PODRAVKA d.d. and its Subsidiaries,
Koprivnica

Annual Report and Consolidated Financial Statements for the year ended 31 December 2014

This version of our 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 report takes precedence over this translation.

CONTENTS

PODRAVKA GROUP IN 2014 (IMPORTANT EVENTS PODRAVKA AND BELUPO)

New investment cycle worth HRK 390 million

On 20 December 2013, Podravka Management and Supervisory Boards reached a resolution on building two new Belupo factories − for solid and semisolid forms of medications. This investment is worth HRK 390 million for the next three years, and it is expected that the new factories will be operational in the first quarter 2017. They will employ about a hundred workers. This investment of building a new factory is a great challenge and has strategic importance for Belupo, but also for Podravka Group as well. With the quality of its products, Belupo proved that it can and knows how to be competitive on demanding export markets.

Incentive payment

Podravka Management Board reached a resolution on incentive payment, for increased efforts and contribution by all the workers of Podravka d.d. during 2013, amounting to additional 10 percent. This resolution refers to all the workers of Podravka d.d., except workers with special contracts and workers with signed contracts already stating individual stimulation, i.e commission. For this purpose Podravka earmarked HRK 1.2 million, and with this resolution once again the Company showed its social responsibility towards its own workers.

Experience is gold

Recognized as one of the top employers in Croatia, Podravka has joined the project initiated by the newspapers Poslovni dnevnik and 24sata, "Experience is gold". The purpose of this project is to connect the students and the companies where they would prefer to work and in that way to gain the experience that will be precious to them when continuing their career.

Provision program for surplus workers

Early in the year Podravka started creating the severance payment program for surplus workers. Consultations with the Workers Council were performed and Podravka accepted the majority of suggestions provided by the Council, and concerning the Program. The Program included 340 workers of Podravka d.d., Danica d.o.o. and Belupo d.d., and a total of HRK 45 million was earmarked for implementing the Program.

- Implementing this Program we wanted to show our responsibility and social sensitivity towards workers leaving our Company, compliant to our current capacities. Implementing it we make the remaining jobs sustainable and create presuppositions for Podravka Group's future growth and development. Providing severance payments which are higher than those required by law, we want to thank our workers who have integrated their active life into this Company for their great contribution to the development of Podravka Group, Management Board president Zvonimir Mršić said.

Recognition for the project "We know-we share-we grow"

The second conference HR Days in the field of human resources management, organized by the portal MojPosao and expert partner SELECTIO, The best HR practice 2013 award ceremony was held.

The portal MojPosao has been conducting the selection of The Best HR Practice for the fourth year in a row. The election was intended as a recognition to a dedicated and planned work of companies, teams and individuals who were successful at managing their human resources. Recognition as the third-placed best HR practice was awarded to Podravka for the project "We Know-We Share-We Grow". Jasenka Maltarić-Dujnić, HR manager said on the occasion:

- With project such as this one and various other programs we permanently change the Company culture, which makes us really proud.

Podravka and Tecnalia cooperation

Podravka was visited by representatives of Tecnalia, a group of scientists and supreme chefs dealing with research and innovations in food and culinary art. Podravka, as the project idea carrier and Tecnalia Research & Innovation will cooperate in the fields of developing innovative food products and services, networking through the platform of open innovations and cooperation on European research programs.

– It is a great pleasure that Podravka scientists will be cooperating and sharing experiences with colleagues from the Tecnalia Institute. At Podravka we are intensely working on developing new ideas and products and we are convinced that the work and development of the Competencies center at Koprivnica will result in creation of new, high-quality products to the pleasure of our consumers, Podravka Management Board member Jadranka Ivanković said.

Podravka acquires canned meat products and pates Piketa and Classic

Management of Podravka, Agrokor and PIK Vrbovec concluded contracts on transfer of trademark, recipes and equipment and on acquiring the business of production and sales of canned meat products and canned pates. With this act Podravka is taking over from PIK Vrbovec the canned pates program and meat cans for further production and sales on all markets. This is about the canned meat products and pates Piketa and Classic which definitely have a significant growth potential along with the expanded range of Podravka's canned meat, owing to the reputation and acceptance with the consumers. The production of these products will be continued in the production facilities of Podravka's meat industry Danica d.o.o. considering that Danica is already performing service production for PIK Vrbovec.

- This agreement definitely needs to be considered within the context of consolidating domestic food industry. This is about two leading companies focusing on those categories in which they wish to keep or to win leading market positions. Focusing on canned meat program, and within the meat and meat products category, this resolution is very logical and justified, considering that this way we will strengthen the category and expand the range of canned meat products that we are currently offering our consumers, Zvonimir Mršić, Podravka Management Board president said.

Cooking shows as part of In Magazin by Nova TV

Podravka's Culinary center was the filming venue of the third season of popular culinary TV shows as part of In Magazin by Nova TV – Lunch for Tomorrow, Sweet weekend with Podravka and Holidays with Podravka. The main protagonists of the show are Podravka's culinary promoters. According to the research, this culinary show is one of the most popular on Nova TV, and the chefs were rated highly comparing to other chefs and other culinary TV shows that have been aired for years. All in all, cooking is "in", and when it comes to culinary art, then once again the rule is confirmed, Podravka never followed trends, but it dictated them.

Increase of Belupo share capital

As decided by Podravka Management Board, which is also Belupo's General Assembly, Belupo will be refinanced by reinvesting HRK 86 million of last year's profit, so that the share capital will be doubled comparing to 2011. The share capital that year was HRK 154 million, in 2012 is was increased by the profit of HRK 50 million, and then in 2013 the share capital was additionally increased by HRK 86 million, and in total it is HRK 290 million.

- With the significant increase of the share capital of our pharmaceutical Company Belupo, we emphasize the importance of this part of our Group. Reinvesting the profit, as well as with the planned investment cycle, we create preconditions for further growth of the Podravka Group, especially in foreign markets, said Zvonimir Mršić, Podravka Management Board president after the adopted decision on Belupo recapitalization.

For Croatia's largest pharmaceutical Company, apart from sales growth, this resolution will create additional conditions for entry into the announced investment cycle – the construction of two new factories – semi-solid, liquid and solid drugs, which will employ several hundred workers. With this example Podravka Group shows that it will not forget the community in which it operates, and from which it has grown, putting "every kuna" earned into job creation, contributing to economic growth, but the growth of gross domestic product.

Help for the flooded Slavonia

In the shortest possible period Podravka ensured aid in food and water, for a large number of citizens who have been affected by extensive flooding. The employees prepared more than seven tons of various food items and ensured emergency transport to Eastern Croatia.

In three days 16 pallets of clothing, shoes and hygiene products have been gathered, as instigated by the volunteers association of Podravka called PULS. When information was received that the flooded population was short in baby food, Podravka employees gathered almost 20,000 portions of Čokolino, Frutolino, Rižolino and Keksolino, and another 1,300 pieces of cans and durable milk was gathered when the employees renounced their own meals from the cafeteria.

Special action was also conducted at the finals of Lino All-rounder on 24 May in Novska. The finals gathering 24 schools from entire Croatia gathered about 1400 participants who donated teddy bears in order to bring joy to the children who had to leave their homes.

Blood donors of Podravka also contributed to the humanitarian activities, starting an initiative of gathering financial aid among Podravka employees. Podravka's association of volunteers PULS also joined this action, and then other employees contributed, earmarking amounts for humanitarian purposes, and according to their own possibilities, and for a time period that is acceptable for them.

In total 790 workers of Podravka, Danica, Belupo and Deltis pharm contributed with their donations. In June almost HRK 70 thousand was collected, and the initiative continues.

Euromoney – Podravka at the top of the best managed companies

Out of 50 companies Podravka achieved the biggest advancement among all the companies in Central and Eastern Europe and is placed among the top best managed companies in Croatia.

Analysts from leading international banks and institutions participated in the survey conducted by the distinguished magazine Euromoney, and the survey participants nominated in their opinion the best managed companies, considering business strategy, corporate governance system, higher management availability, business transparency, shareholders value, information availability and corporate web site efficiency, along with other parameters.

The biggest cake in Croatia

Unique event of preparing the biggest cake in Croatia, organized by the professional Podravka's team, with the help of Croatian Culinary Association and food blogers was held at Zagreb park Zrinjevac. Podravka's cake weighing 600 kg was the biggest attraction of the desserts festival entitled Slatki gušti.

The visitors got to taste the cake for the amount they choose, and all the funds gathered were donated for inhabitants of the flooded Slavonia region. With this action, Podravka wanted to send the message to the suffering inhabitants that they are not alone and that they still have the support of the Company with the heart.

Crediting contract

Podravka signed in London with the European Bank for Reconstruction and Development and other three commercial banks (Erste Group Bank AG, Raiffeisen Bank International AG and Unicredit Bank Austria AG) a contract on syndicated loan amounting to EUR 73.4 million.

With this contract Podravka will be refinancing its existing loans with significantly lower interest rates and prolonged due dates.

European Bank for Reconstruction and Development, as an arranger of this syndication will participate with about EUR 30.0 million of own funds, while EUR 43.4 will be provided from other banks in the syndication – Erste Group Bank AG, Raiffeisen Bank International AG and Unicredit Bank Austria AG. In the previous years Podravka has achieved significant improvements on operating and financial level, which was recognized by the European Bank for Reconstruction and Development and syndicated banks, which have confirmed their trust in stability and business operations of our Company by signing this contract.

With this arrangement Podravka continues its restructuring process, with the aim of further regional and international growth and development. The stated amount will be used to restructure the Company balance sheet, and saving of HRK 7.5 million is expected on interest costs.

Podravka d.d. General Assembly held – all draft proposals adopted

General Assembly of shareholders of Podravka d.d. adopted all the draft proposals by the Management and Supervisory Boards. Draft proposal on the retention of Podravka's profit was unanimously adopted, which for 2013 amounts to HRK 51.4 million and is allocated as legal reserves in the amount of HRK 2.6 million, for reserves for own shares in the amount of HRK 45.8 million and for transfer to other reserves in the amount of HRK 3 million.

The General Assembly adopted the draft resolution on approving Management Board members who were managing in 2013, and adopted the draft resolution on the approval of the Supervisory Board by which their duties and supervision over managing business operations of Podravka d.d. in 2013 is accepted.

Since it was established that the current mandate expires for members of the Supervisory Board Dubravko Štimac, Dinko Novoselec, Petar Vlaić and Peter Miladin on September 7 2014, General Meeting of Shareholders adopted the draft decision on their re-appointment to the Supervisory Board. New four-year term for the elected members of the Supervisory Board began on 8 September. Authorized auditing Company KPMG Croatia d.o.o. was appointed for auditing the financial statements of Podravka d.d. as well as its subsidiaries and for auditing the consolidated financial statements of the Podravka Group for the business year 2014.

Complete culinary experience

During the specially created brunch called "The complete culinary experience" new Podravka corporate website was introduced.

Podravka "cooked" the new Podravka.hr adding to the existing values; excellence, passion, trust, consumer satisfaction and creativity that something that consumers often miss today – Inspiration. In one place, new Podravka website offers to its consumers innovative culinary solutions, but also modern corporate communication.

Understanding consumer habits who are more frequently using their mobile phones, the complete website was designed in the responsive web design, enabling complete adjustment of the content to the device on which the site is being viewed, regardless of whether it is a smart phone or computer monitor.

25. Vegeta Croatia Open Umag – special reward for Podravka

25th Vegeta Croatia Open, the oldest and renowned ATP tournament in Croatia and the region was held in Umag. Apart from top sportsmen, entertainment and surprises during one of the most interesting openings so far, before the games special reward was given to Podravka – a replica of one of the most special tennis cups.

President of the Organizational Board of the tournament Željko Kukurin handed in the special award and the winning cup to Zvonimir Mršić, Management Board president of Podravka that has been a long-year main partner and tournament sponsor.

Apart from supreme tennis, the 25th edition of ATP Vegeta Croatia Open in Umag offered to numerous visitors a supreme gastronomic experience, for which the title sponsor of this great sport event was in charge.

In memory of prof. Zlata Bartl

Traditionally Podravka employees honoured prof. Zlata Bartl reminiscing the old times. Leader to Podravka team in charge of inventing Vegeta, gave her contribution to the Company with her creativity and ideas, but we equally remember her as a person that knew how to express her respect for people, love and life.

Another memorial meeting of prof. Bartl was held in the memorial room in the lobby of Podravka headquarters, gathering representatives of Podravka and professors family.

Shares of Mirna d.d. acquisition

Pursuant to the Capital Market Law and the Rules of the Zagreb Stock Exchange, during public auctions for selling the shares MRNA-R-A in extrajudicial settlement, held on 25 August 2014 via trading system of the Zagreb Stock Exchange d.d., as ordered by the INTERKAPITAL VRIJEDNOSNI PAPIRI d.o.o. and HITA-VRIJEDNOSNICE d.d., Podravka d.d. acquired 198,209 shares of the Company Mirna d.d. from Rovinj, Giordano Paliaga 8, which is 53.855% of totally issued shares by the stated Company.

“LeaNcO” project implementation completed

Podravka was successful at implementing the project "LeaNcO" (Lean Concept of administration excellence) – i.e. the development of "lean" concept of excellence in administration. Its aim was to increase the efficiency of three business processes – finance, administration and reporting process.

The project was managed in cooperation with the consulting Company A.T.Kearney, and it consisted of 17 improvement measures, which were a separate, mutually connected projects, having their own project managers and implementation teams. More than 50 employees were included in the implementation of the LeanCo project. Implementing the above mentioned 17 measures in the processes of finances, administration and reporting, planned annual saving, amounting to HRK 24 million were realized, due to more efficient use of resources and saving in various material costs.

Results of modern tomato growing

Using new, modern technologies of tomato growing on Istrian land, Podravka started test production of tomato in cooperation with an Israeli partner. The aim of the project was to improve the growth of industrial tomato, through application of Israeli technology of growing, increased yield of tomato and extended duration of the picking and processing season. New technology guarantees higher yields and extension of the tomato growing season, which was proved at the project presentation and new technologies demonstration.

Results of the trial project are extremely favourable for the manufacturers and for Podravka's factory. As Podravka Management Board president Zvonimir Mršić said, Podravka showed that it can succeed in Croatian agriculture, because together with its partners, it significantly increased the effectiveness of the Croatian agriculture as the raw base for food processing industry, which is competitive enough and recognized on the European and world markets.

Ninth season of Lino All-rounder

After 200 Lino All-rounders held in the past eight years in elementary schools of all Croatian counties, who managed to bring joy and the winning spirit into the hearts of 150,000 pupils, this joint project by Podravka, Sportske novosti and HT entered its ninth season. Through the sport competitions the children gain their winning mentality, but they also learn how to take defeat. This is where they meet the greatest sportsmen of our country and through spending time with them they acquire true sport and human values.

Togetherness connecting Podravka employees

Special bonds of togetherness, friendship and devotion tie Podravka employees who have invested the best years of their lives into Company growth and development. Traditional gathering of retired Podravka employees and workers with anniversary years spent at the Company gathered about 2000 participants in the big tent. Big smiles, cordial greetings, reminiscence of joint achievements, pride to have belonged to the generations of those meritory for creation of new products, successful campaigns, conquering new markets – these are all the features of the people gathered at the traditional party.

Podravka Management Board president thanked the retirees and workers celebrating 30, 35 and 40 years of service on their great contribution to the development of the Company, promising that the Company will always care for their workers, because they are its greatest asset.

Healthy recess for pupils

Healthy recess is Podravka's project created to improve eating habits in pupils. This is a continuous project of unique menus started in cooperation with the City of Koprivnica and elementary schools in Koprivnica, yielding great results. Positive experiences have been presented to representatives of schools together with a web link Healthy recess, containing texts and advices on nutrition for children, aiming to educate children, their parents and teachers and to encourage them to think and improve quality of everyday diet.

Zvonimir Mršić – vice-president of Croatian Exporters Association

On 15th October Croatian exporters held a regular assembly where the members decided on the same president of the Association, and reelected Darinko Bago. New vice-president is Zvonimir Mršić, Podravka Management Board president. Considering Podravka's rich experience in exports and its significant share in total Croatian exports, appointing Zvonimir Mršić as Association vice-president will surely contribute to further development of Croatian export strategy as well as to the competitiveness of the overall Croatian economy on the ever demanding international market.

Danish queen Margaret visiting Podravka

Ceremonial lunch at Podravka's gastronomical center Štagelj was the finishing item on the agenda of Danish queen Margaret II and her husband prince Henry's visit to Koprivnica. Podravka's culinary masters can be proud because the queen was delighted with domestic delicacies served in the special ambient of Štagelj. Testifying is the fact that the Danish royal couple was detained at lunch for an hour and a half, which is longer than the time predicted by the agenda. Podravka Management Board president Zvonimir Mršić presented the queen Margaret II a specially made book of recipes and after lunch, the queen took a photo with Podravka managers and the Catering team who did a superb job.

21st traditional Belupo days

A step towards health was an umbrella title of the 21st Traditional Belupo days held from 9 to 11 October in Hotel Parentium in Zelena laguna in Poreč. Traditional Belupo gathering assembled this year faithful friends and partners of Belupo − pharmacists, presidents of chambers and professional associations and representatives of chain drug stores. For the first time Belup days were visited by the Belupo Supervisory Board president and also Management Board president Zvonimir Mršić, dean to the Pharmaceutical-biochemical Faculty of the Zagreb University, prof. dr. sc. Jerka Dumić and newly elected president of the Croatian Pharmaceutical Association , mr. sc. Darko Takač, mr. pharm.

The General Assembly of Mirna d.d.

As decided by the General Assembly of Mirna d.d., as of 21 November 2014 the following Supervisory Board members of Mirna d.d. have been called of: David Ilijevski, Supervisory Board member and president, Željko Bošnjak, Supervisory Board deputy president and member and Ivana Jagačić, Supervisory Board member. Newly elected members to the Supervisory Board of Mirna d.d. as representatives of Podravka, are Mario Baburić, Branka Perković and Marina Diminić Visintin.

After the General Assembly of Mirna d.d., the constituting session of Mirna d.d. Supervisory Board was held. It was determined that the former Management Board president of Mirna d.d. Saša Krobot has submitted an irrevocable resignation, as of 18 November 2014. Mirna d.d. Management Board member Marko Kardaš submitted his immediate resignation on 12 November 2014, while Management Board member Siniša Slunjski submitted his immediate resignation on 29 September 2014.

As of 21 November 2014 all the previous authorisations issued by the previous Management Board have been recalled and cancelled.

At the same session the Supervisory Board of Mirna d.d. appointed Vladimir Bunić as Management Board member - CEO of Mirna d.d.

After it conducts a detailed analysis of the business of Mirna d.d., Podravka will take all possible actions, within legal framework, in order to remove the need for bankruptcy over Mirna d.d.

Knowledge on a platter

"Knowledge on a platter" is available to all employees of Podravka. Lectures in the field of English language, personal skills and computer knowledge are arranged in the period from November 2014 to July 2015. This program is available to all employees of Podravka and was launched with the aim of increasing the accessibility of education and to encourage employees to openness and a desire for knowledge and personal development.

Management Board president thanked on achieved results

Podravka Management Board president Zvonimir Mršić thanked Podravka employees on results achieved so far and reported on business results and Company development plans.

- Our contribution is satisfactory and I therefore hope that by the end of the year the shareholders and investors will be satisfied with what we deliver. It is our goal to influence consumer satisfaction, because a satisfied consumer is the road to success, he said and added:

- In order to ensure Company growth, Management Board had enough courage to make a step forward and make a decision on founding new companies on several new markets, opening thus new possibilities. Next year will be even more challenging and we have to achieve internationalization on all levels – from production to Management Board. Mentioning plans in 2015 he pointed out:

- We wish to integrate Mirna d.d. in the Podravka Group system and to finish acquisitions which will bring us new values. It is our intention to continue with the internship process and conduct the innovations in the production planning process, and building a new medication factory is also planned.

Internship program of the second SHAPE generation completed

Presenting their internship tasks to the Management Board, to mentors and colleagues, the second SHAPE generation has successfully completed their internship program. Organized by the HR department, SHAPE participants showed what they had been working on over nine months, and Podravka Management Board president Zvonimir Mršić wished them luck in future business career.

Central part of the program was selection of the most successful interns and mentors. Apart from the presentations by the interns, the work of newly founded Podravka Volunteers Association PULS, deriving from tasks of interns from the first SHAPE generation, was also presented. President and Board members have thus also become the first official members of the Association, to which all interested Podravka employees can join.

Rewarding employees at year end

The year was completed by rewarding employees living Podravka values in their workplace in everyday life. Therefore the traditional party of Podravka employees also had a ceremonial character, because Podravka Management Board president Zvonimir Mršić awarded the winners of the competition "I am also Podravka employee!" and to the authors of the best ideas in the competition "If I were..." This is a new idea introduced in order to reward the best employees and thus to encourage others to be excellent at their jobs.

PODRAVKA GROUP IN 2015 (IMPORTANT EVENTS)

New market regions and strengthening of international business

Aiming to further internationalize business and to form new market regions, as of 1 January 2015, a business reporting model has also changed.

- With the new organization of markets management and redefining market zones we intend to increase our efforts to a better usability of our size and presence around the world. Optimal balance of category focus and geography regions we create better terms for further growth and development of our Company, Zvonimir Mršić, Podravka Management Board president said.

As mentioned, as of 1 January 2015 reporting on Podravka Group business, for the business segment Food, will begin according to the new market regions. There will be four newly formed regions: *Adria region* with the market of Croatia and present markets of South-East Europe, then the region *Europe* with the markets of EU, then the region *Russia and CIS* and the region *New markets* with America, Asia, Australia and Afrika.

In addition, new Company was registered in Dubai (UAE), and procedures have been started for registration of companies in Dar es Salaamau (Tanzania) and representative office in Beijing (China), creating preconditions for starting business on these very potent markets.

Prestigious award „Pečať bonity“

Podravka Slovakia is the proud holder of „Pečať bonity“, prestigious recognition of independent government organ evaluating Company business results.

„Pečať bonity“ is an award that Podravka International, s.r.o. received for satisfying demanding business results of companies doing business in Slovakia in 2013. This award has been given by the Slovakian agency for Informing and Marketing and National Information center of the Slovakian Republic. The fact that only 1.2 percent of 224,000 commercial entities acting in Slovakian market become the holders of „Pečat bonity“, says a lot on how demanding the fulfillment of criteria is.

Senior vice presidents for Europe and Adria Regions and Food solutions project appointed

Podravka Management Board appointed heads of two newly formed regions – region Europe, region Adria and Food Solution project.

Alexander Gerschbacher has a respectable commercial, marketing and management experience in leading world companies, and will take over the position of senior vice president for Europe region. He will be in charge of market group in the area of Central and Western Europe.

Milan Tadić is appointed to the position of senior vice president for the Adria market, and before this he was in charge of the markets of South-East Europe. With this new function he will be responsible for Podravka's business in the market of Croatia and SouthEast Europe.

Podravka Management Board reached a resolution on appointing the senior vice president for „Food solution“. With this appointment Peter Fuchs will in early April take over the management of HoReCa segment, the project of advancing and developing products and services for this fast growing program, called Food solution.

Middle East and North Africa regional office

Podravka founded regional office for Middle East and North Africa, headquartered in Dubai, the economic center in the United Arab Emirates.

It thus officially started doing business in this very demanding, but also potent market. Podravka's office was opened as part of one of the fastest growing world customs free zones called Jafza (Jebel Ali Free Zone), whereby Podravka also became the first Croatian company to invest in the customs free zone, which instigated great interest of the business world in the region.

Founding this Company, the level of complexity and management of the mentioned markets is significantly reduced and the focus on creating additional demand and possibilities for Podravka's further development on international market.

Nermin Salman was appointed CEO of Podravka office in Dubai. He is a manager with rich international experience, and he is coming from the position of regional manager for Middle East, Iran and North Africa for Gorenje.

Vegeta Marinades – Produkt leta in Slovenia

Slovenian consumers recognized Vegeta marinades as the best in the category of food seasonings. For the first time Podravka participated in the selection Produkt leta 2015 in Slovenia, and this reward is given by the consumers for the most innovational product in the past year. This reward is given based on the research on consumer satisfaction with product usage, and is conducted by the agency AC Nielsen.

A specific feature of this election is the consumer choice, because they are the ones who have tried the product, who confirm their satisfaction with what they have tasted and their confirmation is the guarantee to others to check out the quality of the selected products. Recognition for the most innovative product is a confirmation that Podravka creates products which respond to the demands of modern trends and which are recognized by the consumers.

Investors' Day held at Podravka

Interested investors, representatives of investment and retirement funds and broker agencies, business analysts participated at Investors Day held at Podravka. Aim of this dynamic, interactive event was to present to the investor community Podravka Group business results in 2014, positive and negative influences on them and guidelines in business and plans in 2015. For the first time the Investors Day was held on international level – event could be attended through live streaming by foreign consumers and partners, and the event itself was attended by a foreign analyst from Erste Group, elevating the investor relations to a whole new level.

Podravka Management Board president Zvonimir Mršić presented significant events and share movement in 2014. Management Board members presented individual aspects of Podravka business – Olivija Jakupec presented food, Hrvoje Kolarić pharmaceutical part, and Miroslav Klepač submitted the financial report to the investors.

Incentive payment to Podravka employees this year as well

Podravka Management Board reached a resolution on incentive payment, for increased efforts and contribution by all the workers of Podravka d.d. during 2014. This decision refers to all the workers of Podravka d.d. whose pay is calculated based on job complexity coefficient, as well as for workers with contractual pay, and not included in the incentives according to Podravka Rulebook on manager incentives or some other form of individual incentives.

"Paying incentives to our employees we wish to express gratitude on their selfless contribution in achieving business results in the past year. We believe this will be a certain additional encouragement to be prepared to give our best this year as well in creating the future of our Company – Zvonimir Mršić, Podravka Management Board president pointed out when passing this resolution.

Podravka appoints senior vice presidents for Supply Chain and Global Business development

Aiming to further strengthen business development and efficiency, Podravka Management Board reached a resolution on appointing senior vice presidents for Supply Chain and Global Business Development.

As of 1 March this year, senior vice president for Supply Chain is Ivan Galović with more than 30 years of rich business experience in Croatia and abroad. Having completed Faculty of Food Technology in 1982, he started his business career at Podravka, working as technologist and technical director at Yeast factory. After that he continued his career at Carlsberg, carrying a series of responsible duties in the area of production, supply chain, general management – in Croatia, but also in other Carlsberg Group companies around the world. Working in Bulgaria, Kazakhstan, Denmark and Malawi, he always stood out by achieving above-average results and with his focus on Company growth. He returned to Podravka in 2013 as Supply Chain director, achieving also remarkable business results, and with his appointment to the position of senior vice-president he will be in charge of ensuring further business growth and increasing present level of Company efficiency as a whole.

Senior vice-president for Global business development is Mario Baburić, former sector director of Business Development and Controlling.

He graduated from the Faculty of Mechanical Engineering and Shipbuilding, University of Zagreb, and completed MBA in the area of finance at Rotterdam school of business. he has more than fifteen years of business experience, and he came to Podravka in 2012 from Unicredit, where he was in charge of corporate financing, and was particularly successful in mergers and acquisitions, financial and operating restructuring. Considering further strengthening of Company's internationalization, as senior vice-president he will primarily be in charge of business development on global level.

"With these appointments we wish to create preconditions to expand their area of operations and responsibilities for all the markets on which we are present around the world, but we also wish to reward those who have completely justified the trust that was given to them. We are convinced that they will contribute to the development of our international business because with their present work they have proven that they can" – Zvonimir Mršić, Podravka Management Board president said about these appointments.

PODRAVKA GROUP RESEARCH AND DEVELOPMENT (Podravka and Belupo)

PODRAVKA RESEARCH AND DEVELOPMENT – "Innovation is the key to success"

Podravka's R&D sector activities take place through the following key areas: Product development (food seasonings and meals; baby food, cream spreads and breakfast cereals; sweets, snack and mill-bakery products; fruit, vegetable products and condiments, fish products and beverages), Nutrition and sensorics, Technology development, Packaging development and Agriculture development. The stated activities are supported by the Quality control, a system of ten laboratories for quality control and sanitary validity (two central and eight factory laboratories), Regulatory affairs and Ecology development. Research and development activities are managed from the director's office.

Foundations for faster development of new and innovative products are created through carefully selected research projects. Such projects are planned and implemented, applying the open innovation model, by networking internal competencies and knowledge with finest potentials from external sources. A significant project in 2014 was creation of own web-page within corporate web-site, presenting the R&D to the public.

Opening the system and by networking, Podravka's R&D accepted the invitations of several international clusters for dedicated research and development projects within EU program Horizon 2020. Results of the competition are expected in 2015. Apart from the European financing schemes, Research and Development department had a significant activity in applying projects for national funds with partners, but it is important to point out, for the projects that were prepared internally.

Project of preparing the founding of Competencies Center Koprivnica entered in 2014 its second phase for preparing for EU funds. Project aims are focused on strengthening of innovation value chain, through connecting economic subjects, local administration and scientific research institutions.

Another important key event in 2014 is publishing Podravka Nutritive strategy 2014-2024, start of culinary research and investment in human resources development.

Podravka Nutritive strategy represents a long-term, strategic and developmental-innovative framework for design of nutritive balanced products according to nutritive profiles. These are the products which should satisfy consumer expectations who take care of own health (less sugar, salt, fat) and those who need to or wish to be on a special diet (such as: gluten-free food, vegetarian food, sportsmen diet, diet for elderly, pregnant women, women in menopause). Numerous research proved how diet depends on numerous factors, among others, life style and cultural habits. Therefore, food designed compliant to nutritive guidelines also has to be adapted to specific national taste.

Continuity of investment in competencies development and knowledge of workers also continued in 2014. There were workshops on development of the so-called "soft" skills and project management.

In 2014, R&D employees participated on local, national and international level through on business and professional conferences, creation of regulatory policy (Croatia, EU), publishing of research and expert works, educations towards academic and professional public, and in the work of the associations.

BELUPO RESEARCH AND DEVELOPMENT

Belupo's R&D in 2014 was featured by introducing a higher number of new products in the development process. This was enabled by completing bigger and demanding projects in 2013, creating room for new development activities. New development range is comprised of medications, non-prescription or over-the-counter, while categories of food seasonings and medical cosmetics are only symbolically present in the development programs.

Apart from developing new products, activity in which Belupo invests equal amount of resources is maintenance and costs rationalization regarding existing portfolio. This year, as part of those activities, a technology transfer was completed for several financially attractive products, and their production was brought into own production plants. Implementation of financially affordable active substances in Belupo's products, which demands development activities of verifying technological aspects of production, influence on quality and stability of finished product and preparing documentation to apply variations to the regulatory body that needs to approve the change so it can be implemented. Several changes of active substance producers were introduced in that segment this year as well.

Upgrade of the registration files, activity caused by Croatian accession to the European Union, which is conducted in cooperation with the Regulatory Affairs, is advancing and most of the work is already successfully completed.

In cooperation with Belupo's Quality Control and IT departments, cromatographic system Empower was integrated this year. The job of configuring, employee education and final implementation was extremely complex and demanding, but after several months of work, one can express satisfaction with the system.

Just like in previous years, Belupo's portfolio is expanded with products from own development and through purchased files, and this year 13 new products were released. 11 of them are medications, 1 is in the category of alimentary additives and 1 in medical cosmetics. Medications are in the groups with effect on digestive, nervous, cardiovascular and urogenital system and an antibiotic.

2014 at Belupo was a year of mobilization and intensive work on projects of new factories for solid, semi-solid and liquid medications. R&D employees joined in that general effort within their competencies.

NEW PRODUCTS IN 2014

PODRAVKA

Strong innovation cycle in food

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

In the **culinary category** in the markets of Croatia and Slovenia, the product portfolio has been extended with Podravka broths, a completely new modern generation of products. In addition, in the Croatian market Podravka has entered the category of monospices where it has not been present until now, while in the Polish market it has launched Vegeta cubes and Vegeta marinades, thus also entering new categories in this market. Vegeta cubes have also been launched to the market of Hungary, which is a significant step forward for the Vegeta brand in the markets of Central Europe. A new line within cream soups has been introduced in the soup segment in the market of Croatia, *Richness of vegetables*, a unique combination of ingredients and the rich vegetable flavour. The segment of dish mixes with the Fant brand has been added new product lines in the regional markets[1] and in the USA.

In the **category of baby food, breakfast cereals and other food**, the existing portfolio has been extended in the regional markets with extensions of the existing products, but also with new product categories, mainly in the segment of baby food and breakfast cereals, such as baby biscuits, semolina and impulse range of products, where Lino vaffers represent the most important product. During 2014, efforts were also made to consolidate complementary categories of fish, tomato, pasta and sauces into a single Mediterranean concept with the main aim to further build up the Mediterranean category and consolidate the communication platform for the Mediterranean food.

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

In the **meat products category** there was a significant change in the pâtés subcategory in April when, by acquiring Piketa and Classic brands from the Company PIK Vrbovec, Podravka became the strong second seller of pâtés in the Croatian market, with the tendency of further strengthening and growth in the regional markets. In the subcategory of sausage products, the focus in 2014 was on the internationalization of the existing product range (to the markets of Macedonia, Sweden, Bosnia and Herzegovina) and on the extension of the product range in the value segment in the Croatian market (through the "Danica" brand). At the end of the year, the product range in the Croatian market was extended by new products, Bacon salamy, XXL Gourmand sausages and Safalada.

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

BELUPO

EMINENS SR (ropinirole) prolonged release tablets 2 and 4 mg

Pharmacotherapeutic group: dopamine agonist

ATC flag: N04BC04

Ropinirole is non-ergoline D2/D3 dopamine agonist that stimulates striatal dopamine receptors. Ropinirole alleviates dopamine deficiency, characteric of Parkinson's disease, by stimulating striatal dopamine receptors. Ropinole affects hypothalamus and pituitary gland by inhibiting prolactin secretion.

Eminens SR is used to treat Parkinson’s disease under following conditions:

- as initial monotherapy, to delay lovodopa treatment introduction
- as addition to levodopa during disease, while levodopa's effect decreases or becomes unconsistent and so called "on-off" fluctuations of treatment effect appear ("dose completion" or "on-off" fluctuations type).

Eminens SR tablets are intended for oral use. They have to be taken once per day at approximately same time. Prolonged release tablets can be taken regardless of meals, and individual dose titration is recommended according to the efficacy and tolerability. Eminens SR tablets 2 and 4 mg are on Croatian market since September 2014.

MOKSONIDIN tbl. 28x0.2 mg
MOKSONIDIN tbl. 28x0.4mg

moksonidine

Moksonidin Belupo is a new medicine in Belupo's portfolio and is on the market since March 2014. It comes to the market that has 15% annual growth as the second generic parallel to the originator. It is used as an antihypertensive with central effect on the central nervous system by stimulating imidazoline receptors in the brainstem. It is rarely used as monotherapy or first-choice antihypertensive, but is frequently added as second or forth medicament. It can be combined with any other antihypertensive with additive antihypertensive effect. It is mostly combined with ACE inhibitors, Ca channel blockers and beta-blockers.

VINER MINT® 50 mg chewing tablets
VINER MINT® 100 mg chewing tablets

sildenafilum

VINER MINT (sildenafil) belongs to the phosphodiesterase inhibitor type 5 medicament group. ATC classifies it as G04BE – Drugs used for erectile dysfunction

VINER MINT chewing tablets are on market since April 2014 and have enhanced the overall market share of the VINER tbl. on Croatian market, which in 2014 amounted to 20%. VINER MINT treatment is intended for men with erectile dysfunction, also known by the name of impotence. Adhere to the instructions given by the doctor when using VINER MINT tablets. Likewise, if there is any uncertainty on how to use the medicine, doctor's advice should be asked for. Typical daily dose of VINER MINT is 50 mg – 100 mg and it should be taken an hour before sexual activity. The whole tablet should be chewed and swallowed without water.

LUPOCET FORTE FTBL. 10X1000 MG
LUPOCET FTBL. 18X500 MG

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

AWARDS & ACKNOWLEDGMENTS (PODRAVKA AND BELUPO)

Podravka – food brand with the highest number of won first places in the region

According to Best Buy Award research conducted in Bosnia and Herzegovina, Serbia, Slovenia and Croatia, Podravka is the food brand which has won the most first places among all tested countries in the region.

Best Buy Award researches for the period 2013/2014 and 2014/2015 show that consumers in the region, if judged by the number of first places in different researched categories won, value food products under the brand of Podravka the most. According to the numerous best price-quality ratio Best Buy Award categories, products of Podravka are number one choice by the consumers in Serbia, Bosnia and Herzegovina, Slovenia and Croatia.

In addition to the first place by the consumers' votes, products of Podravka are often highly positioned to the second or third place in researched categories. Votes won indicate that products of Podravka are affordable to the consumers in region, while keeping the high level of quality.

Podravka's products have shined on the first place of the Best Buy Award research for **Croatia**. When it comes to the food products, Podravka, as a Company, has won consumers' votes in as many as 12 categories, which indicates the trust consumers cherish for the domestic producer.

Best Buy Award researches carried out in countries in the region for the period 2013/2014 show that Podravka canned vegetables, compotes and canned ready-made meals, Vegeta food seasonings, Dolcela powder pudding and Eva canned fish are no.1 choice for consumers in **Bosnia and Herzegovina**.

Consumers of **Serbia** chose Podravka pickled gherkins and Ajvar (chutney) as no. 1 products regarding the most favorable purchase. On the other hand, consumers of **Slovenia** think that Podravka jams offer the highest value for the money invested.

Podravska klet and Kraluš again among the finest restaurants of Croatia

In accordance to the research results and guests' and caterers' votes carried out as the part of 100 top Croatian restaurants project – Restauranti Croatica, that covered 2400 restaurants, Podravska klet and Kraluš beer pub retained their cult status in Croatian catering.

This means that all Podravka's facilities can put the label Restauranta Croatica at their front door. The label is a guarantee of high quality service, special atmosphere and a menu to please the palates of the most demanding consumers.

While it is the 14th award to Kraluš beer pub, Podravska klet won this prestigious award for the 18th time and is one of the most enduring and constant award winners.

"Slovak Superbrands 2014"

"Slovak Superbrands 2014" is the name od the acknowledgement Podravka gained on Slovak market, thereby once again confirming its strength and brand awareness on international market. Podravka had already received this award, given by the leading experts in Slovakia, in 2006 and in 2013. By continuing the successful series, Podravka is proved to be on the top, owing to its strength and brand awareness.

The award was given to Podravka by the leading Slovak brand experts, thereby placing it at the very top for quality and brand awareness, thus contributing to Company's reputation. Speaking of, Vegeta is in Slovakia sold under the brand Podravka. It is in fact the same food seasoning product, also keeping all Vegeta's recognizable attributes (blue color, cook, vegetables...), but by the name of Podravka.

Halal certificates to Podravka factories

Four Podravka factories have received Halal certificates from the Centre for Halal Quality Certification – Vegeta and Soups Factory, Baby Food Factory, Fruit Factory and Kalnik Factory. The certificates certify that the products in these factories are produced according to Halal requirements and standards and are suitable for consumption to people of Muslim religion.

- Last year we increased export by 6 percent and Company moved forward to the markets where Halal certification is a prerequisite for products to be sold, pointed out Zvonimir Mršić, Podravka Management Board president. The fact that 70 percent of the Muslim community around the world live and feed in accordance with Halal standards, so that the global Halal market is a population of 1.6 billion Muslims in the world, indicates the very scope of the underlying potential.

"Laur consumenta" – to Vegeta in Poland

Vegeta as the strongest brand in all-purpose food seasonings was awarded the Laur consumenta of the decade for the period 2004 – 2014. It is the most prestigious award a product can be given in Poland that has placed Vegeta alongside global brands such as Nestle, Bosch, Philips, Raiffeisen... In order to promote Vegeta as of the strongest brand in Poland, this sign will be applied on Vegeta packaging and will be used in media campaign.

Mixx – for mini web page "Zabava u tvom tanjuru" ("Fun on your plate")

Mini web page "Fun on your plate" created in collaboration with digital agency Nivas, was awarded Mixx award in "Direct Response and Lead Generation" category, in Rovinj, on national advertising festival "Communication days". Campaign "Fun on your plate" originated from the unconventional idea of helping mothers who want their children to eat more soups and vegetables, while keeping them entertained.

On the awarded mini web page, children and adults can read everything about Podravka's new "fun" products. The main goal was to connect parents and their children through games and creativity, showing them thereby that playing in kitchen is finally allowed.Mixx award, organized by HURA and IAB Croatia, is awarded every year to the most creative and effective work in online advertising.

"CROPAK OF THE YEAR 2014" to Podravka's packaging

As part of FEST CROPAK 2014 packaging festival, organized by the Institute for Packaging and Printing Tectus-IatT, Tectus d.o.o. Zagreb Company and professional magazine Ambalaža/REGprint, awards for best packaging on Croatian market CROPAK 2014 and best packaging on regional market REGPAK 2014 have been awarded.

More than 140 products applied, a Podravka's Rich Soups won: CROPAK of the year 2014 and CROPAK in category: Croatian Product/Series Packaging. It is the first time for Podravka to win CROPAK of the year award (the award has been continuously awarded for 11 years in the row) and it allows it direct placement for the World Star Award for packaging, under the auspices of WPO (World Packaging Organisation).

"Superior Taste Award 2014" for all Podravka's applied products

All products applied, gained this year's recognition for superior quality and taste from the International Taste and Quality Institute.

Seven of Podravka's products were awarded Superior Taste Award 2014 in the formal ceremony in Brussels – an additional recognition for superior quality, independently from the product category. The award went to Podravka lemon and lime tea, plum flavoured tea, Vegeta marinade with garlic, Podravka beef goulash, and the newest Podravka's products - Podravka gellatine stocks. All three types of stocks – chicken, beef and vegetable stock – gained the recognition for their exellence and quality.

All applied products are evaluated as the best in international competition, and the importance of this award is best illustrated by the fact that the winners were decided by a jury of 120 top chefs, sommeliers and experts coming from 12 most famous European culinary associations. The most perfect taste of every category, i.e. product evaluations are determined in a blind test, without packaging or any product identification, only based on its appearance, aroma, taste, texture and general appearance.

Podravka awarded with Zlatna kuna (Golden marten) HGK

Podravka was awarded Zlatna kuna (Golden marten) by Croatian Chamber of Economy on the formal session of Economic Council of County Chamber of Koprivnica. Acknowledgement was given to the Management Board member of Podravka, Jadranka Ivanković by the county head of Koprivnica-Križevci County, Darko Koren. It is an acknowledgement given to companies and individuals for their successes in the economy of Koprivnica-Križevci County in 2013 in following categories: the most successful small business, the most successful medium business and the most successful large Company. Chairman of the Awarding Commission, Julijo Kuruc, explained Podravka's nomination for this acknowledgement by the fact that Company, despite the crisis, remained on its feet, became international, have created capacities to go out into the world, have opened new acquisitions and increased sales. Besides that, according to the Ipsos Puls agency research, customers have recognized Podravka as the most successful Croatian Company on European market. That justifies its leading position in brand awareness and customers confidence.

According to Ipsos Puls – Podravka the Company with the strongest brands

Podravka has once again confirmed its status as a Company with the strongest domestic brands in Adriatic region which includes markets of Croatia, Slovenia, B&H and Serbia. These are the results of the research performed by Ipsos Puls agency, which used the so-called "brand score" indicator, which enables differenet product categories brands comparison and shows brand strenght on the market. Different aspects of consumers' relation to the brand were taken into account while making calculations, in order to find out whether consumers recognize and use the brand. The survey included at least 1000 examinees of different age, education and gender, aging from 15 to 64 in each country.

The research has recognized Vegeta as the strongest domestic brand in the region, along with Podravka soups that took high 3rd place, according to the strength of domestic brands. Vegeta remained the strongest brand on Croatian market, ahead of all domestic and international brands. Its success is even more remarkable when taking in account that it is the only Croatian brand that found its place on individual national leading list of every market in the region.

There are more Podravka's products among the first 50 most famous brands in Croatia, Slovenia, Serbia and B&H – pickled and canned vegetables, fruit spreads, stocks and Dolcela puddings and baking aids/mixes and Čokolino in baby food category.

New Halal certificates awarded

Podravka's restaurant Podravska klet is the holder of the first Halal certificate catering in Koprivnica-Križevci County. This certificate implies production process, products and services characteristics compliant to Sharia law. Respectively, it confirms that dishes prepared in this restaurant, listed as one of the top hundred best restaurants in Croatia, are suitable for people of the Islamic religion to consume. Certificate was awarded in Koprivnica by the delegation of the Center for Halal Quality Certification led by the Head of the Centre Aldin Dugonjić and chief imam of Varaždin Abdulah Effendi Imširović.

Halal quality certificates were, beside Podravska klet restaurant, also awarded to some Podravka's products. After four factories received Halal certificates in May (Soups and Vegeta factory, Baby food and fruit spreads, Fruits and Kalnik), Snacks factory now also became certificate holder. Vegeta also certified 57 more products. In total, 230 products of Podravka now hold Halal certificate. Awarded certificates are valid for the whole world, and products that hold the Halal certificate are periodically checked by the Center for Halal Quality Certification within the Islamic community in Croatia.

Podravka awarded Superbrand in Czech Republic

Podravka confirmed its international recognizability by its reinstatement among the holders of famous Superbrand award in Czech Republic. In the fierce competition, only 35 brands were awarded at the award ceremony of the internationally known Superbrand award. Considering it is awarded on the basis of consumer's preferences and jury of top experts, Superbrand is even more significant. Podravka has already received Superbrand award in Czech Republic – for years 2007, 2012 and 2013, what can be recognized as the great acknowledgement to the Podravka products value.

Employer Partner Certificate

Owing to the successfully built employee management system, Podravka was awarded Employer Partner Certificate.

By the detailed analysis of the human resources management system and in comparison with other organizations, it was concluded that Podravka met all the high quality standards of Employer Partner Certificate. By its successful approach to the human resources management, Podravka has proved itself as desirable employer and business partner. At the formal awarding ceremony, analysis results of the five human resources fields were presented by the professional evaluation team: Strategy, Recruitment and selection, Work, Motivation and rewarding, Training and Employee Relations development.

Podravka has met all the high standards in all five areas and therefore was evaluated with the highest grades in the area of Recruitment and selection, owing to transparent employment procedures and apprentice employment program "SHAPE your future with a heart".

Prestigious award "Pečať bonity" to Podravka Slovakia

Podravka Slovakia became the proud owner of the "Pečať bonity" acknowledgement, prestigious acknowledgement given by independed state body that evaluets business results of the companies. "Pečať bonity" is an award that Podravka International s.r.o. received for the fullfilment of the challenging criteria defined in order to estimate business results of the companies operating in Slovakia in 2013. The award is given by the Slovak Information and Marketing Agency and The National Information Centre of the Slovak Republic, which developed assessement model of the business entities using predictive methods of financial analysis. This model estimates overall reliability of business entities based on detailed financial results. It expresses Company's solvency, credibility, ability of invested capital assessment and ability to meet its obligations to the partners. The fact that only 1.2 percent of the 224,000 commercial entities operating on the Slovak market got the "Pečať bonity" award speaks on how demanding it is to met all the recquired criteria.

Lino chocolate drink product of the year in baby food category

Lino chocolate drink is the product of the year in baby food category – as decided by female readers of portal žena.hr, the first and biggest portal for women in Croatia, with more than 600 thousands of fans. Total of 490 products in 20 categories were applied to the competition, and Lino chocolate drink stood out as the most popular among baby food products. 35 thousand readers with total of 392 thousand votes, voted for the stated products, which represents a competition with the highest number of votes in Croatia.

Medical sciences Academy – acknowledgement to Belupo

At their annual and election assembly, members of Croatian Medical Sciences Academy thanked Belupo and its Management Board president Hrvoje Kolarić on financial support which has been provided by this Croatian pharmaceutical Company to the Academy. "Modern medical science is a generator of any society's advancement and carrier of its development. This is a truth which has been recognized by Belupo a long time ago. In line with our abilities, we will continue to support the great effort and exceptional contribution by the members of the Academy, to the development and affirmation of doctors' position and medical science as such", Belupo Management Board president Hrvoje Kolarić said to the distinguished members.

Belupo receives a Ruling and a License for wholesale trading of medications

Agency for Medicinal Products and Medical Devices issued Belupo d.d. with a Ruling and a License for wholesale trading of medication, for issuing licenses for mediation with drugs and for issuing a confirmation on good practice in wholesale trading with medications. This Ruling is just another evidence that Belupo d.d. completes the conditions regarding facilities, installations, equipment, employees and documentation and rules of the good manufacturing practice in wholesale trading of medication for the location 48000 Koprivnica, Ulica Danica 5, for wholesale of medication in original packaging of the manufacturer.

Farmavita the most desirable employer in pharmaceutical sector in B&H in 2014

Citizens of B&H evaluated last year Belupo's pharmaceutical Company Farmavita as the most desirable employer for whom they would like to work. This great research showed that the most desirable companies, Farmavita being among them, are those which have earned this acknowledgement of being best of the best for their investing in the brand, in people and their development and for showing equal respect to employees and their clients.

"Best Buy Award Health 2014/2015" for Lupocet

Croatian consumers evaluated Belupo's brand Lupocet as the best price/quality ratio, awarding it 1st place in the category HEADACHE medication. According to this market research, Belupo's brand Lupocet won the certificate Best Buy Award Health 2014/2015, supported by the Swiss agency ICERTIAS (International Certification Association GmbH), on a sample of 1,200 participants, exclusively users of pharmaceutical products, teas, food supplements and preparations.

SOCIAL COMMUNITY

Owing to the values saturated through the Company culture, socially responsible behaviour is a constituent part of Podravka's identity and business activities.

From its very beginnings Podravka has been aware of its influence and responsibility towards the social community into which it is deeply rooted. Implementing concrete projects, for more than half a century Podravka Group contributes to development and elevating the standards of living of its employees, but also of the wide social community.

Engaging own potentials, the Company activates connections and exchange of knowledge, experiences and information, creates and stimulates initiatives and projects with the purpose of sustainable economic development, improving the quality of living and environment protection.

Aiming to advance the quality of living in the society in which it operates, ever since it was founded, Podravka invests in science and education, sustainable development, culture, art, sport and gladly promotes corporate social responsibility.

We are guided by the values permeated in the Company culture; creativity, trust, passion, innovation and excellence and we therefore proudly provide support to those projects where we find these true values.

Engagement to satisfy the needs of the social community in which it operates is portrayed in the three following key areas:

- promoting healthy living
- professional education for employees and impetus for their excellence and creativity
- feeling for the needs of the social community in which we operate.

ACTIVITIES IN THE AREA OF ENVIRONMENT PROTECTION (PODRAVKA AND BELUPO)

Environment protection activities at Podravka

Podravka operates on the principles of environment preservation and protection in which it performs necessary business activities. It therefore pays significant attention to protection and advancement of the environment quality in which it realizes economic, environmental and social results. Foundation of all the activities in the environment protection activities is the Environment Protection policy, whose grounds are guidelines for constant improvement and reduction of all kinds of pollution.

In line with that, in the area of environment protection, during 2014 dedicated work on achieving following goals is continued:

- further education of employees to make them more aware and to advance their attitude towards the environment
- continually reduce waste water creation and release
- managing waste as a useful raw material and resource
- protection against all kinds of pests for all organizational units
- active participation in the work of the organizations covering the area of environment protection.

In line with the defined goals of Podravka in the area of environment protection, and within the authorities and responsibilities of the Ecology department, a whole series of planned activities was performed in 2014, resulting in significant environmental, social and economic achievements.

All the operating tasks were performed with the purpose of improving results of regular activities, such as waste water treatment, waste management, pest control, waste water control and participation in the work of the organizations in the area of environment protection.

Continuous reduction of waste water creation and release

Significant progress in reduction of waste water creation and release was realized in Podravka during 2014 through improving the waste water treatment device operation. This improvement was performed through the following activities, at the locations Danica and Starčevićeva street (headquarters):

- ✓ good management and control of the waste water pre-treatment device
- ✓ sludge concentration and organization of recovery
- ✓ preparation of waste water and sludge samples for authorised controls
- ✓ surveillance of the drain system and sewage systems recovery
- ✓ investment in waste water device equipment
- ✓ efficient management of the waste water device ensuring the quality of output water compliant to regulations as per Water license
- ✓ internal analytical control of the waste water and systemic tracking of waste water quality and quantity

Managing waste as a useful raw material and resource

With the purpose of more efficient waste management, during 2014 additional activities have been undertaken at Podravka in order to realize a better waste management.

Efficient waste management in Podravka was achieved by applying the following activities:

- ✓ managing the new area for waste sorting and temporary storage ("recycling yard")
- ✓ organization of recovery and sorting of all kinds of waste – harmless, harmful, communal, bulk, side-products, raw materials and finished products past expiry date
- ✓ pollution and waste creation reduction
- ✓ control of record keeping and packaging material control
- ✓ tracking amounts and movement of harmful substances and reporting
- ✓ waste management procedure advancement.

Pest protection for all organizational units and business processes

Podravka d.d. is the only Company in Croatia with own department for pest control, aiming to have a more efficient implementation of those activities in all the production and warehouse facilities within Croatia. Apart from the existing database for logging all the conducted measures, new database was implemented: Podravka IKS (internal pest control), enabling insight on occurrence of pests in real time, in any of the production or warehouse facility, and with this - a faster and more efficient implementation of necessary measures. Next to this, the database automatically generates a graphic overview of pest occurrence trends and is a constituent part of obligatory pest control measures plan.

Improvement of work of the waste waters laboratory and waste waters device

Significant improvement of work of the waste waters laboratory was realized in 2014 by better analytical control of all the waste water streams, and systematic tracking of quality and quantity of waste waters in Podravka.

Efficient management of the waste water device ensures the quality of output water compliant to regulations as per water license.

Participation in the work of the organizations covering the area of environment protection

In 2014 Podravka was a regular member of the following:

- Croatian business council for sustainable development (HR PSOR)
- Environment protection community in economy at the Croatian Chamber of economy
- Economic and interest association of beverages producers (GIUPP) and
- Eko-ozra.

Other activities in environment protection

Next to the activities that were systematized earlier, Ecology department in 2014 contributed to Podravka's business with the following activities:

- air emissions control
- tracking energy sources
- annual report creation for Environment Polluters Register (ROO)
- acquiring water licenses
- preparation of necessary investments and investment maintenance
- tracking legislature in the field of environment protection and adjustment of activities
- creation and updating of internal rulebooks in the area of environment protection
- participation in inspections and surveillances: water licenses, sanitary validity, environment protection inspection, veterinary inspection
- participation in the work of HACCP teams
- preparation of materials on environment protection for Podravka Group Annual Report 2013
- participation in activities regarding ETS (Emissions international trading system) deriving from Kyoto protocol
- replacing R-22 coolant with ecologically acceptable freons
- participation in devising and implementation of the European movement week

Environment protection activities at Belupo

Respecting government regulations on environment protection, and internal regulations such as Operating plan, Rulebooks, Standard operating procedures and Work instructions describing procedures and tasks, a control over environment pollution is achieved. Education of new employees was performed aiming to strengthen the ecological awareness of every employee, advancing thus environment preservation and ensuring better life terms, compliant to social responsibility towards the community.

Waste management

Environment is mostly polluted by waste, so proper waste management is still systematically conducted. The waste is registered according to work units, it is sorted for recycling, and wastes intended for thermal processing are properly stored. Separating and separate collecting of waste, amounts of waste for recycling have increased, and amounts of waste for pound and thermal processing have decreased. Following the principle of economic waste management, all the waste that is generated is disposed off in a safe and ecologically acceptable manner, it was recycled or heat processed.

Among the overall 249 tons of waste in 2014 within Belupo, 30 different kinds of waste were detected.

Waste type	**Dangerous waste**	**Inert waste**	**Municipal waste**
Waste amount	42.98 t	184.48 t	21.58 t

Processing method / on overall amount	**Recycling**	**Heat treatment**	**Deponium**
Waste amount	65 %	25 %	10 %

By appropriate management, majority of waste has become secondary raw material, which is aligned with the aim of preserving natural resources, and to reduce waste disposal costs.

Air protection

Air emissions are paid great attention by tracking the emissions of dust and organic solvent, originating from technological drains, and emissions of NO2, CO and CO2 from energetic drains.

Pursuant to the law, regular emissions measurements are performed for those from technological facilities and from non-mobile energetic sources by an authorised institution.

During 2014 gas emissions measurements were performed for gases from the engine room and dist from solid medications production drain. Borderline values of the emissions are within allowed limits. Records were composed of this, and measurement results were submitted to the Environment Protection Agency.

All integrated filters for reducing dust emissions are regularly controlled, along with the work of devices with active carbon performing the absorption of solvents. The work of the facility is automated and regeneration or replacement of active carbon is performed after the active carbon is saturated, and the computer record on tracking the facility ensures also tracking of atmosphere emissions. Facilities in which organic solvents are used have been reported with the register at the Ministry of environment and nature protection, and keeping a log of organic solvents usage, the amount of solvents spent is also controlled.

In order to protect the air from green gases emission, logs are kept on cooling devices in which controlled or replacement agents damaging the ozone layer are being used, and servicing and permeability control are performed by authorised service providers. Regular control of permeability of controlled agents from cooling devices was performed during 2014.

Water protection

Water protection is performed pursuant to the Water license for draining the waste waters for Podravka factories location at Danica.

During 2014 a new Water license was acquired with the demands on controlling the parameters for pharmaceutical industry, compliant to EU regulations.

Technological and sanitary waters are drained from Belupo location through a separate sewage, they are mixed with waste waters of other factories and drained to a device for mechanical and biological cleaning. Waste waters controls are regularly performed by authorised laboratories, compliant to the Law and Water license. Even according to the stricter criteria of the new Water license, due to appropriate handling of waste and dangerous substances which are not drained in the sewage, waste waters are compliant with the borderline values set by the legislative. Precipitation waters are not burdening the device, but are being drained through a separate system into a natural recipient.

Logs are kept on the agents used for water disinfection and all the agents own Water licenses. Maintenance and cleaning of the system for waste water drainage is regular, and documentation has been composed of its watertightness. In case of emergency pollution of the facility and internal drainage system, operating intervention plan for water protection is implemented, and all the employees are familiar with it, and it is being used to bring the pollution risks to the smallest possible measure.

Risks monitoring

In order to reduce the possibility of ecological incident, Belupo has an operating plan for protecting waters from sudden pollution. Proper handling of dangerous substances and chemicals is a constituent part of the employee education, thus reducing the possibility of an incident to a minimum. In 2014 the toxicology class was performed for employees working with dangerous substances, as well as education of persons responsible for working with dangerous substances by the Croatian Toxicology and Antidoping Institute.

Amounts of dangerous substances have been updated compliant to the new regulation and have been reported to the Environment protection agency and Government Agency for protection and rescue.

Aiming to avoid a possibility of an incident with dangerous substances, Endangerment evaluation has been built, as well as an Operating plan for protection and rescue, elaborating on potential effects on material goods, possible endangerment of the employees and the environment as a consequence of using dangerous substances, and in that way the risk of incident be reduced to the smallest possible measure.

Environment pollution register

Using the database ROO of the Environment protection agency, all air emissions and pollutions have been registered, separately for all kinds of waste with definite method and disposal site, and with calculation of amounts and location of air and water emissions.

Closing the antibiotics facility in Ludbreg, final disposal of all kinds of wastes was performed, along with unregistering the location as environment polluter.

Building a new production facility - Proclamation of evaluating the project effects on the environment

Pursuant to the Croatian Law on building the facilities for pharmaceutical products, a Feasibility Study on environment protection was compiled, and based on it the Environment Protection Ministry issued a Ruling that for building a new factory no environment effect study is necessary. Environment protection study included all the potential pollutions that could emerge, as well as measures that have to be done in order to keep the pollutions within limits. Croatian Waters provided the necessary Water licenses. Both documents are necessary in order to acquire a location permit and for building a new factory.

PODRAVKA GROUP MANAGEMENT SYSTEMS AUDITS IN 2014

During 2014, audits by authorised certification authorities were performed on the quality management and food safety systems, compliant to several international standards.

The audits applied to the entire Podravka Group in the Republic of Croatia, except for Belupo, Podravka Poland and Podravka Lagris, Czech Republic.
All Podravka's organizational units and processes participating in the safe food production chain – "from field to the table", were included in the audit: **Procurement → Logistics → Quality Control→ Development→ Marketing→ Production→ Maintenance→ Human Resources→ Sales→** and others.
The audits confirm compliance to the following international standards:

No.	STANDARD	LOCATIONS	AUTHORISED BODY
1	**ISO 9001:2008**	1. Podravka d.d. (all locations in Croatia) 2. Danica d.o.o., Koprivnica 3. Podravka Polska, Poland 4. Podravka Lagris, Czech Republic*	**Certification authority SGS *for Podravka Lagris Certification authority TÜV SÜD**
2	**HACCP** compliant to Codex Alimentarius	1. Podravka d.d. (all locations in Croatia) 2. Danica d.o.o., Koprivnica	**Certification authority SGS**
3	**IFS Food, Version 6** International Featured Standards	1. Podravka d.d. headquarters, Koprivnica Vegeta and Soups factory, Koprivnica Baby Food and Sweet Spreads Factory, Koprivnica 2. Kalnik Factory, Varaždin 3. Podravka Polska, Poland 4. Podravka Lagris, Czech Republic* 5. Danica d.o.o., Koprivnica	**Certification authority SGS *for Podravka Lagris Certification authority TÜV SÜD**
4	**BRC, Issue 6** **(British Retail Consortium)** Global Standard for Food Safety	1. Podravka d.d. headquarters, Koprivnica Vegeta and Soups factory, Koprivnica Baby Food and Sweet Spreads Factory, Koprivnica 2. Podravka Polska, Poland	**Certification authority SGS**
5	**FSSC 22000** Food Safety System Certification	1. Danica d.o.o., Koprivnica	**Certification authority SGS**
6	**NSF**	1. Studenac factory, Lipik	**NSF International**
7	**HALAL**	1. Danica d.o.o., Koprivnica 2. Vegeta and Soups factory, Koprivnica 3. Baby Food and Sweet Spreads Factory, Koprivnica 4. Kalnik Factory, Varaždin 5. Fruit Factory, Koprivnica 6. Snacks factory, Koprivnica 7. Podravska klet, Koprivnica	**Halal certification center**
8	**KOSHER**	1. Kalnik Factory, Varaždin 2. Vegeta and Soups factory, Koprivnica 3. Fruit Factory, Koprivnica 4. Tvornica Koktel peciva, Koprivnica	**Rabi Kotel Da-Don**

Comparing to the previous years, in 2014 the following changes took place:

- Ital-ice d.o.o. is no longer certified, considering it has been divested from Podravka Group's business
- certification is no longer performed according to standard FSSC 22000 at Snacks factory, considering the cooperation has been discontinued with the buyer who requested it
- Mill factory is no longer certified for Kosher, due to low demand for such certified products
- Danica d.o.o. meat industry is being certified according to IFS standard
- certain products in the range of Snacks factory and Podravska klet restaurant are Halal certified

SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS BIOGRAPHIES

SUPERVISORY BOARD

Dubravko Štimac

Supervisory Board president

Dubravko Štimac was elected Podravka Supervisory Board president in February 2012. Early 2012 he became Supervisory Board deputy president of Podravka and in 2006 he was appointed to the position of Supervisory Board member of Podravka.

Member of Podravka Remuneration Committee.

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 January 2001 he became the project manager of the retirement reform at Privredna banka Zagreb d.d. From October 2001 he was the Management Board president of PBZ CROATIA osiguranje d.d., the association for managing obligatory retirement fund. He graduated in 1992 from the Faculty of Economy and Business at the Zagreb University, where he also received his MA in Organization and Management course. He participated in the Securities Processing Training Program in New York, organized by the Bank of New York, and in the Fund Management at City University Business School in London.

Mato Crkvenac

Supervisory Board deputy president

Mato Crkvenac was elected Podravka Supervisory Board Deputy President in February 2012, and was appointed by the Government Assets Management Agency (GAMA).

Member of Podravka Audit Committee.

He started his professional career at the Republic Institute for Planning, and five years later he became sector director at the Republic Institute for Economic Movements and Economic Policy. In 1978 he became the general manager at the Republic Institute for Planning and also a member of the Executive Council of the Parliament of SRH and in 1986 he became a representative and deputy chairman of the Parliament of SRH. From 2000 to 2004 he performed the duties of a finance minister in Croatian Government, and afterwards the duties of a representative in Croatian Parliament. At the Faculty of Economy and Business in Zagreb he was an assistant and scientific assistant, and was also elected senior lecturer. Four years later he was elected as associate professor and in 1991 as full-time professor. He graduated from the Faculty of Economy and Business, and received his MA from the Institute of Economic Sciences in Belgrade. He received his PhD from the Faculty of Economy in Zagreb.

Ivana Matovina

Supervisory Board member

Ivana Matovina was elected Podravka Supervisory Board member in July 2012.

Member of Podravka Audit Committe.

Today she is a certified Croatian auditor and certified accountant of Great Britain. She started her professional career as accounting manager, and in 1997 she became a director of KPMG Croatia. Two years later she becomes a partner and director of Cinotti revizija i savjetovanje d.o.o. and works on fields of auditing, internal auditing, accounting and business counseling and education. At the end of 2011 she founds Antares revizija i savjetovanje d.o.o., where she works on a range of accounting and business counseling services. She was a member of the Croatian Auditing Chamber Management Council, and is a current member of the Council of HANFA and the Committee for financial reporting standards. She graduated from the Faculty of Economy and Business at the Zagreb University, Finance and Accounting course.

Martinka Marđetko Vuković

Supervisory Board member

Martina Marđetko Vuković was appointed Podravka Supervisory Board member in April 2012 by Company Worker's council. She starts her professional career in Podravka in 1979 as an administrator, and later advanced to the function of planner-analyst. She performed her professional duties in the Economic center at Podravka, and later in Controlling. She is the president of Podravka Independent Union, and also the member of Worker's council, ever since the first worker councils were formed in 1996, when she was vice president. Today she holds a degree of safety engineer, has also finished two-year School of Agriculture and works as an adviser to sector director for occupational safety in Human resources sector at Podravka d.d.

Ivo Družić

Supervisory Board member

Ivo Družić was appointed Podravka Supervisory Board member in February 2012 by the Government Asset Management Agency (GAMA). He is permanently employed at the Faculty of Economy and Business in Zagreb as a full time professor. He is the head of the scientific postgraduate study of the Economy and development at the Faculty of Economy and Business in Zagreb. He stayed in Brighton, England at the University of Sussex as a Visiting Fellow in 1990/91, and as Research Fellow at the University of Pittsburgh, USA in 1994. He was also a Visiting Professor in 1995 at the University of Beijing in China, and in 1997/98 at the University of Pittsburgh. He authored two books and co-authored six (two of which he also edited), 19 scientific papers in magazines with international critical review, 10 papers in Proceedings from international scientific conferences and 18 papers in domestic magazines and proceedings. He received his MA at the Faculty of Economy and Business in Zagreb in 1981, where he also received his PhD seven years later.

Milan Stojanović

Supervisory Board member

Milan Stojanović was appointed Podravka Supervisory Board member in July 2012.

Member of Podravka Remuneration Committee.

He spent 35 years of service as a director or a manager in economy. At the same time, in the period from 1990 to 1996, he was a representative in the Croatian Parliament in two terms. He is retired and performs the function of the Supervisory Board President at Zlatna igla Siscia d.o.o. He was also a Management Board president for the Development and Employment Fund in the Republic of Croatia. His numerous researches and works in marketing and economy have been published. He was twice proclaimed a manager of the year. He received an academic title of Master of Science.

Petar Vlaić

Supervisory Board member

Petar Vlaić was elected Podravka Supervisory Board member in September 2010.

Member of Podravka Audit Committee and President to the Remuneration Committee.

He started his professional career as a broker in Ilirika and later he advanced to the position as 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 on he worked as a trade manager in IB Austria, upon which he transferred to the position of fund manager at the Central National Fund, a private investment fund. In 2001 he became the Management Board president of Erste d.o.o. for managing Mandatory Pension Fund. In late 2003 Erste MRF and Helios MRF were merged with the Blue Fund and the fund changed its name to Erste Blue Mandatory Pension Fund, and the management Company changed to Erste d.o.o. for management of mandatory pension fund. While working at the association for private investment fund management, he was also a Supervisory Board member of numerous Croatian companies. He graduated from the Faculty of Electrical Engineering and Computer Science in Ljubljana. He also received CFA (Chartered Financial Analyst) title, through program organized by American Institute of Chartered Financial Analysts ICFA.

Dinko Novoselec

Supervisory Board member

Dinko Novoselec was appointed Podravka Supervisory Board member in September 2010.

President to Podravka Audit Committee.

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

Petar Miladin

Supervisory Board member

Petar Miladin was elected Podravka Supervisory Board member in September 2010.

He was employed at the Law Faculty in Zagreb in 1997 as a junior assistant at the Department for Commercial Law and Companies Law. In December 1999 he became the assistant at the same department where he worked as a senior assistant later on. He worked as a senior lecturer at the Faculty of Law in Zagreb since 15 December 2005 and since 2009 he is associate professor. He published over twenty scientific works in the area of commercial law, companies law and banking law. Immediately after graduation he worked as an apprentice at Municipal and Commercial Court in Zagreb. He completed Postgraduate scientific study of commercial and Company law at the Faculty of Law in Zagreb, receiving his MA. He defended his doctoral dissertation “Payment by remittance” in 2005 at the Law Faculty of the Zagreb University, receiving his PhD in scientific field of law.

MANAGEMENT BOARD

Zvonimir Mršić

Management Board president

Zvonimir Mršić was appointed Podravka Management Board president in February 2012. He joined Podravka in 1990, where for eight years he built his professional career as the head of and Manager of Public Relations Department. Apart from building his professional career, he also realized a very successful political career as a Deputy Mayor of the City of Koprivnica, and later Mayor of Koprivnica in three terms. He graduated from the Faculty of Political Sciences in Zagreb and completed the FBA (Fundamentals of Business Administration) at the Faculty of Economy and Business, University of Zagreb and a Certified Program for Supervisory Board Members. Among others, he is a member of the Croatian Association of Employers Council, and in October 2014 he was elected deputy president of Croatian Exporters Association (CEA).

Olivija Jakupec

Management Board member

Olivija Jakupec was appointed Podravka Management Board member in February 2012. Since 1992 she was employed at Podravka as Product manager for Fererro, being in charge of promotion and realization of marketing activities in the Croatian market. A year later she became marketing manager in Podravka's Company in Bulgaria, where she worked on founding and registering the Company and on promoting activities on the market.

In 1997 she was appointed director of Podravka's Company in Russia where she also worked on founding a Company, setting up business processes within the Company. In 2001 she returned to Koprivnica and became Market Communication manager. In 2004 she transferred to Nexe Group and became director of Nexe Company in Bosnia and Herzegovina. Since 2007 she worked as assistant director at Jadransko osiguranje branch office in Koprivnica. She returned to Podravka in 2012 as Management Board member.

She graduated from the Faculty of Organization and Informatics in Varaždin, Marketing. She attended international business school Center, Brdo kod Kranja.

Miroslav Klepač

Management Board member

Miroslav Klepač was appointed Podravka Management Board member in February 2012. He started his professional career as Finance Associate for CAIB - Investment Bank of Austria Creditantstalt Group at Central and East European markets and on managing mergers and acquisition projects. Since 2000 he worked as T-com (HT d.d.) CEO advisor on financial and operating analyses and activities within the acquisitions group. Two years later he was appointed Controlling director at T Mobile d.o.o., and in 2004 he became executive director at T Mobile d.o.o. A year later he was appointed Management Board member for Allianz Zagreb d.d. In 2008 he became Management Board member and Chief Financial Officer at Iskon Internet d.d. In 2009 he became HT Management Board member for Bosnia and Herzegovina.

He graduated from the Faculty of Economy and Business at the Zagreb University, Banking and Finance course. He received his MBA from International Business School Bled, Slovenia. He attended numerous international professional seminars in the area of finance, controlling, project management and human resources development.

Hrvoje Kolarić

Management Board member

Hrvoje Kolarić was appointed Podravka Management Board member in December 2012.

He graduated from the Faculty of Pharmaceutical and Biochemical Sciences of the University of Zagreb in 1998. He attended numerous education courses to acquire sales and negotiating skills, training for the first management tier, sales efficiency, qualifications in financial matters etc. In his career prestigious positions of the Director of BMS Pharmaceuticals in charge of product niche and business development and the Director of PharmaSwiss d.o.o. and PharmaSwiss d.o.o. Croatia stand out. He also managed the business processes related to the cooperation with Belupo in the production of cardiological line of Pravachol (pravastatin). In his early career he also managed the Pharmaceuticals Department of the Bristol-Myers Squibb Representation Office for Croatia and Bosnia-Herzegovina, and subsequently the allergology and respiratory line of products of the Schering-Plough Representation Office in Croatia. In May 2005, he was appointed as Management Board member in Belupo, in charge of marketing, sales and international markets, and has been reappointed in May 2010. In 2012 he was appointed Belupo Management Board president. Beside the title of Master of Pharmacy that he gained from the Faculty of Pharmaceutical and Biochemical Sciences of the University of Zagreb, he also received the title of Master of Business Administration, President Module, IEDC, Bled.

Jorn Pedersen

Management Board member from 24 February 2012 to 18 June 2014.

He received his Master of Business Administration degree in 1985 for Strategic Planning, from the Copenhagen School of Business and Administration. His work experience includes more than 20 years in the international FMCG business with several leadership positions in many different countries, particularly emerging markets and emerging companies.

In 1985 he was employed as Section Head Far East for IFU (Semi Governmental Financing institution), working partly in Copenhagen, partly in South Korea, China and Philippines. From 1989 to 2007 he finds his positions at Carlsberg in numerous countries, working as Business Assistant to Vice President, Business Controller, Sales and Marketing Director, Regional Manager, Deputy Managing Director at Panonska pivovara d.o.o. in Croatia, Department Manager, Business Development Manager, Business Development Director and Managing Director. In 2008 he transfers to Sarmat Group, Donetsk, Ukraine, where he is General Director. n 2009 he is CEO for BornPoultry A/S, Bornholm Denmark (supreme chicken products). Before he was appointed Podravka Management Board Member in February 2012, he worked as Senior Vice President at Uhrenholt A/S and CEO Uhrenholt Russia & CIS (Food products to Food Service and Retail channels). He is also a Board Member in Gourmet Bornholm (an organisation of Gourmet Food Producers) and Board Member Confederation of Danish Industry.

Jadranka Ivanković

Management Board member from 24 February 2012 to 22 December 2014.

She graduated from the Faculty of Economy and Business, where she received her MA from Business economy, Business management course and her PHD from social sciences. Since 1988 she worked in Podravka at different position: as an independent controlling analyst, as Advertising Project Manager and as head of Sales Promotion Department for Foreign Markets. In 1997 she became a member of the Team for Podravka restructuring to achieve profitable growth. That same year she was appointed Marketing director at Podravka, and two years later she became Team Leader for Strategic Projects at Podravka. In 2000 she became a Management Board member in charge of finance for Podravka’s Company in Slovenia and the next year she became executive director of the strategic business unit Desserts program. In 2004 she was appointed assistant Podravka Management Board president. Since 2009 she was a lecturer, and in 2010 she was senior lecturer at Vern University of Applied Sciences. She graduated from Podravka’s Management Academy POMAK, received a Professional Diploma in Retail Management and MBA from business school Center, Brdo kod Kranja.

BUSINESS RESULTS

Main business highlights of Podravka Group in 2014 (continuing and discontinued operations)

Podravka Group's profitability improved in 2014 on the account of significant profitability growth in food segment.

Podravka Group's sales revenues amounted to HRK 3,502.6 million and were 3.4% lower when compared to the 2013. Strategic Business Area Food and Drinks delivered HRK 2,662.4 million of sales revenues that were 4.1% lower when compared to 2013, while Strategic Business Area Pharmaceuticals delivered HRK 840.3 million of sales revenues that were 1.3% lower when compared to 2013. Reported sales revenues were negatively affected by programmes under restructuring, negative net foreign exchange differences and the decision of the Croatian Health Insurance Fund on decrease in prices of prescription drugs in May 2013 and February 2014. Excluding programmes under restructuring and foreign exchange, Podravka Group recorded sales revenues slightly higher than in 2013.

Podravka Group's **gross profit** amounted to HRK 1,475.9 million which is 1.8% lower when compared to 2013. Gross margin reached a level of 42.1% which is 69 basis points higher than in 2013 when it was 41.4%. The increase in gross margin came on the back of lower costs of goods sold as a result of favourable key raw material price movements, as well as lower depreciation and personnel expenses.

Podravka Group's **operating profitability (EBIT)** delivered 18.8% yoy growth in 2014 and reached HRK 155.7 million, while EBIT margin improved by 83 basis points from 3.6% to 4.4%. More efficient collection of trade receivables, lower impairment costs of a portion of non-current assets, and the savings made in the logistics and marketing functions compensated for an increase of negative net realized foreign exchange differences related to the depreciation of the Russian rouble.

Net profit after minorities recorded 38.8% yoy growth in 2014 and amounted to HRK 92.5 million. Lower financing expenses related to the more favourable refinancing terms, together with aforementioned impacts, had additional positive effect on the net profit margin after minorities which improved by 80 basis points and reached 2.6%.

Excluding the impact of one off-items, Podravka Group in 2014 saw an increase in gross margin by 57 basis points when compared to 2013, while other profitability levels were lower than in 2013.

Net debt on 31.12.2014 was HRK 856.8 million which is 3.4% lower when compared to the end of 2013 on the account of higher cash and cash equivalents by HRK 41.1 million.

Total assets on 31.12.2014 posted 1.5% growth when compared to 31.12.2013 due to 0.9% increase in non-current assets and 1.9% increase in current assets. Non-current assets grew mostly due to an increase in intangible assets as a result of the acquisition of canned meat programme and brands of PIK Vrbovec d.d. for further production and sales for all markets, whereby certain intangible assets such as trademarks, recipes, etc. were also acquired. Current assets grew as a result of increase in inventory, cash and cash equivalents and non-current assets held for sale.

Key financial indicators (continuing and discontinued operations)

FINANCIAL POSITION (in HRK millions)	2014	2013	change
Total assets	3,508.6	3,458.2	1.5%
Cash and cash equivalents	220.5	179.5	22.8%
Capital and reserves	1,785.3	1,691.4	5.6%
Financial debt	1,077.3	1,066.0	1.1%
Cash flow from operating activities	286.9	291.8	(1.7%)

PROFITABILITY INDICATORS (in HRK millions)	2014	2013	change
Gross margin	42.1%	41.4%	+69 bp
EBITDA* margin	9.1%	9.9%	-85 bp
EBIT margin	4.4%	3.6%	+83 bp
Net profit margin after minority interests	2.6%	1.8%	+80 bp
Return on equity (RoE)	5.3%	4.0%	+128 bp
Return on assets (RoA)	2.7%	2.0%	+73 bp

DEBT INDICATORS (in HRK millions)	2014	2013	change
Net debt	856.8	886.6	(3.4%)
Interest expense	43.5	52.9	(17.7%)
Net debt / Normalized** EBITDA	2.3	2.1	6.5%
Normalized EBITDA / Interest expense	8.7	7.9	10.3%
Equity to total assets ratio	50.9%	48.9%	+197 bp

MULTIPLES	2014	2013	change
EV / Normalized sales revenues	0.7	0.6	11.8%
EV / Normalized EBITDA	6.5	5.5	19.0%
EV / Normalized EBIT	10.1	8.5	19.1%
Last price per share / Normalized** earnings per share	8.7	6.9	26.4%

**EBITDA was calculated in a way that EBIT was increased by the amount of depreciation and amortisation and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

***Normalization includes corrections for one-off items and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

EV = Enterprise value: Market capitalization + Net debt + Minority interests

Following pages include key Group's business characteristics related to the Strategic Business Units that represent continuing operations. The Group classified beverages segment as discontinued operations. Since the date of reclassification, beverages segment hasn’t been monitored and analysed as strategic business area.

Sales revenues by strategic business areas (continuing operations)

Sales revenues (continuing operations)	**Reported result**				
in HRK millions	**2014**	**% of sales revenues**	**2013**	**% of sales revenues**	**change**
SBA Food and drinks	2,571.8	75.4%	2,649.8	75.7%	(2.9%)
SBA Pharmaceuticals	840.3	24.6%	851.3	24.3%	(1.3%)
Podravka Group	**3,412.1**	**100.0%**	**3,501.1**	**100.0%**	**(2.5%)**

Sales of the **Strategic Business Area Food and Beverages** recorded HRK 2,571.8 million in 2014 which is 2.9% lower when compared to 2013. The most significant impact on reported sales of the Strategic Business Area Food and Beverages came from programmes under restructuring. As part of the restructuring process, at the end of 2013 the Company abandoned unprofitable segments of fresh meat and frozen food and in early April the Company abandoned unprofitable segment of bakery. By exiting the aforementioned programmes, sales revenues in 2014 were HRK 60.5 million lower when compared to the 2013.

Foreign exchange differences (especially Czech koruna and Australian dollar) also negatively contributed to the reported sales revenues. If foreign exchange differences had remained on the 2013 levels, sales revenues would be HRK 13.7 million higher.

Reported sales of the **Strategic Business Area Pharmaceuticals** in 2014 were impacted by two negative factors that the Company was unable to fully compensate by increasing the sales volume on one hand or by some forms of foreign exchange risk hedge on the other.

In May 2013 and February 2014, the Croatian Health Insurance Fund prescribed a decrease in prices of a large portion of prescription drugs, resulting in a direct negative effect on sales of this category in the Croatian market, estimated at HRK 57.2 million. The negative effect of this prescribed price reduction is partly compensated by a 7.0% volume growth in the market of Croatia.

Furthermore, the decrease in value of the Russian ruble against the Croatian kuna, but also many other currencies, resulted in lower sales recorded in kuna. If the Russian ruble exchange rate had remained at 2013 levels, HRK 29.3 million higher sales would have been recorded in kuna. It should be pointed out that the volume of sales in the Russian market is higher by 4.9% and in Russian rubles by 13.0%. If the effect of foreign exchange differences is excluded, sales of the pharmaceuticals segment are 1.9% higher, and if the estimated effect of the prescribed decrease in prices of prescription drugs is also excluded, the growth in sales would be 8.6%.

Sales revenue per category (continuing operations)

(in HRK millions)

Sales revenues (continuing operations)	2014	% of sales revenues	2013	% of sales revenues	change
SBA Food and drinks	**2,571.8**	**75.4%**	**2,649.9**	**75.7%**	**(2.9%)**
Culinary	**899.4**	**26.4%**	**931.2**	**26.6%**	**(3.4%)**
Food seasonings and bouillons	630.6	18.5%	660.5	18.9%	(4.5%)
Podravka dishes and food mixes	268.8	7.9%	270.7	7.7%	(0.7%)
Sweets, snacks and beverages	**171.2**	**5.0%**	**175.3**	**5.0%**	**(2.3%)**
Beverages	25.7	0.8%	28.9	0.8%	(11.1%)
Sweets and snacks	145.5	4.3%	146.4	4.2%	(0.6%)
Baby food, breakfast foods and other food	**887.3**	**26.0%**	**913.3**	**26.1%**	**(2.8%)**
Baby food and breakfast foods	314.8	9.2%	323.2	9.2%	(2.6%)
Other food	572.5	16.8%	590.1	16.9%	(3.0%)
Meat products	**300.8**	**8.8%**	**280.9**	**8.0%**	**7.1%**
Other sales	**313.1**	**9.2%**	**349.2**	**10.0%**	**(10.3%)**
SBA Pharmaceuticals	**840.3**	**24.6%**	**851.3**	**24.3%**	**(1.3%)**
Prescription drugs	597.1	17.5%	615.6	17.6%	(3.0%)
Non-prescription programme	90.0	2.6%	83.9	2.4%	7.4%
Other sales	153.1	4.5%	151.8	4.3%	0.9%
Podravka Group	**3,412.1**	**100.0%**	**3,501.1**	**100.0%**	**(2.5%)**

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

Reported sales of the **sweets, snacks and beverages category** were negatively affected by adverse weather conditions in 2014 which impacted beverages assortment (teas in bag and vitamin instant drinks that are not classified for sale) and by somewhat lower sales revenues of sweets and snacks subcategory as a result of lower sales in the Slovenian market, which was a consequence of the intentionally decreased exposure to some key customers.

Reported sales of the **baby food, breakfast foods and other food category** in 2014 were negatively impacted by programmes under restructuring, which the Company abandoned at the end of 2013 (frozen food) and at the beginning of April 2014 (bakery), and by lower sales in the Slovenian market, which was a consequence of the intentionally decreased exposure to some key customers. The strongest growth was achieved by the Mediterranean food subcategory with the Eva brand and tomato-based products.

In 2014, the **meat products category** recorded a 7.1% growth in reported sales, as a result of a double-digit growth rate of the sausage products subcategory in the Croatian market. The category was negatively impacted by the programme under restructuring, abandoned by the Company at the end of 2013 (fresh meat) and positively impacted by the acquisitions of a portion of the PIK product range.

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

The **non-prescription programme category** recorded a growth in reported sales of 7.4%, mainly due to the growth in sales of the OTC medicine subcategory in the Croatian and Russian markets.

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

Sales revenue by markets (continuing operations)

(in HRK millions)

Sales revenues (continuing operations)	**2014**	**% of sales revenues**	**2013**	**% of sales revenues**	**change**
Croatia	1,357.0	39.8%	1,483.5	42.4%	(8.5%)
South-East Europe	950.3	27.9%	916.1	26.2%	3.7%
Central Europe	540.6	15.8%	546.6	15.6%	(1.1%)
Western Europe	190.4	5.6%	174.9	5.0%	8.9%
Eastern Europe	239.3	7.0%	242.1	6.9%	(1.2%)
Overseas Countries and New Markets	134.5	3.9%	137.9	3.9%	(2.5%)
Podravka Group	3,412.1	100.0%	3,501.1	100.0%	(2.5%)

The market of South-East Europe: Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Slovenia, Serbia.

The market of Central Europe: Bulgaria, Czech, Hungary, Poland, Romania, Slovakia.

The market of Western Europe: Austria, Italy, Germany, Scandinavian countries, Switzerland, other countries of Western Europe.

The market of Eastern Europe: Baltic countries, Russia, Ukraine, other countries of Eastern Europe.

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

Reported sales of the **market of Croatia** were negatively impacted by the programmes under restructuring (from the beginning of 2014 there are almost no sales of fresh meat and frozen programme, from April 2014 there are no sales of bakery products) and the decision to decrease the prices of prescription drugs by the Croatian Health Insurance Fund in May 2013 and February 2014. The estimated effect of the prescribed decrease in prices of prescription drugs is HRK 57.2 million. If the programmes under restructuring and the acquisition of the PIK product range are excluded, sales in the market of Croatia are 3.4% lower, particularly reflected in lower sales of the culinary category and the baby food, breakfast foods and other food category. The drop in sales of these categories was partly mitigated by the growth in sales of the sausage products subcategory and the non-prescription programme category. It should also be mentioned that the overall operations in the Croatian market were impacted by the unfavourable economic situation characterized by the trend of a decrease in gross domestic product in all three quarters of 2014, a high average registered unemployment rate of 19.7%, and the decrease in prices of food and non-alcoholic beverages of 2.2%[2]. The pressure of competition could also be felt, by renowned brands as well as by private labels, aimed at increasing their market shares primarily through discount prices.

The **market of South-East Europe** recorded a 3.7% growth in reported sales as a result of growth of all markets of South-East Europe, except for the Slovenian market due to an intentional decrease in exposure to some key customers. In the fourth quarter of 2014, Podravka intentionally reduced deliveries to some key customers in the Slovenian market in order to decrease its exposure to them, in line with internal procedures for receivables risk management.

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

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

Reported sales of the **market of Eastern Europe** were negatively impacted by the depreciation of the Russian ruble resulting in 1.2% lower reported sales in the period under consideration. If the effect of foreign exchange differences is excluded, sales are 10.9% higher compared to 2013. It should be pointed out that sales in the market of Russia present the sales of the Podravka Group to its distributors, not the sales to customers in the market itself. The sales of the Podravka Group’s products by the distributors in the Russian market in the food segment are 25.0% higher with respect to the volume, and in the local currency 22.0% higher, while in the pharmaceutical segment they are 4.9% higher with respect to the volume, and in the local currency 13.0% higher. These results indicate that the demand for the Podravka Group’s products is increasing.

Reported sales of **Overseas Countries and New Markets** were negatively impacted by the depreciation of the Australian and American dollar. The changed distribution model in the market of Australia and replacement of the distributor in the market of the USA had additional negative effects on sales. These activities resulted in a short-term change in the delivery dynamics.

[2] The source of these macroeconomic data: Croatian Bureau of Statistics.

Profitability of the Podravka Group (continuing operations)

Podravka Group (continuing operations)	**Reported result**			**Normalized****		
(in HRK millions)	**2014**	**2013**	**change**	**2014**	**2013**	**change**
Sales revenues	3,412.1	3,501.1	(2.5%)	3,412.1	3,501.1	(2.5%)
Gross profit	1,444.5	1,477.3	(2.2%)	1,445.2	1,482.4	(2.5%)
EBITDA*	329.2	374.0	(12.0%)	390.9	432.5	(9.6%)
EBIT	178.8	186.9	(4.3%)	257.6	300.3	(14.2%)
Net profit after MI	115.7	122.5	(5.6%)	194.5	225.0	(13.6%)
Gross margin	42.3%	42.2%	+14 bp	42.4%	42.3%	+1 bp
EBITDA margin	9.6%	10.7%	-103 bp	12.4%	12.5%	-90 bp
EBIT margin	5.2%	5.3%	-10 bp	7.5%	8.6%	-103 bp
Net profit margin after MI	3.4%	3.5%	-11 bp	5.7%	6.4%	-73 bp

**EBITDA was calculated in a way that EBIT was increased by the amount of depreciation and amortisation and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

***Normalization includes corrections for one-off items and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

With successful reduction of majority of operating expenses, Podravka Group was able to cushion negative impact of lower sales revenues on profitability levels in 2014. Gross margin posted 14 bp growth and amounted to 42.3%, where negative impact of sales revenues drop was mitigated by lower costs of goods sold. Other operating expenses were down by HRK 21.5 million which resulted in 5.2% EBIT margin. In 2014 we saw lower finance costs related to the more favourable terms of refinanced borrowings. Lower finance costs, along with the aforementioned impacts, had an additional positive effect on the reported net profit margin after minority interests, which amounted to HRK 115.7 million.

One-off items had negative effect of HRK 78.8 million in 2014, while in 2013 they had negative effect of HRK 102.5 million. The largest portion of one-off items in 2014 relates to severance payments in the amount of HRK 72.1 million, while in 2013 the largest portion relates to severance payments in the amount of HRK 54.7 million and to value adjustments of non-current assets.

Operating expenses structure of Podravka Group (continuing operations)

Podravka Group (continuing operations)	**Reported result**			**Normalized****		
(in HRK millions)	**2014**	**2013**	**change**	**2014**	**2013**	**change**
Cost of goods sold	1,967.6	2,023.8	(2.8%)	1,966.9	2,018.7	(2.6%)
General and administrative expenses	336.7	314.1	7.2%	262.0	254.7	2.9%
Selling and distribution costs	438.9	471.4	(6.9%)	440.3	469.5	(6.2%)
Marketing expenses	445.2	452.9	(1.7%)	445.2	452.9	(1.7%)
Other expenses	62.0	61.5	0.9%	44.0	10.1	335.6%
Total operating expenses	3,250.4	3,323.7	(2.2%)	3,158.4	3,205.9	(1.5%)

***Normalization includes corrections for one-off items and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

Total operating expenses from continuing operations of Podravka Group amounted to HRK 3,250.4 million in 2014 and are 2.2% lower when compared to 2013. Favourable price trends of key raw materials and lower staff costs resulted in decrease of cost of goods sold by 2.8%. In the meantime general and administrative expenses increased by 7.2% as a result of higher severance payments and advisory services related to business development. Selling and distribution costs fell by HRK 32.5 million mostly as a result of improvement in the organisation of logistics functions, i.e. the saving made in costs of distribution and warehousing of finished goods compared to the same period of the previous year. A more efficient collection of trade receivables, resulting in lower provisions for receivables, as well as lower staff costs also made a significant contribution to the lowering of selling and distribution costs. Marketing expenses are 1.7% lower due to a somewhat reduced number of campaigns in certain categories in the fourth quarter of 2014 and focusing on digital advertising channels, resulting not only in planned communication reach, but also in savings in costs of their realisation. Other expenses mainly include impairment costs of non-current assets and net realised foreign exchange losses. In 2014, impairment costs of non-current assets were almost three times lower than in 2013, while net realised foreign exchange losses were almost four times higher than in 2013.

Profitability of the Strategic Business Area Food and Drinks (continuing operations)

SBA F&D (continuing operations)	**Reported result**			**Normalized****		
(in HRK millions)	**2014**	**2013**	**change**	**2014**	**2013**	**change**
Sales revenues	2,571.8	2,649.8	(2.9%)	2,571.8	2,649.8	(2.9%)
Gross profit	981.0	993.2	(1.2%)	981.7	998.3	(1.7%)
EBITDA*	207.2	192.9	7.4%	261.9	244.3	7.2%
EBIT	98.6	69.6	41.7%	170.5	162.3	5.1%
Net profit after MI	52.1	32.5	60.3%	123.9	114.3	8.4%
Gross margin	38.1%	37.5%	+66 bp	38.2%	37.7%	+50 bp
EBITDA margin	8.1%	7.3%	+78 bp	10.2%	9.2%	+96 bp
EBIT margin	3.8%	2.6%	+121 bp	6.6%	6.1%	+50 bp
Net profit margin after MI	2.0%	1.2%	+80 bp	4.8%	4.3%	+50 bp

**EBITDA was calculated in a way that EBIT was increased by the amount of depreciation and amortisation and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

***Normalization includes corrections for one-off items and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

Strategic Business Area Food and Drinks delivered considerable growth of profitability margins on all levels in 2014 when compared to the 2013. Reported gross margin grew by 66 basis points when compared to the 2013 as a result of lower costs of goods sold due to favourable price trends of key raw materials and lower staff costs. The increase in reported operating margin (EBIT) of 121 basis points was, along with the effect above the level of gross profit, positively impacted by effects of a more efficient collection of trade receivables, lower impairment costs of a portion of non-current assets, and the saving made in the logistics and marketing functions. In 2013, impairment costs of non-current assets were considerably higher and amounted to HRK 37.9 million.

Reported net profit margin after minority interests in 2014 was 2.0% due to the effects above the level of operating profit, lower finance costs related to more favourable terms of refinanced borrowings and the positive impact of tax benefits related to the intention to reinvest a portion of profit.

One-off items had negative effect of HRK 71.9 million in 2014, while in 2013 they had negative effect of HRK 81.8 million. The largest portion of one-off items in 2014 relates to severance payments in the amount of HRK 64.1 million, while in 2013 the largest portion relates to severance payments in the amount of HRK 48.5 million and to value adjustments of non-current assets.

Profitability of the Strategic Business Area Pharmaceuticals (continuing operations)

SBA Pharmaceuticals (continuing operations)	**Reported result**			**Normalized****		
(in HRK millions)	**2014**	**2013**	**change**	**2014**	**2013**	**change**
Sales revenues	840.3	851.3	(1.3%)	840.3	851.3	(1.3%)
Gross profit	463.5	484.1	(4.3%)	463.5	484.1	(4.3%)
EBITDA*	122.0	181.1	(32.6%)	128.9	188.2	(31.5%)
EBIT	80.2	117.3	(31.6%)	87.1	138.0	(36.9%)
Net profit after MI	63.6	90.0	(29.3%)	70.5	110.7	(36.3%)
Gross margin	55.2%	56.9%	-171 bp	55.2%	56.9%	-171 bp
EBITDA margin	14.5%	21.3%	-675 bp	15.3%	22.1%	-677 bp
EBIT margin	9.5%	13.8%	-423 bp	10.4%	16.2%	-585 bp
Net profit margin after MI	7.6%	10.6%	-300 bp	8.4%	13.0%	-461 bp

**EBITDA was calculated in a way that EBIT was increased by the amount of depreciation and amortisation and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

***Normalization includes corrections for one-off items and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

Despite the sales volume growth, the prescribed decrease in prices of prescription drugs and foreign exchange losses considerably affected profitability in 2014. Sales volume growth led to a mild increase in cost of goods sold which, along with lower sales following the prescribed decrease in prices of prescription drugs in the Croatian market and the depreciation of the Russian ruble, reduced the reported gross margin. Reported operating margin in 2014 was negatively impacted by a considerable increase in other expenses, dominated by net realised foreign exchange losses, which is directly related to the depreciation of the Russian ruble, the effect of which could not be fully avoided by the Company. Lower finance costs following the repayment of a portion of borrowings, and lower tax liability due to lower profit after tax mitigated the decrease in reported net profit margin after minority interests.

One-off items had negative effect of HRK 6.9 million in 2014, while in 2013 they had negative effect of HRK 20.7 million. One-off items in 2014 relate to severance payments, while in 2013 the largest portion relates to value adjustments of non-current assets in the amount of HRK 13.6 million.

Discontinued operations

By the Management Board decision dated 20 June 2013, the Company announced its intention to exit the Beverages segment in order to improve business activities, reduce operating costs and strengthen innovation and competitiveness of the Company in its key business areas. At the reporting date, the Company classified the Beverages segment as discontinued operations in accordance with IFRS.

Discontinued operations	**Reported result**			**Normalized****		
(in HRK millions)	**2014**	**2013**	**change**	**2014**	**2013**	**change**
Sales revenues	90.6	124.9	(27.5%)	90.6	124.9	(27.5%)
Gross profit	31.5	25.5	23.5%	31.5	25.5	23.6%
EBITDA*	(11.0)	(13.9)	(20.9%)	(11.0)	(12.3)	(10.6%)
EBIT	(23.2)	(55.9)	(58.5%)	(11.9)	(25.0)	(52.4%)
Net profit after MI	(23.2)	(55.9)	(58.5%)	(11.9)	(25.0)	(52.4%)
Gross margin	34.8%	20.4%	+1.435 bp	34.8%	20.4%	+1.435 bp
EBITDA margin	n/a	n/a	n/a	n/a	n/a	n/a
EBIT margin	n/a	n/a	n/a	n/a	n/a	n/a
Net profit margin after MI	n/a	n/a	n/a	n/a	n/a	n/a

**EBITDA was calculated in a way that EBIT was increased by the amount of depreciation and amortisation and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

***Normalization includes corrections for one-off items and impairment of goodwill, intangible assets, property, plant, equipment and assets held for sale.*

One-off items had negative effect of HRK 11.3 million in 2014, while in 2013 they had negative effect of HRK 30.9 million. One-off items in both years mostly relate to value adjustments of non-current assets.

PODRAVKA GROUP EXPECTED DEVELOPMENT

Achieving growth

Podravka Group's aim is market growth and development through efficient management of product range, focusing on key brands (Vegeta, Podravka, Belupo, Lino and Dolcela), achieving operating efficiency and long-term profitability.

In the following period, business focus will be on internationalization, the aim of which is to further increase shares on international markets, and to preserve positions on domestic market. Apart from organic growth, inorganic growth is also expected through acquisitions and strategic partners.

In both strategic business areas, Food processing and Pharmaceuticals, a strong investment cycle has been started, marketing investments have been significantly increased, which will result in increasing revenues on markets on which future growth is expected. As an additional growth potential, cooperation between these two business areas will be continued, aiming to create synergy.

On domestic markets Podravka Group aims to be the leading producer of branded products, to keep the leading position which it realizes in a large number of food and pharmaceutical categories and to support all the activities related to extending the product range in the markets of South-East Europe.

In the markets of Central Europe, Podravka Group strives for advancing the business and expand the existing product range, to keep the leading position in the category of all-purpose food seasonings. Pharmaceutical segment presents an increasing part on this market.

In the markets of Western and Eastern Europe we expect continued growth, since Podravka Group brands are well positioned and recognized on these markets. In order to achieve growth, the plan is to expand the product range and to increase presence on retail market.

Above-average revenue growth is expected on markets of Overseas countries and New markets, especially due to business focus on markets of China, Middle East and Africa, whereby Podravka Group shows determination in further strengthening of business internationalization. Full potential of Podravka's strongest brands - Vegeta, Podravka and Lino will try to be used. During 2014 Podravka created majority of preconditions for strong step forward on these markets.

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 be recognizable supplier of pharmaceutical products in the region.
- To be the leader or strong second place competitor in defined strategic business programs, on strategic markets.
- To increase the internationalization rate by developing business on international markets.
- The level of expenses and production efficiency to be in line or ahead of average in industry in which Podravka does business on key markets.
- Reduce costs of procurement, sales and distribution, general and administrative costs and thus enable higher investments into marketing, research and product development.
- Better financial management to improve cash flow, necessary for optimal operating business.
- To provide new and innovative culinary and pharmaceutical solutions for the consumers.
- To contribute to general community development with its activities.

Key factors of success

Three pillars of success:

I. COMPANY STRENGTHS AND VALUES

Employees

Key of Podravka's success are dynamic, creative and successful people and their knowledge and skills. Innovativeness, entrepreneurship and desire to win are the key values of Podravka and they make comparative advantage in the market.

Quality

A feature that is a value of every Podravka Group's product is - quality. Every product carrying the name Podravka and Belupo is a result of year-long tradition, know-how and caring for consumer health and well-being.

Podravka's brands and consumer trust

Proof of Podravka's brands power and care for the consumer is the trust that we gained in Croatia, region, Europe and around the world. You do not buy consumers' trust, you build it and cherish it.

Long-year tradition

Over the years Podravka has been building and preserving the trust of its consumers, focusing on two important elements – quality and consumer care.

Wide distribution network

Podravka has a developed distribution network in Croatia and nine countries of the region, including Central and SouthEastern Europe.

Partner relations

Existing and future clients and consumers are the most valuable external potential and they are therefore approached with special care in an open and responsible communication. The Company builds confidence based on mutual respect of employees, as well as consumers and clients.

II PROFITABLE GROWTH

Vegeta, Podravka, Belupo and Lino

Podravka will be focusing on brands having significant perspective on international markets, and we expect above average growth from them - Vegeta, Podravka, Belupo and Lino brands.

Market development

Podravka Group consists of 30 companies and branch offices outside Croatia, which is a proof of quality and the service that we provide. The goal of every Company and branch office is to actively develop the business and to maintain or achieve leader positions in the market.

Internationalization

Company's business focus will be on powerful step forward to international markets, i.e. strengthening of the internationalization, in order to significantly increase revenues on those markets in the upcoming period.

Business investments

By increasing operating efficiency, additional capital is released, and Podravka Group intends to invest it into further business. As one of the main steps we can mention the expansion of the existing production capacities of Belupo. Investment cycle is started, along with significant investments in marketing in the markets where further growth is expected.

Strategic partnerships and acquisitions

Podravka Group plans its business development on organic and inorganic growth – acquisitions and strategic alliances.

Synergy of food part and pharmaceutical part

The Company aims to accomplish a synergy between the food part and the pharmaceutical part, since there are common elements and new markets and categories that can be developed from such cooperation.

Social responsibility and sustainable development

Podravka tries to use less resources and to produce less waste, and it is particularly taking care on preserving the environment, and on society development. The Company is also included in life processes of its employees and the entire community.

III OPERATING EFFICIENCY

Cost efficiency

Key element to a more efficient Company is cost management: Podravka will try to perfect its processes and activities with the aim of better control and costs share reduction in the overall business.

Internal competencies development

Sharing knowledge among employees, through own educations and experience, Podravka takes care of the competencies of its employees, improving internal processes and encouraging innovations within the Company.

Restructuring of non-profitable businesses

Podravka continues its restructuring process, with the aim of further regional and international growth and development. After divesting non-profitable segments last year, Podravka showed that it puts focus on profitability by restructuring certain areas and it thus intends to release the capital for investing in profitable categories.

Purifying the production range

Taking care of the products range Podravka aims to understand the consumer, to provide it with high-quality products, to strengthen own brands and to take care of brand profitability at the same time.

Strategy cascading – clear goals and responsibility

Important aspects for Podravka are strategy, goals and cascading to lower organization units, introducing Balanced Scorecard into its business. With that it aims to communicate to every employee their responsibilities and tasks on their way to realization of set goals.

Generating the base for profitable growth

By actively working on increasing efficiency of the whole Group, by strengthening of internal capabilities and by investing to focus on strategic brands on key markets.

Strategy through business perspectives

Aiming to cascade the strategy and with a desire that every employee knows in what way to participate in realization of multi-year plans of the Company, Podravka is in the process of implementing the Balanced Scorecard system. Additionally, the desire is to track more efficiently whether the key projects and initiatives are aligned with the strategy and goals set. With that purpose indicators have been set to track goals fulfillment through 4 business perspectives:

1. **Learning and growth**
    - Continuous increase of overall knowledge and competencies in the Company
    - Further development of innovative and competitive culture
2. **Internal processes**
    - Focus on permanent advancement of internal processes
    - New products development, market development and distribution channel development
    - Social responsibility and sustainable development care
3. **Buyers and consumers**
    - Focus on achieving the highest level of consumer satisfaction
    - Advancing relations with buyers and partners
4. **Finance**
    - To satisfy the interests of shareholders
    - Reducing costs, increasing profitability and return on capital

RISK FACTORS

In its operations, Podravka Group is exposed to risks typical of economic entities operating on individual national and regional markets, especially to those common in food or pharmaceutical industry. Podravka Group is also exposed to various economic and political risks that can influence the realization of strategic business decisions and regular business, whether within a country or beyond.

The legislation of some countries, such as tax legislation, limitations in defining market prices, product safety, complaints, protection of intellectual property and trademarks, patents, market competition, safety and protection of employees, corporate policies, regulations related to employment and labor law, and etc. also have an impact on the possibility of achieving the planned growth and profitability on a certain market. Lack of adjustment to the rules could have a significant impact on costs associated with business, as well as the general reputation of the Company.

Therefore, Podravka Group uses its own as well as external experts from various fields of expertise in order to ensure compliance with the norms that regulate specific areas. Equally, sales and operation are under influence of social and political unrests, which becomes evident in situations when the companies do business in the developing countries, with big growth potentials on the one hand but expose the Company to increased political, economic and social risks on the other. In spite of that, Podravka Group expects its year-long presence and recognizing opportunities on those markets will enable it to continue to develop its business. Through innovations and product range adjustments, together with sales prices and negotiating policies with the buyers, Podravka Group will continue to adjust to macroeconomic conditions of every individual market, to readily respond to their challenges.

Brands management

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

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

Through the continuous innovations so far, within the existing product range and launch of new categories, Podravka Group confirms to be the trend setter in food in Croatia and the region.

Business segments management

As a Company that sees the achievement of its goals through organic and inorganic business growth, optimal selection of strategic segments of product categories, markets and sales channels have a significant impact on the opportunities of that growth. For that reason Podravka Group pays great attention to evaluation and decision-making on strategic investments and considering the opportunities that can potentially contribute to the achievement of added value for investors. In addition, special attention is paid to monitoring and analysis of the segments and markets that are estimated to have no long-term potential to realize desired business results.

Podravka Group business is partially under the influence of weather changes, which can have a direct influence on annual revenue plan, where this influence is mostly evident in the Beverages segment, a part of Company business that the Company plans to divest by selling it to the highest bidder. Likewise, having evaluated the potentials of the Bakery segment, during 2014 Podravka Group divested this business program.

In 2014 activities have been initiated which should result in strengthening the presence in the markets of Middle East, China and Africa. That way we wish to show focus on better usability of the potential and available capacities and optimization of the focus on categories and geographic regions to create better grounds for further growth and development of Podravka Group.

Client relations management

Podravka Group 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, action plans at points of sale and those oriented to strengthening the recognizability of Podravka brands, Podravka Group affects the intensity of product demand and thereby negotiates positions when defining the terms and conditions with customers.

Besides, Podravka Group invests efforts that through harmonization and optimization of the existing pricing policies and price levels on existing markets, it ensures grounds for further successful long-term growth. Avoiding the erosion of the profit margins is thus affected, i.e. the reduction of risk of not achieving the planned sales realization.

Managing the risks of management and human resources

Improving business processes, as one of the important goals requires changes in the qualification structure of employees (something that was intensely worked on over the past years), and with high-quality social programs the age structure of the Company is affected. Personnel potential is one of the essential factors for Podravka Group's growth, which is continuously investing in their professional development and education. Podravka Group conducts periodic evaluation of management results, including evaluation of their management skills in order to achieve the conditions for long-term realization of its objectives.

Managing the risks of ecology, quality assurance and product safety

The quality and safety of Podravka Group 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 excellent raw materials, modern technological processes and knowledge applied in their production. Podravka Group takes care of health and nutritional needs of its users, and convenience and practical nature in their consumption and safety. Therefore, special attention is paid to defining and implementing activities that are based on assessment of critical areas in the chain of production and supply in order to protect them from contamination and counterfeiting.

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. Podravka is taking constant and systemic care on the sanitary validity and product safety, compliant to the legislature of the Republic of Croatia, European Union and all the countries where it does business, as well as on adjustment and safety of IT systems which are used as a support to the overall business of Podravka Group.

Financial risks

Due to its business activities Podravka Group is exposed to a series of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

Exposure to currency, interest rate and credit risk is a part of regular business. Treasury sector manages the stated risks, i.e. financial departments of individual companies, together with active management of investing the surplus liquidity and active management of financial assets and liabilities.

Currency risk

Podravka Group conducts certain transactions in foreign currencies, and is therefore exposed to fluctuations in exchange rates. The biggest exposure to exchange rate fluctuations during 2014 was in comparison to RUB, CZK and EUR.

Exposure to foreign exchange differences arises not only from subsidiaries doing business in foreign markets, but also the procurement of raw food materials in the international market is greatly performed in EUR and USD. Likewise, Podravka Group is in majority financed through loans in foreign currencies. The exchange rate of Croatian Kuna compared to EUR remained relatively stable during the year, with mild depreciation pressures to domestic currency and expected seasonal oscillations. This is the consequence of lack of economic recovery, i.e. reduced demand for kuna in the market and reduced inflow of foreign currency, and similar movements are expected in the next year as well. Belupo d.d. the Company within Podravka Group realizes significant part of its revenues on Russian market and is thus exposed to changes in RUB exchange rate, whose volatility was extremely high during 2014. With the purpose of active surveillance and minimizing currency risks, in 2014 forward agreements were concluded as available hedging instruments and correction of prices in RUB.

Interest rate risk

Podravka Group is not significantly exposed to the risk of changing the interest rates, since for most of the loans with variable interest rates, interest rate swap was concluded, replacing a part of the liabilities having variable interest rates with liabilities having fixed interest rates.

Price risk

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

The cost of raw materials could have a significant role in the cost of finished products that Podravka Group manufactures, therefore, it is subject to fluctuations of prices on the raw materials markets, the impact of which can't always be compensated through the sale price for the buyer.

Podravka Group realizes most of the total procurement traffic from the domestic market, while the majority of traffic with the foreign suppliers is realized with those from the EU territory.

Protective customs and trade mechanisms in the EU protecting producers, represent a risk in terms of increased customs duties for certain raw materials from third countries. Unavailability of goods in the market due to adverse weather conditions (droughts, floods, etc.), political and social unrest in some countries or speculation with key agri-food products are also risks with increased influence on the business of Podravka Group.

In order to reduce those influences, Podravka Group Procurement department manages the strategic procurement categories and key suppliers in the way to develop partnership relations with long-year and new suppliers. Also, by enlarging the procurement volumes, full usage of the Commodity Risk management, conducting tenders and using new regimes of import (triangulation), Podravka Group works on reducing procurement costs.

Credit risk and risk of refund

Credit risk is the risk of non-payment, i.e. noncompliance of contractual obligations by the Company buyers which affects the possible Company loss.

Podravka Group bears a limited credit risk in transactions with related subsidiaries since it sells the products in those transactions to its own subsidiaries, and it can be assumed that the subsidiaries will duly meet their obligations to Podravka. Generally, Podravka Group has no major problems in practice with collecting from unaffiliated buyers, so this item carries no influence to the assessment of the relation towards subsidiaries.

New buyers are accepted, and with the existing ones business cooperation continues, with payment delay after they have satisfied the set Company parameters examining creditworthiness. Claims are analysed weekly and necessary measures are taken for their collection.

Protection measures for individual category of buyers are defined according to financial indicators of individual buyer's business, where several services are used through which necessary information are available (financial reports, credit rating and similar). Company exposure analysis and credit exposure is being tracked and controlled through credit limits set by the Company and insurers who are constantly controlled and changed as needed.

Podravka Group has no significant concentration of credit risks with one person or groups of persons with similar features.

Liquidity risk

Podravka Group manages liquidity risk by maintaining adequate reserves and credit lines, continuously comparing the planned and realized cash flow and monitoring due receivables and current liabilities.

CORPORATE GOVERNANCE

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

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

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

Key principles of corporate governance that Podravka d.d. takes into account are:

- business transparency
- clear procedures for operation of the Supervisory Board, Management Board and other entities for important decision making
- avoiding conflict of interest
- efficient internal control and
- efficient system of responsibility.

As a signer of the Business Ethics Code, Podravka d.d. is obliged to respect the ethics principles in all of its business relations and has committed to respect the principles of ethics in all of its business relations and as such has accepted the obligation of working in compliance to the principles of responsibility, efficiency, transparency, quality, working in good faith and respecting the principles of good business conduct with partners, business and social environment and own employees.

Podravka d.d. and all of its subsidiaries in country and abroad develop and stick by ethical principles and principles of modern corporate governance.

Consolidated annual report of the Company and annual report on business status of the Company are submitted as one annual report, which includes the following subsidiaries of Podravka d.d.

PODRAVKA d.d. subsidiaries

Name of subsidiary	Country	2014	2013	Principal activity
Belupo d.d., Koprivnica	Croatia	100%	100%	Production and distribution of pharmaceuticals
Belupo doel, Skopje*	Macedonia	100%	100%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100%	100%	Sale and distribution of pharmaceuticals
Belupo Ljubljana*	Slovenia	100%	100%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm Koprivnica*	Croatia	100%	100%	Sale and distribution of pharmaceuticals
Farmavita d.o.o. Vogošća*	Bosnia and Herzegovina	65%	65%	Proizvodnja i distribucija lijekova
Danica d.o.o., Koprivnica	Croatia	100%	100%	Meat processing and production
Lero d.o.o., Rijeka	Croatia	-	100%	Beverage production
Ital-Ice d.o.o., Poreč	Croatia	-	100%	Ice cream production
KOTI Nekretnine d.o.o., Koprivnica	Croatia	-	100%	Services
Podravka Inženjering d.o.o., Koprivnica	Croatia	-	100%	Services
Poni trgovina d.o.o., Koprivnica	Croatia	-	100%	Sale of merchandise
Studenac d.o.o. Koprivnica	Croatia	100%	100%	Beverages production and sale
Lagris a.s., Lhota u Luhačovic	Czech Rep.	100%	100%	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100%	100%	Seasonings production and sale
Podravka-International Kft, Budapest	Hungary	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Ljubljana	Slovenia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100%	100%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100%	100%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen**	Slovakia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100%	100%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	100%	99%	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100%	100%	Production of wafers
Podravka-International s.r.l., Bucharest	Romania	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100%	100%	Sale and distribution of food and beverages
Podravka-International e.o.o.d., Sofia	Bulgaria	-	100%	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100%	100%	Sale and distribution of food and beverages
Podravaka d.o.o., Moscow	Russia	100%	-	Sale and distribution of food and beverages
Podravka International, Istanbul	Turkey	-	100%	Sale and distribution of food and beverages

*The Group holds these ownership interests indirectly through its subsidiary Belupo d.d.

**25% of ownership interest is held indirectly through the subsidiary Lagris a.s., Lhota u Luhačovic

During 2014, the parent Company Podravka d.d. merged its subsidiaries Lero doo, Ital-Ice d.o.o, KOTI Nekretnine d.o.o, Podravka Inženjering d.o.o and Poni trgovina d.o.o. The merger of the subsidiaries did not have a significant impact on the financial statements of the Group.

During 2014, the subsidiaries Podravka-International e.o.o.d (Sofia) and Podravka International Turkey were closed as they did not have significant activities. This did not have a significant effect on the Group's financial statements.

During 2014, the Group incorporated a new subsidiary Podravka d.o.o. based in Moscow (Russia).

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 for seven days at the latest before the General Assembly was being held, have the right of participation and vote at the General Assembly.

General Assembly can pass a valid resolution if it is represented by at least 30% (thirty percent) of the number of shares that get the right to vote. The General Assembly is presided by the president appointed by the Supervisory Board, and suggested by the Management Board.

Shareholders, proxies and authorized persons get the right to vote at the General Assembly using voting ballots marked with the number of votes belonging to an individual participant at the General Assembly. Resolutions passed by the General Assembly are also available at Podravka's web site in the Investors/Corporate governance/General Assembly section.

SUPERVISORY BOARD

Supervisory Board has nine members, eight of them are chosen by the shareholders at the General Assembly by three-quarter majority of votes, while one member is appointed by the Worker's Council as stipulated by the provisions of the Labour Law. Members of the Supervisory Board shall be appointed to a four-year term of office. The beginning of their term for every member of the Supervisory Board is as of the day of the election, unless otherwise determined by an election resolution. Supervisory Board supervises business operations of the Group, and on issues in their domain Supervisory Board makes decisions based on the Law, Articles of Association of PODRAVKA d.d. and the Rules of Procedure of the Supervisory Board.

Supervisory Board members of Podravka d.d. in 2014

1. Dubravko Štimac – president
2. Mato Crkvenac – deputy president
3. Ivo Družić – member
4. Ivana Matovina – member
5. Petar Miladin – member
6. Dinko Novoselec – member
7. Milan Stojanović – member
8. Petar Vlaić – member
9. Martinka Marđetko-Vuković – member.

Podravka d.d. Supervisory Board also founded two committees: Audit Committee and Remuneration Committee.

The Audit Committee members were:

1. Dinko Novoselec – president of the Committee
2. Mato Crkvenac – member
3. Petar Vlaić – member
4. Ivana Matovina – member.

The Audit Committee is authorised to monitor the financial reporting procedure, to monitor the efficiency of the internal control system, internal audit and risk management system, to supervise the audit of annual financial and consolidated reports, to track the independence of independent auditors or auditing companies performing the audit, and particularly contracts on additional services, to discuss plans and annual report by the internal audit, and to discuss significant issues related to this area, to provide recommendations to the General Assembly on choosing an independent auditor or auditing Company.

The Audit Committee held six sessions in 2014.

The Remuneration Committee

The Remuneration Committee members were:

1. Petar Vlaić – president of the Committee
2. Dubravko Štimac – member
3. Milan Stojanović – member.

The Remuneration Committee is authorised to suggest the policy of rewarding Management Board members, the fixed and variable parts of salaries, retirement plan and severance payments, to suggest objective criteria for evaluation of business successfulness, which are necessary to calculate the variable parts of the remuneration, and which again is to be in sync with long-term interests of the shareholders and Company objectives that the Supervisory Board has set; to suggest the remuneration for individual Management Board members compliant to Company Remuneration Policy and estimate of individual Board member's activities, to suggest additional contents in contracts of Board members, to consult at least with Supervisory Board president and Management Board president on their attitudes regarding remunerations to Management Board members, to track amounts and structure of the remunerations to the management and to provide general recommendations to the Management Board regarding that, to suggest a remuneration method and the amount of the remuneration to Supervisory Board members.

Remuneration Committee held two sessions in 2014.

Supervisory Board members are entitled to a fixed monthly remuneration as decided at the General Assembly on remunerations for Supervisory Board members. In 2014 Podravka d.d. Supervisory Board members have been paid HRK 1,736,026.19, and if this amount is added with the remunerations to members of the Supervisory Boards of Belupo d.d. and Danica d.o.o., Supervisory Board members of Podravka Group have been paid HRK 137,400.10.

MANAGEMENT BOARD

At their session held on 24 February 2012, Supervisory Board reached a resolution on appointing the president and members to the Management Board, in five year term.

Zvonimir Mršić was appointed Management Board president, while Jadranka Ivanković, Olivija Jakupec, Miroslav Klepač and Jorn Pedersen were appointed members. The term of Podravka d.d. Management Board president and members started as of the day this resolution was passed.

At the session held on 20 December 2012 the Supervisory Board reached a Resolution on appointing Hrvoje Kolarić as Podravka d.d. Management Board member, with the term of office expiry when the entire Management Board's term expires. Pursuant to the provisions of Podravka d.d. Articles of Association, president and members of the Board are appointed to the period as determined by the Supervisory Board (five years at the most) and they can be reappointed. Start date of their terms is as of the day the Management Board is elected. Members of the Management Board manage the business affairs of the Company, and the way they operate and divide tasks among each other is determined by the Rules of Procedure of the Management Board.

At the session held on 18 June 2014, the Supervisory Board approved contracting an agreement with Management Board member Jorn Pedersen, whose term and membership at Podravka d.d. Management Board was terminated as of 18 June 2014.

At the session held on 22 December 2014, the Supervisory Board approved contracting an agreement with Management Board member Jadranka Ivanković, whose term and membership at Podravka d.d. Management Board was terminated as of 22 December 2014.

Management Board members in 2014

1. Zvonimir Mršić – president
2. Jadranka Ivanković – member till 22 December 2014
3. Olivija Jakupec – member
4. Miroslav Klepač – member
5. Jorn Pedersen – member till 18 June 2014
6. Hrvoje Kolarić – member.

Salary to an individual Podravka d.d. Management Board member has been determined by a management contract signed between an individual Management Board member and the Company, and approved by the Supervisory Board on behalf of the Company. Gross salaries paid in 2014 to Podravka d.d. Management Board members amount to HRK 7,349,301, and if this amount is added with remunerations for Management Board members for Belupo d.d., Podravka Group Management Board members have been paid gross salaries of HRK 9,980,059. During 2014, Management Board members were awarded with 40,658 of the Company optional shares.

SHARE

Turnover, volume and price of Podravka share

Total turnover of Podravka share in 2014 grew by 138.0 percent compared to 2013, while total turnover of all shares at Zagreb Stock Exchange in the same period recorded a mild decline of 0.4 percent. Podravka share recorded the highest increase of total turnover among all the companies in CROBEX10 index. Total turnover of Podravka share in 2014 was HRK 114.5 million, which is 4.2 percent of total shares turnover at the Zagreb Stock Exchange.

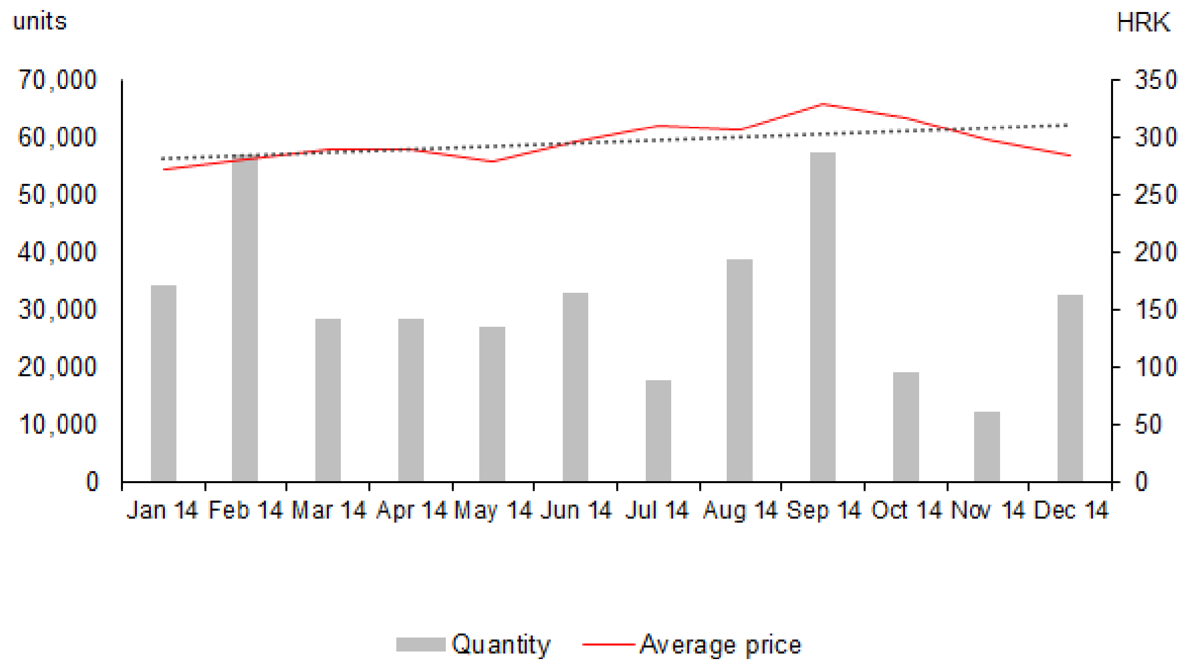
Increase of Podravka share turnover in 2014 is a result of Podravka share price increase, but also a result of traded volumes comparing to 2013. Traded volume of Podravka share in 2014 was 108.8 percent higher comparing to 2013, where the most intense trading took place in the first and third quarter.

Podravka share turnover and volumes per quarters in 2014

	2014		2013	
PERIOD	TURNOVER (HRK)	AMOUNT	TURNOVER (HRK)	AMOUNT
I QUARTER	33,532,617	119,513	19,570,827	70,151
II QUARTER	25,538,697	88,063	7,226,769	28,576
III QUARTER	36,425,008	114,085	7,457,689	30,230
IV QUARTER	18,975,991	64,057	13,835,571	55,772
TOTAL	114,472,313	385,718	48,090,857	184,729

Podravka share average price[3] in 2014 was HRK 296.78 and it was 14.0 percent higher compared to the average price in 2013. Close price of Podravka share at 31 December 2014 was HRK 293.47, which is 15.3 percent growth compared to close price on 31 December 2013.

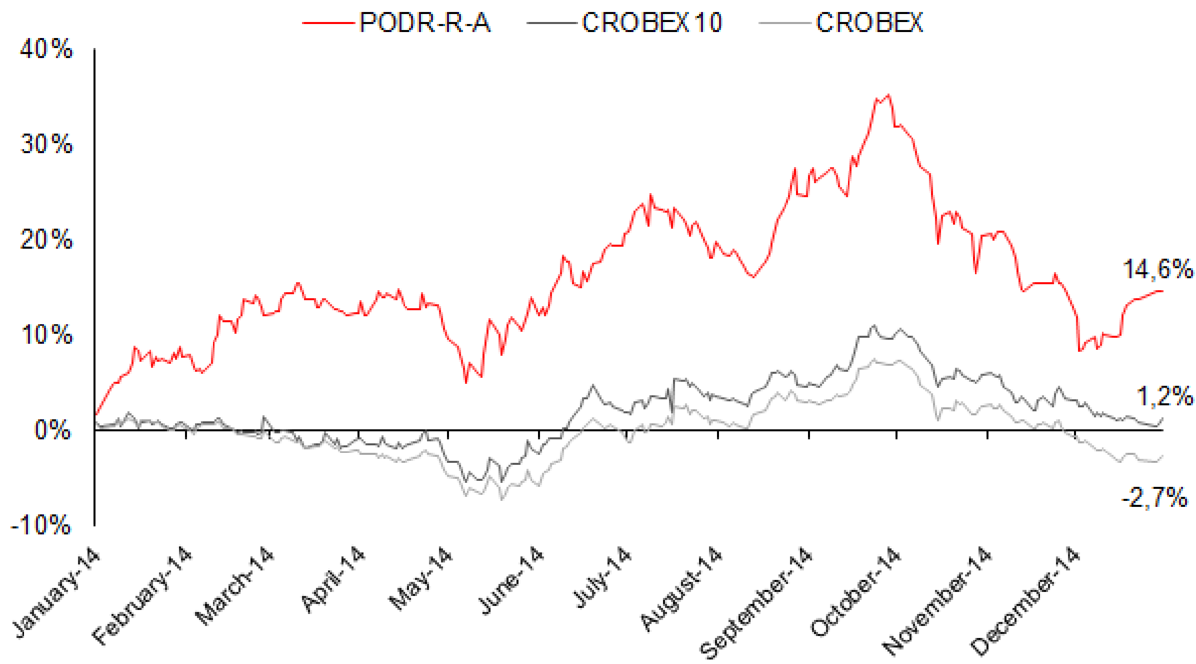
Turnover and average price of Podravka share



[3] Average price was calculated as a sum of weighted average daily prices where traded amount → (daily traded amount/total annual amount)*average daily price was taken as a weight.

With the above stated share price increase, Podravka's share outperformed stock indices CROBEX and CROBEX10, which in the same period dropped by 2.7% and grew by 1.2%, respectively.

Movement of average daily price of Podravka share and indices CROBEX and CROBEX10[4]



Stock market indices

Podravka share has been listed in four indices of the Zagreb Stock Exchange – CROBEX, CROBEX10, CROBEXnutris and CROBEXtr – and in foreign STOXX® indices.

[4] Annual price change of Podravka share was calculated as a relation of average price on 31 December 2014 and average price on 31 December 2013. Annual change of index value was calculated as a relation of index close value on 31 December 2014 and index close value on 31 December 2013.

Ownership structure

Shareholder	No. of shares
STATE PROPERTY MANAGEMENT ADMINISTRATION / CROATIAN PENSION INSURANCE FUND*	575,598
STATE PROPERTY MANAGEMENT ADMINISTRATION/ REPUBLIC OF CROATIA	536,259
ERSTE PLAVI MANDATORY PENSION FUND, CATEGORY B	514,863
AZ MANDATORY PENSION FUND, CATEGORY B	488,106
PBZ CROATIA OSIGURANJE MANDATORY PENSION FUND - CATEGORY B	480,921
UNICREDIT BANK AUSTRIA AG - CUSTODY ACCOUNT	435,910
KAPITALNI FOND D.D.	321,804
RAIFFEISEN MANDATORY PENSION FUND, CATEGORY B	197,766
PODRAVKA D.D. - TREASURY ACCOUNT	177,511
CUSTODY ACCOUNT / STATE STREET BANK AND TRUST COMPANY, BOSTON	118,475
OTHER SHAREHOLDERS	1,572,790
TOTAL	5,420,003

*CROATIAN INSTITUTE FOR PENSION INSURANCE

Treasury account status

Considering that during 2014 there were no acquiring or releasing of own shares, on 31 December 2014 the situation was unchanged comparing to the year before, and the number of shares was 177,511 of own shares.

On 31 December 2014, Supervisory Board members owned 5 shares of Podravka d.d., while Management Board members owned 1,943 shares of Podravka d.d.

The annual report was authorised by the Management Board on 15 April 2015 and signed below to signify this.

Zvonimir Mršić
President of the Management Board

Miroslav Klepač
Member of the Management Board

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 222

Koprivnica, 15 April 2015

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and of the results of its operations and 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 Group and to prevent and detect fraud and other irregularities.

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

The Management Board is responsible for the submission to the Supervisory Board of its annual report together with the annual consolidated and unconsolidated financial statements, following which the Supervisory Board is required to approve the annual consolidated and unconsolidated financial statements for submission to the General Assembly of Shareholders for adoption.

The unconsolidated financial statements of the Company are published separately and issued simultaneously with these consolidated financial statements.

The consolidated financial statements were authorised by the Management Board on 15 April 2015 for issue to the Supervisory Board and are signed below to signify this.

Zvonimir Mršić
President of the Management Board

Miroslav Klepač
Member of the Management Board

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 222

Koprivnica, 15 April 2015

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

We have audited the accompanying consolidated financial statements of Podravka d.d. and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other legal and regulatory requirements

Pursuant to legal and regulatory requirements, management has prepared the annual report set out on pages 1 to 55. Management is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act of the Republic of Croatia. Our responsibility is to express an opinion on the consistency of the information in the annual report with the audited financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act of the Republic of Croatia. In our opinion, the information given in the accompanying annual report for the financial year for which the financial statements are prepared is consistent with those financial statements.

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

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
2

15 April 2015

This version of our 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 report takes precedence over this translation.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of HRK)	***Note***	**2014**	**2013**
Continuing operations			
Revenues	*8*	3,412,062	3,501,077
Cost of goods sold	*11*	(1,967,609)	(2,023,818)
Gross profit		**1,444,453**	**1,477,259**
Other income	*9*	17,215	9,589
General and administrative expenses	*11*	(336,703)	(314,126)
Selling and distribution costs	*11*	(438,851)	(471,391)
Marketing expenses	*11*	(445,228)	(452,911)
Other expenses	*10*	(62,040)	(61,474)
Operating profit		**178,846**	**186,946**
Financial income	*13*	2,214	5,314
Financial expenses	*14*	(53,542)	(66,523)
Net finance costs		**(51,328)**	**(61,209)**
Profit before tax		**127,518**	**125,737**
Income tax expense	*15*	(9,376)	(1,446)
Profit for the year from continuing operations		**118,142**	**124,291**
Discontinued operations			
Loss for the year (net of tax)	*7*	**(23,197)**	**(55,914)**
Profit for the year		**94,945**	**68,377**
Other comprehensive income			
Exchange differences on translation of foreign operations		(2,292)	(6,138)
Total comprehensive income		**92,653**	**62,239**
Profit attributable to:			
Equity holders of the parent		92,459	66,601
Non-controlling interests		2,486	1,776
Total comprehensive income attributable to:			
Equity holders of the parent		90,088	60,226
Non-controlling interests		2,565	2,013
Earnings per share (in HRK):			
- Basic	*16*	17.64	12.70
- Diluted	*16*	17.61	12.70

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

(in thousands of HRK)	***Note***	**31 December 2014**	**31 December 2013**
ASSETS			
Non-current assets			
Goodwill	*17*	25,687	25,881
Intangible assets	*18*	244,793	218,438
Property, plant and equipment	*19*	1,202,589	1,218,264
Non-current financial assets	*21*	7,602	5,607
Deferred tax assets	*15*	50,169	49,573
Total non-current assets		**1,530,840**	**1,517,763**
Current assets			
Inventories	*22*	599,164	572,616
Trade and other receivables	*23*	924,077	1,026,635
Financial assets at fair value through profit or loss	*24*	59	-
Income tax receivable		19,520	6,329
Cash and cash equivalents	*25*	220,478	179,461
Non-current assets held for sale	*26*	214,432	155,354
Total current assets		**1,977,730**	**1,940,395**
Total assets		**3,508,570**	**3,458,158**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*27*	1,063,548	1,062,329
Reserves	*28*	467,540	249,320
Retained earnings	*29*	217,569	345,701
Attributable to equity holders of the parent		**1,748,657**	**1,657,350**
Non-controlling interests	*30*	36,605	34,040
Total shareholders' equity		**1,785,262**	**1,691,390**
Non-current liabilities			
Loans and borrowings	*32*	749,013	572,872
Provisions	*33*	39,792	49,279
Deferred tax liability	*15*	5,544	5,577
Total non-current liabilities		**794,349**	**627,728**
Current liabilities			
Trade and other payables	*34*	563,922	620,781
Income tax payable		2,599	2,849
Financial liabilities at fair value through profit or loss	*31*	2,752	2,709
Loans and borrowings	*32*	325,542	490,413
Provisions	*33*	34,144	22,288
Total current liabilities		**928,959**	**1,139,040**
Total liabilities		**1,723,308**	**1,766,768**
Total equity and liabilities		**3,508,570**	**3,458,158**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of HRK)	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total
As at 1 January 2013	**1,584,862**	**21,762**	**18,325**	**50,000**	**35,244**	**48,172**	**(162,600)**	**1,595,765**	**32,027**	**1,627,792**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	66,601	66,601	1,776	68,377
Other comprehensive income	-	-	-	-	-	(6,375)	-	(6,375)	237	(6,138)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(6,375)**	**66,601**	**60,226**	**2,013**	**62,239**
Transactions with owners recognised directly in equity	-	-	-	-	-	-	-	-	-	-
Simplified reduction of share capital	(542,000)	-	-	-	-	-	523,892	(18,108)	-	(18,108)
Capital reserves arising from the reduction of share capital	18,108	-	-	-	-	-	-	18,108	-	18,108
Fair value of share-based payment transactions	1,359	-	-	-	-	-	-	1,359	-	1,359
Total transactions with owners recognised directly in equity	**(522,533)**	**-**	**-**	**-**	**-**	**-**	**523,892**	**1,359**	**-**	**1,359**
Reinvested profits	-	-	-	86,075	-	-	(86,075)	-	-	-
Transfers within equity and reserves	-	-	(6,851)	-	4,050	(1,082)	3,883	-	-	-
As at 31 December 2013	**1,062,329**	**21,762**	**11,474**	**136,075**	**39,294**	**40,715**	**345,701**	**1,657,350**	**34,040**	**1,691,390**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	92,459	92,459	2,486	94,945
Other comprehensive income	-	-	-	-	-	(2,371)	-	(2,371)	79	(2,292)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(2,371)**	**92,459**	**90,088**	**2,565**	**92,653**
Transactions with owners and transfers recognised directly in equity										
Fair value of share-based payment transactions (note 36)	1,219	-	-	-	-	-	-	1,219	-	1,219
Total transactions with owners recognised directly in equity	**1,219**	**-**	**-**	**-**	**-**	**-**	**-**	**1,219**	**-**	**1,219**
Transfers within equity and reserves (note 28 (i))	-	45,842	5,069	-	4,662	2,955	(58,528)	-	-	-
Reinvested profits (note 28 (ii))	-	-	-	162,063	-	-	(162,063)	-	-	-
	-	**45,842**	**5,069**	**162,063**	**4,662**	**2,955**	**(220,591)**	**-**	**-**	**-**
As at 31 December 2014	**1,063,548**	**67,604**	**16,543**	**298,138**	**43,956**	**41,299**	**217,569**	**1,748,657**	**36,605**	**1,785,262**

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

(in thousands of HRK)	***Note***	**2014**	**2013**
Profit for the year		**94,945**	**68,377**
Income tax		9,376	1,446
Depreciation and amortization		134,796	148,303
Impairment loss on property, plant, equipment and intagibles		14,126	16,341
Impairment loss on assets held for sale		13,637	50,840
Impairment loss on goodwill		-	13,605
Impairment of investments		483	-
Change in fair value of financial instruments		(17)	(4,066)
Share-based payment transactions		1,219	1,359
(Gain)/loss on disposal of property, plant, equipment and intangibles		(910)	61
Loss on disposal of assets held for sale		1,796	-
Impairment losses on inventory and trade receivables		12,739	32,313
Increase in provisions		2,369	1,812
Interest income		(2,155)	(1,248)
Impairment of loans given		1,500	-
Interest expense		51,871	58,616
Effect of changes in foreign exchange rates		1,424	4,762
		337,199	**392,521**
Changes in working capital:			
(Increase) / decrease in inventories		(22,301)	47,630
Decrease in trade and other receivables		88,048	17,604
Decrease in trade and other payables		(38,537)	(93,877)
Cash generated from operations		**364,409**	**363,878**
Income taxes paid		(23,532)	(12,602)
Interest paid		(54,009)	(59,464)
Net cash from operating activities		**286,868**	**291,812**
Cash flows from investing activities			
Purchase of equity instruments	*40*	(1,428)	-
Purchase of property, plant, equipment and intangibles		(163,024)	(96,421)
Purchase of assets held for sale		(81,380)	-
Proceeds from sale of property, plant, equipment and intangibles		5,344	1,016
Loans given		(1,210)	(2,659)
Proceeds from loans given		495	661
Proceeds from other investments		-	600
Interest received		2,155	1,248
Net cash from investing activities		**(239,048)**	**(95,555)**
Cash flows from financing activities			
Proceeds from loans and borrowings		1,050,845	269,897
Repayment of loans and borrowings		(1,057,648)	(404,901)
Net cash from financing activities		**(6,803)**	**(135,004)**
Net increase of cash and cash equivalents		**41,017**	**61,253**
Cash and cash equivalents at beginning of year		179,461	118,208
Cash and cash equivalents at the end of year	*25*	**220,478**	**179,461**

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

Podravka prehrambena industrija d.d., Koprivnica ("the Company") is incorporated in the Republic of Croatia. The principal activities of the Group comprise production of a wide range of food products and non-alcoholic beverages as well as production and distribution of drugs, pharmaceutical products, disinfection agents, cosmetics, auxiliary medical preparations and other chemicals. The Group consists of Podravka d.d. and its subsidiaries as stated in note 20.

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

The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 27.

Corporate governance and management

General Assembly

The General Assembly of the Company consists of members representing the interests of Podravka d.d.:

President	Jakša Barbić

Members of the General Assembly are individual Company shareholders or their proxies.

Supervisory Board

Supervisory Board members during 2014:

President	Dubravko Štimac
Deputy President	Mato Crkvenac
Member	Ivana Matovina
Member	Milan Stojanović
Member	Petar Vlaić
Member	Dinko Novoselec
Member	Petar Miladin
Member	Martinka Marđetko-Vuković
Member	Ivo Družić

Management Board during 2014

President	Zvonimir Mršić
Member	Jadranka Ivanković (until 22 December 2014)
Member	Olivija Jakupec
Member	Miroslav Klepač
Member	Jorn Pedersen (until 18 June 2014)
Member	Hrvoje Kolarić

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted as by the European Union ("IFRS").

Financial statements are presented for the Group. The financial statements of the Group comprise the consolidated financial statements of the Company and its subsidiaries. The unconsolidated financial statements of the Company, which the Company is also required to prepare in accordance with IFRS, are published separately and issued simultaneously with these consolidated financial statements.

These financial statements were authorised for issue by the Management Board on April 15, 2015.

This version of our report is a translation from the original, which was prepared in the 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 report takes precedence over this translation.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Podravka d.d. ("the Company") and entities controlled by Podravka d.d. (its subsidiaries) as at and for the year ended 31 December 2014. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

(ii) Business combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of consideration transferred, the amount of any non-controlling interest in the acquiree and acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of bargain purchase, the difference is recognised directly in the statement of comprehensive income.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment loss, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.3 Non-current assets held for sale and discontinued operations

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 the financial position as ‘held for sale’ if it is highly probable that 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 statement of the financial position are not reclassified in the comparative statement of the financial position.

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

Discontinued operations

Discontinued business operations are an integral part of the Group’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 to 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 statement of comprehensive income 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)

3.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, volume rebates and trade discounts.

The Group 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 Group's activities as described below.

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

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

Delivery does not occur until the products have been shipped to the specified location, the risks of loss 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 Group has objective evidence that all criteria for acceptance has been satisfied.

Products are sold with volume discounts and customers have a right to return products in the wholesale market in case of defects. Sales are recorded based on the price specific in the sales contracts, net of estimated volume rebates and trade discounts and returns at the time of sale. Experience is used to estimate the volume rebates and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of approximately 90 days, which is consistent with market practice.

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

Sales of goods sold in retail stores are recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The credit card fees payable for the transaction are included in distribution costs. The Group does not operate any customer loyalty programmes.

(iii) Revenue from services

Sales of services such as production insourcing are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed 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)

3.5 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group 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 and the present value of minimum lease payments. Each lease payment is allocated between the liability and finance costs so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the income statement 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 obtained by the Group are classified as operating leases. Payments made under operating leases are charged to the income statement 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.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Foreign currency transactions

(i) 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.

(ii) Group companies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Croatian kuna ("HRK"), which is also the Company's functional currency.

Income and expense items and cash flows of foreign operations that have a functional currency different from the presentation currency are translated into the Company's and Group's presentation currency at rates approximating the foreign exchange rates ruling at the dates of transactions (average exchange rates for the month) and their assets and liabilities are translated at the exchange rates ruling at the year end. All resulting exchange differences are recognised in a separate component of equity. The applicable foreign exchange rates for relevant currencies are included within currency risk disclosures.

(iii) Net investment in Group companies

Exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operation is sold, such exchange differences are released in profit or loss as part of the gain or loss on sale.

3.7 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 income statement over the period of the borrowings 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 the statement of income in the period incurred.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Government grants

Government grants are not recognised until there is reasonable assurance that the Group 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 Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated 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 loss already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.9 Dividends

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

3.10 Segment reporting

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 Group internally monitors and reports the following segments:

- Culinary
- Sweets, snacks and beverages
- Baby food, breakfast and other food
- Meat and meat products
- Pharmaceuticals

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (which was identified as being the Management Board of the Group) in order to allocate resources to the segments and to assess their performance. Details on the operating segments are disclosed in note 8 to the consolidated financial statements. Comparative information are presented using the comparability principle.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Taxation

(i) Income tax

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

Current tax is the expected tax payable on the taxable profit 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 goodwill, 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 reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 exposure

In determining the amount of current and deferred tax, the Group 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 Group 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 consolidated 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)

3.12 Property, plant and equipment

Property, plant and equipment are included in the consolidated 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 Group 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 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 Group 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 and when necessary.

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 3.14).

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

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.

Licences, brands, distribution rights and registration files

Product distribution rights and right over use of registration files have a finite 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 licences, distribution rights and registrations over their estimated useful lives estimated from 3 to 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 the 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).

Computer software

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 estimated useful lives estimated at 5 years.

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; and
- 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 Group reviews the carrying amounts of its non-financial assets (apart from 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 (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group 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, corporate 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 intangible assets not yet available for use 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 pre-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 recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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-process and finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 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, less an allowance for impairment.

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 consolidated 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.

Where the Group 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 deductions, the Group makes payments to mandatory pension funds operated 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 Group 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 Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as expenses when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) Regular retirement benefits

Retirement 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 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 immediately in profit or loss.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits (continued)

(iv) Long-term employee benefits

The Group 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 immediately in profit or loss.

(v) Short-term employee benefits

The Group 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 Group 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 consolidated 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 Group 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 Group 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 assets

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

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial assets (continued)

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

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

3.22 Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Financial liabilities and equity instruments issued by the Group (continued)

Other financial liabilities

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

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

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

Contracts on financial guarantee

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

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

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

Derecognition of financial liabilities

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

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 2014 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. It is not expected that these standards will have a significant effect on the consolidated financial statements of the Group.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

The preparation of financial statements in conformity with 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 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 net 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 33).

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

(iii) Consequences of certain legal actions

The Group 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 based on consultation with internal and external legal advisors taking into account the type of claim, claimed amount, likelihood of outcome and the status of the court proceedings.

The Group 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 Group. The Group 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 Group.

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 Group is a plaintiff in a particular court case, any economic benefits expected to flow to the Group 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 Group's obligations arising legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.20 and 33).

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

In the process of regulating the collection of overdue debts, the Group 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.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment of non-current assets, including goodwill

The Group tests goodwill, brands and rights for impairment on an annual basis in accordance with accounting policy 3.14. For the purposes of impairment testing, goodwill, brands and rights with indefinite useful lives have been allocated to cash generating units within reportable segments at their carrying amount at the reporting date as follows:

	Goodwill	**Brands**	**Rights**
Operating segment		*(in thousands of HRK)*	
Culinary	-	31,239	-
Baby food, breakfast and other food	25,687	37,084	-
Meat and meat products	-	11,789	-
Pharmaceuticals	-	-	47,075
	25,687	**80,112**	**47,075**

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

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Podravka Lagris a.s. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five year plans for sales on the Czech market and business plans of the subsidiary developed by the Group bearing in mind its corporate and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2%. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for goodwill as the weighted average cost of capital for the Czech market and the food industry and amounts to 6.39%.

As a result of the impairment tests for goodwill, during 2014 the Group had no impairment losses relating to goodwill while during 2013 the Group recognised impairment losses in the amount of HRK 13,605 thousand relating to goodwill arising on acquisition of pharmaceutical operations which was written-off in full as at 31 December 2013. The sensitivity analysis indicates that an impairment loss in respect of goodwill arising on acquisition of Podravka Lagris a.s. would arise in case of a decrease in the terminal growth rate by 50 basis points (assuming an unchanged weighted average cost of capital) and would amount to HRK 10,692 thousand. If the weighted average cost of capital is increased to 7.89% (assuming an unchanged terminal growth rate) an impairment loss would arise in the amount of HRK 4,393 thousand.

Brands

Brands relate to acquired rights of use of logos, trademarks and brand names which the Group allocates to business segments in accordance with internal categorisation of products to which the specific brand relates to, whereby the brand value is either allocated entirely to a specific segment or where applicable and where a brand relates to products and categories which relate to several segments, it is allocated based on the share of gross margin of the brand in each of the segments.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Impairment of non-current assets, including goodwill (continued)

Brands (continued)

The Group 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 product and categories which comprise a certain brand and which the Group developed bearing in mind its corporate 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. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2%. Cash flows created from such plans are discounted using the 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 for the primary market the brand is sold on and the food industry. In cases where brands are sold to a significant extent on several different markets with different risk profiles and characteristics, the cash flows from each of the relevant markets are discounted using a weighted average cost of capital applicable to each particular market.

Brands relate to the brand Warzywko in the Culinary segment (universal food seasoning sold on the Polish market), Čokolešnik (baby food) and Eva (fish products) in the segment “Baby food, breakfast and other food” (sold mainly on the Croatian, Bosnian and Serbian market) and the brand Piketa in the “Meat and meat products” segment (sold mainly on the Croatian market). Accordingly, the discount rate used in the impairment test amounted to 9.06% for Warzywko and 11.29% for Čokolešnik, Eva and Piketa where the dominant market is Croatia.

As a result of the impairment tests for brands, during 2014 the Group incurred no impairment losses relating to brands while during 2013 the Group recognised impairment losses in the amount of HRK 10,300 thousand relating to Warzywko and HRK 671 thousand relating to the brand Lero (liquid and powdered drinks) which was written-off in full as at 31 December 2013. A decrease in the terminal growth rate from 2% to 0% would not result in an impairment of the brand Warzywko while the increase in weighted average cost of capital to 10.56% would result in an impairment loss of HRK 1,435 thousand. Impairment tests for brands Čokolešnik, Eva and Piketa do not indicate a possible impairment bearing in mind realistic and reasonably probable changes in key variables.

Pharmaceutical rights

Pharmaceutical rights relate to acquired rights for operating pharmacies which are entirely allocated to the “Pharmaceuticals” segment. In accordance with local legislation such rights do not expire (the Group does not expect regulatory changes in this respect). The Group annually performs impairment tests in order to assess whether the recoverable amount of pharmaceutical rights indicates potential impairment of their carrying amount. The calculation of the recoverable amount is based on five year plans for pharmacy sales based on historical data and expected market trends, particularly in relation to changes in drug prices. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2%. Cash flows created from such plans are discounted using the 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 for the Croatian market and the pharmaceutical industry and amounts to 9.53%.

Based on the impairment test performed, the Group had no impairment losses during 2014 and 2013 with respect to pharmaceutical rights. The sensitivity analysis indicates that an impairment loss with respect to pharmaceutical rights would arise in case the weighted average cost of capital is increased by 200 basis points (assuming an unchanged terminal growth rate) and would amount to HRK 2,008 thousand. The decrease of the terminal growth rate from 2% to 0% would not result in an impairment of pharmaceutical rights.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(vi) Impairment test for property, plant and equipment and assets held for sale

The Group annually performs impairment tests for property, plant and equipment in order to assess whether the 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 production facilities i.e. factories, the calculation of the recoverable amount is based on five year sales plans from which the Group derives production plans for each factory, category and product per market and which the Group developed bearing in mind its corporate and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period ranging from 0% to 2% depending on the sales plan for products manufactured by a particular factory. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been approximated for the purposes of the impairment test as the weighted average cost of capital for the Croatian market where the majority of the production facilities are located. Generally, the recoverable amount of production facilities is defined as its value in use unless a valuation from an independent expert valuer is available which indicates that the assets fair value less costs to sell is higher than its value in use.

During 2014, the Group recognised HRK 14,126 thousand of impairment losses with respect to production facilities (buildings and equipment) in Poland relating to the "Culinary" segment arising from the decision of the Group to relocate a significant part of production from Poland to Croatia. Accordingly, apart from the value in use an estimate of the market value of the relevant real estate was also done by an independent expert valuer which was the basis for the impairment. The Group is currently considering its plans for the respective production facility and it is possible that it will reclassify it as held for sale during 2015. During 2013, there were no impairment losses with respect to production facilities other than those related to discontinued operations as explained below.

For property, plant and equipment held for sale, upon classification of such assets as held for sale the Group estimates their recoverable amount 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 Group 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 Group considers whether there have been significant changes in the circumstances and expectations related to the disposal process which would require re-assessment of their fair value. If a significant change in circumstances has not occurred, but the asset relates to property which is intended to be used until disposal (such as manufacturing plants which are part of discontinued operations), the Group approximates the possible potential impairment that could arise from the date of classification of such assets as held for sale up to the reporting date based on an updated valuation taking into account the impact of any changes in circumstances and market conditions in relation to those assets.

During 2014 the Group recognized HRK 11,185 thousand of impairment losses related to production facilities which are part of discontinued operations (segment "Beverages"). During 2013, the Group recognized a total of HRK 29,321 thousand of impairment losses on assets held for sale which are part of discontinued operations and HRK 21,519 thousand with respect to other assets held for sale which mainly relating to the impairment of land held for sale.

NOTE 6 – DETERMINATION OF FAIR VALUES

The Group 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 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 level in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

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

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

- note 7: Discontinued operations
- note 21: Non-current financial assets
- note 24: Financial liabilities at fair value through profit or loss
- note 26: Non-current assets available for sale
- note 31: Financial liabilities at fair value through profit or loss
- note 36: Share-based payments

NOTE 7 – DISCONTINUED OPERATIONS

Based on the Management Board decision from 2013, the Group initiated the process of discontinuation of the Beverages business segment in order to improve operational activities, reduce operating costs and strengthen innovation and competitiveness of the Company in its key business areas. At 31 December 2013, the Group classified the Beverages segment as discontinued operations in accordance with IFRS 5. Notwithstanding the fact that the disposal of these assets was not completed due to unfavourable market conditions, the Group continues to actively enforce and carry out the adopted disposal plan and with a view to realising the sale as early as possible. At the reporting date, the Group received an offer with respect to the sale of the entire Beverages segment which is still under review as at the date of the approval of these financial statements, but which did not indicate impairment of the assets classified as held for sale bellow their carrying amount reported as at 31 December 2014. The Group expects to finalise the disposal during 2015.

Depreciation expense relating to discontinued operations amounts to HRK 988 thousand (2013: HRK 12,735 thousand). During 2014, the Group recognised an impairment loss from discontinued operations amounting to HRK 11,185 thousand (see note 5(vi)). The impairment loss is presented within other expenses from discontinued operations. During 2014, the Group did not recognise expenses in the statement of comprehensive income for discontinued operations with respect to termination benefits for employees (2013: HRK 1,621 thousand). During 2013, the Group recognised HRK 29,321 thousand relating to the write-down of the value of the disposal group to the lower of its carrying amount and its fair value less costs to sell. The impairment loss is presented within other expenses from discontinued operations.

Statement of comprehensive income for discontinued operations is as follows:

(in thousands of HRK)	*Note*	**Discontinued operations**	
		2014	**2013**
Revenue from sale		90,553	124,934
Cost of goods sold		(59,081)	(99,469)
Gross profit		**31,472**	**25,465**
Operating expenses		(43,484)	(52,058)
Other expenses		(11,185)	(29,321)
Operating loss		**(23,197)**	**(55,914)**
Loss before tax for the year		**(23,197)**	**(55,914)**
Income tax		-	-
Loss for the year		**(23,197)**	**(55,914)**
Loss per share (in HRK)			
- Basic	*16*	(4.42)	(10.67)
- Diluted	*16*	(4.42)	(10.67)

The loss from discontinued operations of HRK 23,197 thousand (2013: HRK 55,914 thousand) is attributable entirely to the owners of the Company.

NOTE 7 – DISCONTINUED OPERATIONS (CONTINUED)

Cash flow for discontinued operations is as follows:

(in thousands of HRK)	2014	2013
Net cash from operating activities	(7,461)	(9,419)
Net cash from investing activities	(1,288)	(5,945)
	(8,749)	**(15,364)**

Disposal group held for sale

Assets of the disposal group held for sale as at 31 December 2014 are as follows:

(in thousands of HRK)	2014	2013
Land and buildings	32,056	34,258
Equipment	33,499	41,498
Inventories	4,720	8,967
	70,275	**84,723**

For practical reasons the Group does not present the liabilities of the disposal group held for sale due to the fact that the purchasing of raw and other materials, as well as financing is done centrally and is not allocated for the purpose of further analysis. At the reporting date there were no liabilities entirely attributable to discontinued operations.

Fair value measurement

Land and buildings within the disposal group are measured at fair value less costs to sell due to the fact that their fair value was lower than the carrying amount upon classification as held for sale. The Group has performed fair value measurement at the classification date and regularly reviews whether an update of the fair value measurement is required. Management has made an estimate that no new circumstances occurred during 2014 that would require a new fair value measurement.

The fair value of equipment is estimated internally, based on value in use and expected net selling price.

The fair value of finished goods is measured as the expected net realisable value based on historical sales data and expected price trends at the classification date. Subsequently, finished goods are valued at the lower of cost of production or net realisable value.

(i) Fair value hierarchy

Fair value measurement of the disposal group related to land and buildings in the amount of HRK 32,056 thousand is categorised, in accordance with inputs used in estimating the fair value, as level 3 (see note 6).

(ii) Valuation techniques and significant inputs

The following table summarizes the valuation methods and techniques used in measuring the fair value of the disposal group and significant inputs used in the valuation at the date of classification as held for sale:

Valuation methods and techniques	**Significant unobservable inputs**
Income capitalisation and comparable values method For buildings, the valuation model considers the present value of cash flows that the asset could generate from rent taking into account the expected net rent based on comparable transactions. For land, the valuation model considers the real sale values achieved in the sale of comparable land at a similar location.	Average yield: 13% Among other factors, the estimated discount rate considers the underlying quality of the property, its location and the currently realisable rent conditions for similar locations and the comparable type of property.

NOTE 8 – SEGMENT INFORMATION

Sales revenue

	2014	2013
	(in thousands of HRK)	
Revenue from sale of product and merchandise	3,393,102	3,475,790
Revenue from services	18,960	25,287
	3,412,062	**3,501,077**

For management purposes, the Group 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 Group are as follows:

- Culinary
- Sweets, snacks and beverages
- Baby food, breakfast and other food
- Meat and meat products
- Other
- Pharmaceuticals

The reportable segments are part of the internal financial reporting. The Management Board, as the chief operating decision maker, regularly reviews the internal reports 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 Group's revenue and results by its reportable segments, presented in accordance with IFRS 8 and a reconciliation of segment profits to profit or loss before tax as presented in the consolidated statement of comprehensive income. The revenue presented below relates to third-party sales. Inter-segment revenues are eliminated on consolidation.

	Segment revenues		**Segment profits**	
(in thousands of HRK)	**2014**	**2013**	**2014**	**2013**
Culinary	899,372	932,235	202,682	198,939
Sweets, snacks and beverages	171,234	174,036	21,395	12,172
Baby food, breakfast and other food	887,330	912,314	17,159	15,973
Meat and meat products	300,786	281,566	(16,026)	(6,736)
Other	313,081	349,656	(1,079)	(9,377)
Pharmaceutical	840,259	851,270	130,988	144,725
	3,412,062	**3,501,077**	**355,119**	**355,696**
Financial income (note 13)			2,214	5,314
Other income (note 9)			17,215	9,589
Central administration costs			(131,448)	(116,865)
Other costs (note 10)			(62,040)	(61,474)
Finance costs (note 14)			(53,542)	(66,523)
Profit before tax			**127,518**	**125,737**

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (continued)

The Culinary segment comprises the following product groups: Seasonings and bouillons, Podravka Meals and Food mixes.

The Sweets, snacks and beverages segment comprises the following product groups: Sweets, Snacks, and Beverages.

The Baby food, breakfast and other food segment comprises the following product groups: Baby food, Breakfast food, Vegetables, Condiments and baking products, Mediterranean food, Frozen food.

The Meat and meat Products segment comprises the following product groups: Finished meals and meat sauces, Sausages, Pates and sliced meats and Meat.

The Other segment comprises the following product groups: services related to Private labels, In-sourced production, Merchandise and Other services.

The Pharmaceutical segment comprises the following: Ethical drugs (medically prescribed drugs financed by the Ministry of Health), Non Prescription Program (drugs for which no medical prescription is required). The Pharmaceutical segment is regulated by the Croatian Health Insurance Fund which sets prices of prescription drugs, and by other relevant authorities with respect to the registration of drugs on the Croatian market. Foreign markets have similar regulatory characteristics in this segment.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, other income, other expenses, financial expenses, and income tax expense, as a measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Based on impairment tests performed for goodwill and intangible assets with indefinite useful life as described in more detail in note 5, the Group recognised impairment losses during 2013 as presented in table below. During 2014 the Group did not recognise any impairment losses regarding goodwill and intangible assets.

	Goodwill	**Brands**	**Rights**
Operating segment		*(in thousands of HRK)*	
Culinary	-	10,300	-
Sweets, snacks and beverages	-	671	-
Pharmaceutical	13,605	-	-
	13,605	**10,971**	**-**

For details on impairments see notes 17 and 18 and critical judgments described in note 5 (v).

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group operates in four principal geographical areas by which it reports third-party sales.

(in thousands of HRK)	**Revenue from external customers 2014**	**2013**
Croatia	1,356,981	1,483,479
South-East Europe	950,324	916,122
Central and Eastern Europe	779,938	788,673
Western Europe, overseas countries and new markets	324,819	312,803
	3,412,062	**3,501,077**

Information about major customers

Third-party sales in Croatia account for 40% (2013: 42%) of the total revenue from external customers, whereas the remaining 60% (2013: 58%) represent foreign sales. Top 20 customers participate for 42% (2013: 43%) of the external sales. The Group has no significant exposure to an individual major customer.

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

Southeast Europe	**Central Europe**	**Eastern Europe**	**Western Europe**	**Overseas countries**	**New markets**
Albania	Bulgaria	Armenia	Austria	Argentina	Egypt
Bosnia and Herzegovina	Czech Republic	Belarus	France	Australia	Jordan
Montenegro	Hungary	Kazakhstan	Italy	Canada	Liberia
Kosovo	Poland	Kyrgystan	Nederlands	New Zealand	Turkey
Macedonia	Romania	Latvia	Germany	USA	Un. Ar. Emirates
Slovenia	Slovakia	Lithuania	Sweden		
Serbia		Russian Federation	Switzerland		
		Turkmenistan	Great Britain		
		Ukraine			

NOTE 9 – OTHER INCOME

	2014	**2013**
	(in thousands of HRK)	
Grant income	2,068	2,113
Revenue from sale and leaseback transaction	8,813	5,120
Profit on disposal of property, plant, equipment and intangibles	910	-
Reversal of provisions	4,440	-
Other	984	2,356
	17,215	**9,589**

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

Revenue from the sale and leaseback transaction relates to the leaseback of production facilities in Umag for which deferred income amounting to HRK 15,422 thousand is outstanding as at 31 December 2014 (note 34) and which is expected to be realised by 30 September 2016.

NOTE 10 – OTHER EXPENSES

	2014	2013
	(in thousands of HRK)	
Interest and foreign exchange differences on trade payables	1,430	1,437
Impairment loss on brands (note 18)	-	10,971
Impairment loss on assets held for sale (note 26)	2,452	21,519
Loss on disposal of assets held for sale	1,796	-
Impairment loss on goodwill (note 17)	-	13,605
Impairment loss on property, plant and equipment (note 19)	14,126	5,370
Loss on disposal of property, plant, equipment and intangibles	-	61
Interest and foreign exchange differences on trade receivables	39,859	8,505
Other	2,377	6
	62,040	**61,474**

The increase in foreign exchange losses is mainly caused by the unfavorable exchange rate fluctuations of the Russian rouble during 2014.

NOTE 11 – EXPENSES BY NATURE

	2014	2013
	(in thousands of HRK)	
Raw materials and consumables used, energy and cost of goods sold including change in inventory	1,642,141	1,674,379
Staff costs (note 12)	770,229	773,681
Advertising and promotion	291,962	297,427
Services	154,984	145,275
Depreciation	133,808	135,568
Transportation	44,179	50,901
Rental expense	44,045	47,535
Impairment of trade receivables (note 23)	12,739	30,409
Entertainment	28,016	29,723
Daily allownaces and travel expenses	17,551	16,926
Taxes and contributions independent of operating results	15,696	16,324
Telecommunications	10,227	11,701
Cost of disposal of packaging, administrative fees, etc	8,677	6,918
Bank charges	5,198	5,624
Litigation expenses	-	1,732
Other	8,939	18,123
Total costs in goods, selling and distribution costs, marketing costs and administrative costs	**3,188,391**	**3,262,246**

NOTE 11 – EXPENSES BY NATURE (continued)

Following tables present expenses by nature contained in Cost of goods sold:

	2014	2013
	(in thousands of HRK)	
Raw material and supplies	1,030,094	1,094,330
Cost of goods sold	605,873	597,256
Staff costs	268,523	283,051
Depreciation	75,296	92,237
Production services	25,385	28,841
Taxes and contributions independent of operating results	10,850	11,412
Other expenses (transport, rent, education, etc)	10,669	16,160
	2,026,690	**2,123,287**
Cost of goods sold - discontinued operation	(59,081)	(99,469)
Cost of goods sold - continued operation	**1,967,609**	**2,023,818**

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

	2014	2013
	(in thousands of HRK)	
Cost of goods sold	75,296	82,620
Marketing expenses	5,121	4,805
Selling and distribution costs	23,135	17,990
General and administrative expenses	30,256	30,153
	133,808	**135,568**

Staff costs allocated to each function are as follows:

	2014	2013
	(in thousands of HRK)	
Cost of goods sold	258,775	272,051
Marketing expenses	85,410	85,618
Selling and distribution costs	205,611	214,460
General and administrative expenses	220,433	201,552
	770,229	**773,681**

NOTE 12 – STAFF COSTS

	2014	2013
	(in thousands of HRK)	
Salaries	676,135	696,944
Termination benefits	72,137	53,082
Transportation	9,328	10,245
Share options (note 36)	1,219	1,359
Other	11,410	12,051
	770,229	**773,681**

As at 31 December 2014, the number of staff employed by the Group was 5,341 (2013: 5,717).

In 2014 termination benefits of HRK 72,137 thousand were accrued and paid to 559 employees (2013: HRK 54,703 thousand relating to 456 employees including HRK 1,621 with respect to discontinued operations), based on a formal restructuring plan.

NOTE 13 – FINANCE INCOME

	2014	2013
	(in thousands of HRK)	
Interest on term deposits	1,722	810
Other interest	433	438
Unrealised gains on swap contracts	-	4,066
Change in fair value of financial instruments	59	-
	2,214	**5,314**

NOTE 14 – FINANCE EXPENSES

	2014	2013
	(in thousands of HRK)	
Interest expense and similar charges	51,829	58,616
Unrealised losses on swap contracts	42	-
Net foreign exchange loss on borrowings	1,671	7,907
	53,542	**66,523**

During 2014 the Group refinanced a significant part of its bank borrowings in the amount of HRK 559,417 thousand through a syndicated loan facility thus utilising more favourable financing conditions. Furthermore, as the benchmark interest rates remained at low levels during 2014 this resulted in a significant reduction of loan related interest expense.

Due to the significant exposure of the Group to interest rate risk inherent to floating rate borrowings, the Group hedges the interest rate risk with respect to the syndicated loan facility using derivative financial instruments (interest rate swap). Following the refinancing of borrowings, the Group entered into a new interest rate swap agreement with a commercial bank during 2014, whereby it swapped the floating interest rate (3M EURIBOR) with a fixed interest rate of 0.40% (for details see note 31). The Group recognizes the interest rate swap at fair value through profit or loss, whereby gains are recognized within finance income and losses within finance expense.

During 2014 and 2013, the Group had no investments for which interest expense could be capitalised.

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2014	2013
	(in thousands of HRK)	
Current income tax	10,091	16,300
Deferred tax	(715)	(14,854)
	9,376	**1,446**

Effective tax rate reconciliation

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

	2014	2013
	(in thousands of HRK)	
Profit before taxation	**104,321**	**69,823**
Income tax at 20% (2013: 20%)	20,864	13,965
Non-taxable income	(3,465)	(20,982)
Non-deductible expenses	26,078	40,424
Tax incentive for reinvested profit	(30,123)	(17,215)
Other tax incentives	(1,013)	(1,673)
Temporary differences and tax losses not recognised as deferred tax assets	10,935	6,602
Utilisation of temporary differences previously not recognised as deferred tax asset	(11,767)	(6,878)
Utilisation of tax losses previously not recognised as deferred tax asset	(130)	(13,427)
Effect of different tax rates	(2,003)	630
Income tax	**9,376**	**1,446**
Effective tax rate	9%	2%

Unused tax losses

In accordance with tax regulations, as at 31 December 2014 the Group has unused tax losses in the amount of HRK 104,091 thousand (2013: HRK 70,566 thousand) that consist of tax losses incurred in Croatia (in the amount of HRK 88,132 thousand), Bosnia and Herzegovina (in the amount of HRK 7,196 thousand) and Serbia (in the amount of HRK 8,763 thousand). These tax losses may be carried forward for five years subsequent to the year in which they were incurred in.

Unused tax loss carried forward amounting to HRK 5,166 thousand were recognized as a deferred tax asset in the amount of HRK 1,033 thousand. The Group did not recognize deferred tax assets for the remaining tax losses since it is not probable that the tax losses will be utilized. Unused tax losses (gross) at the reporting date were as follows:

	2014	2013
	(in thousands of HRK)	
Tax losses expiring at 31 December 2014	-	403
Tax losses expiring at 31 December 2015	301	301
Tax losses expiring at 31 December 2016	-	6,279
Tax losses expiring at 31 December 2017	19,487	20,596
Tax losses expiring at 31 December 2018	37,570	42,987
Tax losses expiring at 31 December 2019	46,733	-
	104,091	**70,566**

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets arise from the following:

2014 *(in thousands of HRK)*	**Opening balance**	**Recognised in profit or loss**	**Foreign exchange differences**	**Closing balance**
Temporary differences:				
Government subsidies	210	(203)	(7)	-
Pharmaceutical rights	2,245	-	-	2,245
Property, plant and equipment	10,420	490	-	10,910
Intangibles	20,188	-	-	20,188
Jubilee awards	2,491	(101)	-	2,390
Termination benefits	2,591	539	(89)	3,041
Value adjustment of inventories	4,577	(641)	-	3,936
Other deferred tax assets	2,215	668	-	2,883
Tax losses carried forward	1,033	-	-	1,033
Inventory	3,603	(60)	-	3,543
Deferred tax assets	**49,573**	**692**	**(96)**	**50,169**

2013 *(in thousands of HRK)*	**Opening balance**	**Recognised in profit or loss**	**Foreign exchange differences**	**Closing balance**
Temporary differences:				
Government subsidies	211	-	(1)	210
Property, plant and equipment	481	9,939	-	10,420
Intangibles	17,989	2,199	-	20,188
Jubilee awards	2,460	31	-	2,491
Termination benefits	2,822	(252)	21	2,591
Unused holiday	182	(182)	-	-
Value adjustment of inventories	4,192	385	-	4,577
Other deferred tax assets	3,439	2,054	-	5,493
Inventory	3,644	(41)	-	3,603
Deferred tax assets	**35,420**	**14,133**	**20**	**49,573**

Deferred tax assets recognised with respect to impairment losses on intangible assets and investments 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 while the remainder of deferred tax assets is considered short-term deferred tax assets.

Deferred tax liabilities arise from the following:

2014 *(in thousands of HRK)*	**Opening balance**	**Recognised in profit or loss**	**Foreign exchange differences**	**Closing balance**
Temporary differences:				
Adjustments to non-current assets	(965)	(402)	10	(1,357)
Adjustment of assets at fair value	(4,612)	425	-	(4,187)
	(5,577)	**23**	**10**	**(5,544)**

2013 *(in thousands of HRK)*	**Opening balance**	**Recognised in profit or loss**	**Foreign exchange differences**	**Closing balance**
Temporary differences:				
Adjustments to non-current assets	(1,158)	193	-	(965)
Adjustment of assets at fair value	(5,140)	528	-	(4,612)
	(6,298)	**721**	**-**	**(5,577)**

Deferred tax liabilities mainly relate to temporary differences arising from the allocation of the purchase price of a subsidiary Farmavita Ltd. (mainly from intangible assets, respectively, registration files) and are long-term in nature.

NOTE 16 – EARNINGS / (LOSS) PER SHARE

Basic earnings per share

Basic earnings per share are determined by dividing the Group's net earnings or losses with the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share

Diluted earnings per share were calculated as the basic earnings per share, including the impact of the number of share options granted to employees, of which 164,578 were not exercised (2013: 144,920 options).

Basic and diluted weighted average number of shares was as follows:

	2014	2013
Ordinary shares as at 1 January	5,420,003	5,420,003
Effect of treasury shares	(177,511)	(177,511)
Weighted average number of shares at 31 December (basic)	**5,242,492**	**5,242,492**
Effect of share options	7,743	292
Weighted average number of shares at 31 December (diluted)	**5,250,235**	**5,242,784**

Basic and diluted earnings/(loss) per share for continuing and discontinued operations and the Group as a whole were as follows:

	2014			2013		
	Continuing operations	Discontinued operations	**Total**	Continuing operations	Discontinued operations	**Total**
Basic earnings / (loss) per share						
Comprehensive income attributable to the owners of equity (in HRK thousands)	115,656	(23,197)	**92,459**	122,515	(55,914)	**66,601**
Basic earnings / (loss) per share (in HRK)	22.06	(4.42)	**17.64**	23.37	(10.67)	**12.70**
Diluted earnings / (loss) per share						
Comprehensive income attributable to the owners of equity (in HRK thousands)	115,656	(23,197)	**92,459**	122,515	(55,914)	**(14,102)**
Diluted earnings / (loss) per share (in HRK)	22.03	(4.42)	**17.61**	23.37	(10.67)	**12.70**

NOTE 17 - GOODWILL

(in thousands of HRK)	**2014**	**2013**
Cost		
At 1 January	77,666	77,666
Written off	(10,362)	
At 31 December	**67,304**	**77,666**
Accumulated impairment losses		
At 1 January	51,785	35,682
Impairment	-	13,605
Effect of changes in the foreign exchange rates	194	2,498
Written off	(10,362)	-
At 31 December	**41,617**	**51,785**
Carrying amount at 31 December	**25,687**	**25,881**

The Goodwill impairment in the amount of HRK 13,605 thousand comprises the impairment of the goodwill recognized on the acquisition of Farmavita in the amount of HRK 8,485 thousand, Pharmacies Koprivnica in the amount of HRK 1,094 thousand, Pharmacies Crikvenica in the amount of HRK 329 thousand and Pharmacies Agram in the amount of HRK 3,697 thousand.

A more detailed description of the approach and method used in impairment testing is provided in note 5(v). Impairment losses on goodwill recognized in 2013 are included in ‘Other expenses' presented in note 10.

NOTE 18 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software and licences**	**Pharmaceu-tical rights**	**Rights, registration files, know how**	**Brand**	**Intangible assets in progress**	**Total**
Cost						
At 1 January 2013	187,458	59,065	129,323	180,719	20,873	577,438
Effect of foreign exchange differences	(124)	-	(3)	(851)	10	(968)
Additions	93	-	-	-	19,216	19,309
Transfers	3,929	-	11,046	-	(14,975)	-
Disposals	(571)	-	(400)	-	-	(971)
Transfer to asset held for sale	(409)	-	-	-	-	(409)
Transfer to tangible assets	(3,164)	-	-	-	-	(3,164)
At 31 December 2013	**187,212**	**59,065**	**139,966**	**179,868**	**25,124**	**591,235**
Accumulated amortisation						
At 1 January 2013	(148,767)	(11,990)	(77,599)	(101,425)	-	(339,781)
Effect of foreign exchange differences	124	-	42	851	-	1,017
Disposals	344	-	304	-	-	648
Charge for the year	(8,394)	-	(16,162)	-	-	(24,556)
Impairment	-	-	-	(10,971)	-	(10,971)
Transfer to asset held for sale	409	-	-	-	-	409
Transfer from intangible assets	437	-	-	-	-	437
At 31 December 2013	**(155,847)**	**(11,990)**	**(93,415)**	**(111,545)**	**-**	**(372,797)**
Carrying amount as at 31 December 2013	**31,365**	**47,075**	**46,551**	**68,323**	**25,124**	**218,438**
Cost						
At 1 January 2014	187,212	59,065	139,966	179,868	25,124	591,235
Effect of foreign exchange differences	(268)	-	(352)	(75)	-	(695)
Additions	5	-	-	-	57,530	57,535
Transfers	8,644	-	38,975	11,789	(59,408)	-
Disposals	(160)	-	(375)	-	(690)	(1,225)
Transfer to tangible assets	(258)	-	-	-	-	(258)
At 31 December 2014	**195,175**	**59,065**	**178,214**	**191,582**	**22,556**	**646,592**
Accumulated amortisation and impairment losses						
At 1 January 2014	(155,847)	(11,990)	(93,415)	(111,545)	-	(372,797)
Effect of foreign exchange differences	290	-	337	75	-	702
Disposals	159	-	271	-	-	430
Charge for the year	(13,033)	-	(17,143)	-	-	(30,176)
Transfer from intangible assets	42	-	-	-	-	42
At 31 December 2014	**(168,389)**	**(11,990)**	**(109,950)**	**(111,470)**	**-**	**(401,799)**
Carrying amount as at 31 December 2014	**26,786**	**47,075**	**68,264**	**80,112**	**22,556**	**244,793**

Accumulated amortization and impairment losses include a total of HRK 120,107 thousand relating to accumulated impairment losses (2013: HRK 120,107 thousand).

Intangibles in progress mostly relate to capitalized development expenses with respect to purchased registration files, for which health and regulatory approval has not yet been received.

During 2014 there were no impairment losses relating to brands while during 2013 the Group recognised impairment losses in the amount of HRK 10,971 thousand (HRK 10,300 thousand relating to Warzywko and HRK 671 thousand relating to the brand Lero). A more detailed description of the approach and methods used in impairment testing is provided in note 5(v). Impairment losses on intangible assets are included in ‘Other expenses' as presented in note 10. During 2014 the Group acquired the brand Piketa relating to the "Meat and meat products" segment together with the associated distribution rights which relate to the acquired brand as well as to a part of other assortment in the segment. The total value of the transaction amounted to HRK 41,199 thousand of which HRK 11,789 thousand was allocated to the brand while HRK 29,410 thousand was allocated to the distribution rights based on internally estimated future cash flows and sales plans. The brand has an indefinite useful life and is annually reviewed for impairment (see note 5 (v)) while the distribution rights are amortized over their contractual duration of 3 years.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2013	2,355,530	1,780,069	71,169	4,206,768
Effect of foreign exchange differences	(1,549)	(2,324)	2	(3,871)
Additions	13	1,587	75,512	77,112
Transfers	36,401	46,402	(82,803)	-
Disposals	(3)	(22,463)	284	(22,182)
Transfer to assets held for sale (i)	(156,231)	(193,331)	-	(349,562)
Transfer from intangible assets	3,164	-	-	3,164
At 31 December 2013	**2,237,325**	**1,609,940**	**64,164**	**3,911,429**
Accumulated depreciation				
At 1 January 2013	(1,426,563)	(1,376,615)	(2,850)	(2,806,028)
Effect of foreign exchange differences	336	2,377	-	2,713
Disposals	-	21,428	-	21,428
Charge for the year	(60,105)	(63,642)	-	(123,747)
Transfer to assets held for sale (i)	71,784	146,492	-	218,276
Impairment	(5,370)	-	-	(5,370)
Transfer from intangible assets	(437)	-	-	(437)
At 31 December 2013	**(1,420,355)**	**(1,269,960)**	**(2,850)**	**(2,693,165)**
Carrying amount as at 31 December 2013	**816,970**	**339,980**	**61,314**	**1,218,264**
Cost				
At 1 January 2014	2,237,325	1,609,940	64,164	3,911,429
Effect of foreign exchange differences	(2,934)	(2,477)	36	(5,375)
Additions	-	2,414	103,032	105,446
Transfers	3,357	69,850	(73,207)	-
Disposals and retirements	(535)	(28,039)	(3,473)	(32,047)
Transfer to and from assets held for sale	2,533	1,063	(1,288)	2,308
Transfer from intangible assets	-	258	-	258
At 31 December 2014	**2,239,746**	**1,653,009**	**89,264**	**3,982,019**
Accumulated depreciation and impairment losses				
At 1 January 2014	(1,420,355)	(1,269,960)	(2,850)	(2,693,165)
Effect of foreign exchange differences	1,373	2,315	-	3,688
Disposals	532	27,570	2,850	30,952
Charge for the year	(50,357)	(54,263)	-	(104,620)
Transfer to and from assets held for sale	(1,380)	(737)	-	(2,117)
Impairment	(13,950)	(176)	-	(14,126)
Transfer from intangible assets	-	(42)	-	(42)
At 31 December 2014	**(1,484,137)**	**(1,295,293)**	**-**	**(2,779,430)**
Carrying amount as at 31 December 2014	**755,609**	**357,716**	**89,264**	**1,202,589**

Accumulated depreciation and impairment losses include a total of HRK 15,067 thousand relating to accumulated impairment losses (2013: HRK 965 thousand).

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

(i) During 2014 the Group transferred property, plant and equipment with a carrying amount of HRK 1,288 thousand to assets held for sale (2013: HRK 131,286 thousand of which HRK 105,077 thousand relates to the carrying amount of assets of the disposal group held for sale while the remainder relates to other equipment). In addition, the Group transferred equipment with a carrying amount of HRK 1,479 thousand from assets held for sale as the equipment will be used in own production facilities.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment losses recognized during the year 2014

During 2014, the Group recognised HRK 14,126 thousand of impairment losses with respect to production facilities (buildings and equipment) in Poland arising from the decision of the Group to relocate a significant part of production from Poland to Croatia. Accordingly, an estimate of the market value of the relevant real estate was done by an independent expert valuer which was the basis for the impairment of the respective assets in the amount of HRK 13,950 thousand (for more details on impairment see note 5 (vi)). The impairment loss recognised with respect to equipment used in the above mentioned production facility was insignificant (amounting to HRK 176 thousand) as a substantial part of the assets has already been fully depreciated, while part of the equipment is intended to be used in other production facilities of the Group.

Mortgaged assets

During 2014 the Group refinanced the syndicated loan facility against which the property of several subsidiaries of the Group was pledged. Due to the refinancing of the syndicated loan with the new EBRD loan in the amount of HRK 559,417 thousand, collateral under the previous syndicated loan were cancelled and the properties of Podravka d.d., Belupo d.d. and Danica d.o.o. were pledged as collateral for the new loan.

Land, buildings and equipment of the Group with a carrying amount of HRK 576,438 thousand (2013: HRK 645,501 thousand) are pledged as collateral against the Group's borrowings.

Assets held under finance leases

Leased equipment where the Group is the lessee under a finance lease comprises the following:

	2014	2013
	(in thousands of HRK)	
Cost of capitalised finance leases	22,805	27,295
Accumulated depreciation	(6,910)	(7,593)
Carrying amount	**15,895**	**19,702**

During 2013 the Group reached a decision with respect to early termination of the finance lease agreement for the property in Umag and as a result, the Group paid in full the present value of outstanding liabilities under the finance lease in the amount of EUR 2,946 thousand and applicable termination charges. As at the date of termination, the carrying value of the property was HRK 36,437 thousand.

NOTE 20 – SUBSIDIARIES

Group consists of the Company and the following subsidiaries in which the Company has an ownership interest above 50% and control:

Name of subsidiary	Country	2014	2013	Principal activity
Belupo d.d., Koprivnica	Croatia	100%	100%	Production and distribution of pharmaceuticals
Belupo doel, Skopje*	Macedonia	100%	100%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100%	100%	Sale and distribution of pharmaceuticals
Belupo Ljubljana*	Slovenia	100%	100%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm Koprivnica*	Croatia	100%	100%	Sale and distribution of pharmaceuticals
Farmavita d.o.o. Vogošća*	Bosnia and Herzegovina	65%	65%	Proizvodnja i distribucija lijekova
Danica d.o.o., Koprivnica	Croatia	100%	100%	Meat processing and production
Lero d.o.o., Rijeka	Croatia	-	100%	Beverage production
Ital-Ice d.o.o., Poreč	Croatia	-	100%	Ice cream production
KOTI Nekretnine d.o.o., Koprivnica	Croatia	-	100%	Services
Podravka Inženjering d.o.o., Koprivnica	Croatia	-	100%	Services
Poni trgovina d.o.o., Koprivnica	Croatia	-	100%	Sale of merchandise
Studenac d.o.o. Koprivnica	Croatia	100%	100%	Beverages production and sale
Lagris a.s., Lhota u Luhačovic	Czech Rep.	100%	100%	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100%	100%	Seasonings production and sale
Podravka-International Kft, Budapest	Hungary	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Ljubljana	Slovenia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100%	100%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100%	100%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen**	Slovakia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100%	100%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	100%	99%	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100%	100%	Production of wafers
Podravka-International s.r.l., Bucharest	Romania	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100%	100%	Sale and distribution of food and beverages
Podravka-International e.o.o.d., Sofia	Bulgaria	-	100%	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100%	100%	Sale and distribution of food and beverages
Podravaka d.o.o., Moscow	Russia	100%	-	Sale and distribution of food and beverages
Podravka International, Istanbul	Turkey	-	100%	Sale and distribution of food and beverages

*The Group holds these ownership interests indirectly through its subsidiary Belupo d.d.

**25% of ownership interest is held indirectly through the subsidiary Lagris a.s., Lhota u Luhačovic

During 2014, the parent company Podravka d.d. merged its subsidiaries Lero doo, Ital-Ice d.o.o, KOTI Nekretnine d.o.o, Podravka Inženjering d.o.o and Poni trgovina d.o.o. The merger of the subsidiaries did not have a significant impact on the financial statements of the Group.

During 2014, the subsidiaries Podravka-International e.o.o.d (Sofia) and Podravka International Turkey were closed as they did not have significant activities. This did not have a significant effect on the Group's financial statements.

During 2014, the Group incorporated a new subsidiary Podravka d.o.o. based in Moscow (Russia).

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

	2014	2013
	(in thousands of HRK)	
Loans receivable	4,103	3,537
Other receivables and deposits	1,199	1,183
Investments in other equity instruments	2,300	887
	7,602	**5,607**

Loans refer to loans to third parties which bear an average variable interest rate of 5%.

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

Investments in other equity instruments in the amount of HRK 887 thousand relate to non-controlling interests in unrelated companies which are not quoted on the stock exchange and have no active market. Investments in other equity instruments in the amount of HRK 1,413 thousand relate to the investment in shares of Mirna d.d. Rovinj which is listed on the Zagreb Stock Exchange, but for which there is no active market (for more details concerning this investment see note 40).

Fair value measurement

The fair value of investments in shares of listed companies is based on stock market prices at the reporting date. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 1 (see note 6). Investments into equity instruments not listed on the stock exchange or into equity instruments quoted on the stock exchange but where there is no active market are carried at cost and tested for impairment regularly.

NOTE 22 – INVENTORIES

	2014	2013
	(in thousands of HRK)	
Raw materials and supplies	183,729	176,250
Work in progress	39,419	31,985
Finished goods	215,556	199,921
Merchandise	160,460	164,460
	599,164	**572,616**

In 2014, inventory impairment provision in the amount of HRK 6,641 thousand was released (2013: HRK 1,904 thousand) as the Group managed to sell the impaired inventories at higher prices than expected. The movement in inventory impairment provision is included in the statement of comprehensive income in line item ‘Cost of goods sold’.

NOTE 23 – TRADE AND OTHER RECEIVABLES

	2014	2013
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,022,382	1,145,524
Impairment allowance	(170,128)	(166,510)
Net trade receivables	**852,254**	**979,014**
Bills of exchange received	517	5,575
Advances to suppliers	37,596	2,350
Net loans given	1,819	-
Net VAT receivable	12,286	16,645
Prepaid expenses	13,577	16,774
Receivables from employees	1,409	1,682
Other receivables	4,619	4,595
	924,077	**1,026,635**

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

	2014	2013
	(in thousands of HRK)	
At 1 January	166,510	137,692
Increase	15,793	34,585
Amounts collected	(3,054)	(4,176)
Written off as uncollectable	(9,121)	(1,591)
At 31 December	**170,128**	**166,510**

Impairment losses on trade receivables and subsequent collections are included in 'Selling and distribution expenses'.

Ageing analysis of trade receivables past due but not impaired:

	2014	2013
	(in thousands of HRK)	
0-90 days	185,973	240,901
91-180 days	20,823	37,103
181-360 days	7,293	23,389
	214,089	**301,393**

NOTE 24– FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014	2013
	(in thousands of HRK)	
Forward contracts	59	-
	59	**-**

Movements during the year are as follows:

	2014	2013
	(in thousands of HRK)	
Opening carrying amount	-	600
Additions	59	-
Disposals	-	(600)
Closing carrying amount	**59**	**-**

During 2014, the Group used a forward contract entered into with a commercial bank with the intention of managing the fluctuations of the Russian ruble exchange on its balance of deposits and cash funds denominated in that currency, and which had a positive fair value as at 31 December 2014 amounting to HRK 59 thousand.

The nominal value of currency forward as at 31 December 2014 amounted to HRK 8,265 thousand (2013: -), with the contract maturing on 12 January 2015.

Gains and losses recognized as changes in the market value of the currency forward contract are recorded in the statement of comprehensive income within 'net finance costs'.

Fair value measurement

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

NOTE 25 – CASH AND CASH EQUIVALENTS

	2014	2013
	(in thousands of HRK)	
Cash in banks	187,301	145,972
Deposits	32,544	32,972
Cash at hand	633	417
Cheques, deposits and securities	-	100
	220,478	**179,461**

Cash with banks relates to transaction accounts at commercial banks which carry an average interest rate ranging from 0.01% to 1%.

Deposits related to deposits in commercial banks with maturity up to three months that carry a variable interest rate.

NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE

	2014	2013
	(in thousands of HRK)	
Land and buildings	142,116	64,192
Equipment	2,041	6,439
Disposal group held for sale (note 7)	70,275	84,723
	214,432	**155,354**

(i) Land and buildings

During the year, the Group acquired additional land in the amount of HRK 81,380 thousand which is situated next to an existing land plot, in order to facilitate the sale process of the combined land plot to a known buyer. The value of the entire land plot is HRK 131,280 thousand out of the total of HRK 142,116 thousand relating to land and buildings held for sale. Up to the reporting date, the Group received a non-binding purchase offer that does not indicate an impairment of the real estate and the Group expects to complete the sale following the expected change in urban plans. The Group is currently in negotiations with the potential buyer.

During 2014, the subsidiary Podravka doo Podgorica reclassified its land from assets held for sale to land within property, plant and equipment in the amount of HRK 1,153 thousand as the current market conditions indicate a lowered probability of expected disposal.

The remainder of land and buildings held for sale is mainly related to land in Poreč that the Group expects to sell during 2015.

Fair value measurement

Land and buildings held for sale in the amount of HRK 60,624 thousand are measured at fair value less costs to sell due to the fact that this value was lower than the carrying value upon classification as held for sale. The Group performed a fair value measurement at the classification date and regularly reviews if the measurement needs to be revised. During 2014, management estimated that no new circumstances occurred that would require a new fair value measurement of non-current assets held for sale to be performed.

Fair value measurement is classified, according to inputs used in fair value measurement, as level 3 (see note 6).

The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value:

Valuation methods and techniques	Significant unobservable inputs
Property For buildings, the valuation model considers the present value of cash flows that asset could generate from rents taking into account the expected net rent based on comparable transactions. For land, the valuation model considers the real sale values achieved in the sale of comparable land at a similar location.	Average yield: 13 % Among other factors, the estimated discount rate considers the underlying quality of the property, its location and the currently realisable rent conditions for similar locations and the comparative type of property.

Land held for sale in the amount of HRK 81,492 thousand is carried at the cost of purchase incurred in 2014 since this is considered an adequate approximation of its fair value.

NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE (CONTINUED)

Equipment held for sale

Equipment held for sale relates to the equipment that the Group intends to sell due to the discontinuation of operations the equipment is related to. At the date of classification as assets held for sale, the Group internally estimated the amount recoverable through the sale of this equipment. During 2013, the Group recognised an impairment loss with respect to equipment in the amount of HRK 2,040 thousand based on its estimate. The impairment loss was partially reversed in the amount of HRK 540 thousand as a result of the sale of part of the equipment. During 2014, the Group recognized additional impairment losses relating to equipment in the amount of HRK 2,992 thousand. The Group expects to sell the equipment in 2015.

The loss on the impairment of equipment is presented in the Statement of comprehensive income within “Other expenses” (note 10).

Disposal group held for sale

Disposal group held for sale relates to assets held for sale which are part of discontinued operations. During 2014, the Group recognised an impairment loss of the respective assets in the amount of HRK 11,185 thousand (2013: HRK 29,321 thousand). The Group expects to sell these assets during 2015 and at the reporting date is in process of reviewing a purchase offer which does not indicate a potential impairment. For more details on the disposal group held for sale relating to discontinued operations see note 7.

NOTE 27– SHARE CAPITAL

	2014	2013
	(in thousands of HRK)	
Ordinary shares	1,084,001	1,084,001
Share premium	47,151	45,932
Treasury shares	(67,604)	(67,604)
	1,063,548	**1,062,329**

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
		(in thousands of HRK)			
At 1 January 2013	**5,242,492**	**1,626,001**	**26,465**	**(67,604)**	**1,584,862**
Simplified reduction of share capital	-	(542,000)	-	-	(542,000)
Transfer to capital reserves	-	-	18,108	-	18,108
Fair value of share based payments	-	-	1,359	-	1,359
At 31 December 2013	**5,242,492**	**1,084,001**	**45,932**	**(67,604)**	**1,062,329**
At 1 January 2014	5,242,492	1,084,001	45,932	(67,604)	1,062,329
Fair value of share based payments	-	-	1,219	-	1,219
At 31 December 2014	**5,242,492**	**1,084,001**	**47,151**	**(67,604)**	**1,063,548**

As at 31 December 2014, the Company's share capital amounted to HRK 1,084,001 thousand, distributed among 5,420,003 shares (2013: HRK 1,084,001 thousand and 5,420,003 shares) out of which 177,511 relates to treasury shares. Nominal value of one share amounts to HRK 200 (2013: HRK 200). All issued shares are fully paid in.

Based on the General Assembly decision from 20 June 2013 regarding simplified reduction of share capital of the Company for the purpose of covering losses, share capital was reduced in the amount of HRK 542,000 thousand by reducing the nominal value of each share from HRK 300 to HRK 200. Simplified share capital reduction was used to cover accumulated losses in the amount of HRK 523,892 thousand, with the remaining amount of HRK 18,108 thousand being distributed to capital reserves.

The Employee Share Option Plan is described in detail in note 36 to the consolidated financial statements.

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

	2014		2013	
Structure of ownership	**Number of shares**	**% of ownership**	**Number of shares**	**% of ownership**
DUUDI - Croatian Pension Insurance Institute	575,598	10.62%	575,598	10.62%
DUUDI - Republic of Croatia	536,259	9.89%	536,160	9.89%
Erste Plavi OMF	514,863	9.50%	514,863	9.50%
AZ OMF	488,106	9.01%	488,106	9.01%
PBZ Croatia osiguranje d.d. OMF	480,921	8.87%	477,957	8.82%
Unicredit Bank Austria AG - custody account	435,910	8.04%	426,041	7.86%
Kapitalni fond d.d.	321,804	5.94%	321,804	5.94%
Raiffeisen OMF	197,766	3.65%	203,266	3.75%
Zagrebačka banka d.d.	118,475	2.19%	-	0.00%
PBZ d.d. The bank of New York as custodian	61,274	1.13%	54,194	1.00%
PBZ d.d. - custody account	58,952	1.09%	98,891	1.82%
PBZ d.d. - custody account	52,877	0.98%	87,103	1.61%
Treasury account	177,511	3.28%	177,511	3.28%
Other shareholders	1,399,687	25.81%	1,458,509	26.91%
Total	**5,420,003**	**100.00%**	**5,420,003**	**100.00%**

NOTE 28 – RESERVES

	2014	2013
	(in thousands of HRK)	
Reserves for treasury shares	67,604	21,762
Legal reserves	16,543	11,474
Statutory reservs	43,956	39,294
Reserves for reinvested profit	298,138	136,075
Other reserves	41,299	40,715
	467,540	**249,320**

(in thousands of HRK)	**Reserves for treasury shares**	**Legal reserves**	**Reinvested profit reserve**	**Statutory reserves**	**Other reserves**	**Total**
At 1 January 2013	21,762	18,325	50,000	35,244	48,172	173,503
Transfer from legal and other reserves	-	(6,851)	-	4,050	(1,082)	(3,883)
Transfer from retained earnings	-	-	86,075	-	-	86,075
Exchange differences	-	-	-	-	(6,375)	(6,375)
At 31 December 2013	**21,762**	**11,474**	**136,075**	**39,294**	**40,715**	**249,320**
At 1 January 2014	21,762	11,474	136,075	39,294	40,715	249,320
Transfer from retained earnings	45,842	5,069	162,063	4,662	2,955	220,591
Exchange differences	-	-	-	-	(2,371)	(2,371)
At 31 December 2014	**67,604**	**16,543**	**298,138**	**43,956**	**41,299**	**467,540**

The legal reserve is required under Croatian law according to which the Group 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 statute and to foreign subsidiaries' translation differences.

(i) Transfers within equity

In 2014 the General Assembly adopted a decision to allocate the Company's profit realised in 2013 in the amount of HRK 51,366 thousand to legal reserves in the amount of HRK 2,569 thousand, reserves for treasury shares in the amount of HRK 45,842 thousand and other reserves in the amount of HRK 2,955 thousand.

In 2014, by the decision of its General Assembly, the subsidiary Belupo d.d. transferred HRK 4,662 thousand from retained earnings to statutory reserves and HRK 2,500 thousand to legal reserves.

NOTE 28 – RESERVES (CONTINUED)

(i) Reinvestment of profits

Reinvestment of profit in the parent company

During 2014, the Company realised a profit before tax in the amount of HRK 201,674 thousand (2013: HRK 51,366 thousand). The Management of the Company reached a decision on 13 February 2015 to reinvest profits in the amount of HRK 108,400 thousand (2013: HRK nil), for the purposes of capital investment and which are to be registered as an increase of the Company's share capital during 2015. The Supervisory Board approved this decision on 13 February 2015.

The share capital increase will be done in a way that the nominal value of all 5,420,003 shares is increased from HRK 200 by HRK 20 to a nominal value of HRK 220. Accordingly, the amount of HRK 108,400 thousand relates to the amount of profit that will be registered as an increase of the Company's share capital and it is therefore not considered distributable to shareholders and is presented as a reinvested profit reserve.

Increase of share capital will not alter the relations between shareholders as shareholders will own shares with an increased nominal value in proportion to their earlier participation in the share capital of the Company, in accordance with Art. 333 of the Companies Act. After registration, the share capital of the Company will amount to HRK 1,192,400,660 distributed among 5,420,003 ordinary shares with a nominal value of HRK 220 each.

In accordance with the applicable tax regulations, the Company recognised the amount of reinvested profit as a tax incentive which resulted in a decrease of the tax liability in the amount of HRK 21,680 thousand (2013: HRK nil).

It should be noted that the decision to reinvest profits and the consequent increase of share capital is subject to a final approval of the General Assembly of the Company.

If the share capital increase is not registered by 31 October 2015, the tax incentive will be reversed which would result in a tax expense of HRK 21,680 thousand plus applicable interest. If during future periods, any distributions to shareholders out of these reserves or any reduction of share capital created from reinvested profits should occur, this transaction would result in cancellation of the initial tax incentive and, retroactively, a tax liability would be created as at the date when the initial tax incentive occurred.

Reinvestment of profit in the subsidiary

The subsidiary Belupo d.d. realised a profit before tax for the year ended 31 December 2014 amounting to HRK 65,228 thousand (2013: HRK 99,936 thousand). On 18 December 2014, the Supervisory Board of Belupo d.d. reached a unanimous decision to reinvest a portion of profits for the purpose of capital investments in production capacities in the amount of HRK 53,663 thousand (2013: HRK 86,075 thousand) for which an equivalent increase in share capital of the subsidiary is to be registered in 2015. In accordance with currently applicable tax regulations, the subsidiary recognized the amount of reinvested profits as a corporate profit tax incentive resulting in a reduction of current tax expense in the amount of HRK 10,733 thousand (2013: HRK 17,215 thousand).

It should be noted that the decision to reinvest profits and the consequent increase of share capital is subject to a final approval of the General Assembly of the Company.

If the increase of share capital is not registered by 31 October 2015, the tax incentive will be cancelled in accordance with the applicable tax regulations resulting in a tax expense in the amount of HRK 10,773 thousand plus applicable interest. If during future periods, any distributions to shareholders out of these reserves or any reduction of share capital created from reinvested profits should occur, this transaction would result in cancellation of the initial tax incentive and, retroactively, a tax liability would be created as at the date when the initial tax incentive occurred.

During 2014, an increase in share capital of Belupo d.d. was registered based on the reinvestment of part of the subsidiary's profit from 2013 in accordance with the decision of the General Assembly of the subsidiary to reinvest profits.

NOTE 29 – RETAINED EARNINGS

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Retained earnings	217,569	345,701

Movement in retained earnings (accumulated losses) is presented as follows:

	2014	2013
At 1 January	**345,701**	**(162,600)**
- simplified share capital decrease	-	523,892
- transfer to legal and other reserves	(58,528)	(82,192)
- reinvestment of profits	(162,063)	-
- profit for the year	92,459	66,601
At 31 December	**217,569**	**345,701**

NOTE 30 – NON-CONTROLLING INTERESTS

The Podravka Group has a non-controlling interest arising from the acquisition of 65% of ownership interest in the subsidiary Farmavita d.o.o. Sarajevo in year 2008.

Summary financial information for the company Farmavita d.o.o. Sarajevo as at 31 December 2014 (excluding consolidations eliminations) are as follows:

	2014	2013
	(in thousands of HRK)	
Statement of financial position		
Non-current assets	77,265	71,972
Current assets	126,079	122,105
Current liabilities	(108,532)	(110,466)
Non-current liabilities	(25,204)	(25,160)
Statement of comprehensive income for the period		
Sales revenue	181,322	162,576
Profit after tax	10,930	9,825
Other comprehensive income	79	237
Total comprehensive income for the period	**11,009**	**10,062**
Statement of cash flows		
Net increase / (decrease) in cash and cash equivalents	**(931)**	**678**

The movement in non-controlling interest was as follows:

	2014	2013
	(in thousands of HRK)	
Balance at 1 January	34,040	32,027
Exchange differences	79	237
Share in the profit for the year	2,486	1,776
Balance at 31 December	**36,605**	**34,040**

NOTE 31 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

	2014	2013
	(in thousands of HRK)	
Interest rate swap ("IRS")	2,752	2,709

2014

Loan	Nominal amount of loan '000 EUR	Loan liability as at 31/12/2014 '000 EUR	Fair value of IRS as at 31/12/2014 '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part od interest rate per IRS
Tranche A	-	-	221	16.11.2012.	16.12.2015.	3M EURIBOR	0.50%
Tranche B	-	-	1,771	16.11.2012.	16.12.2015.	3M EURIBOR	0.63%
EBRD (A+B)	73,346	70,414	760	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
	73,346	**70,414**	**2,752**				

2013

Loan	Nominal amount of loan '000 EUR	Loan liability as at 31/12/2013 '000 EUR	Fair value of IRS as at 31/12/2013 '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part od interest rate per IRS
Tranche A	42,500	17,454	283	16.11.2012.	16.12.2015.	3M EURIBOR	0.50%
Tranche B	42,500	39,525	1,555	16.11.2012.	16.12.2015.	3M EURIBOR	0.63%
Erste Group	40,000	8,421	871	09.07.2009.	09.10.2014.	3M EURIBOR	2.46%
	125,000	**65,400**	**2,709**				

Interest rate swap agreements for tranche A and tranche B were entered into during 2012 with respect to the the syndicated loan granted in 2010. The loan was refinanced before its maturity with a new syndicated loan from EBRD which matures on 16 August 2019 and whose repayment plan is adjusted to the existing interest rate swap agreements covering 75% of the principal of the syndicated loan up to their maturity on 16 December 2015. During 2014, in order to hedge against changes in floating interest rates, the Group entered into a new interest rate swap agreement whereby it fixed the interest rate expense for 35% of the principal of the new syndicated loan from EBRD for the period from 16 December 2015 up to the maturity of the loan. After the reporting date, the Group entered into another interest rate swap agreement whereby it fixed interest rate expense for an additional 35% of the principal of the new syndicated loan with EBRD, therefore hedging interest rate expenses for a total of 70% of the principal of the syndicated loan at the date of approval of these financial statements.

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 Group and the counterparty when appropriate. In accordance with the input variables used, the assessment is categorized in the fair value hierarchy as level 2 (see note 6).

NOTE 32 – BORROWINGS

	2014	2013
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	272,250	488,733
Banks abroad	474,560	81,153
Finance lease	2,203	2,986
	749,013	**572,872**
Current borrowings		
Banks in Croatia	150,221	304,393
Banks abroad	173,669	183,243
Finance lease	1,652	2,777
	325,542	**490,413**
Total borrowings	**1,074,555**	**1,063,285**

The long term syndicated loan from 2010 (in the amount of HRK 739 million) and the loan from EBRD from 2013 (granted in the amount of HRK 74 million for energy efficiency improvements), were refinanced in August 2014 with the new long term syndicated loan from granted by EBRD and three commercial banks in the total amount of HRK 559,417 thousand maturing on 16 August 2019.

As part of the above mentioned EBRD loan agreement, the Group is obligated to comply with the following debt covenants:

a) Debt coverage ratio (DCR). The parameter is calculated as the ratio of consolidated net debt and consolidated EBITDA. At the reporting date, the Group was in compliance with this covenant.
b) Interest coverage ratio (ICR). The parameter is calculated as the ratio of consolidated EBITDA and consolidated interest expense for the year. At the reporting date, 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 date, 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 date, 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 824,334 thousand (2013: HRK 730,749 thousand) are secured by mortgages over the Group's land and buildings with a carrying amount of HRK 576,438 thousand (note 19).

The finance lease liabilities of the Group are as follows:

	Minimum lease payments		Finance cost		Present value of minimum lease payments	
	2014	2013	2014	2013	2014	2013
			(in thousands of HRK)			
Up to 1 year	1,803	2,961	(151)	(184)	1,652	2,777
Between 1 and 5 years	2,292	3,126	(89)	(140)	2,203	2,986
After 5 years	-	-	-	-	-	-
Total	**4,095**	**6,087**	**(240)**	**(324)**	**3,855**	**5,763**

	2014	2013
Included in the consolidated financial statements within:		
Current borrowings	1,652	2,777
Non-current borrowings	2,203	2,986
	3,855	**5,763**

NOTE 32 – BORROWINGS (CONTINUED)

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

	2014	2013
	(in thousands of HRK)	
Between 1 and 2 years	158,045	487,279
Between 2 and 5 years	581,583	77,182
Over 5 years	12,137	11,120
	751,765	**575,581**

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

	2014			2013		
	HRK	EUR	Other	HRK	EUR	Other
Non-current borrowings						
Banks in Croatia	3.97%	4.01%	-	5.15%	4.79%	-
Banks in foreign countries	-	2.73%	5.30%	-	3.56%	4.96%
Finance lease	-	3.83%	8.38%	-	4.23%	8.50%
Current borrowings						
Banks	3.71%	-	3.86%	4.00%	3.72%	4.24%

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

	2014	2013
	(in thousands of HRK)	
HRK	373,398	303,806
EUR	593,753	646,980
Other currencies	110,156	115,208
	1,077,307	**1,065,994**

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 Group has the following undrawn borrowing facilities:

	2014	2013
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	128,075	149,005
	128,075	**149,005**

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

NOTE 33 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Unused holiday	Regular termination benefits	Termination benefits and bonuses	Legal cases	Total
As at 31 December 2013						
Non-current	11,223	-	13,126	-	24,930	49,279
Current	1,925	8,855	1,299	7,420	2,789	22,288
At 1 January 2014	**13,148**	**8,855**	**14,425**	**7,420**	**27,719**	**71,567**
Increase of provisions	1,452	7,819	324	75,394	-	84,989
Utilised during the year	(2,030)	(7,824)	(1,365)	(60,032)	(11,369)	(82,620)
At 31 December 2014	**12,570**	**8,850**	**13,384**	**22,782**	**16,350**	**73,936**
Non-current	10,562	-	13,116	-	16,114	39,792
Current	2,008	8,850	268	22,782	236	34,144
	12,570	**8,850**	**13,384**	**22,782**	**16,350**	**73,936**

(i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Group which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the unconsolidated statement comprehensive income within 'Administrative expenses'. Based on the expert opinion of legal advisers, management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2014.

(ii) Termination benefits and bonuses

As at 31 December 2014, the Group recognised HRK 7,463 thousand with respect to provisions for bonuses to key management (2013: HRK 6,409 thousand). Furthermore, during 2014 the Group recognized an expense in the amount of HRK 72,137 thousand relating to payment of termination benefits to 559 employees based on a formal workforce restructuring plan.

(iii) Jubilee awards and regular retirement benefits

According to the Collective Labour Agreement, the Croatian based subsidiaries have 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. For employees in Croatia, pension contributions are paid on behalf of employees in accordance with applicable legal regulations. These contributions form the basis of social benefits payable out of the Croatian national pension fund to Croatian employees upon their retirement. The present values of these obligations, 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:

	2014	2013
Discount rate	3.8% - 4.0%	5.4%
Fluctuation rate	4.9% - 10.0%	4.1%-10.0%
Average expected remaining working lives (in years)	21	21

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

	2014	2013
	(in thousands of HRK)	
At 1 January	27,573	28,068
Current service cost	1,191	2,097
Interest expense	856	1,170
Actuarial losses	(661)	(1,227)
Benefits paid	(3,005)	(2,535)
At 31 December	**25,954**	**27,573**

NOTE 34 – TRADE AND OTHER PAYABLES

	2014	2013
	(in thousands of HRK)	
Trade payables	433,707	467,521
Other payables	130,215	153,260
	563,922	**620,781**

At 31 December 2014 and 31 December 2013, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other liabilities include the following:

	2014	2013
	(in thousands of HRK)	
Salaries and other benefits to employees	54,673	54,521
Accrued expenses	37,204	50,517
Deferred income (finance lease)	15,422	24,235
Taxes, contributions and other duties payable	9,355	7,530
Packaging waste disposal fee payable	2,929	2,931
Accrued interest	4,251	6,389
Advances received	515	1,719
Dividends payable	677	681
Other liabilities	5,189	4,737
	130,215	**153,260**

NOTE 35 – RISK MANAGEMENT

Categories of financial instruments are as follows:

	2014	2013
	(in thousands of HRK)	
Financial assets at amortised cost		
Long-term loans	4,103	3,537
Long-term deposits	1,199	1,183
Investments in equity instruments	2,300	887
Short-term loans	1,819	-
Trade receivables (including bills of exchange)	852,771	984,589
Cash and cash equivalents	220,478	179,461
	1,082,670	**1,169,657**
Financial assets at fair value through profit or loss		
Forward contracts	59	-
	59	**-**
Total financial assets	**1,082,729**	**1,169,657**
Financial liabilities at amortised cost		
Finance lease liabilities	3,855	5,763
Loans and borrowings	1,070,700	1,057,522
Trade payables and interest payable	437,958	473,910
	1,512,513	**1,537,195**
Financial liabilities at fair value through profit or loss		
Interest rate swap liabilities	2,752	2,709
	2,752	**2,709**
Total financial liabilities	**1,515,265**	**1,539,904**

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, receivables and short-term borrowings approximate their fair value due to the short-term nature of those assets and liabilities and due to the fact that a majority of short term assets and liabilities are at variable interest rates approximating market interest rates.

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

The Group 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 finance lease liabilities and loan liabilities 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 31.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Capital risk management

The Treasury of the Group 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:

	2014	2013
	(in thousands of HRK)	
Debt (non-current and current loans and borrowings)	1,077,307	1,065,994
Cash and cash equivalents	(220,478)	(179,461)
Net debt	856,829	886,533
Equity	1,785,262	1,691,390
Net debt to equity ratio	48%	52%

Debt is defined as long- and short-term borrowings and bonds. Equity includes all capital and reserves of the Group. Besides monitoring the ratio of net debt to equity, the Group 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 32). As at 31 December 2014 the Group was within the defined ratio.

The Group manages its capital to ensure that it will be able to continue as a going concern while 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 financial loss for the Group. The Group adopted an upgraded "Procedure for collection of due receivables" applied in dealings with customers and it obtains sufficient collateral, where appropriate, as a means of mitigating risks of financial loss from defaults. Furthermore, the Group secured its domestic receivables in order to reduce the risk of potential default.

Customers are classified into risk categories based on their annual turnover whereby appropriate credit risk mitigation measures are taken for each risk category.

Customers are classified mainly on the basis of official financial statements of customers, credit ratings supplied by independent rating agencies, and the history of trading with each customer. The Group's exposure and the credit ratings of its counterparties are continuously monitored and controlled through counterparty credit limits which are reviewed at least annually.

The Group transacts with a large number of customers from various industries and of various size. The most significant risk concentration relates to retail supermarket chains.

The Group does not have significant credit risk exposures which are not covered by instruments of insurance and which have not been reflected in its assessment of impairment allowance as at 31 December 2014.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the management board, which has built an appropriate liquidity risk management framework with the aim of managing with Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by maintaining adequate reserves and credit lines, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of receivables and liabilities.

Liquidity risk analysis

The following tables detail the Group'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 Group's analysis below shows no potential deficit of short term contractual cash flows from financial instruments.

as at 31 December 2014	**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	**2,752**	2,752	1,992	760	-
Trade and interest payables	**437,958**	437,958	437,537	421	-
	440,710	440,710	439,529	1,181	-
Interest bearing liabilities:					
Financial lease liabilities	**3,855**	4,095	1,803	2,292	-
Loans and borrowings	**1,070,700**	1,153,225	356,653	786,103	10,469
	1,074,555	1,157,320	358,456	788,395	10,469
	1,515,265	1,598,030	797,985	789,576	10,469
Non-interest bearing assets:					
Trade receivables (including bills of exchange received)	**852,771**	852,771	827,656	25,115	-
Forward contracts	**59**	59	59	-	-
Cash and cash equivalents	**220,478**	220,478	220,478	-	-
	1,073,308	1,073,308	1,048,193	25,115	-
Interest bearing assets:					
Long-term loans	**4,103**	7,245	2,747	4,498	-
Long-term deposits	**1,199**	1,223	-	1,223	-
Short - term loans	**1,819**	1,890	1,890	-	-
	7,121	10,358	4,637	5,721	-
	1,080,429	1,083,666	1,052,830	30,836	-

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

as at 31 December 2013	**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	**2,709**	2,709	871	1,838	-
Trade and interest payables	**473,910**	473,910	473,910	-	-
	476,619	476,619	474,781	1,838	-
Interest bearing liabilities:					
Financial lease liabilities	**5,763**	6,087	2,961	3,126	-
Borrowings	**1,057,522**	1,155,972	526,684	620,140	9,148
	1,063,285	1,162,059	529,645	623,266	9,148
	1,539,904	1,638,678	1,004,426	625,104	9,148
Non-interest bearing assets:					
Trade receivables (including bills of exchange received)	**984,589**	984,589	983,950	639	-
Cash and cash equivalents	**179,461**	179,461	179,461	-	-
	1,164,050	1,164,050	1,163,411	639	-
Interest bearing assets:					
Long-term loans	**3,537**	5,101	1,267	3,834	-
Long-term deposits	**1,183**	1,206	-	1,206	-
	4,720	6,307	1,267	5,040	-
	1,168,770	1,170,357	1,164,678	5,679	-

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. A large majority of the Group's borrowings are at variable rates. The Group uses the interest rate swap for managing interest rate risk (note 31).

Exposure to changes in interest rates on borrowings and loans (excluding 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:

(in thousands of HRK)	**2014**	**2013**
EURIBOR based bank loans	400,535	181,807
ZIBOR based bank loans	-	73,947
EURIBOR based finance lease	3,619	5,615
MF bill of exchange based loans*	53,292	61,125
PRIBOR based bank loans**	31,894	35,860
	489,340	**358,354**

* *Ministry of Finance bill of exchange*

***Prague Interbank offer rate*

Interest rate sensitivity analysis

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

as at 31 December 2014	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 current interest rates	513,018	167,725	84,797	260,496	-
At current interest rates + 50 basis points	517,638	168,779	86,241	262,618	-
Effect of increase of interest rate by 50 basis points	**(4,620)**	**(1,054)**	**(1,444)**	**(2,122)**	**-**

as at 31 December 2013	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 current interest rates	376,933	196,410	107,452	73,071	-
At current interest rates + 50 basis points	379,403	197,027	108,477	73,899	-
Effect of increase of interest rate by 50 basis points	**(2,470)**	**(617)**	**(1,025)**	**(828)**	**-**

After the reporting date the Group has significantly reduced exposure to interest rate risk by increasing the portion of the syndicated loan covered by the interest rate swap (70% of the principal) while the residual exposure to interest rate risk is not deemed to be significant.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Operational risk management

Market risks

(i) Price risk

The Group operates internationally and finances its operations using foreign currency denominated borrowings to a significant extent. As a result, the Group is exposed to the effect of changes in market prices of food raw materials and to exchange differences and changes in interest rates. In addition, due to credit terms extended to its customers, the Group is exposed to a risk of default.

The Treasury function in the Group provides financial services and coordinates the financial operations of the Group on the domestic and international markets, and monitors and manages the financial risks relating to the operations of the Group. The principal risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The most significant risks, together with the methods used to manage these risks, are described below. The Group does not use any derivative instruments for speculative purposes. In order to hedge against changes in variable interest rates the Group entered into an interest rate swap agreement.

Volatility in food raw material prices is a pervasive element of the Group’s business environment.

Most of the Group’s raw material purchases are made on the domestic market while most of its foreign purchases are made with EU suppliers.

With Croatia joining the EU, significant benefits were accomplished regarding easier access to markets of EU and suspension of custom charges which resulted in lower purchase prices for strategic raw materials.

The most significant risks of the procurement function are, in nature, financial risks caused by the increase in prices of agricultural – food products on the global market (long lasting trend) but also by the currency risk. Protective customs and trade mechanisms in place in the EU, on the one hand serve to protect EU producers while on the other hand present a significant risk in terms of higher customs duties (antidumping) on purchases from outside the EU. Unavailability of goods in the market resulting from market shortages due to adverse weather conditions (drought, floods), political and social unrest in certain countries (Egypt, Turkey) or speculation with key agricultural and food products are also risks with increased impact on the Group's operations.

To minimize these impacts, the procurement function of the Group, 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 the target markets of the EU and third countries, to consolidate purchasing volumes with the aim of strengthening its market position and to reduce procurement costs fully utilising its Commodity Risk Management system and conducting tenders and using new import regulation (triangulation). The Group does not use forward contracts to manage risk of price changes for food raw materials.

The pharmaceutical segment is exposed to risk of changes in prices of prescription drugs and limitations thereof by the regulator. Apart from communication with the regulator and coordination with other market participants, the Group is unable to actively manage this risk.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

(ii) Currency risk

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

	Liabilities		**Assets**	
	2014	**2013**	**2014**	**2013**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	716,724	834,218	231,247	236,497
Bosnia and Herzegovina (BAM)	101,825	105,593	161,449	153,063
Poland (PLN)	22,053	26,755	44,719	65,127
Russia (RUB)	-	649	107,657	115,594
Czech (CZK)	45,106	54,287	19,137	22,100
Other currencies	42,103	33,477	119,909	87,165

Foreign currency sensitivity analysis

The Group is mainly exposed to fluctuations in the exchange rate of Croatian kuna to EUR, BAM and RUB, since most of the trading with food raw materials on the international market is done in EUR while exposure toward RUB stems from the pharmaceutical segment operations on the Russian market.

From 31 December 2014 until the date of this report, the exchange rate of the Russian rouble to the Croatian kuna weakened by approximately 26% (2013:7%). Taking into account the current political environment in Russia and Ukraine, the Group is closely monitoring the development of the situation and has implemented additional measures for currency risk management (including entering into forward contracts) in order to effectively monitor and minimize the currency risk stemming from its exposure to the Russian rouble.

In addition, by defining the internal policy for foreign exchange risk management implementing early warning indicators and the initiation of the process for centralisation of corporate risk management (Enterprise Risk Management) at the end of 2014, the Group has decided to manage key risks (including currency risks) on a more proactive basis.

The following table details the Group's sensitivity to a 1% increase in the exchange rate of the Croatian kuna against the relevant foreign currencies where the Group has significant exposure (EUR, PLN, CZK, BAM and RUB), and to a 30% increase against the rouble in 2014. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of the Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

NOTE 35 – RISK MANAGEMENT (CONTINUED)

Market risks (continued)

(iii) Currency risk

Foreign currency sensitivity analysis (continued)

	EUR exposure		CZK exposure	
	2014	2013	2014	2013
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	(4,855)	(5,977)	(260)	(322)

	BAM exposure		PLN exposure	
	2014	2013	2014	2013
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	596	475	227	384

	RUB exposure	
	2014	2013
	(in thousands of HRK)	
Increase/(decrease) of net result	32,297	1,149

The currency risk analysis is based on the official exchange rates for the above analysed currencies as per the Croatian National Bank which were as follows:

	31 December 2014	31 December 2013
EUR	7.6615	7.6376
BAM	3.9172	3.9051
PLN	1.7780	1.8417
RUB	0.1188	0.1695
CZK	0.2764	0.2784

Sales function based risks

The Group generates approximately 41% (2013: 44%) of its revenue on the domestic market, whereas around 59% (2013: 56%) of sales are generated on international markets, mainly through related entities. The Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets which at the same present the most significant function based risk.

As for domestic operations, the Group expects increased risks associated with maintaining market position due to the expected strengthened entry of competitors. To lessen this effect, the Group aims to further strengthen its competitiveness by increasing productivity, modernising its technology and strengthening its product brands.

The continuation of the economic crisis in the country during 2014 had a negative impact on sales growth opportunities in the domestic market, especially due to falling consumer purchasing power, and consequently increased risk of collectability of receivables.

Therefore, the Group 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 of profit margins.

NOTE 36 – SHARE-BASED PAYMENT TRANSACTIONS

Employee share options

Options for the purchase of Podravka d.d. shares were granted to key management of the Group. 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, relocation within the company, etc., in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above.

The following share-based payment arrangements were effective in the current and comparative reporting periods:

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to key management of the Group			
As at 31 December 2010	11,000	Employment until the contracted vesting period	31.12.2015.
	8,000	Employment until the contracted vesting period	31.12.2016.
As at 31 December 2011	11,000	Employment until the contracted vesting period	31.12.2015.
	8,000	Employment until the contracted vesting period	31.12.2016.
As at 24 Februray 2012	27,000	Employment until the contracted vesting period	31.12.2017.
As at 24 Februray 2012	1,000	Employment until the contracted vesting period	31.12.2016.
As at 24 Februray 2012	1,000	Employment until the contracted vesting period	31.12.2015.
As at 26 June 2012	1,000	Employment until the contracted vesting period	31.12.2017.
As at 31 December 2012	5,000	Employment until the contracted vesting period	30.06.2015.
As at 31 December 2012	2,000	Employment until the contracted vesting period	31.12.2015.
As at 9 October 2014	2,500	Employment until the contracted vesting period	31.12.2017.
As at 3 January 2013	2,000	Employment until the contracted vesting period	31.12.2015.
As at 12 February 2013	5,300	Employment until the contracted vesting period	31.12.2018.
As at 25 April 2012	2,000	Employment until the contracted vesting period	30.06.2016.
As at 23 December 2013	28,620	Employment until the contracted vesting period	31.12.2017.
As at 31 December 2013	2,000	Employment until the contracted vesting period	31.12.2017.
As at 28 December 2014	27,451	Employment until the contracted vesting period	31.12.2018.
As at 28 December 2014	6,207	Employment until the contracted vesting period	31.12.2017.
As at 9 October 2014	4,500	Employment until the contracted vesting period	31.12.2018.
As at 3 January 2013	2,000	Employment until the contracted vesting period	31.12.2016.
As at 12 February 2013	2,000	Employment until the contracted vesting period	30.06.2017.
As at 25 April 2012	5,000	Employment until the contracted vesting period	31.12.2019.
Total share options	**164,578**		

NOTE 36 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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 Company's 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). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. Input variables for calculation of fair value:

Share option programme for key management	2014	2013
Fair value at grant date (weighted average)	77	75
Share price at grant date (weighted average)	265	255
Exercise price (weighted average)	277	273
Expected volatility (weighted average)	25%	27%
Expected life (weighted average in years)	4.5	4.4
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds)	5.26%	5.29%

Expense recognised in profit or loss	2014	2013
	(in HRK thousands)	
Equity-settled share-based payment transactions	1,219	1,359

The exercise price of stock options for key management ranges from HRK 218 to HRK 309.

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

	Number of options 2014	Weighted average exercise price 2014	Number of options 2013	Weighted average exercise price 2013
Outstanding at 1 January	144,920	273	91,000	285
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	(31,000)	-	-	-
Granted	50,658	265	53,920	255
Outstanding at 31 December	**164,578**	**277**	**144,920**	**273**
Exercisable at 31 December	**164,578**		**144,920**	

During 2014 a number of 3,500 share options were distributed retroactively due to significant changes in employment contract terms which have already existed in the 2013 but were formalised in the current year.

As at 31 December 2014, there are 164,578 of outstanding options (2013: 144,920 options). There were no exercised options in 2014 and 2013.

The weighted average exercise price of outstanding options at the end of 2014 is HRK 277 (2013: HRK 273). The weighted average remaining validity of options is 4.5 years at year end (2013: 4.4 years).

NOTE 37 – RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries are eliminated through consolidation and are not presented in this note.

The Group is in a related party relationship with the company MIRNA d.d., but due to the circumstances described in note 40, the Group has no control over this entity at the reporting date. During 2014, the Company recognised income in the amount of HRK 2,677 thousand with respect to the above mentioned company.

The Group considers that, in the context of IAS 24 *Related party disclosures*, it does not have an immediate related party relationship with any its shareholders as it believes that no individual shareholder has significant influence on the business decisions of the Group.

Transactions with key management and Supervisory Board members

	2014	2013
	(in thousands of HRK)	
Key management remuneration		
Salaries and severance payments	38,781	46,032
Share-based payments (note 36)	1,219	1,359
	40,000	**47,391**

Key management of the Group comprises the Management Board and executive directors and consists of 51 persons (2013: 110 persons).

During 2014, a total of HRK 1,736 thousand (2013: 2,367 thousand) was paid as compensation to members of the Supervisory Board of the Company.

NOTE 38 – CONTINGENT LIABILITIES

	2014	2013
	(in thousands of HRK)	
Guarantees and warranties given	9,964	10,856

Guarantees mainly relate to the potential liability of Podravka d.d. on the basis of Customs Authorities' guarantee, guarantees for concession contract for the extraction of drinking water and mineral water, 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 consolidated statement of financial position as management estimated that, as at 31 December 2014 and 2013, it is not probable that they will result in liabilities for the Group.

NOTE 39 – COMMITMENTS

In 2014, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 36,285 thousand (2013: HRK 31,359 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

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

	2014	2013
	(in thousands of HRK)	
Up to 1 year	21,693	24,293
From 1 to 5 years	19,715	27,890
	41,408	**52,183**

NOTE 40 – AQUISITION OF MIRNA d.d. Rovinj

On 25 August 2014, as part of an out of court settlement procedure, Podravka d.d. acquired 198,209 shares of MIRNA d.d. though a public auction of shares via the trading system of the Zagreb Stock Exchange d.d. representing 53.9% of total issued share capital of that entity. Podravka d.d. acquired the shares of MIRNA d.d. at a price of HRK 38.02 per share totaling HRK 7.5 million. The shares of the entity were voluntary pledged as collateral for loans which Podravka d.d. granted during 2009.

On 29 September 2014, due to the above acquisition of shares and in accordance with the Act on the Takeover of Joint Stock Companies, Podravka d.d. submitted an offer for the takeover of the remaining shares of MIRNA d.d., apart from those under the voluntary pledge, at a price of HRK 38.02 per share. The takeover bid was accepted by seven shareholders whereby Podravka d.d. acquired an additional 37,153 shares amounting to an additional 10.09% of the total issued share capital of MIRNA d.d. Subsequent to this, Podravka d.d. became the owner of 235,362 shares of MIRNA d.d. or 63.95% of the total issued share capital.

On 21 November 2014, the General Assembly of MIRNA d.d. was held whereby former members of the Supervisory Board of MIRNA d.d. were dismissed. Representatives of Podravka d.d. were elected as the new members of the Supervisory Board. Subsequent to the General Assembly of MIRNA d.d., a constitutive resolution of the Supervisory Board of MIRNA d.d. was reached whereby Vladimir Bunić was appointed as the sole member of the management board and the director of MIRNA d.d. while all powers of attorney of the former management board were revoked and repealed.

Subsequently, legal proceedings were initiated based on claims by third parties disputing the public auction over the shares of MIRNA d.d. and the establishment of the voluntary pledge over those shares, as well as the ownership rights over stakes in the entity Mirna Ribolov d.o.o., a subsidiary of MIRNA d.d. Furthermore, in December 2014, the management board of MIRNA d.d. filed for the initiation of a pre-bankruptcy settlement as a result of the bank accounts of MIRNA d.d. being blocked, but the notion was rejected. However, on 29 January 2015, the Commercial Court in Rijeka issued a decision to initiate the process of determining whether the conditions for initiation of bankruptcy against the company MIRNA d.d. exist whereby a temporary administrator was appointed and a hearing scheduled for 30 March 2015.

Although at 31 December 2014 Podravka d.d. held 63.95% of the share capital of MIRNA d.d. together with related voting rights and although it managed the processes of the entity through the appointed management board, due to the significant legal uncertainties with respect to ongoing and pending legal proceedings, the significant restrictions in operating the company in the context of blocked bank accounts and due to the significant administrative uncertainties surrounding the possible initiation of bankruptcy proceedings by which the control over the entity would be taken over by the bankruptcy administrator, Podravka d.d. considers that it has not obtained all necessary prerequisites which would result in the exercise of control over the entity MIRNA d.d. and consequently, the consolidation of that subsidiary into the Group.

The summary of unaudited financial information of the entity MIRNA d.d., Rovinj as at 31 December 2014 were as follows:

	2014	2013
	(in thousands of HRK)	
Statement of financial position		
Non-current assets	122,804	123,275
Current assets	54,262	30,285
Current liabilities	(36,347)	(41,094)
Non-current liabilities	(67,536)	(33,683)
Net assets	**73,183**	**78,783**
Statement of comprehensive income for the period		
Sales revenue	12,020	14,179
Profit / (loss) after tax	(5,623)	497
Other comprehensive income	-	-
Total comprehensive (loss) / income for the period	**(5,623)**	**497**

NOTE 41 – EVENTS AFTER THE REPORTING PERIOD

The decision on the merger of subsidiary

On 25 February 2015 the Management Board issued a decision to merge the subsidiary Danica mesna industrija d.o.o. Koprivnica in a way that the entire assets and liabilities will be transferred to the acquiring company based on closing financial statements.

According to the above mentioned decision, the acquiring company and the merged subsidiary will conclude a merger agreement that will become valid upon the approval of the Assembly of the merged company.

Assets and liabilities of the merged company will be transferred to the acquirer at the moment of the registration of the merger at the Commercial Court in Varaždin.

Gaining control over the company MIRNA d.d.

At the hearing related to the determination of conditions for initiation of bankruptcy proceedings over the company MIRNA d.d. held on 30 March 2015 at the Commercial Court in Rijeka, it was determined that reasons for initiation of bankruptcy proceedings over MIRNA d.d., Rovinj no longer exist and that the decision to discontinue the bankruptcy proceedings under Article 53.st.9. Bankruptcy Act is to be passed in writing.

As the majority owner of MIRNA d.d., Podravka d.d. directly settled a considerable amount of the debts of MIRNA d.d. and provided guarantees for the settlement of the remaining debts which were recorded in the register of FINA.

As a result of the above, the company Mirna d.d. became financially solvent with its bank account being unblocked and therefore the reasons for conducting further bankruptcy proceedings have lapsed.

The Group believes that these events constitute a significant change in circumstances with respect to business decision making and management of the company MIRNA d.d. and that the Group has thus essentially gained control over MIRNA d.d. Accordingly, starting from 31 March 2015, the consolidated financial statements of the Group will include the financial position and results of operations and cash flows of the company MIRNA d.d.

Increase of share capital of the subsidiary Belupo d.d.

At the meeting held on April 7, 2015, the General Assembly of the subsidiary Belupo d.d. decided to increase share capital by asset contribution from the parent company Podravka d.d. in the amount HRK 12,815 thousand. At this meeting, the General Assembly also approved the decision to reinvest the profit of the subsidiary in the amount of HRK 53,663 thousand.