Cash and cash equivalents at beginning of year		132,014	136,553
Cash and cash equivalents at the end of year	*24*	**68,167**	**132,014**

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

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, Central and Eastern Europe. The principal activity of the Company comprises production of a wide range of foodstuffs.

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

The Company's shares were listed on the official market of the Zagreb Stock Exchange until 27 December 2018, since when they have been listed on the Prime 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 2018:

President	Dubravko Štimac
Deputy President	Luka Burilović
Member	Damir Grbavac
Member	Ksenija Horvat
Member	Marko Kolaković (until 7 September 2018)
Member	Ivana Matovina
Member	Petar Miladin
Member	Dajana Milodanović (from 8 September 2018)
Member	Slavko Tešija (until 7 September 2018)
Member	Krunoslav Vitelj (from 8 September 2018)
Member	Petar Vlaić

Management Board during 2018:

President	Marin Pucar
Member	Davor Doko
Member	Marko Đerek
Member	Hrvoje Kolarić
Member	Ljiljana Šapina

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

The separate 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 separate financial statements.

These are the Company's first financial statements which include the first adoption of IFRS 15 *Revenue from Contracts with Customers* and IFRS *9 Financial instruments*. The changes in accounting policies are explained in note 5.

These financial statements were authorised for issue by the Management Board on 29 April 2019.

(ii) Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis, except where stated otherwise (see note 7).

(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.

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

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 separate statement of financial position are not reclassified in the comparative separate 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 control has 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. The most common parities are the CIP, where the control is transferred to the customer at the moment the goods are delivered and the delivery note is confirmed upon the transfer of goods, and the EXW, where the Group makes goods available to the customer in their own premises or on other determined location, and the cost and risk are then transferred to the customer.

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.

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 separate 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.

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 separate 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 separate 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

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 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 separate 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 separate 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 separate 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 Investment property

Investment property is property (land, buildings or a part of a building, or both) held to earn rentals or for capital appreciation (or both). Investment property is treated as long-term investments.

Investment property is carried at historical cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation of buildings is calculated using the straight-line method over their useful lives generally ranging from 10 to 50 years.

Subsequent expenditure is capitalised 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. All other repairs and maintenance are charged to profit or loss when they are incurred. If the Company starts using the investment property, it is reclassified to property, plant and equipment.

The Company discloses the fair value of investment property on the basis of periodical independent valuations by expert valuers.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 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 3.14).

(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.

(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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 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.

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 recognized as income immediately.

3.15 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).

3.16 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Trade receivables (continued)

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 assume the credit risk of non-collection of the receivable from the original (principal) debtor. Based on factoring company's payments, the Company records collection of receivables from the original (principal) debtor and simultaneously records receivables for the discounted bill of exchange and liabilities for recourse right.

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

3.17 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 separate statement of financial position.

3.18 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.

If 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.

3.19 Employee benefits

(i) Pension obligations and post-employment benefits

In the normal course of business through salary payment, 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits (continued)

(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 separate 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.

3.20 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments

A. Financial assets

Policy applicable from 1 January 2018

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- FVOCI (fair value through other comprehensive income) – debt investment;
- FVOCI – equity investment;
- or FVTPL (fair value through profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial assets is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments (continued)

A Financial assets (continued)

Policy applicable from 1 January 2018 (continued)

(ii) Classification and subsequent measurement (continued)

Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Trade receivables are held in the business model of holding for the purpose of collection.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, relevant for the purpose of classifying financial assets at amortised cost, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing the main criterion, i.e. whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The structure of the Company's financial assets is simple and primarily relates to trade receivables without a significant financial component, loans given and short-term deposits in banks at fixed interest rates, while forward contracts are of insignificant amount. This significantly reduces the complexity of the assessment whether the financial assets meet the criterion of 'solely payments of principal and interest'.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments (continued)

A Financial assets (continued)

Policy applicable from 1 January 2018 (continued)

(ii) Classification and subsequent measurement (continued)

Subsequent measurement and gains and losses

The table below provides an overview of key provisions of the accounting policy used by the Company for subsequent measurement of financial assets and recognition of gains and losses on each class of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised (e.g. recourse factoring of receivables).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments (continued)

A Financial assets (continued)

Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories:

- loans and receivables;
- financial assets held to maturity;
- financial assets available for sale; and
- financial assets at FVTPL.

An overview of key provisions of the accounting policy used by the Company before 1 January 2018 for subsequent measurement of financial assets and recognition of gains and losses on each class of financial assets is provided in the table below:

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in OCI was reclassified to profit or loss.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments (continued)

B. Financial liabilities

(i) Recognition and initial measurement

Debt securities are initially recognised when they are originated. All other financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

C. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

D. Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The policy applied in the comparative information presented for 2017 is similar to the policy applied for 2018.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments (continued)

E. Impairment of non-derivative financial assets

Policy applicable from 1 January 2018

Recognition of impairment losses

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and;
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if the receivable is past due for a period longer than the average collection period in the normal course of the Company's operations in the relevant market.

The Company assumes that the credit risk on a financial asset has increased significantly if early warning indicators have been activated in accordance with the Company's policy or contractual terms of the instrument.

The Company considers a financial asset to be fully or partially in default if:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive. Regular external trade receivables that are not past due and uncollected receivables past due up to 360 days from the maturity date are impaired using the percentage that reflects the expectations of the non-collection of trade receivables (ECL). The percentage of impairment is determined on the basis of the average of the previous three-year period (historical rate). The calculation of the historical rate is adjusted for extraordinary and specific circumstances, if required.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments (continued)

E Impairment of non-derivative financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a significant delay of payment by the borrower;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off of financial assets

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company has a policy of writing off the gross carrying amount of a financial asset upon the legal statute of limitation and it generally expects no significant recovery of the amount written off.

Policy applicable before 1 January 2018

Non-derivative financial assets

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment. Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial instruments (continued)

E Impairment of non-derivative financial assets (continued)

Policy applicable before 1 January 2018 (continued)

An overview of key provisions of the policy that was applied before 1 January 2018 for the impairment of non-derivative financial assets is provided in the table below:

Financial assets measured at amortised cost	The Company considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends. An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Company considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.
Available-for-sale financial assets	Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

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 2018 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:

IFRS 16 *Leases*

IFRS 16 introduces a single, on-balance sheet lease 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, property and agricultural land.

The Company estimated that by applying IFRS 16 Leases it will recognise new assets and liabilities under operating leases for vehicles, property and agricultural land in the amount between HRK 45 and 46 million. The estimated depreciation for 2019 amounts between HRK 10 and 13 million, and interest expense amounts to approximately HRK one million.

The estimate is based on discounted cash outflows using a discount rate of 2.06%.

NOTE 5 – IMPACT OF NEW ACCOUNTING POLICIES

The Company begins to apply IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments as of 1 January 2018. Several new standards are also applicable from 1 January 2018, but these standards did not have any significant impact on these Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue* and IAS 11 *Construction Contracts*. Under IFRS 15, revenue is recognised when a customer acquires control of products or services. Determining whether a transfer of control occurs at a certain point in time or over time (time period) requires judgment.

The Company has adopted IFRS 15 using the cumulative effect method, with the beginning of the application of the standard as at 1 January 2018. Accordingly, the information presented for 2017 has not been restated, i.e. it is presented as described previously, in accordance with IAS 18 and IFRS 8 and the related interpretations. Given the nature of the Company's business and the level of disclosure in the previous financial statements, management believes that upon the introduction of a new standard the accounting policy for revenue recognition has not changed significantly and no additional significant disclosures are necessary.

Regardless, the Company's estimates of the type of products and contracts did not affect the transitional statement of the Company's financial position as at 31 December 2018, nor the Statement of comprehensive income for the year then ended. There was no significant impact on the transitional Cash flow statement for the period ended 31 December 2018. The Company applied most of the requirements of the new standard in earlier periods, therefore the new IFRS 15 does not have a significant impact on the financial statements both in terms of amounts, and disclosures and applied accounting policies.

For additional information on the Company's accounting policies related to revenue recognition, see note 3.3.

NOTE 5 – IMPACT OF NEW ACCOUNTING POLICIES (continued)

IFRS 9 Financial instruments

The Company applies IFRS 9 from 1 January 2018. IFRS 9 establishes requirements for the recognition and measurement of financial assets, financial liabilities and some contracts for the purchase or sale of non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new approach to the classification of financial assets, which is based on the cash flow characteristic and the business model in which the asset is held. The rules of classification and measurement of financial assets will not change and will not affect the financial statements of the Company. IFRS 9 introduces a new model for impairment of financial assets based on estimated expected losses, requiring timely recognition of expected credit losses. The new standard requires the Company to recognise expected credit losses at initial recognition of financial assets and timely recognition of credit losses over the useful life.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification and measurement of financial liabilities. However, former categories of IAS 39 for financial assets held to maturity, loans and receivables and available for sale have been eliminated.

IFRS 9 replaces the "incurred loss" model from IAS 39 with the "expected credit loss" model. A new impairment model applies to financial assets measured at amortised cost, debt securities valued at fair value through other comprehensive income, but not for investments in equity instruments. According to IFRS 9, credit losses are recognised earlier than in IAS 39.

For assets falling within the impairment allowance under IFRS 9, impairment losses are expected to be higher compared to IAS 39.

Additional information about how the Company measures impairment is described in notes 3.21.

The adoption of IFRS 9 did not significantly impact the Company's accounting policies related to financial instruments.

The effect of adoption of IFRS 9 on the carrying amount of financial assets as at 1 January 2018 relates exclusively to new impairment requirements. The Company estimated that the impact was not significant and did not recognise the effect as at 1 January 2018, rather during 2018.

In line with the new standard, in 2018 the Company recognised the expected credit losses (expected uncollected trade receivables) in the amount of HRK 210 thousand.

The following table and accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories in accordance with IFRS 9 for each class of financial assets and financial liabilities of the Company as at 1 January 2018:

in HRK thousand	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Loans given	Loans and receivables	Amortised cost	12,815	12,815
Trade and other receivables	Loans and receivables	Amortised cost	563,616	563,616
Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	511	511
Cash and cash equivalents	Loans and receivables	Amortised cost	132,014	132,014
Total financial assets			**708,956**	**708,956**
Financial liabilities				
Loans and borrowings	Other financial liabilities	Other financial liabilities	538,802	538,802
Financial liabilities at fair value through profit and loss	Financial liabilities at fair value through profit and loss	Financial liabilities at fair value through profit and loss	1,631	1,631
Income tax payable	Other financial liabilities	Other financial liabilities	3,060	3,060
Trade and other payables	Other financial liabilities	Other financial liabilities	376,613	376,613
Total financial liabilities			**920,106**	**920,106**

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

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 more detail 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 31).

(iii) Consequences of certain legal actions

The Company is involved in 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 31).

(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.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (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.

By applying the percentage that reflects expectations on the non-collection of trade receivables (expected credit loss), the Company impairs undue regular external trade receivables and past due uncollected receivables up to 360 days from the maturity date.

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 the Adria region as at 31 December 2018 the Company applied an income approach – the method of non-payment of royalties.

The basis of the method of non-payment of royalties is that the value of intangible assets equals the amount that the owner would pay for the licence over the assets if it had not been owned, i.e. the value equals post-tax discounted expenses saved if royalties, i.e. the compensation for the use of trademarks, are not paid.

When calculating the fair value of brands whose dominant market is the Adria region (a total of 5 brands), rates equal to the weighted average cost of capital after tax (WACC) per individual market and the food industry were used, ranging from 5.16% to 7.73%, while the applied terminal growth rate is 1%. With a possible reduction of the terminal growth rate by 100 basis point (with unchanged weighted average cost of capital rate), there is an indication of impairment of HRK 1,928 thousand for one of the brands. With a possible increase in the average weighted cost of capital by 100 basis points (with unchanged terminal growth rate) for one of the brands there would be an indication of impairment of HRK 2,590 thousand.
During 2018, the Company had no impairment losses with respect to brands.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(vi) Impairment test for assets held for sale

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.

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, 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 2018 and 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, except for the property in Koprivnica which was impaired in the amount of HRK 1,196 thousand.
During 2017, the Company had no impairment costs for property, plant and equipment held for sale.
During 2018, the Company reclassified assets held for sale to investment property. Prior to reclassification, the properties in Rijeka were impaired in the amount of HRK 9,416 thousand.
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.

(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 2.5% for the subsidiary in the Czech Republic and 4% for the subsidiary in Serbia.

NOTE 6 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

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 the food industry (in case of the company in the Czech Republic the post-tax discount rate amounts to 5.92%, and for the company in Serbia to 8.37%). The expected rate of average annual revenue growth in the projected five-year period was -0.02% for the company in the Czech Republic and 1.36% for the company in Serbia.

As a result of the impairment tests performed on investments in subsidiaries, during 2018 the Company incurred impairment losses in the subsidiary Podravka-Polska Sp.z o.o., Warszawa in the amount of HRK 8,031 thousand (to the amount of the subsidiary's net assets). During 2018, the Company increased share capital of the subsidiary Podravka Gulf Fze, Jebel Ali, Dubai by a borrowing in the gross amount of HRK 27,170 thousand that was fully impaired during 2017, whereby the value of interest in this subsidiary remained unchanged. The Company considered these impairment costs in 2017 to be one-off.
Investment in the subsidiary Podravka Lagris a.s. is not sensitive to changes in key variables. Even with significant changes in the terminal growth rate (with unchanged weighted average cost of capital rate) and the average weighted cost of capital (with unchanged terminal growth rate), there is no indication of impairment.

Also, investment in the subsidiary Podravka Beograd is not sensitive to changes in key variables. Even with significant changes in the terminal growth rate (with unchanged weighted average cost of capital rate) and the average weighted cost of capital (with unchanged terminal growth rate), there is no indication of impairment.

NOTE 7 – 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.

NOTE 7 – DETERMINATION OF FAIR VALUES (CONTINUED)

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. 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 20: Non-current financial assets
- note 23: Financial assets at fair value through profit or loss
- note 25: Non-current assets held for sale
- note 29: Financial liabilities at fair value through profit or loss
- note 34: Share-based payments

NOTE 8 – SALES REVENUE

Sales revenue

	2018	2017
	(in thousands of HRK)	
Revenue from sale of products and merchandise	1,890,363	1,860,963
Revenue from services	46,739	43,369
	1,937,102	**1,904,332**

Key customers

Sales to major customers owned or controlled by the same group represent approximately 11% of the Company's total revenue in 2018 (2017: approximately 11% of the total revenue).

For management purposes, the Company is organised in business units based on the similarity in the nature of individual product groups and has identified reportable segments in accordance with quantitative thresholds for segment reporting. The reportable segments of the Company are as follows:

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

The reportable segments are part of the internal financial reporting to the Management Board which was identified as the chief operating decision maker. The Management Board reviews the internal reports regularly and assesses the segment performance, and uses those reports in making operating decisions.

Segment revenues and results

Set out below is an analysis of the Company's revenue and results by its reportable segments, presented in accordance with IFRS 8 *Operating segments* and a reconciliation of segment profits to profit or loss before tax as presented in the statement of comprehensive income.

	Segment revenues		Segment profits	
(in thousands of HRK)	**2018**	**2017**	**2018**	**2017**
BP Culinary	696,677	688,643	170,218	171,905
BP Baby food, sweets and snack	352,776	324,542	51,584	27,232
BP Podravka food	320,041	316,051	(653)	(15,739)
BP Žito and Lagris	50,865	45,952	(1,184)	(6,965)
BP Meat products, solutions and spreads	239,750	247,606	(2,249)	(23,771)
BP Fish	131,802	129,600	(2,855)	(8,459)
Other	145,191	151,938	12,253	19,193
	1,937,102	**1,904,332**	**227,114**	**163,396**
Finance income (note 13)			34,672	202,024
Other income (note 9)			5,431	2,826
Central administration costs			(83,197)	(113,923)
Other expenses (note 10)			(38,331)	(130,996)
Finance expenses (note 14)			(14,485)	(40,242)
Profit before tax			**131,204**	**83,085**

NOTE 8 – SALES REVENUE (CONTINUED)

Segment revenues and results (continued)

BP Culinary comprises the following product groups: seasonings, soups, ready-to-cook meals and bouillons, food mixes and monospices.

BP Baby food, sweets and snacks comprises the following product groups: Lino world, sweets, drinks and snacks.

BP Podravka Food comprises the following product groups: condiments, tomato, sauces, fruit, vegetables and Podravka flour.

BP Žito and Lagris comprises the following product groups: core food, bakery and mill products, tea, confectionery and cereals for adults.

BP Meat products, meat solutions and savoury spreads comprises the following product groups: canned meat, sausages, food solution and other meat.

BP Fish comprises fish products.

The Other segment comprises the following product groups: merchandise and food services.

Business programmes (BP) comprise own brands, B2B, private labels and service production.

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, other income, other expenses, finance expenses, and income tax expense.

Geographical information

The Company operates in five principal geographical areas by which it reports the following sales:

(in thousands of HRK)	**2018.**	**2017.**
Region Adria	1,527,392	1,484,644
Region Western Europe and overseas countries	195,427	214,937
Region Central Europe	161,516	153,328
Region Eastern Europe	38,452	41,085
Region New markets	14,315	10,338
	1,937,102	**1,904,332**

NOTE 8 – SALES REVENUE (CONTINUED)

Segment revenues and results (continued)

Below is a more detailed overview of countries by geographical area:

Region Adria	**International markets**					
	Western Europe and Overseas		**Central Europe**	**Eastern Europe**	**New markets**	
Southeast Europe	**Western Europe**	**Overseas**				
Slovenia	Germany	USA	Poland	Russian Federation	Irak	South Africa Republic
Bosnia and Herzegovina	Austria	Canada	Czech Republic	Ukraine	United Arab Emirates	Madagascar
Macedonia	Switzerland	Panama	Slovakia	Kazakhstan	Kuwait	Liberia
Serbia	France	Australia	Hungary	Estonia	Katar	Cameroon
Montenegro	Great Britain	New Zealand	Romania	Lithuania	Yemen	Ghana
Kosovo	Italy	Fiji	Bulgaria	Latvia	Oman	China
Albania	Denmark			Moldova	Saudi Arabia	India
Greece	Finland			Belarus	Turkey	Japan
Croatia	Sweden			Armenia	Jordan	Singapore
	Norway			Kyrgystan	Egypt	Taiwan
	Island				Libya	Israel
	Nederlands				Morocco	Mongolia
	Belgium				Uganda	Thailand
	Ireland				Kenya	Pakistan
	Spain				Zambia	Cyprus
	Portugal				Tanzania	
					Ethiopia	

NOTE 9 – OTHER INCOME

	2018	**2017**
	(in thousands of HRK)	
Grant income	1,188	1,245
Interest income relating to trade receivables	485	453
Profit on disposal of property, plant, equipment and intangibles (note 16 & 17)	246	-
Income from reversal of legal provision	3,497	-
Gain on disposal of assets held for sale	15	23
Reversal of impairment of property, plant and equipment	-	1,105
	5,431	**2,826**

Grant income relates to non-refundable government grants in agriculture.

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

NOTE 10 - OTHER EXPENSES

	2018	2017
	(in thousands of HRK)	
Impairment of related party loans (note 35)	6,648	74,765
Interest expense relating to trade payables and other interests	2,270	125
Trade foreign exchange differences	5,076	6,162
Impairment loss on brands (note 16)	-	18,331
Impairment of investments (note 19)	8,916	31,236
Impairment loss on assets held for sale (note 25)	10,612	-
Impairment loss on property, plant and equipment (note 17)	4,809	-
Loss from sale and disposal of property, plant, equipment and intangible assets (notes 16 and 17)	-	377
	38,331	**130,996**

Impairment of loans to related parties includes impairment of interest receivable in the amount of HRK 2,080 thousand (2017: HRK 4,168 thousand).

NOTE 11 – EXPENSES BY NATURE

	2018	2017
	(in thousands of HRK)	
Raw material, supplies and energy	786,990	782,935
Staff costs (note 12)	407,000	421,911
Cost of goods sold	281,800	290,786
Advertising and promotion	91,271	70,596
Depreciation and amortisation	87,898	95,206
Services	69,754	66,963
Changes in value of inventory	3,258	(1,690)
Rental costs	15,482	16,512
Transport	16,695	14,655
Taxes and contributions independent of operating results	10,181	10,206
Impairment of trade and other receivables (note 22)	(1,546)	53,913
Bank charges	1,901	2,129
Packaging waste disposal fee	2,314	2,198
Daily allowances and other business travel expenses	7,641	8,171
Telecommunications	4,180	3,895
Entertainment	6,270	5,336
Legal expenses	-	3,154
Other expenses	2,096	7,983
Total cost of good sold, selling and distribution expenses, marketing expenses and general and administrative costs	**1,793,185**	**1,854,859**

Costs of services include audit fees. Fees for the audit of the Company's financial statements amounted to HRK 1,079 thousand (2017: HRK 1,007 thousand). During 2018, the Company did not receive any non-audit services from the auditor (2017: HRK 193 thousand for transfer pricing study).

Depreciation and amortisation include HRK 488 thousand of government grants for co-financing of assets (2017: HRK 413 thousand).

NOTE 11 – EXPENSES BY NATURE (CONTINUED)

The following tables present expenses by nature contained in cost of goods sold:

	2018	2017
	(in thousands of HRK)	
Raw material and supplies	769,330	765,795
Cost of goods sold	281,800	290,786
Staff costs	188,844	182,464
Depreciation and amortisation	53,398	56,078
Production services	21,643	21,316
Taxes and contributions independent of operating results	5,369	5,341
Other expenses (transport, rent, education etc.)	12,622	11,633
	1,333,006	**1,333,413**

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

	2018	2017
	(in thousands of HRK)	
Cost of goods sold	53,398	56,078
Marketing expenses	222	138
Selling, logistics and distribution costs	12,131	20,612
General and administrative expenses	22,147	18,378
	87,898	**95,206**

Staff costs allocated to each function are as follows:

	2018	2017
	(in thousands of HRK)	
Cost of goods sold	188,844	182,464
Marketing expenses	28,600	27,008
Selling, logistics and distribution costs	100,163	95,846
General and administrative expenses	89,393	116,593
	407,000	**421,911**

NOTE 12 – STAFF COSTS

	2018	2017
	(in thousands of HRK)	
Salaries	383,521	379,950
Termination benefits	4,670	20,642
Transport	6,085	6,210
Share options (note 34)	1,257	11,403
Other employee benefits	11,467	3,706
	407,000	**421,911**

As at 31 December 2018, the number of staff employed by the Company was 3,096 (2017: 3,026).

In 2018, termination and retirement benefits of HRK 4,670 thousand were paid to 37 employees (2017: termination and retirement benefits of HRK 20,642 thousand paid to 140 employees), considered by the Company to be a one-off expense.

NOTE 13 – FINANCE INCOME

	2018	2017
	(in thousands of HRK)	
Interest on related party loans	6,408	7,010
Interest on term deposits	146	177
Remeasurement of financial instruments at fair value	136	223
Dividends income from related parties	21,651	193,265
Net foreign exchange gain on borrowings	5,229	-
Other interests	238	160
Unrealized gains on swap contracts	864	1,189
	34,672	**202,024**

Dividend received refers to income on the basis of declared dividends in subsidiaries Podravka-Int. Deutschland –"Konar" GmbH in the amount of HRK 3,185 thousand, Podravka-International Kft, Budapest in the amount of HRK 4,000 thousand, Podravka-International s.r.o., Zvolen in the amount of HRK 10,834 thousand and Lagris a.s., Lhota u Luhačovic in the amount of HRK 3,611 thousand (2017: in the subsidiary Belupo d.d. in the amount of HRK 50,000 thousand and in the subsidiary Žito d.d. in the amount of HRK 143,265 thousand).

NOTE 14 – FINANCE EXPENSES

	2018	2017
	(in thousands of HRK)	
Interest expense and similar charges	12,863	27,496
Net foreign exchange loss on borrowings	-	9,720
Capital reserve ESOP	1,622	3,026
	14,485	**40,242**

During 2018, reference interest rates remained at low levels, which, coupled with regular repayment of borrowings, resulted in decreased interest expense on borrowings.

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 29.

During 2018 and 2017, 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 26 and 34 (ii).

NOTE 15 – INCOME TAX

Tax (income)/expense consists of:

	2018	2017
	(in thousands of HRK)	
Current income tax	15,275	3,438
Deferred tax expense/(income)	2,788	(6,790)
	18,063	**(3,352)**

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:

	2018	2017
	(in thousands of HRK)	
Profit before taxation	**131,204**	**83,085**
Tax calculated at 18% (2017:18%)	23,617	14,955
Non-taxable income	(9,052)	(34,791)
Non-deductible expenses	3,632	16,563
Tax incentives (research and development, education and other)	(134)	(79)
Income tax	**18,063**	**(3,352)**
Effective tax rate	**14%**	**-4%**

Unused tax losses

As at 31 December 2018, the Company has no unused tax losses.

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets

Deferred tax assets arose from the following:

2018	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
		(in thousands of HRK)		
Basis:				
Intangible assets	13,267	(12,580)	-	687
Property, plant and equipment/ assets held for sale	1,823	2,748	-	4,571
Provisions	5,668	1,336	(57)	6,947
Inventory	2,804	697	-	3,501
Financial assets	6,066	6,277	-	12,343
Share based payments	2,636	(1,301)	-	1,335
Receivables	254	35	-	289
Unutilised tax losses carried forward	-	-	-	-
	32,518	**(2,788)**	**(57)**	**29,673**

2017	Opening balance	Recognised in profit or loss	Recognised directly in equity	Closing balance
		(in thousands of HRK)		
Basis:				
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**

In 2018, the Company discharged deferred tax asset recognised on the basis of non-current intangible assets in the amount of HRK 12,580 thousand, the major part of which relates to the sale of the Warzywko brand. At the same time, during 2018 deferred tax assets were increased mainly on the basis of decrease in investments.

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.

NOTE 16 – INTANGIBLE ASSETS

(in thousands of HRK)	Software	Distribution rights	Brands	Investments in progress	Total
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)
Transfer from assets held for sale	410	-	-	-	410
At 31 December 2017	**200,661**	**29,410**	**143,300**	**9,060**	**382,431**
Accumulated amortisation	-	-	-	-	
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
Transfer from assets held for sale	(410)	-	-	-	(410)
Losses from 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**
Cost	-	-	-	-	
At 1 January 2018	200,661	29,410	143,300	9,060	382,431
Additions	-	-	-	11,547	11,547
Transfers	19,069	-	-	(19,069)	-
Transfer to subsidiaries	-	-	(84,786)	-	(84,786)
Disposals	(923)	-	-	-	(923)
At 31 December 2018	**218,807**	**29,410**	**58,514**	**1,538**	**308,269**
Accumulated amortisation	-	-	-	-	
At 1 January 2018	(167,833)	(29,410)	(92,939)	-	(290,182)
Transfer to subsidiaries	-	-	82,233	-	82,233
Charge for the year	(14,357)	-	(3,304)	-	(17,661)
Disposals	892	-	-	-	892
At 31 December 2018	**(181,298)**	**(29,410)**	**(14,010)**	**-**	**(224,718)**
Carrying amount	-	-	-	-	
As at 31 December 2018	**37,509**	**-**	**44,504**	**1,538**	**83,551**

Accumulated amortization and impairment losses include a total of HRK 1,948 thousand relating to accumulated impairment losses (2017: HRK 73,701 thousand of accumulated impairment losses).

The total intangible assets with indefinite useful lives as at 31 December 2018 relate to brands and amount to HRK 44,504 thousand (31 December 2017: HRK 44,503 thousand).

Intangibles in progress mostly relate to licence agreements.

During 2018, the Company sold the Warzywko brand and thereby earned net income of HRK 297 thousand.

In 2017 the Company impaired the Warzywko brand in the amount of HRK 17,893 thousand, and a project in the amount of HRK 438 thousand. 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 6(v).

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment and fittings	Assets under construction	Total
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				
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 (ii)	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**
Cost				
At 1 January 2018	1,784,715	1,182,189	39,589	3,006,493
Additions	-	-	70,015	70,015
Credit note	-	(233)	-	(233)
Transfers	15,021	33,440	(48,461)	-
Purchase of used assets	-	84	-	84
Transfer from related companies	-	738	(4)	734
Transfer to related companies	-	(21)	-	(21)
Transfer from assets held for sale (i)	-	1,337	-	1,337
Disposals	-	(19,716)	-	(19,716)
At 31 December 2018	**1,799,736**	**1,197,818**	**61,139**	**3,058,693**
Accumulated depreciation				
At 1 January 2018	(1,283,488)	(895,703)	-	(2,179,191)
Charge for the year	(31,428)	(39,296)	-	(70,724)
Used assets write-offs	-	(84)	-	(84)
Transfer to related companies	-	9	-	9
Transfer from assets held for sale (i)	-	(1,337)	-	(1,337)
Disposals	-	19,383	-	19,383
Impairment (ii)	-	(4,809)	-	(4,809)
At 31 December 2018	**(1,314,916)**	**(921,837)**	**-**	**(2,236,753)**
Carrying amount				
As at 31 December 2018	**484,820**	**275,981**	**61,139**	**821,940**

Accumulated depreciation and impairment losses include a total of HRK 12,492 thousand relating to accumulated impairment losses (2017: HRK 7,683 thousand of accumulated impairment losses).

During 2018, the Company impaired equipment in the amount of HRK 4,809 thousand (2017: HRK 1,010 thousand).

In 2017, by returning a portion of property held for sale to property, plant and equipment, the Company recognised additional depreciation of HRK 2,905 thousand and recognised reversal of impairment of property in the amount of HRK 2,115 thousand. The Company considered these expenses and income to be one-off.

Investments in progress relate mainly to investments in modernisation of production capacities and extension of the product range.

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. 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.

Reversal of impairment and impairment

During 2018, the company recognised one-off impairment in the amount of HRK 4,809 thousand (2017: reversal of impairment in the amount of HRK 2,115 thousand, and one-off write-off of project documentation for the fish and tomato factory in the amount of HRK 827 thousand).

Mortgaged assets

As at 31 December 2018, land and buildings of the Company with a net carrying amount of HRK 362,424 thousand (2017: HRK 380,780 thousand) are pledged as collateral against the Company's borrowings.

(ii) Assets held under finance leases

In 2018 and 2017 the Company has no assets under finance lease agreements.

NOTE 18 – INVESTMENT PROPERTY

(in thousands of HRK)	**Land**	**Buildings**	**Total**
Cost			
At 1 January 2018	-	-	-
Transfer from assets held for sale	89,246	58,709	147,955
At 31 December 2018	**89,246**	**58,709**	**147,955**
Accumulated depreciation			
At 1 January 2018	-	-	-
Transfer from assets held for sale	(14,129)	(11,960)	(26,089)
At 31 December 2018	**(14,129)**	**(11,960)**	**(26,089)**
Carrying amount			
As at 31 December 2018	**75,117**	**46,749**	**121,866**

In line with the management's decision, in 2018, land and buildings in Rijeka in the amount of HRK 121,866 thousand were reclassified to investment property. Prior to reclassification, the properties in Rijeka were impaired in the amount of HRK 9,416 thousand. According to the independent expert valuer's estimate, the fair value of property is higher than its current carrying amount. Operating expenses amount to HRK 1,293 thousand, while rental income from a smaller part of the property amounts to HRK 1,668 thousand.

NOTE 19 – INVESTMENTS IN SUBSIDIARIES

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

		Ownership interest in%		Equity share in thousands of HRK		
Name of subsidiary	**Country**	**2018**	**2017**	**2018**	**2017**	**Principal activity**
Žito d.o.o., Ljubljana	Slovenia	100.00	100.00	440,110	440,110	Sale and distribution of food and beverages
Belupo d.d., Koprivnica	Croatia	100.00	100.00	393,153	393,153	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	22,090	30,122	Sale and distribution of food and beverages
Vegeta Podravka Limited, Dar es Salaam (ii)	Tanzania	85.00	85.00	-	-	Production and sale of food and beverages
Podravka-International Kft, Budapest	Hungary	100.00	100.00	5,343	5,343	Sale and distribution of food and beverages
Mirna d.d., Rovinj	Croatia	90.41	90.41	5,115	5,115	Fish processing and production
Podravka Gulf Fze, Jebel Ali, Dubai (i)	UAE	100.00	100.00	-	-	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	100.00	1,068	1,068	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100.00	100.00	1,029	1,029	Sale and distribution of food and beverages
Podravka-International Pty. Ltd, Sydney	Australia	100.00	100.00	801	801	Sale and distribution of food and beverages
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	84	84	Sale and distribution of food and beverages
Podravka d.o.o.e.l., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia & Herz.	100.00	100.00	40	40	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100.00	100.00	3	3	Sale and distribution of food and beverages
Podravka d.o.o., Moskva (i)	Russia	100.00	100.00	402	2	Sale and distribution of food and beverages
Podravka d.o.o., Beograd	Serbia	100.00	100.00	-	-	Sale and distribution of food and beverages
Sana d.o.o., Hoče u stečaju (iii)	Slovenia	-	-	-	-	Production of wafers
				939,068	**946,700**	

(i) During 2018, the Company increased share capital of the subsidiary Podravka Gulf Fze, Jebel Ali, Dubai by a borrowing in the gross amount of HRK 27,170 thousand that was fully impaired during 2017, whereby the value of interest in this subsidiary remained unchanged, and it also increased share capital of the subsidiary Podravka d.o.o., Moscow by the amount of HRK 400 thousand. In 2017, the interest in the subsidiary Podravka Gulf Fze, Jebel Ali, Dubai was impaired in the amount of HRK 1,845 thousand.

NOTE 19 – INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(ii) In 2018, the Company impaired its share in the subsidiary Podravka-Polska Sp.z o.o., Warszawa in the amount of HRK 8,031 thousand. 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 and in the subsidiary Vegeta Podravka Limited, Dar es Salaam in the amount of HRK 9,796 thousand. The Company considers these impairment costs to be one-off.

(iii) In 2018, the Company eliminated business interests in subsidiary Sana d.o.o Hoče in bankruptcy, in line with the completion of the bankruptcy procedure as of 15 February 2018.

NOTE 20 – NON-CURRENT FINANCIAL ASSETS

	2018	2017
	(in thousands of HRK)	
Loans to related companies	5,283	9,220
Loans to third parties	8	2,126
Deposits and other	330	574
Other investments	10	895
	5,631	**12,815**

Loans to related parties are described in note 35.

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

In 2018, investment in other equity instruments was impaired in the amount of HRK 885 thousand, whose cost is recorded within other expenses (note 10).

NOTE 21 – INVENTORIES

	2018	2017
	(in thousands of HRK)	
Raw materials and supplies	140,915	117,037
Work in progress	27,700	44,313
Finished goods	154,116	140,887
Merchandise	45,525	43,379
	368,256	**345,616**

During 2018, the Company recognized net impairment loss with respect to some inventories in the amount of HRK 3,874 thousand (2017: HRK 1,192 thousand of net impairment loss with respect to some inventories). The movement in inventory impairment provision is included in the statement of comprehensive income in line item ‘Cost of goods sold’.

NOTE 22 – TRADE AND OTHER RECEIVABLES

	2018	2017
	(in thousands of HRK)	
Trade receivables	284,078	267,663
Trade receivables - discounted bills of exchange	57,722	60,840
Impairment of receivables	(141,425)	(150,748)
Impairment of receivables for expected credit losses	(210)	-
Net trade receivables	**200,165**	**177,755**
Related party trade receivables	288,474	294,270
Provision for related party trade receivables	(11,213)	(5,793)
Loans and interest receivable from related parties	64,211	91,433
Loans receivable	-	593
Bills of exchange received	-	210
Prepaid expenses	4,407	3,526
Net VAT receivable	7,029	-
Receivables from employees	521	648
Other receivables	931	974
	554,525	**563,616**

In 2018, the Company reversed a portion of impairment of trade receivables from customers owned or controlled by the same group in the amount of HRK 7,905 thousand and impaired receivables from related parties in the amount of HRK 5,236 thousand (2017: the Company recognised impairment of trade receivables from customers owned or 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 and interest receivable from related parties include short-term loans and current portion of long-term loans given to related parties and interest receivable from related parties (see note 35).

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

	2018	2017
	(in thousands of HRK)	
At 1 January	156,541	106,015
Reversal/increase	(1,365)	53,912
Amounts collected	(918)	(830)
Written off as uncollectible	(1,410)	(2,556)
At 31 December	**152,848**	**156,541**

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:

	2018	2017
	(in thousands of HRK)	
Undue	327,127	300,652
Up to 90 days	95,596	98,791
91-180 days	36,043	30,635
181-360 days	18,660	36,154
	477,426	**466,232**

Major customers

Net trade receivables from major customers owned or controlled by the same group as at 31 December 2018 amount to HRK 44,921 thousand (2017: HRK 57,088 thousand).

NOTE 23 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	(in thousands of HRK)	
Forward contracts	296	511
	296	**511**

In 2018, 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 2018 amounted to HRK 296 thousand.

The nominal value of forward exchange contracts at 31 December 2018 amounted to HRK 20,437 thousand with maturities between 10 January 2019 and 12 June 2019 (2017: HRK 38,970 thousand with maturities between 11 January 2018 and 13 November 2018).

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 7).

NOTE 24 – CASH AND CASH EQUIVALENTS

	2018	2017
	(in thousands of HRK)	
Cash in banks	68,162	131,976
Cash in hand	5	38
	68,167	**132,014**

Cash in banks refers to transaction accounts at commercial banks bearing an average interest rate ranging from 0.0% to 0.16%.

The Company has certain transactions in foreign currencies and cash on bank accounts mainly in HRK (HRK 33,919 thousand) and EUR (HRK 30,872 thousand).

NOTE 25 – NON-CURRENT ASSETS HELD FOR SALE

	2018	2017
	(in thousands of HRK)	
Land and buildings	1,075	133,553
	1,075	**133,553**

(i) Land and buildings

The total amount of assets held for sale relates to a property in Koprivnica and land in Žminj for which the Company is still seeking a buyer and expects to sell during 2019.

In line with the management's decision, in 2018, land and buildings in Rijeka in the amount of HRK 121,866 thousand were reclassified to investment property. Prior to reclassification, the properties in Rijeka were impaired in the amount of HRK 9,416 thousand. In 2018, property in Koprivnica was impaired according to the independent expert valuer's estimate in the amount of HRK 1,196 thousand.

(ii) Fair value measurement

Fair value measurement is classified, according to inputs used in fair value measurement, as level 3 (see note 7). The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value:

Valuation methods and techniques	**Significant unobservable inputs**
Property	
For buildings and land, the comparative method is used	Among other factors, the estimated discount rate considers the underlying quality of the property and its location on similar locations for a comparative type of property.

NOTE 26 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
At 1 January 2017	***6,925,103***	**1,566,401**	**185,313**	**(72,540)**	**1,679,174**
Exercise of options (i)	*32,341*	-	(12,133)	12,038	**(95)**
Fair value of share based payments (i)	-	-	9,087	-	**9,087**
At 31 December 2017	***6,957,444***	**1,566,401**	**182,267**	**(60,502)**	**1,688,166**
At 1 January 2018	***6,957,444***	**1,566,401**	**182,267**	**(60,502)**	**1,688,166**
Purchase of treasury shares	*(7,000)*	-	-	(2,557)	**(2,557)**
Exercise of options	*23,784*	-	(1,489)	8,849	**7,360**
Fair value of share based payments (i)	-	-	(2,903)	-	**(2,903)**
At 31 December 2018	***6,974,228***	**1,566,401**	**177,875**	**(54,210)**	**1,690,066**

As at 31 December 2018, the Company's share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 145,775 relates to treasury shares (2017: HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 162,559 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 2018, the Company purchased 7,000 of its own shares, while in 2017 there were no purchases of treasury shares. 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 program (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 34 to the separate financial statements.

NOTE 26 – SHARE CAPITAL (CONTINUED)

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

	2018		2017	
	Number of shares	**% of ownership**	**Number of shares**	**% of ownership**
PBZ CO OMF - Category B	1,052,100	14.78%	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	674,669	9.48%	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	404,233	5.68%	387,257	5.44%
HPB - Republic of Croatia	167,281	2.35%	286,588	4.03%
PBZ D.D. - custody summary account	105,441	1.48%	66,497	0.93%
Treasury account	145,775	2.05%	162,559	2.28%
Other shareholders	1,907,787	26.79%	1,963,617	27.58%
Total	**7,120,003**	**100.00%**	**7,120,003**	**100.00%**

NOTE 27 – RESERVES

	Reserves for treasury shares	**Legal reserves**	**Other reserves**	**Total**
(in thousands of HRK)				
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**
At 1 January 2018	147,604	26,627	171,181	345,412
Allocation of profits (i)	-	4,321	32,275	36,596
Actuarial gain (net of deferred tax)	-	-	259	259
At 31 December 2018	**147,604**	**30,948**	**203,715**	**382,267**

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 2018, the General Assembly reached a decision to allocate the Company's profit from 2017 in the amount of HRK 86,437 thousand as follows: the amount of HRK 4,321 thousand to legal reserves, the amount of HRK 32,275 thousand to other reserves, the amount of HRK 48,702 thousand for the declared dividend, while the remainder of HRK 1,139 thousand is retained in unallocated profit.

NOTE 28 – RETAINED EARNINGS

The movement in retained earnings is as follows:

	2018	2017
	(in thousands of HRK)	
At 1 January	**88,993**	**180,680**
- profit for the year (after tax)	113,141	86,437
- transfer to reserves	(36,596)	(129,482)
- dividend declared and paid	(48,702)	(48,642)
At 31 December	**116,836**	**88,993**

At the end of April 2019, the Management of the Company will propose a decision to allocate the profit of the Company for 2018 which amounted to HRK 113,141 thousand, whereby HRK 5,657 thousand is proposed to be transferred to legal reserves.

NOTE 29 – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	(in thousands of HRK)	
Interest rate swap	390	1,254
Forwards	25	377
	415	**1,631**

Detailed overview of the interest rate swaps is as follows:

31 Dec 2018	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
SWAP 1 - EBRD	20,540	8,224	229	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
SWAP 2 - EBRD	20,540	8,224	161	06.02.2015.	16.08.2019.	3M EURIBOR	0.19%
	41,080	**16,448**	**390**				

31 Dec 2017	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
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**				

NOTE 29 – 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 84% of the principal of the new syndicated loan to its maturity on 16 August 2019. As at 31 December 2018, the Company fixed interest rate expense for 84% of the principal of the syndicated loan as shown in the table above.

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 7).

NOTE 30 – BORROWINGS

	2018	2017
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	74,111	189,677
Banks abroad	107,091	147,925
	181,202	**337,602**
Current borrowings		
Banks in Croatia	136,701	139,813
Banks abroad	38,942	39,447
Related party borrowings	29,670	21,940
	205,313	**201,200**
Total borrowings	**386,515**	**538,802**

During 2017, the Company refinanced a portion of borrowings in the amount of HRK 227,500 thousand by long-term borrowings with more favourable interest rates. Through the refinancing process, the Company had HRK 227,500 thousand of non-cash transactions. The Company, together with related parties Belupo d.d. and Žito d.o.o. in 2016 agreed a syndicated loan with EBRD and business banks in the total amount of EUR123 million. For refinancing a portion of the existing borrowings a total of EUR 98,850 thousand were used by the company and the two related companies. Of the total amount of the syndicated loan for refinancing, the Company used the amount of EUR 31,500 thousand. The maturity is on 16 August 2022.

NOTE 30 – BORROWINGS (CONTINUED)

As part of the above mentioned syndicated loan, 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 146,034 thousand (2017: HRK 187,372 thousand) are secured by mortgages over the Company's land and buildings with a carrying amount of HRK 362,424 thousand (2017: HRK 380,780 thousand) (note 17).

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

	2018	2017
	(in thousands of HRK)	
Between 1 and 2 years	98,439	156,109
Between 2 and 5 years	83,153	182,747
Over 5 years	-	-
	181,592	**338,856**

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

	2018		2017	
	HRK	**EUR**	**HRK**	**EUR**
	(in thousands of HRK)			
Non-current borrowings				
Banks in Croatia				
Variable interest rate	-	1.40%	-	-
Fixed interest rate	1.57%	1.10%	2.24%	0.90%
Banks abroad				
Variable interest rate	-	1.14%	-	1.24%
Current borrowings				
Banks	0.63%	-	0.88%	-
Related parties	-	2.00%	-	2.10%

An overview of borrowings by fixed and variable interest rates is as follows:

	2018		2017	
	fixed	**variable**	**fixed**	**variable**
	(in thousands of HRK)			
Non-current borrowings	113,818	221,058	305,085	187,372
Current borrowings	31,640	20,000	26,345	20,000
	145,458	**241,058**	**331,430**	**207,372**

NOTE 30 – BORROWINGS (CONTINUED)

The fair value of the Company's long-term borrowings is as follows:

(in thousands of HRK)	Carrying value 2018	Fair value 2018
Non-current borrowings		
Banks in Croatia	74,111	73,838
Banks abroad	107,091	107,091
	181,202	**180,929**

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

	2018	2017
	(in thousands of HRK)	
Croatian kuna	69,470	208,572
EUR	317,436	331,484
	386,905	**540,056**

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:

	2018	2017
	(in thousands of HRK)	
Usable within one year	233,810	188,401
	233,810	**188,401**

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
(in thousands of HRK)				
At 1 January 2018	538,802	1,688,166	88,993	2,315,961
Cash transactions:				
Loans received	99,565	-	-	99,565
Loan repayments	(227,738)	-	-	(227,738)
Purchase of treasury shares	-	(2,557)	-	(2,557)
Sale of treasury shares	-	2,092	-	2,092
Dividend paid	-	-	(48,702)	(48,702)
Total cash transactions	**(128,173)**	**(465)**	**(48,702)**	**(177,341)**
Non-cash transactions:				
Effect of change in exchange rates	(4,257)	-	-	(4,257)
Other non-cash transactions	(19,857)	-	-	(19,857)
Total other changes related to equity	-	2,365	76,545	78,910
At 31 December 2018	**386,515**	**1,690,066**	**116,836**	**2,193,417**

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

NOTE 31 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Unused holiday	Retirement benefits	Termination benefits and bonuses	Legal cases	Total
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**
Increase/(decrease) in provisions	2,380	6,339	415	4,637	1,468	15,239
Utilised during the year	(1,227)	(4,667)	(24)	(2,918)	(5,023)	(13,859)
At 31 December 2018	**9,887**	**6,339**	**11,565**	**4,637**	**13,169**	**45,597**
As at 31 December 2018:						
Non-current	8,246	-	11,565	-	13,006	32,817
Current	1,641	6,339	-	4,637	163	12,780
	9,887	**6,339**	**11,565**	**4,637**	**13,169**	**45,597**

(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 separate statement of comprehensive income within Other income or 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 2018.

(ii) Termination benefits and bonuses

In 2018, the Company recognised HRK 4,637 thousand of provisions for bonuses to key management (2017: 0).

(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:

	Estimate	
	2018	**2017**
Discount rate	2.96%	2.00%
Fluctuation rate	9.68%	9.76%
Average expected remaining working lives (in years)	22	22

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

	2018		**2017**	
(in thousands of HRK)	**Jubilee awards**	**Retirement benefits**	**Jubilee awards**	**Retirement benefits**
At 1 January	8,734	11,174	8,898	10,223
Past service cost	1,619	16	-	-
Current service cost	446	394	392	394
Interest expense	271	321	164	211
Actuarial (gains) / losses	44	(316)	618	358
Benefits paid	(1,227)	(24)	(1,338)	(12)
At 31 December	**9,887**	**11,565**	**8,734**	**11,174**

NOTE 32 – TRADE AND OTHER PAYABLES

	2018	2017
	(in thousands of HRK)	
Trade payables	245,821	276,376
Related party payables	39,997	29,467
Other liabilities	73,930	70,770
	359,748	**376,613**

As at 31 December 2018 and 31 December 2017 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:

	2018	2017
	(in thousands of HRK)	
Salaries and other benefits to employees	34,662	32,411
Deferred income	13,471	5,536
Other accrued expenses	19,260	22,048
Packaging waste disposal fees payable	675	594
Accrued interest	920	1,691
Taxes, contributions and other duties payable	144	130
Dividends payable	1,471	1,493
Net VAT payable	-	3,335
Other payables	3,327	3,532
	73,930	**70,770**

NOTE 32 – RISK MANAGEMENT

Financial risk management

Categories of financial instruments are as follows:

	2018	2017
	(in thousands of HRK)	
Financial assets at amortised cost		
Trade receivables (including bills of exchange received and interests)	480,568	469,999
Cash and cash equivalents	68,167	132,014
Long-term loans	5,291	11,346
Long-term deposits	330	574
Short-term loans	61,069	88,469
	615,425	**702,402**
Financial assets at fair value through profit and loss		
Forward contracts	296	511
	296	**511**
Total financial assets	**615,721**	**702,913**
Financial liabilities at amortised cost		
Borrowings	386,515	538,802
Trade and interest payables	286,738	307,534
	673,253	**846,336**
Financial liabilities at fair value through profit and loss		
Interest swap and forwards	415	1,631
	415	**1,631**
Total financial liabilities	**673,668**	**847,967**

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 market 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 23. 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 approximates 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 29.

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:

	2018	**2017**
	(in thousands of HRK)	
Debt (long- and short-term borrowings including interest swap and forwards)	386,930	540,433
Cash and cash equivalents	(68,167)	(132,014)
Net debt	318,763	408,419
Equity	2,189,168	2,158,729
Net debt to equity ratio	15%	19%

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 30). As at 31 December 2018, 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, Cyprus, Zambia, United Arab Emirates, Saudi Arabia, Oman, Bahrain, Kuwait, Egypt, Japan and Kenya) in order to reduce the risk of possible non-collection.

NOTE 33 – RISK MANAGEMENT (CONTINUED)

Financial 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 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 for individual groups of customers 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.

During 2018, the Company did not have significant damage claims related to the insurance of receivable collection.

The Company's exposure to major customers

Following the progress of the extraordinary administration procedure over the Agrokor concern companies headquartered in Croatia, the Company continues its business cooperation with companies of the Agrokor concern, taking into account the control of its overall exposure.
In accordance with the Agrokor's creditors Settlement, the Company's management, on the basis of available relevant information on operations of Konzum d.d. for the period January-November 2018 that show better EBITDA profitability than expected, revised the recoverability estimate for the claimed receivables. Based on the revised estimate, the Company reversed a portion of impairment of receivables from 2017 by the amount of HRK 7.9 million, i.e. the impairment of receivables was reduced from HRK 44.1 million to HRK 36.2 million.

NOTE 33 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

The Company manages liquidity risk by setting an appropriate liquidity risk management framework for the management of the short and long-term funding and liquidity requirements and by maintaining adequate reserves and credit lines available. Additional efforts made in planning cash flows at the level of all related companies in previous years, in 2018 resulted in optimisation of the Company's liquidity. This is a result of continuous monitoring of forecast and actual cash flows and matching the maturity profiles of receivables and payables of the Company to customers and suppliers, banks and other financial institutions. In addition, 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 operating purposes. Planning cash flows in this way takes into account the Company's guidelines with respect to regular settlement of contracted liabilities and adjustment of all other relations defined 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.

as at 31 December 2018	**Net book value**	**Contracted cash flow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap and forward contracts	**415**	415	415	-	-
Trade and interest payables	**286,738**	286,738	286,738	-	-
	287,153	287,153	287,153	-	-
Interest bearing liabilities:					
Loans and borrowings	**386,515**	392,688	209,179	183,509	-
	386,515	392,688	209,179	183,509	-
	673,668	679,841	496,332	183,509	-
Non-interest bearing assets:					
Trade receivables (including bills of exchange and interests)	**480,568**	480,568	480,568	-	-
Forward contracts	**296**	296	296	-	-
Cash and cash equivalents	**68,167**	68,167	68,167	-	-
	549,031	549,031	549,031	-	-
Interest bearing assets:					
Long-term and short-term loans	**66,360**	76,396	70,773	5,623	-
Long-term deposits	**330**	-	-	-	-
	66,690	76,396	70,773	5,623	-
	615,721	625,427	619,804	5,623	-
Net liquidity position	**(57,947)**	**(54,414)**	**123,472**	**(177,886)**	**-**

NOTE 33 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

as at 31 December 2017	**Net book value**	**Contracted cash flow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap and forward contracts	**1,631**	1,631	377	1,254	-
Trade and interest payables	**307,534**	307,534	307,534	-	-
	309,165	309,165	307,911	1,254	-
Interest bearing liabilities:					
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	-
Non-interest bearing assets:					
Trade receivables (including bills of exchange and interests)	**469,999**	469,999	469,999	-	-
Forward contracts	**511**	511	511	-	-
Cash and cash equivalents	**132,014**	132,014	132,014	-	-
	602,524	602,524	602,524	-	-
Interest bearing assets:					
Long-term and short-term loans	**99,815**	107,976	95,920	12,056	-
Long-term deposits	**574**	-	-	-	-
	100,389	107,976	95,920	12,056	-
	702,913	710,500	698,444	12,056	-
Net liquidity position	**(145,054)**	**(153,275)**	**181,505**	**(334,780)**	**-**

NOTE 33 – 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 29). 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:

	2018	2017
	(in thousands of HRK)	
EURIBOR based bank loans	221,058	187,372
TZMF bill of exchange based loans*	20,000	20,000
	241,058	**207,372**

**TZMF- Treasury bills of the Ministry of Finance*

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.

NOTE 33 – 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 2018	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
			(in thousands of HRK)		
At currently applicable interest rates	**245,998**	91,647	70,371	83,980	-
At currently applicable interest rates + 50 basis points	**247,604**	92,311	70,959	84,334	-
Effect of increase of interest rate by 50 basis points	**(1,606)**	**(664)**	**(588)**	**(354)**	-

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
			(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)**	-

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

NOTE 33 – RISK MANAGEMENT (CONTINUED)

Operational risk management

(i) 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.

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.
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 higher purchase prices in the future.

Risks of raw material procurement and product delivery

The Company realises most of the procurement on the domestic market, while the majority of turnover with foreign suppliers relates to suppliers from EU member states.

With Croatia joining the EU, significant benefits have been achieved in terms of the easier access to EU markets and the elimination of customs barriers, which ultimately resulted in lower procurement prices of strategic raw materials and supplies.

Among procurement function risks, the risk of availability of goods on market is one of the most significant, due to its possible impact on the Company's operations. Unavailability of goods in the market resulting from environmental factors (adverse weather conditions such as drought, floods, early frost), geopolitical and social factors (social unrest and wars in certain countries, state interventions on market) or speculation with key agricultural and food products (wheat and sugar) are a constant threat in the global business environment in the last years.

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 on target EU and third-country markets. One of the mechanisms used is the consolidation of purchasing volumes with the aim to strengthen market positions and ensure availability of raw materials for the production of satisfying quality. Also, by continuously monitoring new technological solutions and introducing replacement raw materials where possible, the Company actively works on the mitigation and/or elimination of the risk of procurement of raw materials and availability of products.

Risks of price fluctuations of basic raw materials

Fluctuation of prices of agricultural and food raw materials is a significant element in the Company's business environment. One of the reasons lies in the already mentioned risks of availability of goods due to environmental, geopolitical and social factors and speculations with key agricultural and food products, especially those in the wheat and sugar sectors.

Protective customs and trade mechanisms in the EU that, on one hand, protect EU producers, on the other hand pose a risk in terms of increased customs duties (antidumping) for certain raw materials from third countries. Exceptional price volatility is particularly relevant in the commodity market segment (hazelnut, sugar, spices, cocoa, powdered milk, etc.), to which the Company must react, as a rule before the event, to minimise the impact as much as possible.

NOTE 33 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

(ii) Currency risk

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

	Liabilities		Assets	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	363,971	478,349	193,377	241,882
USA (USD)	9,196	6,719	24,491	31,391
Russia (RUB)	-	-	14,974	26,796
Australia (AUD)	-	-	11,116	10,708
Poland (PLN)	2,664	297	28,572	30,855
Other currencies	3,787	1,029	8,418	7,886
	379,617	**486,394**	**280,948**	**349,518**

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 2018 to changes in the exchange rate of the Croatian kuna against 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), the Company decided to proactively manage key risks (including currency risk).

NOTE 33 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Foreign currency sensitivity analysis (continued)

Currency risks arise from operations with related parties 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 2018, 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.

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 2018, the Company concluded fx forward contracts for managing currency risk of the following foreign currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. For the exposure to changes in exchange rate of the Croatian kuna against the Euro, derivative financial instruments were contracted not for hedging purposes due to the limited volatility of the exchange rate and the exchange rate regime implemented by the Croatian National Bank, but for the purpose of short-term foreign currency gains.

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 2018	**31 Dec 2017**
EUR	**7.417575**	7.513648
USD	**6.469192**	6.269733
RUB	**0.093251**	0.108278
AUD	**4.567191**	4.90287
PLN	**1.725941**	1.800409

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 an inversely proportional change of Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit.

NOTE 33 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Foreign currency sensitivity analysis (continued)

	EUR exposure		USD exposure	
	2018	2017	2018	2017
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	(1,706)	(2,365)	153	247

	RUB exposure		AUD exposure	
	2018	2017	2018	2017
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	150	268	111	107

	PLN exposure	
	2018	2017
	(in thousands of HRK)	
Increase/(decrease) of net result	259	306

(iii) Sales function based risks

The Company generates 53.5% (2017: 52.1%) of its revenue on the domestic market, whereas 46.5% (2017: 47.9%) of the sales are generated on international markets. 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.

Business risks management

Industry risks

In the food industry, market trends as well as consumer habits change in a very short period of time. Due to this risk, the Company seeks to constantly improve the processes and meet market conditions. In the food industry, where the focus is on products and brands, the Company complies with legislative, health and manufacturing regulations. Clear legal regulation creates most of the production and sales processes within the Company and is subject to change, depending on the bodies adopting it. One of the major risks associated with the food industry is consumer health. All production processes are subject to international standards. By implementing better internal processes, the Company seeks to eliminate the majority of potential threats.

NOTE 33 – RISK MANAGEMENT (CONTINUED)

Business risks management (continued)

Competition risk

The Company sells products both on the Croatian and international markets, and is exposed to numerous competitors in all product categories. Innovations, adjustments of the product price, quality and packaging are key changes that the Company is paying attention to in order to be different from competition.

In addition, the reputation of the brand, or the Company, is intangible value that differentiates it from the competition and creates the advantage. The fact that the Company is focused on securing the highest level of quality of its products contributes to the reputation that depends on many own products on the market on a daily basis.
Monitoring of consumer habits and preferences that are subject to constant changes, and adjustments to them, are one of a series of activities that the Company undertakes to maintain and increase the existing market positions and margins. An important element in the struggle with major international competitors is the difference between the financial resources needed for the overall promotion and sales of products, and it is often the key factor in reaching out to a new consumer.

Risks of IT system disruptions

The Company intensely uses IT systems that enable it to efficiently manage the Company, communicate with customers and suppliers, and collect all the information that management can rely on in making decisions.
Given the high degree of automation of business processes through the use of IT systems, the Company takes the necessary measures to minimise IT system disruptions due to problems with IT equipment, the space in which it is located, viruses and unauthorised external breaches into the systems.

As each IT system disruption causes significant problems in operating systems and financial losses, the Company has implemented IT system recovery procedures through the construction of an auxiliary IT room that assumes the function of the main IT system room in case of a problem. In the normal operating mode, both IT system rooms work in the active-active mode.
The Company regularly conducts internal and external penetration tests (conducted by external independent security experts) to minimise the risk of using system vulnerabilities for the spread of viruses and the risk of unwanted external breaches into the IT systems.

Risks of dependency on management and key employees

The Company strongly relies on its employees as one of the major competitive advantages. Employees are the highest value of the Company, i.e. their abilities and skills, used to achieve the Company's goals and create added value.

The labour market today is characterised by high mobility. Therefore, the Company endeavours to keep the existing staff at all levels because the loss of key employees and finding new ones on the labour market and their introduction into the business may have a significant impact on the Company's operations.

Continued improvement in business processes requires, among other things, changes in the qualification structure of employees, so the Company tries to reduce the risk of unfavourable qualification structure by professional training and education of employees, and quality redundancy programmes are used to impact the age structure of the Company.

The Company periodically evaluates management results, including an assessment of their management skills, to meet the assumptions for long-term achievement of its goals.

NOTE 34– 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 options were effective as at 31 December 2018:

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to key management			
As at 31 December 2015	18,651	Employment until contracted vesting period	22.02.2020.
As at 22 March 2016	5,359	Employment until contracted vesting period	30.04.2020.
As at 15 Februrary 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.
As at 1 May 2018	2,000	Employment until contracted vesting period	31.12.2022.
As at 31 July 2018	42,500	Employment until contracted vesting period	31.12.2023.
Total	**130,160**		

NOTE 34 – 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 (note 7). 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	**2018**	**2017**
Fair value at grant date in kuna (weighted average)	90	77
Share price in kuna at grant date (weighted average)	342	324
Exercise price in kuna (weighted average)	332	333
Expected volatility (weighted average)	20%	17%
Expected life (weighted average in years)	2.9	2.1
Risk-free interest rate (based on government bonds)	6.56%	5.41%

Expense recognised in profit or loss	**2018**	**2017**
	(in HRK thousands)	
Equity-settled share-based payment transactions	1,257	11,403

In accordance with the input variables used, the estimate is categorised in the fair value hierarchy as level 1 (note 7).

The exercise price of share options for key management falls within the range HRK 300 to HRK 352.

Movement in the number of share options and respective exercise prices in HRK is as follows:

	2018		**2017**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding at 1 January	100,967	333	137,662	303
Exercised	(7,000)	299	(68,395)	276
Expired	(8,307)	297	(300)	261
Granted	44,500	317	32,000	352
At 31 December	**130,160**	**332**	**100,967**	**333**

As at 31 December 2018, there are 130,160 of outstanding options (2017: 100,967 options). During 2018, 7,000 options were exercised (2016: 68,395 options).
The weighted average exercise price of outstanding options at the end of 2018 is HRK 332 (2017: HRK 333). The price of all unexercised share options is lower than the share market price as at 31 December 2018. The weighted average remaining validity of options is 2.9 years (2017: 2.1 years).

NOTE 34 – 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., 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 2018, the number of shares within the ESOP is 0 (2017: 84,076 shares, of which 69,395 relates to the Company). During 2018, the qualifying employees were allocated shares, and therefore the capital reserve was reduced by HRK 4,160 thousand (2017: HRK 2,316 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 2018, the Company had a capital reserve in the amount of HRK 0 (2017: HRK 4,160 thousand) based on ESOP, which was used in 2018.

In 2018, the one-off net ESOP cost amounts to HRK 1,622 thousand (2017: HRK 3,026 thousand).

NOTE 35 – RELATED PARTY TRANSACTIONS

Transactions with subsidiaries

REVENUE

Sales revenue

	Revenue from sale of products and merchandise		Revenue from services	
	2018	**2017**	**2018**	**2017**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Podravka d.o.o., Sarajevo	143,350	158,294	1,431	1,523
Podravka d.o.o., Ljubljana	109,005	100,888	2,436	2,431
Podravka d.o.o., Beograd	71,616	68,747	1,031	380
Podravka-Int.Deutschland-"Konar" GmbH	30,770	63,402	338	632
Podravka d.o.o.e.l., Skopje	55,853	53,606	447	494
Podravka-International Pty. Ltd., Sydney	23,136	30,951	198	444
Podravka d.o.o., Podgorica	29,939	29,884	529	603
Podravka-International Inc. Wilmington	36,390	37,535	382	367
Podravka-Polska Sp.z o.o., Warszawa	87,216	84,547	454	519
Podravka-International Kft., Budapest	18,484	16,989	322	315
Podravka-International s r.o., Zvolen	16,247	15,988	303	304
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	11,476	10,350	760	638
Belupo d.d., Koprivnica	77	74	20,433	18,976
Mirna d.d., Rovinj	39,117	12,878	2,253	1,613
Vegeta Podravka Limited, Dar es Salaam	-	487	-	58
Podravka Gulf Fze, Jebel Ali	67	1,174	14	103
Podravka d.o.o., Moskva	24,709	30,724	-	25
Žito d.o.o., Ljubljana	2,992	2,997	2,809	3,233
Belupo doel Skopje	-	-	23	29
Belupo d.o.o. Ljubljana	-	-	26	35
Farmavita	-	-	285	288
Total related party sales	**700,444**	**719,515**	**34,474**	**33,010**

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

Investment revenue

	2018	2017
	(in thousands of HRK)	
Interest income	6,408	7,010
Dividends from subsidiaries	21,630	193,265
	28,038	**200,275**

EXPENSES

Remuneration to key management and Supervisory Board members

Remuneration to the Management board and executives were as follows:

	2018	2017
	(in thousands of HRK)	
Salaries	27,464	25,001
Termination benefits	799	5,602
Share-based payments (note 34)	1,257	11,403
	29,520	**42,006**

Key management of the Company comprises the Management Board and executive directors and consists of 36 persons (2017: 33 persons).

During 2018, the Company paid HRK 1,412 thousand to the members of the Supervisory Board (2017: HRK 1,323 thousand).

LOANS RECEIVABLE

Loans receivable

	2018	2017
	(in thousands of HRK)	
At beginning of year	97,096	128,567
Increase during the year	9,412	63,651
Repayments received	(35,758)	(15,770)
Write-offs	(4,567)	(70,597)
Other changes	40	-
Foreign exchange difference	129	(8,755)
At end of year	**66,352**	**97,096**
Maturity: within one year	(61,069)	(87,876)
Non-current loans receivable	**5,283**	**9,220**

In 2018, the Company impaired loans given to companies Vegeta Podravka Limited, Tanzania and Vegeta Limited, Kenya in the total amount of HRK 4,567 thousand (2017: loans given to Vegeta Podravka Limited, Tanzania and Podravka Gulf FZE, Dubai of HRK 70,597 thousand). The Company treats the impairment as one-off.

NOTE 35 – 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	2018	2017
		(in thousands of HRK)	
Mirna d.d., Rovinj	4,55% p.a.	59,611	84,308
Podravka Gulf FZE, Dubai	4,55% p.a.	6,146	-
Podravka-International USA Inc., Wilmington	4,55% p.a.	595	577
Podravka d.o.o., Beograd	4,55% p.a.	-	11,270
Vegeta Limited, Kenia	4,55% p.a.	-	940
		66,352	**97,096**

The average interest rate is 4,55% p.a.

The maturity of long-term loans is as follows:

	2018	2017
	(in thousands of HRK)	
Between 1 and 2 years	1,887	4,610
Between 2 and 5 years	3,396	4,610
	5,283	**9,220**

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)

TRADE RECEIVABLES AND PAYABLES

	Current trade receivables		Current trade payables	
	2018	2017	2018	2017
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Podravka d.o.o., Sarajevo	34,075	63,905	361	-
Podravka d.o.o., Beograd	61,602	66,222	-	3
Podravka d.o.o., Ljubljana	33,319	13,918	1	-
Podravka d.o.o., Podgorica	13,179	12,317	45	-
Belupo d.d., Koprivnica	6,773	4,134	371	349
Podravka d.o.o.e.l., Skopje	2,770	5,331	-	-
Podravka-International Inc. Wilmington	11,129	10,949	-	-
Podravka-International Pty. Ltd., Sydney	9,923	9,225	-	-
Podravka-Polska Sp.z o.o., Warszawa	28,456	30,652	3,089	502
Podravka-Int.Deutschland-„Konar" GmbH	1,130	781	38	-
Podravka-International Kft., Budapest	3,210	1,498	-	-
Podravka-International s r.o., Zvolen	1,992	1,885	-	16
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	2,544	2,404	1,886	807
Podravka d.o.o., Rusija	14,126	25,279	-	-
Mirna d.d., Rovinj	51,996	38,075	9,517	6,065
Vegeta Podravka Limited, Dar es Salaam	-	-	-	-
Podravka Gulf Fze, Jebel Ali	4	465	2,739	1,302
Žito d.o.o., Ljubljana	922	1,323	21,822	20,400
Belupo doel Skopje	2	2	-	-
Belupo d.o.o. Ljubljana	7	9	-	-
Ljekarne Deltis Pharm	7	3	113	23
Farmavita	95	96	-	-
Šumi bomboni d.o.o. Ljubljana	-	4	-	-
Podravka International s. r. l., Bukurešt	-	-	15	-
Total related party receivables and payables	**277,261**	**288,477**	**39,997**	**29,467**

In 2018, the Company performed one-off impairment of receivables for goods in the amount of HRK 5,263 thousand (2017: HRK 5,793 thousand).

OTHER RECEIVABLES

Other interest receivables from related parties

	2018	2017
	(in thousands of HRK)	
Mirna d.d., Rovinj	2,959	3,258
Podravka International USA Inc., Wilmington	27	3
Vegeta Podravka Limited, Tanzania	4,940	2,957
Podravka Gulf FZE, Dubai	156	1,211
Podravka d.o.o., Beograd	-	290
Vegeta Limited Kenia	17	6
Write-offs	(4,957)	(4,168)
	3,142	**3,557**

In 2018, the Company performed one-off impairment of interest receivable on loans to companies Vegeta Podravka Limited, Tanzania and Vegeta Limited, Kenya in the total amount of HRK 2,080 thousand (Vegeta Podravka Limited, Tanzania: HRK 2,063 thousand, Vegeta Limited, Kenya: HRK 17 thousand), while 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).

NOTE 35 – RELATED PARTY TRANSACTIONS (CONTINUED)
GUARANTEES AND WARRANTIES

	2018	2017
	(in thousands of HRK)	
Belupo d.d., Koprivnica	384,637	354,373
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	28,765	29,399
Podravka d.o.o., Sarajevo	-	500
Podravka d.o.o., Beograd	1,806	1,933
Podravka-International S.R.L., Bukurešt	1,227	1,243
Podravka - International Kft, Budapest	742	751
Mirna d.d., Rovinj	76,536	77,136
Podravka d.o.o., Podgorica	1,113	-
	494,826	**465,335**

BORROWINGS

	2018	2017
	(in thousands of HRK)	
Žito d.o.o., Ljubljana	29,670	-
Podravka Int. Bratislava	-	14,652
Podravka Int. Deutschland - Konar	-	3,231
Podravka Int. Budapest	-	4,057
	29,670	**21,940**

During 2018, the Company received a borrowing from related party Žito d.o.o. in the amount of EUR 4 million with maturity until 26 April 2019.
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%.

INTEREST PAYABLE

	2018	2017
	(in thousands of HRK)	
Žito d.o.o., Ljubljana	50	-
Podravka-International s.r.o. Zvolen	-	26
Podravka-Int. Deutschland-"Konar" GmbH	-	6
Podravka-International Kft. Budapest	-	7
	50	**39**

NOTE 36 – CONTINGENT LIABILITIES

	2018	2017
	(in thousands of HRK)	
Guarantees – third parties	13,145	4,258
Guarantees – related parties	494,825	465,336
	507,970	**469,594**

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 separate statement of financial position as at 31 December, as management estimated that as at 31 December 2018 and 2017 it is not probable that they will result in liabilities for the Company.

NOTE 37 – COMMITMENTS

In 2018, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 10,672 thousand (2017: HRK 31,666 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 8,482 thousand (2017: HRK 14,200 thousand).

The future payments under operating leases for the usage of vehicles, forklift trucks and IT equipment are as follows:

	2018	2017
	(in thousands of HRK)	
Up to 1 year	12,769	11,291
From 1 to 5 years	16,212	20,575
	28,981	**31,866**