PODRAVKA d.d. and its subsidiaries, Koprivnica

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

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PODRAVKA GROUP IN 2015

Important business events

ESTABLISHED A REGIONAL OFFICE FOR THE MIDDLE EAST AND NORTH AFRICA

In accordance with the new organization of market management and by redefinining the market area of operations and focusing on categories and geographic regions, Podravka has established a regional office for the Middle East and North Africa based in Dubai, the economic headquarters of the United Arab Emirates. Normin Salman, a manager with extensive international experience, was appointed CEO of Podravka office in Dubai. Podravka's office was opened in the framework of JAFZA (Jebel Ali Free Zone) and Podravka became the first Croatian company that has invested in the free zone, which caused a great deal of interest in the business world region.

In addition, registration of the company in Dar es Salaam has been in procedure (Tanzania) as well as registration of the representative offices in Beijing (China), which is a prerequisite for the beginning of operations in these markets.

EXAMINATION OF ORGANIZATIONAL CLIMATE AND JOB SATISFACTION

Since emoployee satisfaction is the key to success in every company, Podravka started examination of organizational climate and job satisfaction in 2012, which continued in 2015. The results have provided valuable information on how employees perceive the company, which areas they are satisfied with, and where they see room for improvement.

PODRAVKA STARTS MERGE OF MEAT INDUSTRY DANICA D.O.O.

Continuing the implementation of measures to improve operational efficiency, Podravka's management made the decision to initiate the procedure for merging the limited liability subsidiary DANICA d.o.o. Certain restructuring measures, i.e. business rationalisation, have been implemented in Danica d.o.o. over the past three years. Financial business indicators have been improved, and further improvements can be achieved through the full integration of the meat programme into the Podravka's food segment.

STIMULATIVE SEVERANCE PAYMENTS

Workers deciding to leave the company within this Program will receive severance payments amounting to net HRK 5,000.00 for each year spent at Podravka. Considering these severance payments are above those lawfully granted, Podravka wishes to thank to workers willing to participate in this program for their contribution built in the development of this company. 82 workers decided to take the stimulative severance payment of which 55 are Podravka's employees, 7 are from Danica d.o.o. and 20 from Belupo.

INVESTORS' DAY

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 business results in 2014, positive and negative influences on them and guidelines in business and plans in 2015.

EXPORTERS CLUB IN PODRAVKA

14th meeting of the Exporters Club was held in Podravka, one of the first members of the club, founded on the initiative of the business weekly Lider. The importance of the export initiative was stressed by Prime Minister of Croatia, who participated at the event. On behalf of Podravka, CEO Zvonimir Mrsic presented the company throughout the history, as well as the company's product portfolio and financial results, with a focus on international business while presenting the Phase II of the internationalization of Podravka.

CONTROL OVER THE COMPANY MIRNA D.D. ROVINJ

On 31st March the company took over the control of the company Mirna d.d. Rovinj and due to the specific terms of shares purchase and sales in this company, the acquisition resulted in recognizing the negative goodwill amounting to HRK 24.7 million. The stated revenue is a one-off item recognized in the first consolidation of Mirna d.d. and is shown in the net profit on the day of acquisition.

ACQUISITION OF THE MAJORITY PACKAGE OF REGULAR SHARES OF SLOVENIA'S ŽITO

Podravka concluded with the consortium of sellers a contract on acquiring the shares of the company Žito, food industry d.d. Ljubljana, one of the biggest and renowned producers of food products in Slovenia, also having great recognizability in the markets of SouthEast Europe.

Based on the concluded Contract, and after receiving an approval from the authorised agencies for protection of market competition and after complying to the determined contractual obligations, Podravka will acquire the majority package of 51.55 percent of regular shares of Žito, registered under the no. ISIN SI0031108440, at the price of EUR 180.1 per share, i.e. for the total amount of EUR 33,027,818.

With the stated acquisition Podravka consolidates its position and becomes a leader in several additional product categories, significantly improving its market position.

After this transaction is completed, Podravka Group will be at the top of the food industry in the market of Slovenia. Extending the business in complementary product groups, opportunities are created for production, and sales and marketing synergies, improving the business efficiency of both companies and increasing their competitiveness. It is particularly worth emphasizing that this opens the possibility of selling Žito products through Podravka's sales and distribution network in more than 20 countries around the world.

SPECIAL CONTRIBUTION TO PROMOTION OF EXELLENCE OF CROATIAN ECONOMY IN THE WORLD

For the first time the Ministry of Foreign and European Affairs gave the award of Croatian diplomacy for the special contribution in promotion of excellence of Croatian economy in the world. Podravka was recognized as the best company and awarded with a golden plaque. The reward is based on the results of a poll conducted among the ambassadors, consuls and economic advisers in diplomatic missions and consulates of the Republic of Croatia abroad. Croatian diplomats choose three companies that according to their experience gave a special contribution in the previous period and made a particularly professional impression by their appearances abroad. This is another confirmation to excellence in the work of the company which is one of the leading in the SouthEast, Central and Eastern Europe, with companies and branch offices in 23 countries around the world, own distribution network in 10 countries and portfolio of about 800 different products present in more than 40 markets around the world.

OPEN INNOVATION DAY

Podravka held its first Open Innovation Day, one of the most innovative days organized in this company. "May May 8 be recorded in the history of Podravka as a day we started a new creative cuisine in the company," said the president of Podravka Management Board.

APPOINTED BELUPO D.D. MANAGEMENT BOARD PRESIDENT

The Supervisory Board Belupo d.d. appointed Hrvoje Kolarić, Master of pharmacy and business management, a new five-year term president of the Belupo Board.

Also, Ksenija Punčikar, B.B.A., MBA, a former Chief Financial Officer, was appointed as Member of the Belupo Management Board.

Stanislav Biondić,the former member of the Belupo Board, with expired five-year term, remains in Belupo d.d. as an Advisor to the Board.

NEW FARMAVITA WAREHOUSE OPENED

Farmavita's new business-storage facility "C" is located in the immediate vicinity of existing buildings and covers an area of 4,000 square meters. The house was built with the purpose of expanding storage capacity in order to adequately respond to the growth in sales and expansion of its own product portfolios and providing consignment services, in accordance with the highest international standards.

A newly-built warehouse passed all necessary inspections in early 2015, and in March 2015 the Agency for Medicines and Medical Devices BiH awarded Permit for drug wholesalers and to a new location.

PRODUCTS FROM BELUPO'S OWN DEVELOPMENT ON PHARMACEUTICAL MARKET IN EU

Belupo products from our own development, Adapalene 1 mg / g Cream and Adapalene 1 mg / g of gel are registered in Germany and Austria, through the contractual partner Dr. Pfleger, called Dipalen. For drug Oxazepam 15 mg tablets of their own development successfully conducted a bioequivalence study in the EU, which is the product of our own development became registrabilan on demanding EU markets and during 2015, driven by registration process in Denmark.

The General Assembly supported the recapitalization and organized employee stock ownership

Podravka d.d. General Assembly supported all the draft resolutions by the Management Board and the Supervisory Board which were subject of voting. Among numerous decisions, special attention of the public is drawn to the resolution on share capital increase, related to the resolution on introducing ESOP. Company share capital is additionally increase by issuing of 1.7 million of new regular shares at the price of HRK 300. Only employees can participate in the first round through the ESOP program. ESOP program includes giving the right of precedence to employees of PODRAVKA d.d., DANICA d.o.o., BELUPO d.d. and DELTIS PHARM PHARMACIES to the subscription and payment of the shares within Company share capital increase.

ESOP program will also include a remuneration system, offering every employee who acquires company shares exclusively through the ESOP program within the first round of shares subscription and payment, and who keeps all such acquired shares within the period of two to three years, the Company will award it with additional shares. The key principle that Podravka wishes to emphasize is the principle of equality of all workers in participation in the program. All employees will be offered the same terms of participation in the ESOP program.

Basic goals of ESOP program for Podravka are:

- further development of employee loyalty through participation in company ownership
- increase of Podravka productivity based on mid-term and long-term effects of the program (motivation, efficiency, entrepreneurship, dedication...)
- including employees in share ownership at special terms, because such an opportunity was never given to part of the workers
- connecting employee interests with interests of the owners
- creating additional impetus in achieving company strategy, in the sense of connecting growth interests and profitability on the one hand and long-term benefits for the workers on the other.

The subscription to new Podravka d.d. shares within the share capital increase starts

At the Zagreb Stock Exchange before actual and potential big investors, Podravka d.d. presented share capital increase process, announcing the beginning of the subscription process to new shares of Podravka d.d.

On 7th July started the subscription of new shares of Podravka d.d., in the first round only for employees of Podravka d.d. and related companies, and in the second round for existing shareholders, i.e shareholders of Podravka d.d., who as on 3rd June 2015 had shares on their non-materialized securities account held at CDCC, up to:

1,385,360 new shares which were not subject of subscription and payment in the first round, in respect to which the existing shareholders have the pre-emption right of subscription and payment, and depending on the outcome of subscription and payment of new shares in the first round, remaining new shares from the first round which possibly were not subscribed and paid for in the first round.

Funds gathered are primarily planned to be used for financing of the acquisition of the shares of Žito d.d. Ljubljana, for investment in business expansion on new markets and as additional source for financing of the new Belupo factory for solid, semi-solid and liquid drugs, aiming to ensure sufficient production capacities for further growth and development" – Podravka Management Board president Zvonimir Mršić pointed out during the presentation on share capital increase held today.

SHARE CAPITAL INCREASE PROCEDURE AND ESOP PROGRAM SUCCESSFULLY COMPLETED

All 1,700,000 new shares were validly subscribed to during the 1st and 2nd Round, and total of HRK 510 million was paid in The interest shown for subscription of shares in the first two rounds of share capital increase procedure was 30 percent higher than the number of available shares. Existing shareholders and employees subscribed and paid in total for more than 2.26 million of new shares out of the maximum available 1.7 million shares, which shows exceptional interest in acquiring of Podravka d.d. shares.

In the 1st Round that was intended exclusively for the employees and lasted from 7th July 2015 to 13th July 2015, a total of 88,475 new shares were subscribed and paid by 615 employees.

In the 2nd Round where new shares could be subscribed by the existing shareholders, lasting from 7th July 2015 to 20th July 2015, a total of 2,174,304 new shares were subscribed and paid, where the interest shown exceeded the number of available shares.

The 3rd Round of subscription and payment of new shares was not be conducted, as all the available shares were subscribed and paid during the 1st and the 2nd Round.

CONFERENCE KNOWLEDGE IN FOCUS

In cooperation with domestic and international partners from business and academic community, Podravka organized Knowledge in Focus- business and technological conference on e-learning, collaboration and innovations.

By organizing this conference Podravka continues with the triple-helix approach and, like in the previous two conferences, promotes the importance of association with the business, academic and broader community in order to jointly create a knowledge society.

The registration fee goes to supporting student education as part of the Zlata Bartl Foundation, aimed at promoting and stimulating creative and innovative scientific research work among highly educated young people, particularly in the technical and technological fields, which Professor Zlata Bartl herself was involved in. The Conference raised 30.000,00 kunas which were paid in to the Foundation.

THE CONSTRUCTION OF NEW BELUPO FACTORIES STARTED

Zoran Milanović, the Prime Minister of Croatia, his associates, and other prominent guests were familiarized with the beginning of the construction of new Belupo factory for solid, semisolid and liquid forms of medications worth HRK 400 is also on that track. Factories will be completed in the first quarter 2017 and will employ about a hundred new workers.

The pill-like cornerstone, a piece of art created by the famous sculptor Igor Lenard, was laid by Zvonimir Mršić, President of Podravka Board and Hrvoje Kolarić, President of Management Board of Belupo.

It is the most significant greenfield investments in Croatia this year, which will, once when completed, have a significant impact on GDP growth and an increase in exports, pointed Zvonimir Mrsic, President of Podravka Management Board and Supervisory Board President of Belupo. Podravka Group is on the right track of growth and development; the completed share capital increase procedure brought in the company's "bloodstream" HRK 510 million.

TAX INCENTIVE FOR BELUPO'S NEW LOCATION OF PRODUCTION

Pursuant to the Incentive investment and improving the investment environment Law, Belupo in 2014 submitted an application for the use of incentives for investment-investment project "The new production location-Belupo". The Ministry of Economy in March 2015 awarded Belupo status of incentives - tax, support for the eligible costs of new employment linked to investment projects, and incentives for capital investment costs of the project within the permitted maximum intensity of incentive investment in the amount of HRK 163,716,874. In the Financial statements for 2015 Belupo dd initially approved the maximum incentives as deferred tax assets and tax revenue. Reversal of deferred tax assets was recorded as early as in 2015, in the value of the calculated current income tax of HRK 9,369,741.

CORPORATE CONFERENCE FOCUSED ON SETTING AMBITIOUS GOALS

Podravka's corporate conference gathered all company's executive directors, directors of companies from 23 countries in which Podravka operates and representatives of marketing and marketing directors of individual markets. The conference was, among other things, marked by setting of goals and further activities in order to finish the current business year successfully and start the new business year equally ready and ambitiously.

VEGETA IN NEW PACKAGING AND VIDEO

Vegeta - a brand that follows your each and every move in the kitchen and inspires you to new and exciting dishes, has a new packaging. The most famous Podravka brand and your faithfull companion in every tastfull meal for over the 50 years, these days will be in new packaging design in the stores. Now packaging design in the future will be present in more that 50 markets of the world. Passion for cooking, creativity and freedom to express ourselves in our own way, are the main features of the Vegeta video, in which creation were engaged the most creative minds from all over the region.

PODRAVKA AMONG TOP 10 CROATIAN EXPORTERS

Podravka has been listed in the top 10 Croatian exporters and is the only food company among them. Being very successful over the years, Podravka took over Mirna, bought Slovenian Žito, proceeded a very successful share capital increase, while enriching the export offensive with significant investitions on international market, and thanks to the high growth rate Podravka got the special place on the list of the best ones.

HUMANITY OF PODRAVKA AND ITS EMPLOYEES DURING REFUGEE CRISIS

At the very beginning of the refugee crisis that engulfed Croatia, Podravka responded as a true company with a heart, providing water, baby food and other products for the needy and suffering people. With each product Podravka gave its heart and compassion in the first place, which is far more important than the 15,000 bottles of water, 12,000 snacks and Lino lada and 4500 cans and jam which ended in the hands of refugees. Good organization and humanity of Podravka's employees proved Podravka to be a comapny with high sensitivity and heart.

ANNUAL GATHERING OF PENSIONERS AND JUBILARIANS

Podravka continues its established tradition of annual gathering of pensioners and jubilarians. Numerous Podravka's pensioners and jubilarians gathered in the big tent placed in front the Soup and Vegeta factory to remind themselves of the times they spent working in Podravka.

NON-REPAYABLE GRANTS FOR KALNIK FACTORY

Factory Kalnik Varazdin and the project "Modernization of vegetable processing", which is registered for the competition through the Rural Development Program Croatia, Measure 04th, received a non-refundable grant of 6.3 million HRK for co-financing the project, that will be paid during 2016. The project includes the modernization of the factory with 7 new investment which will significantly improve the production process. This percentage represents the maximum amount of aid that could be obtained, since the investment is HRK 12.6 million in total.

NEW HIGHLY EDUCATED TRAINEES WITHIN THE SHAPE PROGRAM

35 new trainees began their career on 2nd November in Podravka. The SHAPE program has recruited 95 trainees with university degrees, 35 of them in the first, 25 in the second and 35 in the third generation. Additionally, Podravka has provided employment program for as many as 37 trainees with secondary education.

BELUPO PROFIT REINVESTED FOR THE THIRD YEAR IN A ROW

Beginning of April the Belupo Supervisory Board adopted the consolidated audited financial reportt of Belupo and its subsidiaries for the last business year. Belupo profit was reinvested for the third year, and the share capital was increased by HRK 189.7 million. After the share capital increase of Podravka d.d. was successfully processed, the share capital of Podravka d.d. was again increased, being paid in cash in October 2015, and now amounts to HRK 410 million.

PUBLIC OFFERING FOR SHARES TAKEOVER OF COMPANY ŽITO D.D. WAS SUCCESSFUL

Upon completion of the purchase of shares pursuant to a public offering, Podravka has, together with the 183,386 shares of Žito d.d., which it already owned at the date of publication of the takeover bid, a total of 308,820 shares of Žito d.d., which represents 86.80 percent of all issued shares of Žito d.d.. The takeover bid lasted from 23 October 2015 until 23 November 2015. The offer was accepted by 4,291 shareholders, who together were the holders of 125,434 shares of Žito d.d., which represents 35.25% of all issued shares of Žito d.d.

Now members to the Supervisory Board of Žito d.d. were also elected: Miroslav Klepač as president, Petar Vlaić as deputy president and Ivan Galović and Rajko Stanković.

FACULTY OF PHARMACY AND BIOCHEMISTRY AT ZAGREB UNIVERSITY AND BELUPO SIGN A COOPERATION CONTRACT AND LETTER OF SUPPORT

Dean to the Faculty of Pharmacy and Biochemistry at the Zagreb University prof.dr.sc. Jerka Dumić and Belupo Management Board president Hrvoje Kolarić, mr.pharm., MBA signed on 29th June, 2015 a cooperation agreement, preceded by a recently signed Cooperation agreement between Podravka Group and Zagreb University. This document implies cooperation between the Faculty and Belupo in the area of science, professional and educational activities, mutual help in the area of scientific and expert research, field trips of students to Belupo and performing the practical, i.e. experimental part of their thesis.

I AM ALSO PODRAVKA EMPLOYEE!

Employees whose daily efforts and dedication show that they truly live Podravka values were again awarded, this time in the competition "I am also Podravka employee". From a total of 384 nominations received, 28 employees were awarded. Those were employees nominated through evaluation assessment and argumentation of those who nominated them. The awards were presented at a special Dolcela event with the famous singer Saša Lozar.

OPEN DOOR DAYS

Due to a great interest of children and parents, Podravka once again opened the door for the children of its employees and organized the second Open Door Days this year. Event for children of employees marked the program organized in Podravka headquarters. The valuable event enriched Podravka by unique ornaments on its Christmas tree, children gained new discoveries and unforgettable moments of socializing while parents filled their hearts with a completely new and precious experience.

SWEET HOLIDAYS, EVERYONE!

Podravka's culinary promoters and representatives of the county associations of the Croatian Culinary Association visited a number of institutions in order to share cookies. The aim was to awaken and keep the Christmas spirit by expressing care for our dearest and nearest, but also to remind us of the importance of helping the all citizens, especially children without parental care and the helpless and desabled.

Podravka's team, with the help of Croatian Culinary Association, organized the humanitarian action "Sweet holidays, everyone!" to share the sweet surpirse all across Croatia. Podravka's culinary promoters and representatives of the county associations of the Croatian Culinary Association visited a number of institutions in order to share cookies. The aim was to awaken and keep the Christmas spirit by expressing care for our dearest and nearest, but also to remind us of the importance of helping the citizens in need, especially children without parental care and the helpless and desabled.

HIGH-LEVEL DELEGATION OF THE UNITED STATES OF AMERICA VISITED PODRAVKA

Delegation was comprised of H.E.Mrs. Julieta Valls Noyes, the ambassador and Mr. Damjan Benčić, Commercial Section Chief.

After the meeting held at the company headquarters, they visited the factory of Vegeta and Podravka meals, so that the USA delegation could see the production process of Podravka's most renowned brand Vegeta, which is being exported to more than 50 countries around the world, USA being one of them.

REPRESENTATIVES OF THE CANADIAN EMBASSY ZAGREB VISITED PODRAVKA

Shortly after the high-level delegation of the United States of America, the representatives of the Canadian Embassy Zagreb visited Podravka as well. His Excellency, Mr. Daniel Maksymiuk, Ambassador and Mrs. Synthia Dodig, Commissioner for Trade in Podravka with Zvonimir Mrsic, CEO of Podravka and Olivia Jakupec, member of Podravka Management Board discussed the business, since Podravka is the largest Croatian exporter to the Canadian market in the segment of food and beverages.

REGISTRY OF VOLUNTARY STEM CELLS DONORS

Pulse Association in cooperation with the Ana Rukavina Foundation organized a praiseworthy action - entry in the Registry of voluntary hematopoietic stem cells donors. 84 Podravka's employees entered the Register, becoming a potential stem cell donors and hope to the suffering and in need. Podravka showed its humanity and willingness to help the ill people, who find our support crucial for their recovery and life.

INTERNATIONAL CHARACTER OF LINO ALL-ROUNDER

Expanding outside the Croatian borders, Lino All-rounder was given an international character. The second season of the project of Podravka and Sportske novosti was opened in BiH. Primary school children from Tomislavgrad hosted the first Lino All-rounder this season, in which were involved 12 primary schools in 11 towns in BiH. Podravka BiH, under the sponsorship of the Federal Ministry of Education, Science, Culture and Sport, Ministry of Education and Culture of the Republic of Serbia, seven county / cantonal ministries and pedagogical institutes and the Department of pre-school and primary education of Brcko District and media support by Sports Nows, is the organizer of the project Lino All-rounder.

RESEARCH AND DEVELOPMENT OF PODRAVKA GROUP

(Podravka and Belupo)

Research and development Podravka

SUPPORT FOR OPENING NEW MARKETS

Activities of Research and development sector are carried out through the following key areas: Product development (food additives and meals, baby food, cream spreads and breakfast cereals, desserts, snacks and milling and bakery products, processed fruits, vegetables and condiments, fish products products, meat products and beverages), Nutrition and sensors, development of technology, development of packaging and development of agriculture. Support to these activities is provided by Quality control, a system of twelve laboratories for quality control and safety (two central and 10 operational laboratories), and Regulatory Affairs and Development Ecology development.

In 2015 a new generation of Lino products for infants was launched (from the age of 4 months up): Lino processed baby food based on cereals enriched with probiotics and Lino purees based on fruit, cereals and dairy ingredients. Enrichment with probiotics (good bacteria) and nutritional profiling was a development and technological innovation. In terms of development, it was a research and development project that was run by the internal capacity of Research and development of Podravka and external stakeholders - Food Technology and Biotechnology University of Zagreb and doctors pediatricians, but in terms of technology, by the realization of investment in production.

The project of nutraceuticals - synergy pharmaceuticals and nutrition, which went on continuously for more than 3 years, and was guided by the office director for research and development, was successfully finished. The project goals were achieved by creating a sales plan of products for special use in 2016 and by the decision of the Board of Podravka on the establishment of a new organizational unit Nutraceutics, starting 1st January, 2016.

Computerization of business activities in sectors continued in 2015. It is especially worth mentioning the project implementation of SAP modules RDM (Eng. Recipe Development Module), which was installed in order to establish a more efficient document management and create preconditions for the computerization of the product development process. The quality control method optimization project continued, and the investment cycle is focused on the rapid and practical methods of quality control and health safety.

Integration processes of Danica do.o., Mirna d.o.o. and Podravka's biggest acquisition in history - Žito d.d. represented a special organizational and functional challenge.

During the year, intense activities were performed regarding accreditation procedure of Podravka's Research and Development, as a scientific organization at the Ministry of science, education and sport of the Republic of Croatia. A document "R&D Strategic program 2013-2018" was compiled, including extensive other documentation, which was sent for review to the Croatian Agency for Science and Higher Education. After having evaluated the quality of the material, in mid July the Agency recommended to the Minister in charge of science and higher education to issue a letter of expectations, and thus having successfully completed this project.

Activities of culinary research as well as research of the new area for more efficient product development were regularly performed, through education, culinary and nutritional workshops, culinary prototypes and preparations for reconstruction of the new laboratory in 2016.

Activities in implementing the Nutritive strategy 2014-2024 also continued.

On 22nd May 2015 an agreement was signed between Podravka and Zagreb University on long-term cooperation, starting as of November 2015. Podravka was visited by a distinguished scientist and doctor from Mayo Clinic, USA, dr. Hensrud, due to potential in the area of research and development.

As initiated by Podravka's Research and Development department and supported by the Management Board, in 2014 Open Innovation project was started, implementation team was formed, aiming to establish a new organizational and process model implying usage of internal and external sources of ideas, in order to develop new technologies or services, or to improve the existing ones. In 2015 planned activities within that project continued, and in cooperation with the Human Resources department 1st Innovation Day was held (8th May 2015), and soon 2nd Innovation Day (13th November 11 2015). After conducting an internal research, this brought the desired shift towards promoting the value of employee innovativeness. Additionally, the Management Board passed a new internal act – Rulebook on encouraging employee innovativeness within open innovations in Podravka d.d.

Aiming to test the legal framework, education and internal communication, on 30th October 2015 pilot project by the Human Resources for the Research and Development department started, called ''Ideas move the heart. Heart moves everything else...''.

R&D presented their contribution on product equipping, their ''know-how'', active participation in breaking new markets, especially MENA region, Tanzania and China, at the Corporate conference on marketing and sales in September 2015.

Continuous investment in employee competencies and knowledge development continued during the year, and R&D employees participated actively on local, national and international level, by participating at business and expert conferences, creating a regulatory policy (CRO, EU), publishing research and professional works, providing education for the interested academic and social public and by participating in the work of various associations.

Research and development Belupo

The year 2015 will be one to remember, with the first registrations of Belupo dossiers for medicinal products in Western European countries. The products Adapalen gel and cream received registration for the German and Austrian markets, while Oksazepam 15 mg tablets received registration in Denmark. In cooperation with the Department for Development and Registrations, the role of the Research and Development Department was key in achieving this success. Further products of the same type currently underway involve the product Medazol tablets for several European markets. It is great to know that our products are soon to appear on such demanding markets, even if under a different name.

The Belupo product line was increased by 15 new products in 2015, with the introduction of seven completely new brands. In the medicinal product segment, there are: Docetaksel in the area of oncology, Amofin in the treatment of fungal infection of nails, Takrolimus in the area of immunosuppression and Levetiracetam as an antiepileptic. In the over-the-counter segment, our product line has been expanded by the brands Rinil, for the alleviation of cold symptoms by reducing difficulties caused by inflamed nasal membranes, Gastrobel for the prevention and alleviation of heartburn symptoms, and Belcura spray for cleaning and protection of the skin.

In addition to these completely new brands, some existing brands have been expanded with new dosages (Eminens SR, Alopurinol) or forms (Efilipt paediatric cream for inhalation).

During 2015. development was underway for new sources of active compoundsm, and intensive work on new factories for the production of solid, semi-solid and liquid medicines.

NEW PRODUCTS

New products Podravka

The focus in 2015 was on revitalising the key portfolio by adding value to the existing portfolio, and on the creation of new differentiated lines of products that strengthen the Podravka portfolio, attract new customers and contribute to the growth of overall categories. Podravka has implemented its investment cycle on domestic and international markets, and was particularly active in opening new markets.

One of the most important marketing events for the company was the start of the revitalisation programme for Podravka's most international brand - Vegeta, which included several steps: a new visual identity to bring the brand a feel of the modern and natural, new formulations of special food seasoning lines (Vegeta Grill and Vegeta Twist) in accordance with the company's nutritional strategies and the new communications platforms, which take exceptional advantage of digital communication channels alongside classical channels. This is the result of the new positioning, aimed at rejuvenating the brand and creating an emotional connection with consumers and making products more attractive to the Millenials generation. 2015 was also the year of Podravka soups. A great step forward was made in the innovation of the cream soup sector: the cream soup line was relaunched with new and improved formulas in accordance with the nutritional strategy and a contemporary visual identity, as a continuation towards building a unique premium line Wealth of Vegetables, and relaunching the line of instant soups Fini-Mini.

A great innovation cycle was also made in the **brand Lino**, with the introduction of a series of new products in the Children's food line, with new benefits for consumers: the gluten free and probiotic enriched 4+ line, the line intended for preparation with water resulting from investments in new technologies, the multigrain Junior line, and the fruit puree line. The Lino brand also intensified and innovated its communication with consumers in the Kids line (cereals and cream spreads), which has ultimately resulted in a strengthening of the brand's market position in the Adria region.

In the Desserts category, with the **brand Dolcela**, the portfolio of puddings has been revitalised through recipe innovations. The brand has also entered into the category of cake decorations, with the aim of attracting new consumers and strengthening the loyalty of existing customers. In communications with customers, Dolcela has launched an original mobile application, enabling customers to have continuous and interactive inspirations with their favourite desserts to take pleasure in those little moments.

The creation of **Podravka's Mediterranean platform** was completed in 2015, and brings together the category of tomato, fish, pasta and tomato-based sauce. The new visual identity has been implemented in all categories, and a new communication platform created as an added value to bring the concept of the Podravka Mediterranean culinary expertise closer to the consumers of the Adria region and Central Europe.

In the category of **Meat products**, the acquired Piketa and Classic brands were integrated into the Podravka portfolio and visual identity, and the focus was placed on optimisation of the portfolio.

In the newly created **Food solution category**, a pilot project of frozen ready-made meals was implemented for the HORECA channel on the Croatian market. Podravka ready-made meals enable buyers in the HORECA channel to offer their guests some of the best known classic Croatian dishes, such as Dalmatian pasticada (braised beef), sarma (cabbage rolls) or bean stew, as the result of creations by Podravka's culinary experts and technologists. This is a true innovation in this distribution channel.

Another important focal point in 2015 was the opening of Now markets, through the preparation and adaptation of product lines. The key brand is Vegeta, and in addition to the Vegeta universal and special seasonings, the Vegeta soups line was launched. Products from the category Lino World and from the Dolcela desserts line were also launched, specially targeted towards the markets of the MENA region.

FURTHER DEVELOPMENT OF DIGITAL COMMUNICATION

In 2015, significant efforts were focused on the further development of digital communication. A total of 13 new online communications platforms were launched, including new language versions of the corporate websites and new applications and profiles for established communications channels. Coolinarika was modernised in terms of its content and functionality in 2015, which resulted in 23.9 million unique visitors (13% increase over 2014) and 643.4 million page views. Strong progress was also made in the production of online video content through the filming of video-recipes and their multiple use through placements on all current Podravka online communication platforms.

New products Belupo

Belupo's product portfolio was increased by 17 new products in 2015.

Seven completely new brands were introduced. In the medicinal product segment, these are: **Docetaksel** in the area of oncology, **Amofin** in the treatment of fungal infection of nails, **Takrolimus** in the area of immunosuppression and **Levetiracetam** as an antiepileptic. The over-the-counter segment was expanded by the brands **Rinil**, for the alleviation of cold symptoms by reducing difficulties caused by inflamed nasal membranes, **Gastrobel** for the prevention and alleviation of heartburn symptoms, and **Belcura** spray for cleaning and protection of the skin.

In addition to these completely new brands, some existing brands have been expanded with new dosages (Eminens SR, Alopurinol) or forms (Efilipt paediatric cream for inhalation). Intensive efforts were also invested in 2015 on the introduction of new sources of active compounds.

AWARDS AND RECOGNITIONS

REPEATED SUCCESS - SUPERBRAND IN SLOVAKIA

Slovak Superbrands 2015 is a recognition that Podravka has received for the third year in a row, and four times overall, for the Slovak market. Podravka first won Superbrands Slovakia in 2006, and proved its status again in 2013 and 2014. The Superbrand award was given to Podravka by the leading Slovak experts for trademarks, ranking the company among the very best for quality and recognisability, thus spurring our company's reputation.

VEGETA MARINADE – PRODUCT OF THE YEAR IN SLOVENIA

Slovene consumers have recognised Vegeta Marinade as the best in the category Food Seasonings. This year was Podravka's first in participating in the Product of the Year (Produkt Leta) 2015 in Slovenia, and the awards ceremony was held at the Cankarjevo Dom hall in Ljubljana. Product of the Year is an award voted by consumers for the most innovative products in the preceding year. The award is granted based on customer satisfaction surveys conducted by the agency AC Nielsen.

THREE RECOGNITIONS FOR PODRAVKA AT THE COMMUNICATIONS DAYS

At the national advertising festival, Communication Days in Rovinj, Podravka received three important recognitions. The corporate website www.podravka.hr was proclaimed the best website, winning the Mixx award in the website category. In the competition for most effective ad campaign, Podavka's campaign "Heart of your Dish" won a bronze Effie award in the Food category. Belupo proved that the pharmaceutical industry, typically perceived to be a conservative advertiser, when paired with a good creative agency can create solutions with a recognisable X factor, which brought its Noofen campaign the IdejaX award.

SEVENTEEN PRODUCTS RECEIVE SUPERIOR TASTE AWARD

Seventeen Podravka products have received recognition for their superior quality and taste from the International Product Taste and Quality Institute at its official awards ceremony in Brussels. This is further recognition of the superiority of taste and confirmation of our quality, regardless of the product category. These prestigious awards went to the products: Podravka Lemon-Lime tea, Studena, Podravka Ajvar (mild and spicy), Podravka liver pate, Lino Wafelada Duo, Fant fine stew spice blend, Fant fine oven baked stew blend, Podravka cream of squash soup, Vegeta Asia, Fant spice blend for oven-baked stuffed peppers, Podravka cream of mushroom soup, Podravka cream of asparagus soup, Vegeta beer-based marinade, Dolcela Gourmet vanilla pudding with strawberry pieces, Dolcela gourmet chocolate pudding with orange zest, and Lino choco drink.

PODRAVKA TAKES THE SILVER MEDAL AT THE 24TH WORLD FOOD FAIR IN MOSCOW

The 24th annual World Food Fair was held at Moscow's Krasnaja Presnja Expo Centre, and Podravka took part. An important event at the fair was the International Expert Tasting of Food Products and Beverages "Product of the Year 2015". Podravka presented its Ajvar Mild vegetable relish. For its high quality and exceptional natural flavour, Ajvar Mild received the silver medal in the category "Processed fruit and vegetable products".

PODRAVKA AGAIN RECEIVES THE RECOGNITION PEČAT BONITY

Podravka Slovakia has repeated its success, by again receiving the recognition Pečat bonity. This is a prestigious prize awarded by the Slovak Agency for Information and Marketing, and the National Information Centre of the Slovak Republic, which has developed a model to assess business entities using predictive financial analysis methods. The criteria for receiving this recognition are exceptionally demanding, and only a small percentage of business entities present on the Slovak market can boast of having the recognition Pečata bonity.

PODRAVKA WINS PRESTIGIOUS W^3 MARKETING AWARD

In cooperation with the Adcorp marketing agency, Podravka's company in Sydney came up with a very interesting marketing campaign for various communication platforms based on online marketing, to promote the wide range of Vegeta products on the Australian market. In addition to achieving impressive results, the campaign also took the prestigious silver medal at the W^3 Awards competition in the food and beverage category.

VEGETA.HR AND PODRAVKA.HR – BEST WEBSITES IN 2015

Podravka has once again proved that it is a trendsetter in digital communication, with two Masterweb prizes won in the category of Best Corporate Website in 2015.

At the conference Web::Strategy 16 – Digital Marketing Laboratory, an event that brings together the leading experts from the fields of IT and digital marketing and pointing the way for future trends, the Masterweb prizes are given out to the very best, including Podravka.

In the category of best corporate website in 2015, among the three prize winning solutions, two were Podravka websites: Vegeta.hr (by: Nivas d.o.o.) and Podravka.hr (by: Web.burza).

FOURTH YEAR IN A ROW – SLOVAK SUPERBRANDS

On the Slovak market, Podravka is proud to bear the mark "Slovak Superbrands 2016". This is a renowned recognition given to Podravka for the fifth time, and this is the fourth year in a row. In Slovakia, Vegeta is sold under the tradename Podravka, though this is the same food seasoning product, and still bears all the recognisable Vegeta attributes (blue colour, chef, vegetables…).

PODRAVKA SOUPS - A WEALTH OF VEGETABLES – PRODUCT OF THE YEAR IN SLOVENIA

After Slovenian consumers selected Vegeta Marinade as a Product of the Year in 2015, this year they gave their volte to the Podravka soups - a Wealth of vegetables as the best in the soup category. The prize Product of the Year (Produkt leta) is awarded every year for new products on the market and is voted by consumers participating in independent surveys. The assess new products in four categories: innovativeness, attractiveness, satisfaction and intent to buy. The mark 'Produkt leta' is a guarantee for consumers that the products bearing this market are the best product in that category, and facilitating the decision to buy it.

BEST PRODUCT AT "PRODEXPO 2016" IN MOSCOW

Podravka presented its products and business capabilities at the 23rd annual international food fair ProdExpo 2016 in Moscow. An important part of the fair was the international competition Best product – 2016, where Podravka received the gold medal for its products Vegeta and Sweet Paprika. This is the largest fair for food products, beverages and raw materials for their production in the region of Russia and Eastern Europe, with more than 2000 exhibitors from 65 countries.

WOMEN CHOSE PRODUCT OF THE YEAR - VEGETA AND LINO LADA JAFFA

Within the Product of the Year project, organized for the fourth time by the most visited Croatian portal for women. žena.hr, among the most popular products according to court readers portal žena.hr. on the Croatian market two Podravka products found their place. In the category of finished products and foods Vegeta universal Award won the award Product of the Year, and in the category of Baby food the reward went to Lino Lada.

Among more than 500 nominated products in the segment of consumer goods, almost twenty-eight thousand readers portal žena.hr responded the voting. Readers chose the most popular products divided into 27 categories.

IDEJAX FOR NEOFEN

Evaluation jury, gathered at the Days of communication of Effie and IdejaX, rated the Noofenovu radio campaign "Announcement", which was born in creative performance by McCann, the best of the best giving it the award "Health, beauty and fashion".

BELUPO AWARDED WITH GOLDEN MARTEN BY HGK

On the formal session of Economic Council of County Chamber of Koprivnica Belupo was awarded Zlatna kuna (Golden marten) for business excellence in 2014, in the category of large Croatian companies.

The pharmaceutical industry, including Belupo, represent the strongest industrial branch in Croatia. Its power comes from a large share of exports in total revenues - more than 60% of continuous investment in new technologies and capacities, as well as the investments in research and development and in employee capacities.

However, despite its strategic position, high added value, research and development, investment and continuous opening of high-quality jobs, the industry today is still in the grindstone of budgetary needs and therefore the requirements of industry and turn in the direction of growth, development, exports and employment. In doing so, Belupo in 2014 successfully entered a new investment cycle - the construction and equipping of two new factories - factory of solid, semi-solid and liquid forms of drugs, which will, together with the existing two, be built on the area of 80,000 square meters, by the end of the first quarter of 2017.

SOCIAL COMMUNITY

Podravka Group - socially responsible partner for the community in which it acts

Podravka promotes application of norms of socially responsible business, and compliance of economy with development goals of the social community and with preserving the environment for future generations.

Socially responsible business is the constituent part of the identity and business activities of Podravka Group, and it represents yet another added value for the company, next to creativity, trust, passion, consumer satisfaction and excellence.

Namely, being aware of its influence and responsibility towards the social community, Podravka is actively involved in life processes of its employees, but also of the entire community in which it operates. It actively supports and conduct the programs of informing and counseling about preserving the health of its employees, members of their families and the local community. Also, with the high standards of product quality, over the long number of years Podravka has built and kept the trust of its consumers. Relationships with partners are being built and maintained through mutual respect and trust, and in its production processes Podravka tends to use as little as possible of the non-renewable resources and to produce less waste, having environment protection in mind. Present in the homes for over 60 years, it tries to be the company which achieves gains consumer trust by providing culinary pleasure as well as by caring for their health.

Implementing specific projects, it contributes to the development and increasing the quality of life of its employees, but also of the wider social community and ever since it was founded, it has been investing in science and education, sustainable development, culture, art and sport, and promoting corporate social responsibility. Promoting healthy living, professionally upgrading the employees and encouraging their excellence and creativity, as well as the sensitivity for the needs of the social community, Podravka acts socially responsibly towards organizations, associations and subjects in local community of its headquarters, as well as in other regions where it has subsidiaries.

In its future business Podravka will with pleasure continue to satisfy the desires and needs of the social community, as well as those of the consumers in more than 40 countries around the world, because their confidence is the confirmation of our positive action.

ACTIVITIES IN ENVIRONMENT PROTECTION

Activities in environment protection Podravka

Podravka d.d. continuously develops and improves processes, products and services, aiming to reduce negative effect on the environment. The basis of such activities in the area of environment protection is the Environment Protection Policy, whose core are the guidelines for permanent improvement and reduction of all kinds of pollutions. The Ecology department defines goals that are focused on coordination, internal communication and giving proposals for improving the activities in the area of environment protection.

All the operative tasks in the Ecology department have been performed aiming to improve the results in regular activities of waste water purification, waste management, pest control, waste water control and participation in the work of organizations in the area of environment protection.

Aiming to timely inform the employees on the obligations deriving from regulations on environment protection, a List of laws and regulations is continuously being kept and systemically maintained at Podravka, tracking all the changes in environment protection.

In 2015 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.

Based on defined fundamental goals of Podravka in the area of environment protection, a series of planned activities were performed in 2015, resulting in significant economic, environmental and social achievements.

MOST SIGNIFICANT ACCOMPLISHMENTS IN 2015

Biomass boiler room construction project started in the industrial zone Danica. All the conditions for issuing a construction permit have been met, and construction start is planned in 2016.

Intended purpose of the new plant is the production of steam, and as basic fuel forest biomass will be used. Biomass belongs in the category of renewable energy sources and introducing such technology contributes to measures for reducing CO_2 emissions from the energy sector, which once again proved that Podravka contributes to preserving the environment.

- The first solar collector was installed for preparation of hot water at location A. Starčevića 32, Koprivnica, aiming to reduce the consumption of natural gas, the primary power source, and thus reduce produced CO_2.

- For management needs, the Management Board procured an electric car Tesla, and also leased two electric cars Mitsubishi i-MiEV, intended for local driving. Procuring these vehicles with reduced CO_2 emissions, Podravka one again proved how it sets and tracks new trends, and most importantly, it takes care about environment protection and energy efficiency.
- Active participation in activities deriving from obligations defined by EU Emissions Trading System (EU ETS). Plans for tracking green gas emissions have been revised, considering the changes arisen from the fact that Danica d.o.o. was reintegrated to Podravka d.d. Podravka's ETS team consisting of authorised and additionally authorised representatives, contributes with its activities to timely compliance to legal obligations and submits emission units to the EU Register and provides guidelines for purchasing emission units.
- At the location A. Starčevića 32, Koprivnica ESCO model was introduced with the purpose of achieving rational way of water usage
- All power sources are continuously tracked, and more precise tracking of relations between consumption and production of heat energy is introduced
- Pursuant to legislature, appointed Commissioner for waste and Deputy commissioner for waste have attended and successfully completed the program of basic education for waste management
- Sewage system at the location Starčevićeva, Koprivnica was tested for water tightness
- On all locations of Podravka d.d. waste management system advancement was continued, allocating an area for temporary warehousing of waste and by educating the employees.

Activities in environment protection Belupo

ENVIRONMENT PROTECTION ACTIVITIES

In 2015 changes of many rulebooks and regulations in the area of waste management have been made. They have been included in internal instructions where procedures and tasks are described, and that way achieving control over environment pollution. Now employees have been educated aiming to strengthen the ecological awareness of every employee, advancing thus the preservation of the environment and ensuring better life conditions, compliant to social responsibility towards the community.

WASTE MANAGEMENT

Environment is mostly polluted by waste, therefore regular provisioning of waste is still systemically performed. Waste is recorded according to work units, waste is sorted for recycling and waste intended for thermal processing is warehoused appropriately. Preparations for inspections by authorised bodies for production of medications have increased the amounts of technological waste at the location. With the principle of efficient waste management, all the waste created is managed in a safe and ecologically acceptable manner; it was either recycled or thermally processed.

In 2015, 29 different types of waste was recorded, in total amount of 260 tons.

WASTE TYPE	HAZARDOUS WASTE	INERT WASTE	MUNICIPAL WASTE
WASTE AMOUNT T/YEAR	52.6	187.4	20

TREATMENT METHOD / PER TOTAL QUANTITY	RECYCLING	THERMAL PROCESSING	WASTE POUND
WASTE POUND	61.1 %	31.3 %	7.6 %

By proper management, a majority of waste has become a secondary raw material, which the purpose of saving natural resources and reducing amounts of waste intended for waste pounds. Technological waste has been thermally provided for.

For packaging material arisen from selling medications, reporting of packaging materials is regularly performed to the Environment Protection and Energy Efficiency Fund.

Regarding legislature on appointing a responsible person and a commissioner for waste, education was completed for two appointed employees.

AIR PROTECTION

Air emissions are paid great attention by tracking dust emissions and organic solvents from technological drains, as well as emissions of NO_2, CO, SO_2 and CO_2 from energy drains.

Pursuant to legislature, regular measurements are performed on air emissions from static sources, technological plants and static energy sources by the authorised institution.

During 2015 air emissions from power plant measuring was performed regarding gas and light oil as fuel, and dust emissions from two drains of solid medications production plants and pilot plants. Borderline values of emissions are within limits, which is proved by records, and measurement results have been submitted to the Croatian agency for environment protection.

Control of all the installed filters is regularly performed in order to reduce dust emissions, as well as complete work of the devices with active coal, performing the adsorption of solvents. Plant is automatized and regeneration or replacement of active coal is performed after it is saturated, and computer records on tracking the work of the plant is ensured along with tracking emissions into the atmosphere. Plants in which organic solvents are used have been reported to the register at the Ministry of environment protection, and records on organic solvents usage and amounts of solvents usage are recorded.

With the purpose of protecting the air from flourated green gases, records are being updated on all cooling devices where controlled or substitute means damaging the ozone layer, and authorised repairmen provide servicing and permeability control. During 2015 regular control of permeability of controlled substances from cooling devices was performed.

WATER PROTECTION

Water protection is performed compliant to Water license for waste waters drainage for Podravka's factories at the location of Danica. Technological and sanitary waters are drained from the location of Belupo through a separate sewage, they are mixed with waste waters from other factories and drained to the device for mechanic and biological purification. Waste water analyses are regularly performed by authorised laboratories, pursuant to regulations and Water license. Due to lawful conduct with hazardous substances and waste which is not drained in the sewage system, waste waters satisfy borderline values proscribed by law. Precipitation waters do not burden the device, but are drained through a separate sewage into the natural recipient.

During 2015, pursuant to legislature, revision of documents regarding water protection was performed.

Records are being kept on all the means used for water disinfection. Regular cleaning and maintenance of system for waste water drainage is regularly performed. In case of sudden pollution of the facilities and internal drainage system, employees act upon the Operating plan of intervention measures for water protection, with which the employees are familiarized and according to which they attempt to reduce the risks of water pollution to the smallest possible measure.

RISKS MONITORING

Aiming to avoid the possibility of an incident with hazardous substances, Endangerment evaluation as well as Operating plan for protection and salvation have been created, detailing the potential effects on material goods, possible endangerment of the employees and environment, as a consequence of using dangerous matter and that way reduce the risk of incident to the smallest possible measure.

Amounts of dangerous substances have been updated, compliant to the new regulation and have been reported to the Croatian agency for environment protection and State agency for protection and rescue.

Proper handling of dangerous substances and chemicals is a constituent part of employee education, where the possibility of an incident is reduced to the smallest possible measure.

ENVIRONMENT POLLUTION REGISTER

Using the database - ROO of the Croatian agency for environment protection, reporting of all the pollutions and air emissions has been performed, separately for all types of waste with final method and place of provisioning, as well as the calculation of the amounts and places for air and water emissions.

SUPERVISION OVER COMPLIANCE TO REGULATIONS ON ENVIRONMENT PROTECTION

In 2015 Supervision was performed by the inspection of the Ministry for environment protection over compliance to regulations on environment protection. Belupo d.d. completely satisfies all the regulations on environment protection and no rulings have been issued on non-compliance.

In 2015 supervision was performed over obligations under the Law on waters by the inspection of the Ministry of Agriculture, and Belupo also complies with the regulations regarding water protection.

PODRAVKA GROUP MANAGEMENT SYSTEMS AUDITS IN 2015

During 2015, audits by authorised certification authorities were performed on the quality management and food safety systems, compliant to several international standards.

Audits performed refer to the entire Podravka Group in the Republic of Croatia, except for Belupo, Podravka Lagris, Czech Republic and Mirna d.d.

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	Podravka d.d. (all locations in Croatia) Danica d.o.o., Koprivnica Podravka Lagris, Czech Republic*	Certification authority SGS *for Podravka Lagris auditor is QUALIFOOD s.r.o.
2	HACCP compliant to Codex Alimentarius	Podravka d.d. (all locations in Croatia) Danica d.o.o., Koprivnica	Certification authority SGS
3	IFS Food, Version 6 International Featured Standards - Food	Podravka d.d. headquarters, Koprivnica Vegeta and Soups factory, Koprivnica Baby Food and Sweet Spreads Factory, Koprivnica Danica Factory, Koprivnica Kalnik Factory, Varaždin Vegetable Factory, Umag Mirna d.d., Poreč Podravka Lagris, Czech Republic*	Certification authority SGS *for Podravka Lagris auditor is TÜV SÜD
4	BRC, Issue 6 (British Retail Consortium) Global Standard for Food Safety	Podravka d.d. headquarters, Koprivnica Vegeta and Soups factory, Koprivnica Baby Food and Sweet Spreads Factory, Koprivnica	Certification authority SGS
5	FSSC 22000 Food Safety System Certification	Danica d.o.o., Koprivnica	Certification authority SGS
6	NSF	Studenac factory, Lipik	NSF International

NO.	STANDARD	LOCATIONS	AUTHORISED BODY
7	HALAL	Danica Factory, Koprivnica Vegeta and Soups factory, Koprivnica Baby Food and Sweet Spreads Factory, Koprivnica Kalnik Factory, Varaždin Fruit Factory, Koprivnica Snacks Factory, Koprivnica Podravska klet restaurant, Koprivnica	Halal certification center
8	KOSHER	Kalnik Factory, Varaždin Vegeta and Soups factory, Koprivnica Fruit Factory, Koprivnica Snacks factory, Koprivnica Mill, Koprivnica	Rabi Kotel Da-Don
9	EQM - EMIRATES QUALITY MARK	Studenac Factory, Lipik	ESMA

Comparing to the years before, during 2015 the following changes have been introduced:

- discontinued auditing for Podravka Polska due to factory being closed and production discontinued
- Kosher certification for Mill, at market request
- auditing for Vegetable Factory, Umag, in compliance with IFS standard
- auditing for Mirna d.d., Rovinj in compliance to IFS standard
- EQM auditing for Studenac Factory Lipik (Studena and Studenac) by ESME.

Belupo

GMP SLOVAKIA CERTIFICATE

After successful completion of another in the row of international GMP inspections which were performed by the inspectors of Slovakian SUKL in July 2015, Belupo was reissued with GMP certificate as an evidence that international GMP standards and guidelines are applied and which refer to product development, production and medications trading.

GMP CROATIA CERTIFICATE

Croatian GMP certificate was renewed in October 2015, based on inspection performed by the Croatian Agency for medications and medical products, also a full member of PIC/S association as of 1st January 2016.

Both certificates are an evidence that in its work, Belupo applies international GMP standards and guidelines relating to development, production and trading of medications. GMP certificate enables Belupo to continue to be present in the markets of EU countries and other countries which accept GMP certificate by PIC/S and are an indispensable precondition in general regarding production and trading of medications in the EU territory.

GDP CERTIFICATE FOR FARMAVITA - GOOD DISTRIBUTION PRACTICE

Inspectorate of Bosnian agency for medications during previous business year started with auditing in compliance to guidelines of Good distribution practice, so Farmavita successfully passed GDP inspection in late 2015.

The company is expecting the GDP certificate to be issued, which will along with the GMP certificate and ISO certificate which Farmavita already owns, be another evidence that all business processes are aligned with appropriate good practices, i.e. that business is performed in compliance to European standards.

SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS BIOGRAPHIES

Podravka d.d. Supervisory Board members biographies

DUBRAVKO ŠTIMAC
PODRAVKA SUPERVISORY BOARD PRESIDENT

Dubravko Štimac, Podravka Supervisory Board president 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 Now York, organized by the Bank of Now York, and in the Fund Management at City University Business School in London. 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. Early 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. In 2006 he was appointed to the position of Supervisory Board member of Podravka, and deputy president in 2012. He is a member of Podravka Remuneration Committee. He has been performing the duties of Supervisory Board president since 24th February 2012.

MATO CRKVENAC
PODRAVKA SUPERVISORY BOARD DEPUTY PRESIDENT

Mato Crkvenac, Podravka Supervisory Board deputy president 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. 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 associate professor and in 1991 as full-time professor. He is a member of Podravka Audit Committee.of Podravka Supervisory Board deputy president since 24th February 2012.

IVO DRUŽIĆ
PODRAVKA SUPERVISORY BOARD MEMBER

Ivo Družić, Podravka Supervisory Board member graduated from the Faculty of Economy in Zagreb in 1973, and received his MA in 1981 and PhD in 1988. He is permanently employed at the Faculty of Economy and Business in Zagreb as a full time professor. He is also 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). He also published 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 has been performing the duty of Supervisory Board member since 23rd February 2012.

MILAN STOJANOVIĆ
PODRAVKA SUPERVISORY BOARD MEMBER

Milan Stojanović, Podravka Supervisory Board member graduated in 1978 from the Faculty of Industrial pedagogy in Zagreb, and in 1986 he received his MA from the Faculty of political sciences in Zagreb.He spent 35 years of service as a director or a manager in the field of economy. At the same time, in the period from 1990 to 1996, he was a representative in the Croatian Parliament in two terms. He was also a Management Board president for the Development and Employment Fund in the Republic of Croatia. He published series of research papers in marketing and economy and twice elected as manager of the year. He is retired and performs the function of the Supervisory Board President at Zlatna igla Siscia d.o.o. He is also a member of Podravka Remuneration Committee. He has been performing the 6th July 2012.

IVANA MATOVINA
PODRAVKA SUPERVISORY BOARD MEMBER

Ivana Matovina, Podravka Supervisory Board member graduated in 1996 from the Faculty of Economy in Zagreb, Accounting and Finance course. She started her professional career as accounting manager, and in 1997 she became a director of KPMG Croatia. In 2009 she became a partner and director of Cinotti revizija i savjetovanje d.o.o. and worked in fields of auditing, internal auditing, accounting and business counseling and education. In late 2011 2011 she founded Antares revizija i savjetovanje d.o.o., where she worked 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, lecturer for the Croatian auditing chamber (Audit course), and since 2008 she teaches at the Zagreb School of economy and management. She is also a certified Croatian auditor and certified accountant of Great Britain. She is a Member of Podravka Audit Committee and member of Supervisory Board of BELUPO d.d.Podravka Supervisory Board member since 6th July 2012.

DINKO NOVOSELEC
PODRAVKA SUPERVISORY BOARD MEMBER

Dinko Novoselec, Podravka Supervisory Board member graduated math at the Faculty of Science in Zagreb, and in 2000 he received his CFA (Chartered Financial Analyst) title, a program organized by an American Association of Investment Professionals (CFA Institute).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 is the president of Podravka Audit Committee. HSupervisory Board member since 7th September 2010.

PETAR VLAIĆ
PODRAVKA SUPERVISORY BOARD MEMBER

Petar Vlaić, Podravka Supervisory Board member 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 (CFA Institute). He started his professional career as a broker in Ilirika, Slovenia 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. While working at the association for private investment fund management, he was also a Supervisory Board member of numerous Croatian companies. He is a member of Podravka Audit Committee and president to the Remuneration Committee. He has been performing the duties of

PETAR MILADIN
PODRAVKA SUPERVISORY BOARD MEMBER

Petar Miladin, graduated from Law Faculty in Zagreb and in 1999 he received his MA from Commercial and Companies law. 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. He is employed at the Law Faculty in Zagreb in 1997 as a junior assistant at the Department for Commercial Law and Companies Law. . He published over twenty scientific works in the area of commercial law, companies law and banking law. He has been performing the duties of Supervisory Board member since 7th September 2010.

KSENIJA HORVAT
PODRAVKA SUPERVISORY BOARD MEMBER

Ksenija Horvat, Supervisory Board member, began her career in Podravka in 1984 in an administrative position, and after successfully continuing her education while working, she took on commercial tasks for the Croatian market, where she works even today.

In 2001, serving as the representative of the largest union in Podravka, PPDIV, she took on a full time role in the union and has since been one of the leading union negotiators in improving the rights of Podravka employees through the collective agreements for the Podravka Group. In 2002, she was first elected into the Podravka Workers' Council, and from 2013 to the present day, she has served as chairwoman of that Council. She first served as the workers' representative in the Podravka Supervisory Board from 2004–2012, and in that period also served as vice-chairperson of the Supervisory Board, and interim chairperson of the Supervisory Board in the period 2009–2010. Ksenija Horvat was appointed member of the Podravka d.d. Supervisory Board in 1st July 2015 by the company Workers' Council.

MARTINKA MARĐETKO-VUKOVIĆ
PODRAVKA SUPERVISORY BOARD MEMBER

Martinka Marđetko-Vuković, Supervisory Board member, holds a degree of safety engineer, and also finished two-year School of Agriculture She started her professional career in Podravka in 1979 as an administrator, and later advanced to the position 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 works as works as an adviser to sector director for occupational safety at Human resources. She was elected Supervisory Board member by the company Workers' Council. She was performing the duties of Supervisory Board member since 8th April 2011 till 30th June 2015.

Podravka d.d. Management Board members

ZVONIMIR MRŠIĆ
MANAGEMENT BOARD PRESIDENT

Zvonimir Mršić, Management Board president 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). He joined Podravka in 1990, where until 1998 he built his professional career as the head of and Manager of Public Relations Department. Apart from building his professional career, he also accomplished a very successful political career as a Deputy Mayor of the City of Koprivnica, and later Mayor of Koprivnica in three terms. He has been performing the duties of Management Board president since 24th February 2012.

OLIVIJA JAKUPAC
MANAGEMENT BOARD MEMBER

Olivija Jakupec, Management Board member graduated from the Faculty of Organization and Informatics in Varaždin, Marketing and she also attended international business school Center, Brdo kod Kranja. She stared her professional career in 1992 when 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 on the Russian market. In 2001 she returned to Koprivnica and became Market Communication manager. In 2004 she transferred to Noxe Group and became director of Noxe company in Bosnia and Herzegovina. Since 2007 she worked as assistant director at Jadransko osiguranje branch office in Koprivnica. She has been performing the duties of Management Board member since 24th February 2012.

MIROSLAV KLEPAČ
MANAGEMENT BOARD MEMBER

Miroslav Klepač, Management Board member 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. 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 in charge of strategy. 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, and in 2009 he became HT Management Board member for Bosnia and Herzegovina, and afterwards Supervisory Board member for that company. He has been performing the duties of Podravka Management Board member since 24th February 2012.

HRVOJE KOLARIĆ
MANAGEMENT BOARD MEMBER

Hrvoje Kolarić, Management Board member, graduated from the Faculty of Pharmaceutical and Biochemical Sciences of the University of Zagreb in 1998, and from International Business School (IEDC) Bled, Slovenia also received the title of Master of Business Administration (MBA). He actively participated in numerous education courses to acquire sales and negotiation skills, training for the first management tier, sales efficiency, qualifications in financial matters etc. In his career, prestigious positions stand out, such as Director of pharmaceutics and business development at Bristol-Myers Squibb and the Director of pharmaceutics of PharmaSwiss d.o.o. and company director of PharmaSwiss d.o.o. Croatia. He also managed the business processes related to cooperation with Belupo in the production of cardiological line of Pravachol. In his early career he also managed the Pharmaceuticals Department of the Bristol-Myers Squibb 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. Two years later he was appointed Belupo Management Board president. He has been performing the duties of Management Board member since 20th December 2012.

BUSINESS RESULTS

MAIN BUSINESS HIGHLIGHTS OF PODRAVKA GROUP IN 2015 (CONTINUING AND DISCONTINUED OPERATIONS)

Podravka Group 2015 profitability saw positive impact from Žito Group consolidation in 4Q 2015.

Podravka Group's **sales revenues** amounted to HRK 3,777.2 million and were 7.8% higher when compared to the 2014. Strategic Business Area Food delivered HRK 2,971.5 million of sales revenues that were 11.6% higher when compared to 2014, while Strategic Business Area Pharmaceuticals delivered HRK 805.7 million of sales revenues that were 4.1% lower when compared to 2014. Sales revenues of Strategic Business Area Food were positively affected by Žito Group consolidation from 1 October 2015, Mirna consolidation from 1 April 2015 and PIK product range consolidation from 1 June 2014. Sales revenues of Strategic Business Area Pharmaceutical were negatively affected by unfavourable political and economic situation in Eastern Europe (former USSR markets) and the decrease in prices of prescription drugs in the market of Croatia prescribed by the Croatian Health Insurance Fund (CHIF).

Podravka Group's 2015 **gross profit** amounted to HRK 1,535.5 million which is 4.0% higher when compared to 2014. Gross margin reached a level of 40.7% which is 149 basis points lower than in 2014 when it was 42.1%. The gross margin fell due to the changed sales structure in the food and pharmaceuticals segments. In food segment we saw the increase in sales of beverages in relation to the comparative period and the sales of the Mirna range that were not present in the comparative period. In pharmaceutical segment we saw a decrease in sales of own brands with unchanged sales of trade goods.

Podravka Group's **operating profitability** (EBIT) delivered 83.8% yoy growth in 2015 and reached HRK 285.2 million, while EBIT margin improved by 311 basis points from 4.4% to 7.6%. The operating profit in the observed period, in addition to the impacts above the gross profit level, was influenced by: (i) the consolidation of Žito Group with HRK 115.7 million positive effect1, (ii) the consolidation of Mirna with HRK 24.8 million positive effect2, (iii) costs of severance payments in the amount of HRK 29.1 million, and (iv) expenses related to the acquisition and integration of Žito of HRK 9.4 million. The comparative period was burdened by costs of severance payments in the amount of HRK 72.1 million.

Net profit after minorities recorded 329.5% yoy growth in 2015 and amounted to HRK 397.3 million. In addition to the impacts above the EBIT level, the net result of the observed period was also impacted by HRK 8.0 million of ESOP programme finance costs and HRK 167.5 million of deferred tax revenue.

1 Since the net value of Žito Group's assets exceeds the acquisition price, on the consolidated level, the gain on a bargain purchase in the amount of HRK 115.7 million was realised.

2 At consolidation of Mirna d.d., the carrying value of non-current assets was adjusted with the estimated market value in accordance with accounting standards. The value adjustment resulted in an increase in the carrying amount of non-current assets in the balance sheet, and recorded gain on a bargain purchase in other income in the amount of HRK 24.8 million.

Net debt on 31.12.2015 was HRK 922.4 million which is 7.7% higher when compared to the end of 2014 on the account of Žito Group consolidation that wasn't consolidated on the comparative date.

Total assets on 31.12.2015 posted 41.0% growth when compared to 31.12.2014 due to Žito Group and Mirna consolidation that weren't consolidated on the comparative date.

KEY FINANCIAL INDICATORS (CONTINUING AND DISCONTINUED OPERATIONS)

FINANCIAL POSITION (IN HRKM)	2015	2014	CHANGE
TOTAL ASSETS	4,945.8	3,508.6	41.0%
CASH AND CASH EQUIVALENTS	291.9	220.5	32.4%
CAPITAL AND RESERVES	2,817.8	1,785.3	57.8%
FINANCIAL DEBT	1,214.3	1,077.3	12.7%
CASH FLOW FROM OPERATING ACTIVITIES	274.2	286.9	(4.4%)

PROFITABILITY INDICATORS (IN HRKM)	2015	2014	CHANGE
GROSS MARGIN	40.7%	42.1%	-149 BP
EBITDA* MARGIN	12.4%	9.1%	+330 BP
EBIT MARGIN	7.6%	4.4%	+311 BP
NET PROFIT MARGIN AFTER MINORITY INTERESTS	10.5%	2.6%	+788 BP
RETURN ON EQUITY (ROE)	14.1%	5.2%	+892 BP
RETURN ON ASSETS (ROA)	8.0%	2.6%	+540 BP

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

DEBT INDICATORS (IN HRKM)	2015	2014	CHANGE
NET DEBT*	922,4	856,8	7.7%
INTEREST EXPENSE	36,9	43,5	(15.2%)
NET DEBT / EBITDA	2.0	2.7	(26.7%)
EBITDA / INTEREST EXPENSE	12.7	7.3	73.2%
EQUITY TO TOTAL ASSETS RATIO	57.0%	50.9%	+609 BP

*Net debt: Financial debt + Minority interests – Cash and cash equivalents.

MULTIPLES	2015	2014	CHANGE
EV / SALES REVENUES	0.9	0.7	25.7%
EV / EBITDA	7.2	7.8	(7.7%)
EV / EBIT	11.8	16.0	(26.0%)
LAST PRICE PER SHARE / EARNINGS PER SHARE**	5.0	16.7	(69.8%)

*Enterprise value: Market capitalization + Net debt + Minority interests. **Weighted average number of shares as at 31.12.2015 is 5,987,697 and as at 31.12.2014 is 5,242,492.

MAIN BUSINESS HIGHLIGHTS OF PODRAVKA GROUP'S CONTINUING BUSINESS OPERATIONS IN 2015

Following pages include key Group's business characteristics related to the Strategic Business Units that represent continuing operations. As explained in note 7 of audited financial statements, 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	2015	% OF SALES REVENUES	2014	% OF SALES REVENUES	CHANGE
SBA FOOD	2,880.6	78.1%	2,571.8	75.4%	12.0%
SBA PHARMACEUTICALS	805.7	21.9%	840.3	24.6%	(4.1%)
PODRAVKA GROUP	3,686.3	100.0%	3,412.1	100.0%	8.0%

Sales of the **Strategic Business Area Food** recorded HRK 2,880.6 million in 2015 which is 12.0% higher when compared to 2014. Sales revenues were positively affected by Žito Group consolidation from 1 October 2015, Mirna consolidation from 1 April 2015 and PIK product range consolidation from 1 June 2014. Excluding the effect of consolidated product range and divested/under divestment product range (beverages, fresh meat, cold programme, local bakery), food segment recorded a 1.3% increase in sales. It should be pointed out that own brands grew 5.4% compensating 8.5% lower other sales. Other sales were negatively affected by lower sales revenues of poppy seeds in the Europe region, whose market price significantly decreased in the period under consideration.

Reported sales of the **Strategic Business Area Pharmaceuticals** in 2015 were negatively impacted by unfavourable political and economic situation in Eastern Europe (former USSR markets) and the decrease in prices of prescription drugs in the market of Croatia prescribed by the Croatian

Health Insurance Fund. In the Russian market, due to the depreciation of the Russian ruble, sales of prescription drugs were lower by HRK 32.3 million (calculated under the assumption of constant FX from 2014), while due to the negative impact of political and economic crisis, in 2015 there were no operations in the markets of Ukraine and Kazakhstan, which resulted in HRK 11.2 million lower sales (under the assumption of the same result in these markets as in 2014). The decrease in prices of prescription drugs in the Croatian market prescribed by the Croatian Health Insurance Fund had an estimated negative impact of HRK 10.0 million on sales of prescription drugs (calculated under the assumption of unchanged drug prices). The vast majority of other markets recorded increased sales of prescription drugs, especially the market of Bosnia and Herzegovina, due to the improvement in the business model efficiency.

SALES REVENUE PER CATEGORY (CONTINUING OPERATIONS)

SALES REVENUES (CONTINUING OPERATIONS) (IN HRK MILLIONS)	2015	% OF SALES REVENUES	2014	% OF SALES REVENUES	CHANGE
SBA FOOD	**2,880.6**	**78.1%**	**2,571.8**	**75.4%**	**12.0%**
CULINARY	934.7	25.4%	899.4	26.4%	3.9%
SWEETS, SNACKS AND BEVERAGES	231.2	6.3%	171.2	5.0%	35.0%
BABY FOOD, BREAKFAST FOODS AND OTHER FOOD	940.4	25.5%	887.3	26.0%	6.0%
MEAT PRODUCTS	303.5	8.2%	300.8	8.8%	0.9%
BAKERY AND MILLING	174.3	4.7%	-	-	N/A
OTHER SALES	296.5	8.0%	313.1	9.2%	(5.3%)
SBA PHARMACEUTICALS	**805.7**	**21.9%**	**840.3**	**24.6%**	**(4.1%)**
PRESCRIPTION DRUGS	556.3	15.1%	597.1	17.5%	(6.8%)
NON-PRESCRIPTION PROGRAMME	90.7	2.5%	90.1	2.6%	0.7%
OTHER SALES	158.6	4.3%	153.1	4.5%	3.6%
PODRAVKA GROUP	**3,686.3**	**100.0%**	**3,412.1**	**100.0%**	**8.0%**

As a result of Žito Group acquisition and its consolidation from 4Q 2015, 2015 and 2014 are not fully comparable. For the purpose of a transparent overview of operations, below we explain the movements in category sales without the Žito Group effect.

The **culinary category** excluding the effect of Žito Group acquisition recorded an increase in sales of 2.6% compared to the comparative period, primarily due to the increase in sales of the universal seasonings subcategory and the soups subcategory. The universal seasonings subcategory recorded the most significant sales growth in Poland due to activities related to the Vegeta brand, on New markets as a result of the distribution establishment, and in Western Europe due to the distribution expansion. The soups subcategory recorded the most significant sales growth in the Adria region as a result of the focus on the innovated range of added value and activities in the key periods of the year

The **sweets, snacks and beverages category** excluding the effect of Žito Group acquisition recorded 2.3% lower sales than in the comparative period. Lower sales were primarily affected by lower sales of powdered drinks in the Croatian market due to the rationalisation of the range and lower sales of the snack subcategory in the Adria region following the competitors' activities and the general decrease in the category size.

The increase in sales of the **baby food, breakfast foods and other food category** excluding the effect of Žito Group acquisition is primarily impacted by the increase in sales of the baby food, condiments, frozen vegetables and Mediterranean food subcategories and the sales recorded by Mirna product range that were not present in the comparative period. Excluding the effect of the Mirna product range, the overall category recorded 5.4% higher sales than in the comparative period. The baby food subcategory recorded a growth in sales primarily due to higher sales of the Čokolešnik brand in Slovenia as a result of intensified activities, and the beginning of the sale of Lino purees in the Adria region. The condiments range recorded good sales results in the Adria and Europe regions as a result of intensified marketing activities and better presence of the range in the sale channels. The frozen vegetables subcategory records a significant growth in sales as a consequence of the beginning of sales of frozen vegetables in the Russian market at the end of 2014. In the Mediterranean food subcategory there is a growth in sales of rice and pasta in the Europe region as a result of repositioning toward a more profitable range and stronger marketing activities.

The sales of the PIK product range, acquired in mid 2014, resulted in the increase in sales of the overall **meat products category** by 1.0% in relation to the comparative period. If the PIK product range sales are excluded, the category would record 2.7% lower sales due to lower sales of the sausages subcategory in the Croatian market as a result of enhanced competitors' marketing activities.

The decrease in prices of prescription drugs in the Croatian market prescribed by the Croatian Health Insurance Fund had an estimated negative impact of HRK 10.0 million on sales of prescription drugs (calculated under the assumption of unchanged drug prices), while in the Russian market, due to the depreciation of the Russian ruble, sales of prescription drugs were lower by HRK 32.3 million (calculated under the assumption of constant FX from 2014). Due to the negative impact of political and economic crisis, in 2015 there were no operations in the markets of Ukraine and Kazakhstan, which resulted in HRK 11.2 million lower sales (under the assumption of the same result in these markets as in 2014). The vast majority of other markets recorded increased sales of prescription drugs, especially the market of Bosnia and Herzegovina, due to the improvement in the business model efficiency. Consequently, the **prescription drugs category** recorded 6.8% lower sales in the period under consideration, while if the effect of foreign exchange differences is excluded, the sales are lower by 1.3%.

Sales of the **non-prescription programme category** grew by 0.7% in the period under consideration, primarily due to the increase in sales of the OTC subcategory in the Croatian market of 5.1%. The growth in the OTC subcategory in the Croatian market was spurred by a heavy common cold and flu season in the first three months of 2015, which resulted in increased sales of the range for reducing fever and relieving pain.

The **other sales category** excluding the effect of Žito Group acquisition recorded 3.7% lower sales, negatively impacted by the decrease in the price of poppy seeds, which was partially mitigated by the increase in sales of trade goods in the Farmavita company. Under trade goods, among other things, the Podravka Group purchases and resells poppy seeds as raw material, whose market price in 2015 significantly dropped compared to the comparative period. In 2014, the price of poppy seeds in the market was very high compared to the previous five years and the price decrease in 2015 is actually the return to the average levels.

SALES REVENUE BY REGIONS (CONTINUING OPERATIONS)

SALES REVENUES (CONTINUING OPERATIONS) (IN HRK MILLIONS)	2015	% OF SALES REVENUES	2014	% OF SALES REVENUES	CHANGE
ADRIA REGION	2,614.7	70.9%	2,307.6	67.6%	13.3%
EUROPE REGION	733.8	19.9%	730.7	21.4%	0.4%
RUSSIA, CIS AND BALTICS REGION	195.0	5.3%	239.3	7.0%	(18.5%)
NEW MARKETS REGION	142.8	3.9%	134.5	3.9%	6.2%
PODRAVKA GROUP	3,686.3	100.0%	3,412.1	100.0%	8.0%

The **Adria region**, excluding the effect of consolidated product range and divested/under divestment product range (beverages, fresh meat, cold programme, local bakery), recorded a 1.4% growth in sales compared to the comparative period. The most significant growth in sales was recorded in the soups, baby food and prescription drugs subcategories. The sales of the prescription drugs grew in the markets of Bosnia and Herzegovina, Serbia and Slovenia due to improved business model efficiency in these markets, compensating for the lower sales in the Croatian market.

The sales of the **Europe region,** excluding the effect of consolidated product range and divested/under divestment product range (beverages, fresh meat, cold programme, local bakery), were 0.4% higher than in the comparative period. Here it should be noted that sales of own brands grew by 5.3%, fully compensating for the negative impact of the decrease in the price of poppy seeds. Of own brands, we should emphasise the growth in sales of universal seasonings, condiments and Mediterranean food.

In the period under consideration, the **Russia,** CIS **and Baltic region**, excluding the effect of consolidated product range and divested/under divestment product range (beverages, fresh meat, cold programme, local bakery), recorded 18.5% lower sales. The effect of FX differences on sales of this region amounted to negative HRK 57.8 million, primarily due to the depreciation of the Russian ruble. If the effect of FX differences is excluded, the sales would be higher by 5.6% compared to 2014, primarily due to the sales of the frozen vegetables subcategory.

The sales of the **New Markets region**, excluding the effect of consolidated product range and divested/under divestment product range (beverages, fresh meat, cold programme, local bakery), were 6.2% higher compared to the comparative period, primarily due to the increase in sales of the culinary category in the markets of the USA and Australia.

PROFITABILITY (CONTINUING OPERATIONS)

Note: The consolidation of the income statement of the Žito Group into the Podravka Group began as of 1 October 2015, and the consolidation of the income statement of Mirna d.d. began as of 1 April 2015. Also, at the end of 2014, Podravka changed the business model in Russia by establishing own company (Podravka d.o.o.), and at the beginning of 2015, new companies were opened in Tanzania (Vegeta Podravka Limited) and Dubai (Podravka Gulf FZE) and the representative office in China (Croatia PODRAVKA Inc.). The establishment of new companies and the representative office resulted in new initial costs, primarily selling and distribution costs, and general and administrative expenses that were not present in 2014. Due to all the above mentioned reasons, the reported income statements of the strategic business area Food and the Podravka Group for 2015 are not fully comparable to the previous period. For the purpose of a transparent operations presentation, the tables in this section will present the reported results of the strategic business area Food and the Podravka Group (including the Žito Group as of 1 October 2015), while the text will present the result excluding the effect of the Žito Group.

THE EFFECT OF ŽITO GROUP ON FOOD SEGMENT AND PODRAVKA GROUP PROFITABILITY IN 2015

(IN HRK MILLIONS)	ŽITO GROUP	GAIN ON A BARGAIN PURCHASE	TOTAL IMPACT
SALES REVENUES	239.3	-	239.3
GROSS PROFIT	69.1	-	69.1
EBITDA*	26.1	115.7	141.8
EBIT	15.3	115.7	131.0
NET PROFIT AFTER MI	13.2	110.4**	123.6

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization, impairment of intangible and non-current tangible assets and impairment of non-current assets held for sale. **Excluding HRK 5.3 million of minority interest that arose from Žito Group consolidation in Q4 2015.

Since the fair value of Žito Group's net assets exceeds the acquisition price, on the consolidated level, the gain on a bargain purchase in the amount of HRK 115.7 million was realised.

PROFITABILITY OF THE STRATEGIC BUSINESS AREA FOOD (CONTINUING OPERATIONS)

SBA FOOD (CONTINUING OPERATIONS)	REPORTED RESULT		
IN HRK MILLIONS	2015	2014	CHANGE
SALES REVENUES	2,880.6	2,571.8	12.0%
GROSS PROFIT	1,077.6	981.0	9.8%
EBITDA*	376.1	208.0	80.8%
EBIT	256.2	98.6	159.9%
NET PROFIT AFTER MI	228.7	52.1	339.1%
GROSS MARGIN	37.4%	38.1%	-74 BP
EBITDA MARGIN	13.1%	8.1%	+497 BP
EBIT MARGIN	8.9%	3.8%	+506 BP
NET MARGIN AFTER MI	7.9%	2.0%	+591 BP

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

In 2015, the food segment, **excluding the effect of the Žito Group**, recorded an increase in **gross profit** of 2.7% compared to 2014, while the gross margin was 38.2% (38.1% in 2014).

Operating profit (EBIT), excluding the effect of the Žito Group, is 27.0% higher in 2015 compared to 2014. The operating profit in the period under consideration was, in addition to the impacts above the gross profit level, influenced by: (i) the consolidation of Mirna with HRK 24.8 million positive effect, (ii) costs of severance payments in the amount of HRK 22.3 million, and (iii) expenses related to the acquisition and integration of Žito of HRK 9.4 million. The comparative period was burdened by costs of severance payments in the amount of HRK 64.2 million.

Net profit after minority interests, excluding the effect of the Žito Group, was 2 times higher in 2015 than in the comparative period. In addition to the impacts above the EBIT level, the net result of the observed period was impacted by HRK 6.7 million of finance costs related to the ESOP programme and HRK 12.5 million of deferred tax revenue related to, among other things, utilisation of tax losses of the merged company Danica.

PROFITABILITY OF THE STRATEGIC BUSINESS AREA PHARMACEUTICALS (CONTINUING OPERATIONS)

SBA PHARMACEUTICALS (CONTINUING OPERATIONS)	REPORTED RESULT		
IN HRK MILLIONS	2015	2014	CHANGE
SALES REVENUES	805.7	840.3	(4.1%)
GROSS PROFIT	424.6	463.5	(8.4%)
EBITDA*	98.9	122.0	(19.0%)
EBIT	47.7	80.2	(40.5%)
NET PROFIT AFTER MI	187.3	63.6	194.4%)
GROSS MARGIN	52.7%	55.2%	-246 BP
EBITDA MARGIN	12.3%	14.5%	-225 BP
EBIT MARGIN	5.9%	9.5%	-363 BP
NET MARGIN AFTER MI	23.2%	7.6%	+1.568 BP

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

Negative effect of FX differences on sales in the amount of HRK 36.2 million, the absence of operations in the markets of Ukraine and Kazakhstan and the negative impact of the Croatian Health Insurance Fund of estimated HRK 10.0 million are the main reasons for lower **gross profit** in the period under consideration, while the gross margin was negatively impacted by the changed sales structure resulting in a decrease in sales of own brands with unchanged sales of trade goods.

Operating profit in the period under consideration amounted to HRK 47.7 million and was, in addition to effects above the gross profit level, impacted by FX differences on trade receivables and payables that amounted to negative HRK 23.3 million, while in the same period of the previous year they amounted to negative HRK 43.7 million. The period under consideration was also burdened by costs of severance payments in the amount of HRK 8.2 million, while in 2014 costs of severance payments amounted to HRK 6.9 million.

Net profit after minority interests in 2015 amounted to HRK 187.3 million. In addition to effects above the EBIT level, the net result was also impacted by HRK 1.3 million of costs related to the ESOP programme and HRK 163.7 million of one-time deferred tax revenue. The tax revenue realised is primarily related to the incentives received for the construction of the new Belupo factory. In March 2015, based on the Act on Investment Promotion and Development of Investment Climate, the Ministry of Economy issued the certificate based on which Belupo got the status of incentive measures recipient. The certificate grants the use of tax benefits, supports for qualified expenses of opening new jobs related to the investment project, and incentive measures for capital expenditure of the investment project in the allowed maximum amount of the investment support in the value of HRK 163.7 million. In the financial statements for 2015, Belupo initially recognised the maximum approved amount of incentives as deferred tax asset and tax revenue.

PROFITABILITY OF PODRAVKA GROUP (CONTINUING OPERATIONS)

PODRAVKA GROUP (CONTINUING OPERATIONS)	REPORTED RESULT		
IN HRK MILLIONS	2015	2014	CHANGE
SALES REVENUES	3,686.3	3,412.1	8.0%
GROSS PROFIT	1,502.2	1,444.5	4.0%
EBITDA*	475.0	330.0	43.9%
EBIT	303.9	178.8	70.0%
NET PROFIT AFTER MI	416.0	115.7	259.6%
GROSS MARGIN	40.8%	42.3%	-158 BP
EBITDA MARGIN	12.9%	9.7%	+321 BP
EBIT MARGIN	8.2%	5.2%	+300 BP
NET MARGIN AFTER MI	11.3%	3.4%	+789 BP

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

The **gross profit** of the Podravka Group, **excluding the effect of the Žito Group**, in the period under consideration was 0.8% lower compared to 2014 as a result of lower gross profit of the pharmaceuticals segment. The gross margin in 2015 was 41.6% compared to 42.3% in 2014, due to the changed sales structure in the food and pharmaceuticals segments.

In 2015, the Podravka Group's **operating profit, excluding the effect of the Žito Group**, was 3.3% lower than in the comparative period. The operating profit in the observed period, in addition to the impacts above the gross profit level, was influenced by: (i) the consolidation of Mirna with HRK 24.8 million positive effect, (ii) costs of severance payments in the amount of HRK 30.5 million, and (iii) expenses related to the acquisition and integration of Žito of HRK 9.4 million. The comparative period was burdened by costs of severance payments in the amount of HRK 72.1 million.

The Podravka Group's **net profit after minority interests, excluding the effect of the Žito Group**, was 2.5 times higher in 2015 compared to 2014. In addition to the impacts above the EBIT level, the net result of the observed period was also impacted by HRK 8.0 million of ESOP programme finance costs and HRK 167.5 million of deferred tax revenue.

OPERATING EXPENSES STRUCTURE OF PODRAVKA GROUP (CONTINUING OPERATIONS)

PODRAVKA GROUP (CONTINUING OPERATIONS)	REPORTED RESULT		
IN HRK MILLIONS	2015	2014	CHANGE
COST OF GOODS SOLD	2,184.2	1,967.6	11.0%
GENERAL AND ADMINISTRATIVE EXPENSES	318.6	336.7	(5.4%)
SELLING AND DISTRIBUTION COSTS	493.3	438.9	12.4%
MARKETING EXPENSES	497.3	445.2	11.7%
OTHER EXPENSES	47.9	62.0	(22.7%)
TOTAL OPERATING EXPENSES	3,541.3	3,250.4	8.9%

Cost of goods sold, excluding the effect of the Žito Group, is 2.9% higher in 2015 compared to 2014 due to the organic volume growth of the food segment, but also the inorganic volume growth of the food segment (PIK and Mirna product ranges).

General and administrative expenses, excluding the effect of the Žito Group, were 9.1% lower in the observed period than in the comparative period. General and administrative expenses in 2015 were burdened with costs of severance payments of HRK 30.5 million and costs related to the acquisition and integration of Žito in the amount of HRK 9.4 million, while 2014 was burdened with costs of severance payments of HRK 72.1 million.

Selling and distribution costs, excluding the effect of the Žito Group, were 3.3% higher in 2015 than in 2014. The increase in selling and distribution costs was primarily impacted by expenses of the food company in Russia, expenses of Mirna and initial costs related to entering new markets that were not present in the comparative period.

Marketing expenses, excluding the effect of the Žito Group, grew in the observed period by 8.4%, primarily due to marketing activities related to opening new markets, to the culinary product range in Western Europe and to the baby food and meat products ranges in the Adria region.

Other expenses, excluding the effect of the Žito Group, were 23.0% lower in 2015 than in the comparative period, mostly due to lower foreign exchange differences on trade receivables and payables.

MAIN BUSINESS HIGHLIGHTS OF PODRAVKA GROUP'S DISCONTINUING BUSINESS OPERATIONS IN 2015

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.

DISCONTINUING OPERATIONS	REPORTED RESULT		
IN HRK MILLIONS	2015	2014	CHANGE
SALES REVENUES	90.9	90.6	0.4%
GROSS PROFIT	33.3	31.5	5.8%
EBITDA*	(6.4)	(11.0)	(41.8%)
EBIT	(18.7)	(23.2)	(19.4%)
NET PROFIT AFTER MI	(18.7)	(23.2)	(19.4%)
GROSS MARGIN	36.6%	34.8%	+188 BP
EBITDA MARGIN	N/A	N/A	N/A
EBIT MARGIN	N/A	N/A	N/A
NET MARGIN AFTER MI	N/A	N/A	N/A

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

PODRAVKA GROUP EXPECTED DEVELOPMENT

ACHIEVING GROWTH

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

Further internationalization of business, preserving position on domestic market, modernization of processes will be the company focus in the upcoming periods. Apart from organic growth, further expansion is expected inorganically - by acquisitions and strategic alliances. In both business areas, Food and Pharmaceuticals, a strong investment cycle is started, and an additional growth potential is continued in cooperation between these two business areas, aiming to achieve synergy.

In the markets of Adria region, Podravka Group aims to be the leading manufacturer of branded products, by supporting all activities related to strengthening market positions in food and pharmaceuticals, consolidating the food part of business and expanding the product range. In Europe region, Podravka Group strives advancing business, focusing on profitable categories, and strengthening presence in the markets of Western Europe.

In the markets of Russia, Baltic and CIS, Podravka Group are recognizable and well positioned. Growth is planned to be achieved by expanding the product range and strengthening distribution in chains.

Revenue growth is expected also on Now markets, and particularly due to established business in the market of China, Middle East and Africa, with which Podravka Group shows determination in further strengthening of business internationalization. In the mentioned markets, full potential of Podravka's strongest brands - Podravka, Dolcela and Lino - will try to be used.

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 industry average 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:

COMPANY STRENGTHS AND VALUES

Employees
Key of Podravka's success are dynamic, creative and successful employees and their knowledge and skills. Creativity, trust, passion, consumer satisfaction and excellence 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. Consumer trust is necessary for company growth and is a key element for building a successful brand.

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 partners and consumers are the most valuable external potential of the company 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.

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 Podravka d.d. and 35 companies, which is a proof of company strength and the quality of 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

Key factor of company development will be further internationalization of business, with a powerful step forward to international markets, which would 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. An investment cycle is started along with significant investments in marketing on markets from which future 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

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

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 discontinuing low-profitable segments, Podravka showed that it puts focus on profitability by restructuring certain areas of business and thus tries to release the capital intended for investment in more 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
Podravka gives importance to strategy, goals and cascading to lower organization units, introducing into its business a Balanced scorecard solution. This clearly defines individual responsibilities and obligations that need to be fulfilled, in order to realize the goals set.

Generating the base for profitable growth
By using all resources we will actively work 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, they 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
    - Now 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 yearlong 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.

In 2015 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 quality raw materials, modern technological processes and knowledge applied in their production. Podravka Group takes care of health and nutritional needs of its users, 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.

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

All products and business processes are based on the principles of quality management, including the selection of key suppliers of raw materials, in order to ensure the required quality of the finished product. 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 2015 was in comparison to RUB and RSD.

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 remained relatively stable during 2015, where mild depreciation pressure has been under control. This is the consequence of a mild economic recovery, foreign capital inflows and current account balance surplus. Podravka Inc. concluded forward agreements during 2015 with the purpose of managing USD, RUB and HUF currency risk. 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 2015 with significant depreciation pressures. With the purpose of active surveillance and minimizing currency risks, in 2015 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.

Also, there is a trend of primary raw materials producers' consolidation on the European and global level, which could lead to a higher procurement prices in the future.

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, 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.

Now 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.

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

Statement on 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.

Aware of the importance of responsible and ethically founded behaviour of business subjects, Podravka d.d. accepted the Ethics Code in business, obliging to respect ethics principles in all of its business relations and has accepted an obligation to act in compliance to principles of responsibility, truthfulness, 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 stick to the ethics 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 lower subsidiaries of Podravka d.d.

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 is 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.

PODRAVKA SUPERVISORY BOARD MEMBERS IN 2015:

Dubravko Štimac – president
Mato Crkvenac – deputy president
Ivo Družić – member
Ivana Matovina – member
Petar Miladin – member
Dinko Novoselec – member
Milan Stojanović – member
Petar Vlaić – member
Martinka Marđetko-Vuković – member till 30th June, 2015 (representing Workers)
Ksenija Horvat – member since 1st July, 2015 (representing Workers)

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

The Audit Committee members were:
Dinko Novoselec – president of the Committee
Mato Crkvenac – member
Petar Vlaić – member
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 an auditing company.

The Audit Committee held six sessions in 2015.

The Remuneration Committee members were:
Petar Vlaić – Committee president
Dubravko Štimac – member
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 2015.

Supervisory Board members of Podravka d.d. are entitled to a fixed monthly remuneration as decided at the General Assembly on remunerations for Supervisory Board member.

In 2015 members of Podravka d.d. Supervisory Board were paid HRK 1,474,000 HRK, if this amount is added with the remunerations to members of the Supervisory Boards of Belupo d.d., Danica d.o.o., Mirna d.o.o. and Žito d.d., Supervisory Board members of Podravka Group have been paid HRK 1,891,171.73.

Management Board

Management Board consists of four members appointed by the Supervisory 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. The term of office begins as of the date of Management Board appointment. 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.

On its session held on 18th June 2014, the Supervisory Board approved reaching an agreement with Management Board member Jorn Pedersen on discontinuation of his term and membership at Podravka d.d. Management Board as of 18th June 2014.

On its session held on 22nd December 2014, the Supervisory Board approved reaching an agreement with Management Board member Jadranka on discontinuation of her term and membership at Podravka d.d. Management Board as of 22nd December 2014.

PODRAVKA MANAGEMENT BOARD MEMBERS IN 2015:

Zvonimir Mršić – president
Olivija Jakupec – member
Miroslav Klepač – member
Hrvoje Kolarić – member

Salary to an individual Podravka d.d. Management Board member has been determined by a management contract signed with the Company, and approved by the Supervisory Board on behalf of the company. Gross salaries and rewards paid in 2015 to Podravka d.d. Management Board members amount to HRK 6,715,729, 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 10.649.807. During 2015, Management Board members were awarded with 30,527 of the Company optional shares.

CORPORATE GOVERNANCE CODE

Annual questionnaire

MAIN COMPANY INFORMATION:	PODRAVKA D.D., ANTE STARČEVIĆA 32, KOPRIVNICA, OIB: 18928523252
CONTACT PERSON AND CONTACT PHONE:	BRANKA PERKOVIĆ, +385 48 651 441
DATE OF QUESTIONAIRE COMPLETE:	25.02.2016.

All the questions contained in this questionnaire relate to the period of one bussines to which annual financial statements also relate. If question in questionnaire ask for explanation, it is needed to explain answer. All answers in questionnaire will be measured in percentage as explained in the beggining of each chapter.

COMPANY HARMONIZATION TO THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

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

1. Did the Company accept the application of the Corporate Governance Code or did it accept its own policy of corporate governance?

   Yes ☑ No ☐

2. Does the Company have adopted principles of corporate governance within its internal policies?

   Yes ☑ No ☐

3. Does the Company announce within its annual financial reports the compliance with the principles of ' comply or explain'

   Yes ☑ No ☐

4. Does the Company take into account the interest of all shareholders in accordance with the principles of Corporate Governance Code while making decisions?

   Yes ☑ No ☐

SHAREHOLDERS AND GENERAL MEETING

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

5. Is the company in a cross-shareholding relationship with another company or other companies? (If not, explain)

   Yes ☐ No ☑

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

Yes ☑ No ☐

7. Does the company treat all shareholders equally? (If not, explain)

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☐ No ☑

Shareholders, who are not able to vote at the assembly in person, by themselves, acting at their own discretion, determine proxies who are obliged to vote in accordance with instructions received from the shareholders.

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☐ No ☑

In 2015 the Company did not pay any dividends.

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

Yes ☐ No ☑

In 2015 the Company did not pay any dividends.

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

Yes ☐ No ☑

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

Yes ☐ No ☑

There are no preconditions for such participation of shareholders at the General Assembly.

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

Yes ☑ No ☐

Registration of participants in advance as a condition of participating at the General Assembly is stipulated due to a large number of small shareholders, with the intention of maintaining order and regularity of the session being held.

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

Yes ☑ No ☐

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

Yes ☐ No ☑

There were no such legal actions..

MANAGEMENT AND SUPERVISORY BOARD

Please provide the names of management board members and their functions

Zvonimir Mršić (presidenf of the Management Board), **Olivija Jakupec** (member of the Management Board), **Miroslav Klepač** (member of the Management Board) and **Hrvoje Kolarić** (member of the Management Board)

Please provide the names of supervisory board and their functions
Dubravko Štimac (president of the Supervisory Board), **Mato Crkvenac** (deputy president of the Supervisory Board), **Ivo Družić** (member of the Supervisory Board), **Petar Miladin** (member of the Supervisory Board), **Dinko Novoselec** (member of the Supervisory Board), **Petar Vlaić** (member of the Supervisory Board), **Martinka Marđetko-Vuković** (member of the Supervisory Board until 30,6,2015), **Ivana Matovina** (member of the Supervisory Board), **Milan Stojanović** (member of the Supervisory Board) and **Ksenija Horvat** (member of the Supervisory Board from 1,7,2015)

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

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

    Yes ☑ No ☐

20. Did the Supervisory or Management Board pass its internal code of conduct? (If not, explain)

    Yes ☑ No ☐

21. Is the Supervisory Board composed of, i.e. are non-executive directors of the Management Board mostly independent members? (If not, explain)

    Yes ☑ No ☐

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

    Yes ☑ No ☐

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

    Yes ☐ No ☑

    The remuneration is fixed and in no part does it depend on efficiency of Company's business.

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

    Yes ☑ No ☐

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

Yes ☐ No ☑

The Supervisory Board members are entitled to a fixed monthly remuneration as stated in the General Assembly Resolution on remunerations for the Supervisory Board members of Podravka Inc. Remunerations and other incomes given by the Company for the Management Board and Supervisory Board members are published in the Company's Annual Report for 2015.

26. Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company 's shares, not later than five trading days, after such a change occurs (If not, explain)

Yes ☑ No ☐

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

Yes ☐ No ☑

There were no such transactions.

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

Yes ☐ No ☑

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

Yes ☐ No ☑

There is no such contract or agreement.

30. Jesu li bitni elementi svih takvih ugovora ili sporazuma sadržani u godišnjem izvješću? (ako ne, objasniti)

Yes ☐ No ☑

There is no such contract or agreement.

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

Yes ☐ No ☑

Entire Supervisory board has performed the function of the appointment committee.

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

Yes ☑ No ☐

33. Did the Supervisory or Management Board establishe the audit committee?

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☐ No ☑

Internal audit function exists.

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

43. Did the audit committee ensur the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (If not, explain)

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

46. Has the Supervisory or Management Board evaluated their work in the

preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?

Yes ☐ No ☑

47. Did the company publish a statement on the remuneration policy for the management, Management Board and the Supervisory Board as part of the annual report? (If not, explain)

Yes ☐ No ☑

48. Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the company? (If not, explain)

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☑ No ☐

AUDIT AND MECHANISMS OF INTERNAL AUDIT

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

53. Does the company have an external auditor?

Yes ☑ No ☐

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

Yes ☐ No ☑

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

Yes ☑ No ☐

The external auditor is providing services related to tax advising and study on trasferred prices for some subsidiares of the Group, due dilligence for one target company and forensic consulting services for one subsidiary of the Group.

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

Yes ☐ No ☑

There is no obligation of submitting requested information.

57. Does the company have internal auditors and an internal audit system established? (If not, explain)

Yes ☑ No ☐

TRANSPARANCY AND THE PUBLIC OF ORGANIZATION OF BUSINESS

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

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

Yes ☑ No ☐

59. Did the company prepar the calendar of important events?

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

62. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company?

Yes ☐ No ☑

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

Yes ☑ No ☐

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

Yes ☑ No ☐

COMPANY SECURITIES

TURNOVER, VOLUME AND PRICE MOVEMENT OF PODRAVKA'S SHARE

Total turnover of Podravka's share in 2015 grew by 13.4 percent compared to 2014, while total turnover of all shares at Zagreb Stock Exchange in the same period recorded a decline of 11.5 percent. Total turnover of Podravka share in 2015 was HRK 129.8 million, which is 5.4 percent of total shares turnover at the Zagreb Stock Exchange.

Increase of Podravka share turnover in 2015 is a result of Podravka share price increase, but also a result of traded volumes comparing to 2014. Traded volume of Podravka share in 2015 was 9.1 percent higher comparing to 2014, where the most intense trading took place in the second and third quarter.

PODRAVKA SHARE TURNOVER AND VOLUMES PER QUARTERS IN 2015

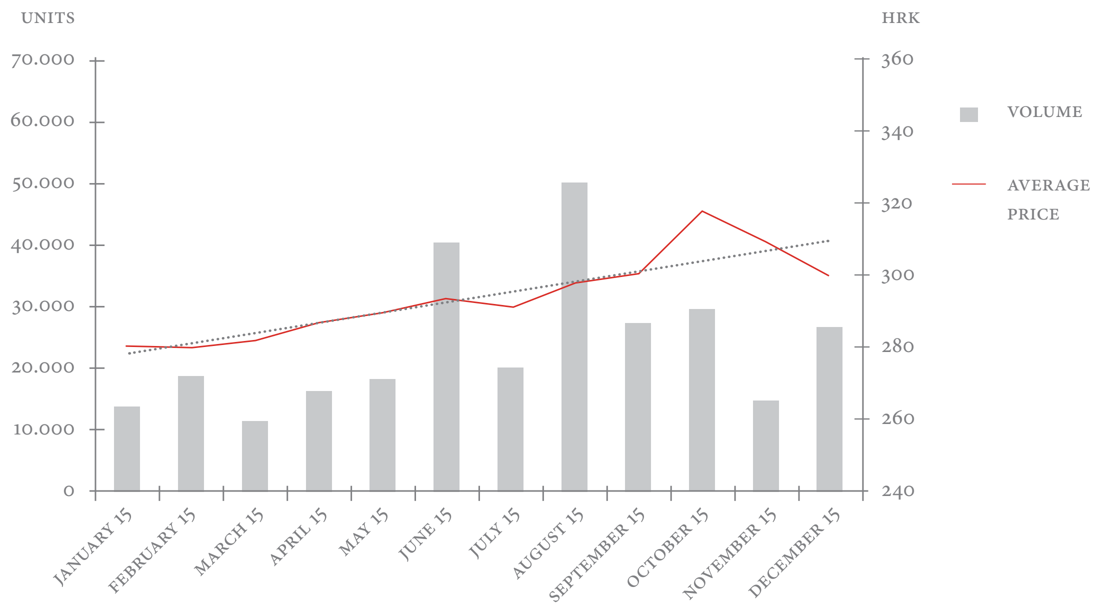
	2015		2014	
PERIOD	TURNOVER (HRK)	VOLUME	TURNOVER (HRK)	VOLUME
I QUARTER	18,120,072	61,019	33,532,617	119,513
II QUARTER	32,535,496	104,433	25,538,697	88,063
III QUARTER	50,125,904	156,371	36,425,008	114,085
IV QUARTER	29,009,901	98,931	18,975,991	64,057
TOTAL	129,791,374	420,754	114,472,313	385,718

SOURCE: ZSE

In 2015, the average daily price[3] of the Podravka's share was HRK 318.8 and it was 7.4% higher when compared to the comparative period. Closing price of Podravka's share as at 31 December 2015 was HRK 334.0, which is 13.8% higher when compared to 31 December 2014.

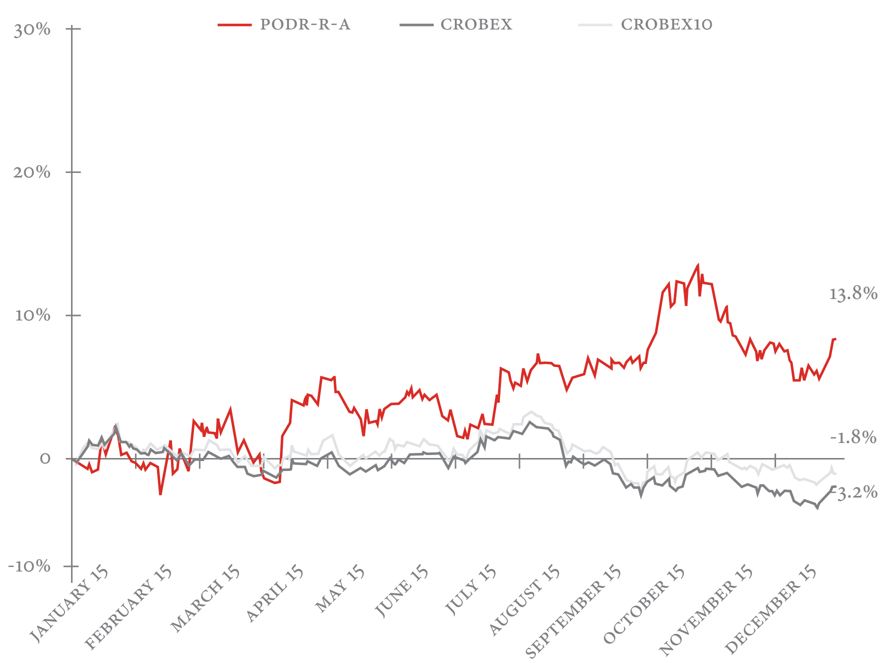
3 Average daily price calculated as the weighted average of average daily prices in the period, where the weight is daily volume.

VOLUME AND AVERAGE PRICE MOVEMENT OF PODRAVKA'S SHARE



With the above stated share price increase, Podravka's share outperformed stock indices CROBEX and CROBEX10, which in the same period dropped by 3.2% and 1.8%, respectively.

Movement of average daily price of Podravka share and indices CROBEX and CROBEX10 in 2015



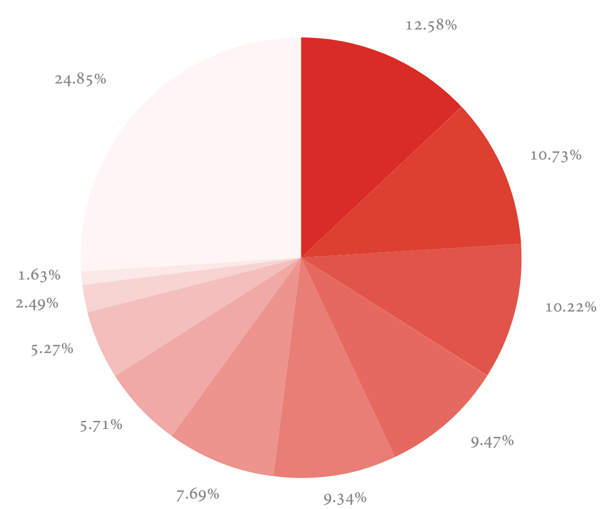
STOCK MARKET INDICES

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

ANALYST RECOMMENDATIONS AS AT 26 FEBRUARY 2016

RECOMMENDATION PROVIDER	YESTE OF THE RECOMMENDATION	RECOMMENDATION	TARGET PRICE
INTERCAPITAL SECURITIES	31.07.2015	BUY	HRK 364,78
RAIFFEISENBANK AUSTRIA	08.01.2016	HOLD	HRK 353.00
ERSTE GROUP BANK AG	25.01.2016	ACCUMULATE	HRK 355.00
UNICREDIT GROUP	24.03.2015	BUY	HRK 398.96
WOOD & COMPANY	16.11.2015	HOLD	HRK 371.00

OWNERSHIP STRUCTURE



SHAREHOLDER	NO. OF SHARES
AZ MANDATORY PENSION FUND, CATEGORY B	895.953
PBZ CROATIA OSIGURANJE MANDATORY PENSION FUND, CATEGORY B	764.274
SPMA* - CROATIAN PENSION INSURANCE INSTITUTE	727.703
SPMA* - REPUBLIC OF CROATIA	674.461
ERSTE PLAVI MANDATORY PENSION FUND, CATEGORY B	665.166
UNICREDIT BANK AUSTRIA AG - CUSTODY ACCOUNT	547.341
KAPITALNI FOND D.D.	406.842
RAIFFEISEN MANDATORY PENSION FUND, CATEGORY B	375.448
PODRAVKA D.D. - TREASURY ACCOUNT	177.511
AZ PROFIT VOLUNTARY PENSION FUND	115.779
OTHER SHAREHOLDERS	1.769.525
TOTAL	**7.120.003**

*State Property Management Administration

TREASURY ACCOUNT STATUS

As at 31 December 2015 Podravka Inc. had 177,511 of treasury shares, which is the same number as at 31 December 2014. On 31 December 2015, Supervisory Board members owned 19 shares of Podravka Inc., while Management Board members owned 6,035 shares of Podravka Inc.

Statement of Management's responsibilities

The Management Board of Podravka d.d. ("the Company") is required to prepare the consolidated financial statements for each financial year which give a true and fair view of the financial position of the Company and its subsidiaries (together referred to as "the Group") and of the results of their operations and their 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 preparation of the annual report pursuant to legal and regulatory requirements specified in Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia) and for submission to the Supervisory Board of its annual report together with the annual consolidated financial statements, following which the Supervisory Board is required to approve the annual consolidated financial statements for submission to the General Assembly of Shareholders for adoption.

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

The annual report on the Group and the consolidated financial statements were authorised by the Management Board on 22 March 2016 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
PREHRAMBENA INDUSTRIJA, d.d.
KOPRIVNICA 2

Podravka d.d.
Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia
Koprivnica, 22 March 2016

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

Report on the consolidated financial statements

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 2015, 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 2015, 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**.**

Report on other legal and regulatory requirements

Pursuant to legal and regulatory requirements as applicable for reporting periods ending 31 December 2015, the management has prepared the annual report set out on pages 1 to 90. The management is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). Our responsibility is to report 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 (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). The information given in the accompanying annual report is consistent with the financial statements set out on pages 93 to 163.

KPMG

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

22 March 2016

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

AS AT 31 DECEMBER 2015

(in thousands of HRK)	*Note*	2015	2014
Continuing operations			
Revenues	*8*	3,686,343	3,412,062
Cost of goods sold	*11*	(2,184,171)	(1,967,609)
Gross profit		**1,502,172**	**1,444,453**
Other income	*9*	158,903	17,215
General and administrative expenses	*11*	(318,599)	(336,703)
Selling and distribution costs	*11*	(493,341)	(438,851)
Marketing expenses	*11*	(497,320)	(445,228)
Other expenses	*10*	(47,872)	(62,040)
Operating profit		**303,943**	**178,846**
Financial income	*13*	7,078	2,214
Financial expenses	*14*	(51,077)	(53,542)
Net finance costs		**(43,999)**	**(51,328)**
Profit before tax		**259,944**	**127,518**
Income tax	*15*	162,019	(9,376)
Profit for the year from continuing operations		**421,963**	**118,142**
Discontinued operations			
Loss for the year (net of tax)	*7*	**(18,698)**	**(23,197)**
Profit for the year		**403,265**	**94,945**
Other comprehensive income:			
Exchange differences on translation of foreign operations		1,326	(2,292)
Actuarial gains (net of deferred tax)		(225)	-
Total comprehensive income		**404,366**	**92,653**
Profit attributable to:			
Equity holders of the parent		397,310	92,459
Non-controlling interests		5,955	2,486
Total comprehensive income attributable to:			
Equity holders of the parent		398,419	90,088
Non-controlling interests		5,947	2,565
Earnings per share (in HRK):			
- Basic	*16*	66.35	17.64
- Diluted	*16*	66.35	17.61

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

(in thousands of HRK)	*Note*	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Goodwill	*17*	26,290	25,687
Intangible assets	*18*	284,511	244,793
Property, plant and equipment	*19*	1,937,978	1,202,589
Non-current financial assets	*21*	18,715	7,602
Deferred tax assets	*15*	230,946	50,169
Total non-current assets		**2,498,440**	**1,530,840**
Current assets			
Inventories	*22*	783,490	599,164
Trade and other receivables	*23*	1,113,551	924,077
Financial assets at fair value through profit and loss	*24*	215	59
Income tax receivable		34,617	19,520
Cash and cash equivalents	*25*	291,877	220,478
Non-current assets held for sale	*26*	223,561	214,432
Total current assets		**2,447,311**	**1,977,730**
Total assets		**4,945,751**	**3,508,570**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*27*	1,685,955	1,063,548
Reserves	*28*	549,840	467,540
Retained earnings	*29*	514,250	217,569
Attributable to equity holders of the parent		**2,750,045**	**1,748,657**
Non-controlling interests	*30*	67,712	36,605
Total shareholders' equity		**2,817,757**	**1,785,262**
Non-current liabilities			
Borrowings	*32*	752,244	749,013
Provisions	*33*	64,126	39,792
Other non-current liabilities	*34*	19,611	-
Deferred tax liability	*15*	56,475	5,544
Total non-current liabilities		**892,456**	**794,349**
Current liabilities			
Trade and other payables	*35*	731,969	563,922
Income tax payable		2,251	2,599
Financial liabilities at fair value through profit and loss	*31*	2,469	2,752
Borrowings	*32*	459,544	325,542
Provisions	*33*	39,305	34,144
Total current liabilities		**1,235,538**	**928,959**
Total liabilities		**2,127,994**	**1,723,308**
Total equity and liabilities		**4,945,751**	**3,508,570**

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 2015

(in HRK thousands)	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total
As at 1 January 2014	**1,062,329**	**21,762**	**11,474**	**136,075**	**39,294**	**40,715**	**345,701**	**1,657,350**	**34,040**	**1,691,390**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	92,459	92,459	2,486	94,945
Other comprehensive income	-	-	-	-	-	(2,371)	-	(2,371)	79	(2,292)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(2,371)**	**92,459**	**90,088**	**2,565**	**92,653**
Transactions with owners recognised directly in equity										
Fair value of share-based payment transactions	1,219	-	-	-	-	-	-	1,219	-	1,219
Total transactions with owners recognised directly in equity	**1,219**	**-**	**-**	**-**	**-**	**-**	**-**	**1,219**	**-**	**1,219**
Allocation from retained earnings	-	45,842	5,069	-	4,662	2,955	(58,528)	-	-	-
Transfers to reinvested profit reserve	-	-	-	162,063	-	-	(162,063)	-	-	-
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**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	397,310	397,310	5,955	403,265
Foreign exchange differences	-	-	-	-	-	1,334	-	1,334	(8)	1,326
Actuarial losses (net of deferred tax)	-	-	-	-	-	(225)	-	(225)	-	(225)
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**1,109**	**-**	**1,109**	**(8)**	**1,101**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**1,109**	**397,310**	**398,419**	**5,947**	**404,366**
Transactions with owners and transfers recognised directly in equity										
Share capital increase through issue of new shares (note 27 (i))	506,394	-	-	-	-	-	-	506,394	-	506,394
Share capital increase from reinvested profits (note 27 (ii))	108,400	-	-	(108,400)	-	-	-	-	-	-
Allocation from retained earnings (note 28)	-	80,000	14,388	-	3,051	3,190	(100,629)	-	-	-
Purchase of treasury shares	(5,899)	-	-	-	-	-	-	(5,899)	-	(5,899)
Excercise of options	3,690	-	-	-	-	-	-	3,690	-	3,690
Fair value of share-based payment transactions (note 37)	9,822	-	-	-	-	-	-	9,822	-	9,822
Acquisition of subsidiaries (note 41)	-	-	-	-	-	-	-	-	289,326	289,326
Additional acquisition of minority interests (note 30)	-	-	-	-	-	88,962	-	88,962	(264,166)	(175,204)
Total transactions with owners recognised directly in equity	**622,407**	**80,000**	**14,388**	**(108,400)**	**3,051**	**92,152**	**(100,629)**	**602,969**	**25,160**	**628,129**
As at 31 December 2015	**1,685,955**	**147,604**	**30,931**	**189,738**	**47,007**	**134,560**	**514,250**	**2,750,045**	**67,712**	**2,817,757**

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

(in thousands of HRK)	*Note*	2015	2014
Profit for the year		**403,265**	**94,945**
Income tax		(162,019)	9,376
Depreciation and amortization		148,314	134,796
Gain on bargain purchase	*9, 41*	(140,461)	-
Impairment loss on property, plant, equipment and intagibles	*10*	11,050	14,126
Impairment loss on assets held for sale	*10*	23,554	13,637
Impairment of investments		-	483
Remeasurement of financial assets and liabilities at FVTPL		(156)	(17)
Share-based payment transactions		9,822	1,219
(Gain)/loss on disposal of property, plant, equipment and intangibles		(1,345)	(910)
(Gain)/loss on disposal of assets held for sale		(864)	1,796
Impairment losses on inventory and trade receivables		8,177	12,739
Increase/(decrease) in provisions		(14,878)	2,369
Interest income		(2,247)	(2,155)
Impairment of loans given		-	1,500
Interest expense		42,831	51,871
Effect of changes in foreign exchange rates		(3,290)	1,424
		321,753	**337,199**
Changes in working capital:			
Increase in inventories		(30,949)	(22,301)
(Increase)/decrease in trade and other receivables		(8,360)	88,048
Increase/(decrease) in trade and other payables		55,113	(38,537)
Cash generated from operations		**337,557**	**364,409**
Income taxes paid		(20,225)	(23,532)
Interest paid		(43,106)	(54,009)
Net cash from operating activities		**274,226**	**286,868**
Cash flows from investing activities			
Purchase of equity instruments		-	(1,428)
Purchase of property, plant, equipment and intangibles		(271,238)	(163,024)
Purchase of assets held for sale		(3,733)	(81,380)
Proceeds from sale of property, plant, equipment and intangibles		5,928	5,344
Loans given		(969)	(1,210)
Proceeds from loans given		349	495
Net cash from investments in money market funds		2,318	-
Interest received		2,247	2,155
Acquisition of subsidiary, net of cash acquired	*41*	(410,728)	-
Net cash from investing activities		**(675,826)**	**(239,048)**
Cash flows from financing activities			
Proceeds from issue of share capital	*27*	506,394	-
Purchase of treasury shares		(5,899)	-
Sale of treasury shares		4,792	-
Proceeds from borrowings		480,513	1,050,845
Repayment of borrowings		(512,801)	(1,057,648)
Net cash from financing activities		**472,999**	**(6,803)**
Net increase / (decrease) of cash and cash equivalents		**71,399**	**41,017**
Cash and cash equivalents at beginning of year		220,478	179,461
Cash and cash equivalents at the end of year	*25*	**291,877**	**220,478**

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 2015:

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 (until 30 June 2015)
Member	Ivo Družić
Member	Ksenija Horvat (from 1 July 2015)

Management Board during 2015

President	Zvonimir Mršić
Member	Olivija Jakupec
Member	Miroslav Klepač
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 22 March 2016.

(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 2015. 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
- Baking and milling
- Pharmaceuticals
- Other

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) Investment tax credits

Investment tax credits are incentives arising from government incentive schemes which enable the Group to reduce its income tax liability or liabilities arising from other specified taxes in future periods, and are linked to the construction or acquisition of certain assets and / or perofrmance of certain activities and / or fulfilment of certain specific conditions prescribed in the relevant regulation for investment incentives by the relevant authorities. Tax investment credits are initially recognized as a deferred tax asset and an income tax benefit in the amount equal to the lower of the maximum authorized credit and the estimated amount of credit that the Group expected it will be able to utilize until the incentive expires. Deferred tax assets recognized as a result of investment tax credits is utilized during the period of the incentive, ie until the expiration of the credits (if so specified) in accordance with and subject to the availability of tax obligations in future years against which the credits can be offset.

(iv) 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.

(v) 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 generally 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 rebates).

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 in other comprehensive income.

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 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 payments

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 2015 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). During 2015, the Group recognised deferred tax assets with respect to unused tax credits related to incentive measures the terms of which are described in more detail in 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).

(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).

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

(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.

(v) Impairment testing for goodwill, brands and rights

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:

	Goodwil	**Brands**	**Rights**
Operating segment		*(in thousands of HRK)*	
Culinary	-	37,577	-
Sweets, snacks and beverages	-	9,622	6,031
Baby food, breakfast and other food	26,290	49,586	-
Meat and meat products	-	9,280	13,072
Bakery and milling	-	28,383	-
Pharmaceuticals	-	-	69,924
Other - unallocated	-	-	10,179
	26,290	**134,448**	**99,206**

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 2.5%. 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 7.81%.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

(v) Impairment testing for goodwill, brands and rights (continued)

The Group had no impairment losses relating to goodwill during 2014 and 2015. 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 250 basis points (assuming an unchanged weighted average cost of capital) and would amount to HRK 2,297 thousand. If the weighted average cost of capital is increased to 9.31% (assuming an unchanged terminal growth rate) an impairment loss would arise in the amount of HRK 7,072 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.

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 (WACC) 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.

Accordingly, the discount rate used in the impairment test amounted to 9.28% for brands where the dominant market is Poland and 10.01% for brands where the dominant market is Croatia. During the year, the Group acquired a majority shareholding and control over subsidiaries Mirna d.d. (Croatia) and Žito d.d. (Slovenia) in the course of which it also acquired a number of brands. As the fair value of the acquired brands was estimated at acquisition date, the Group performed no additional impairment tests with respect to acquired brands due to a relatively short time span from the date of acquisition and the reporting date and because management considered that no significant changes in circumstances occured which would warrant additional impairment testing.

As a result of the impairment tests for brands, the Group incurred no impairment losses relating to brands during 2015 and 2014. An increase in WACC of 150 basis points (assuming a stable terminal growth rate) would result in an impairment of the brands in the amount of HRK 3,582 thousand while a decrease in the terminal growth rate by 100 basis points (assuming an unchanged WACC) would result in an impairment loss of HRK 825 thousand.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

(v) Impairment testing for goodwill, brands and rights (continued)

Rights

Rights relate to registration files (pharmaceutical segment), distribution rights relating either to a specific segment or to several segments combined and acquired rights for operating pharmacies (pharmaceutical segment). Registration files and distribution rights have finite useful lives over which they are amortised and impaired in the event circumstances arise which indicate a need for impairment in excess of the regular amortisation charge. Pharmaceutical rights relate to acquired rights to perform pharmaceutical activities that are fully allocated to the segment "Pharmaceuticals". 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 (WACC) for the Croatian market and the pharmaceutical industry and amounts to 10.41%.

During 2015, the Group recognised HRK 11,050 thousand of impairment losses with respect to rights based on the impairment tests performed. The sensitivity analysis indicates that an impairment loss with respect to rights would arise if WACC is increased by 50 basis points (assuming an unchanged terminal growth rate) and would amount to HRK 2,304 thousand. The decrease of the terminal growth rate by 50 basis points (assuming an unchanged WACC) would result in an impairment of rights in the amount of HRK 2,886 thousand.

(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 2015, the Group had no impairment losses with respect to property, plant and equipment.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

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

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 14,126 thousand of impairment losses based on assessments of market value of property, plant and equipment (production facility in Poland related to the Culinary segment) made by an independent valuer. In 2015, this facility was classified as held for sale.

During 2015, the Group recognised impairment losses of HRK 12,100 thousand with respect to non-current assets held for sale relating to continued operations.

During 2015 the Group recognized HRK 11,454 thousand (2014: HRK 11,185 thousand) of impairment losses related to production facilities which are part of discontinued operations (the former segment "Beverages").

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 37: Share-based payments

NOTE 7 – DISCONTINUED OPERATIONS

By the Management Board decision from 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 Group classified the Beverages segment as discontinued operations in accordance with IFRS 5. Although at the reporting date, due to continued unfavourable market conditions, the Group has not yet managed to dispose of the assets, the Group actively continues to implement the adopted disposal plan and in order to realize the disposal as soon as possible. At the reporting date, the Group has received a binding offer relating to the disposal of the entire Beverages segment, which is under consideration at the time of the approval of the financial statements and which does not indicate an impairment of the above disposal group below the amount reported as at 31 December 2015. The Group expects to complete the disposal during 2016.

During 2015 the Group recognised an impairment loss with respect to assets which are part of discontinued operations in the amount of HRK 11,454 thousand (see note 5(vi)). This impairment loss is recognised within other expenses relating to discontinued operations.

Statement of comprehensive income for discontinued operations is as follows:

(in thousands of HRK)		Discontinued operations	
	note	**2015**	**2014**
Revenue from sale		90,873	90,553
Cost of goods sold		(57,566)	(59,081)
Gross profit		**33,307**	**31,472**
Operating expenses		(40,551)	(43,484)
Other expenses		(11,454)	(11,185)
Operating loss		**(18,698)**	**(23,197)**
Loss before tax for the year		**(18,698)**	**(23,197)**
Income tax		-	-
Loss for the year		**(18,698)**	**(23,197)**
Loss per share (in HRK)			
- Basic	*16*	(3.12)	(4.42)
- Diluted	*16*	(3.12)	(4.42)

The loss from discontinued operations of HRK 18,698 thousand (2014: HRK 23,197 thousand) is attributable entirely to the owners of the Company.

Cash flow for discontinued operations is as follows:

(in thousands of HRK)	**2015**	**2014**
Net cash from operating activities	(7,610)	(7,461)
Net cash from investing activities	(1,602)	(1,288)
	(9,212)	**(8,749)**

NOTE 7 – DISCONTINUED OPERATIONS (CONTINUED)

Disposal group held for sale

Assets of the disposal group held for sale as at 31 December 2015 are as follows:

(in thousands of HRK)	**2015**	**2014**
Land and buildings	29,885	32,056
Equipment	25,664	33,499
Inventories	5,239	4,720
	60,788	**70,275**

Due to practical reasons the Group does not present liabilities for the disposal group held for sale since raw materials purchase and crediting are performed centrally and not allocated for the purpose of segmental analysis. Also, at the reporting date there were no liabilities that would entirely belong to the discontinued operations.

Fair value measurement

Properties and buildings held for sale 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 as at the date of classification as held for sale. The Group has performed a fair valuation exercise of the disposal group as at the date of classification as held for sale and regularly estimates whether this valuation needs revising. Management believes that no new circumstances arose during 2015 which would require a new fair value measurement of the disposal group.

The fair value of the equipment is internally estimated based on used value in use and the expected net sales price.

The fair value of inventories is calculated as the expected net realizable value of inventories based on historical sales data and the expected price movements in the classification. Subsequently, the inventories are carried at cost of production or net realizable value whichever is lower.

(i) Fair value hierarchy

The fair value measurement of part of the disposal group relating to land and buildings of HRK 29,885 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 initial classification as held for sale:

Valuation methods and techniques	**Significant unobservable inputs**
Income capitalisation and comparable values method	Average yield: 13%
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.	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.
For land, the valuation model considers the real sale values achieved in the sale of comparable land at a similar location.	

NOTE 8 – SEGMENT INFORMATION

Sales revenue

	2015	2014
	(in thousands of HRK)	
Revenue from sale of products and merchandise	3,665,641	3,393,102
Revenue from services	20,702	18,960
	3,686,343	**3,412,062**

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
- Baking and milling
- Pharmaceuticals
- Other

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

Segment revenues and results

Set out below is an analysis of the 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)	**2015**	**2014**	**2015**	**2014**
Culinary	934,683	899,372	215,233	202,682
Sweets, snacks and beverages	231,195	171,234	23,227	21,395
Baby food, breakfast and other food	940,354	887,330	10,453	17,159
Meat and meat products	303,454	300,786	(23,123)	(16,026)
Baking and milling	174,332	-	(5,533)	-
Pharmaceutical	805,660	840,259	89,094	130,988
Other	296,665	313,081	(3,310)	(1,079)
	3,686,343	**3,412,062**	**306,041**	**355,119**
Financial income (note 13)			7,078	2,214
Other income (note 9)			158,903	17,215
Central administration costs			(113,129)	(131,448)
Other expenses (note 10)			(47,872)	(62,040)
Financial expenses (note 14)			(51,077)	(53,542)
Profit before tax			**259,944**	**127,518**

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 Baking and milling segment comprises the following product groups: Bread and baked goods, Meal, Cereals and Other bakery and mill products.

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). Pharmaceuticals segment is regulated by the Croatian Institute for Health Insurance, which provides drug prices with prescription and by the relevant regulatory authorities in connection with the registration of medicines in the Croatian market. Foreign markets in this segment have similar regulation characteristics.

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

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. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Geographical information

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

(in thousands of HRK)	**2015**	**2014**
Region Adria	2,614,653	2,307,581
Region Europe	733,843	730,680
Region RU, CIS and Baltic	195,049	239,330
Region New markets	142,798	134,471
	3,686,343	**3,412,062**

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Information about major customers

Third-party sales in Croatia account for 37% (2014: 40%) of the total revenue from external customers, whereas the remaining 63% (2014: 60%) represent foreign sales. Top 20 customers participate in 34% (2014: 42%) 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:

Region Adria	Region Europe	Region Ru, CIS and B.	Region New markets
Slovenia	Germany	Russian Federation	GCC, Irak and Iran
Bosnia and Herzegovina	Austria	Ukraine	United Arab Emirates
Macedonia	Switzerland	Kazakhstan	Katar
Serbia	France	Baltic	Jemen
Montenegro	Great Britain	Estonia	Levant
Kosovo	Italy	Lithuania	Turkey
Albania	Scandinavia	Latvia	Jordan
Greece	Sweden	Moldova	Egypt
	Norway	Belarus	South African Republic
	Benelux	Armenia	Liberia
	Nederlands	Kyrgystan	Cameroon
	Ireland		USA
	Spain		Canada
	Poland		Australia
	Czech Republic		New Zealand
	Slovakia		Asia
	Hungary		China
	Romania		India
	Bulgaria		Japan
			Taiwan
			Israel

NOTE 9 – OTHER INCOME

	2015	2014
	(in thousands of HRK)	
Grant income	4,298	2,068
Profit on disposal of assets held for sale	864	-
Revenue from sale and leaseback transaction	8,813	8,813
Profit on disposal of property, plant, equipment and intangibles	1,345	910
Reversal of provisions	2,022	4,440
Gain on bargain purchase (note 41)	140,461	-
Other income	1,100	984
	158,903	**17,215**

Grant income refers to non-repayable state grants for livestock and agriculture.

Income from sale and leaseback refers production facilities in Umag with respect to which a total of HRK 6,609 thousand of deferred income was outstanding as at 31 December 2015 (2014: HRK 15,422 thousand) and which will be realised until 30 September 2016 (see note 35).

Gain on bargain purchase arose on the acquisition of majority shares in subsidiaries Mirna d.d. (in the amount of HRK 24,765 thousand) and Žito d.d. (in the amount of HRK 115,696 thousand) due to the fact that the consideration paid by the Group for the acquisition of shares was lower than the fair value of identifiable net assets of those companies at the acquisition date. For more details on the acquisition of subsidiaries see note 41.

NOTE 10 – OTHER EXPENSES

	2015	2014
	(in thousands of HRK)	
Interest and foreign exchange differences on trade payables	1,594	1,430
Impairment loss on intangible assets (note 18)	11,050	-
Impairment loss on assets held for sale (note 26)	12,100	2,452
Loss on disposal of assets held for sale	-	1,796
Impairment loss on property, plant and equipment (note 19)	-	14,126
Interest and foreign exchange differences on trade receivables	22,281	39,859
Other costs	847	2,377
	47,872	**62,040**

The increase in foreign exchange losses is mainly caused by the unfavorable exchange rate fluctuations of the Russian ruble during 2015.

NOTE 11 – EXPENSES BY NATURE

	2015	2014
	(in thousands of HRK)	
Raw materials and consumables used, energy and cost of goods sold including change in inventory	1,803,092	1,642,141
Staff costs (note 12)	795,470	770,229
Advertising and promotion	333,646	291,962
Services	187,827	153,996
Depreciation and amortisation	148,314	134,796
Transportation	58,676	44,179
Rental expense	40,511	44,045
Impairment of trade receivables (note 23)	8,177	12,739
Entertainment	28,723	28,016
Daily allownaces and travel expenses	18,294	17,551
Taxes and contributions independent of operating results	17,354	15,696
Telecommunications	9,800	10,227
Cost of disposal of packaging, administrative fees, etc	10,829	8,677
Bank charges	5,458	5,198
Other	27,260	8,939
Total cost of goods sold, selling and distribution costs, marketing costs and general and administrative costs	**3,493,431**	**3,188,391**

NOTE 11 – EXPENSES BY NATURE (continued)

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

	2015	2014
	(in thousands of HRK)	
Raw material and supplies	1,173,030	1,030,094
Cost of goods sold	606,288	605,873
Staff costs	304,373	268,523
Depreciation and amortisation	82,248	75,296
Production services	41,386	25,385
Taxes and contributions independent of operating results	11,933	10,850
Other expenses (transport, rent, education, etc)	22,479	10,669
	2,241,737	**2,026,690**
Cost of goods sold - discontinued operation	(57,566)	(59,081)
Cost of goods sold - continued operation	**2,184,171**	**1,967,609**

Depreciation and amortisation allocated to each function is as follows:

	2015	2014
	(in thousands of HRK)	
Cost of goods sold	82,248	75,296
Marketing expenses	6,519	6,109
Selling and distribution costs	29,372	23,135
General and administrative expenses	30,175	30,256
	148,314	**134,796**

Staff costs allocated to each function is as follows:

	2015	2014
	(in thousands of HRK)	
Cost of goods sold	294,032	258,775
Marketing expenses	88,239	85,410
Selling and distribution costs	225,341	205,611
General and administrative expenses	187,858	220,433
	795,470	**770,229**

NOTE 12 – STAFF COSTS

	2015	2014
	(in thousands of HRK)	
Salaries	714,698	676,135
Termination benefits	41,141	72,137
Transportation	11,911	9,328
Share options (note 37)	1,859	1,219
Other	25,861	11,410
	795,470	**770,229**

As at 31 December 2015, the number of staff employed by the Group was 6,657 (2014: 5,341).

In 2015 termination benefits of HRK 29,096 thousand were paid to 274 employees. Termination benefits of HRK 15,021 thousand were accrued and will be paid in 2016, based on a formal restructuring plan (in 2014 termination benefits in amount of HRK 72,137 thousand were paid to 559 employees).

NOTE 13 – FINANCE INCOME

	2015	2014
	(in thousands of HRK)	
Interest on term deposits	916	1,722
Other interest	1,331	433
Unrealised gains per interest rate swap contract	283	-
Net foreign exchange gains on borrowings	4,333	-
Remeasurement of financial instruments at fair value through profit or loss	215	59
	7,078	**2,214**

NOTE 14 – FINANCE EXPENSES

	2015	2014
	(in thousands of HRK)	
Interest expense and similar charges	43,114	51,829
Unrealised losses per interest swap contract	-	42
Net foreign exchange loss on borrowings	-	1,671
Other financial expenses	7,963	-
	51,077	**53,542**

During 2015 the benchmark interest rates remained at low levels, which resulted in a significant reduction in loan related interest expense.

Given the significant exposure of the Group to the interest rate risk arising from borrowings at variable interest rates, the Group actively hedges interest rate risk related to the syndicated loan through derivative financial instruments (interest rate swaps) - for details see note 31.

During 2015 and 2014, the Group had no investments for which interest expense could be capitalised.

Other financial expenses relate to the cost of share options granted via the employee stock ownership program in the process of increase of share capital by public offering of new ordinary shares. For details, see notes 27 and 37.

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2015	2014
	(in thousands of HRK)	
Current income tax	5,439	10,091
Deferred tax	(167,458)	(715)
	(162,019)	**9,376**

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:

	2015	2014
	(in thousands of HRK)	
Profit before taxation	**241,246**	**104,321**
Income tax at 20% (2014: 20%)	48,249	20,864
Non-deductible expenses and non-taxable income	(27,008)	(3,465)
Non-deductible expenses and non-taxable income	7,471	26,078
Tax incentive for reinvested profit	-	(30,123)
Other tax incentives	(164,793)	(1,013)
Recognition of previously unrecognized temporary differences and tax losses as deferred tax assets	(12,294)	-
Temporary differences and tax losses not recognised as deferred tax assets	5,877	10,935
Utilisation of temporary differences previously not recognised as deferred tax asset	(1,622)	(11,767)
Utilisation of tax losses previously not recognised as deferred tax asset	(16,238)	(130)
Effect of different tax rates	(1,661)	(2,003)
Income tax	**(162,019)**	**9,376**
Effective tax rate	-67%	9%

Investment tax credit

In March 2015, pursuant to the Investment Promotion and Development of Investment Climate Act, the subsidiary Belupo d.d. became eligible to receive incentive measures related to its investment project. The Ministry of Economy approved the tax incentive measures, as a subsidy for qualifying costs of new employment linked to the investment project and an incentive for capital expenditure related to the investment project, in the form of an investment tax credit in the total approved amount of HRK 163,717 thousand for which the subsidiary will be able to reduce its future income tax liabilities and / or recieve cash reimbursements as an incentive for employment related to the investment project. The subsidiary has the right to use the investment tax credit in the next 10 years from the date of approval by the relevant authorities. The execution of the investment project is subject to supervision by the relevant institutions and the subsidiary is not permitted to reduce the number of new jobs (related to the terms of the incentive measures) in addition to other conditions, throughout the period of the incentive measures, but no less then 5 years. If the conditions of the tax incentive are not met, the subsidiary would have to retroactively pay income tax inclusive of any penalty interest.

Based on the assessment of the recoverability of the tax incentive made by the management of the subsidiary and the Group, the subsidiary and Group initially recognised the entire amount of approved tax incentives as a deferred tax asset and an income tax benefit. The utilization of the deferred tax in the amount of HRK 9,370 thousand was also recognised in 2015 based on the amount of current income tax which would have been payable by the subsidiary had it not been for the tax incentive. In future years, the deferred tax asset will be utilised in accordance with the utilization of the tax incentive, i.e. in accordance with and subject to the availability of tax obligations against which the credits can be offset and / or amounts of cash reimbursements the subsidiary receives as incentives for new employment as part of the investment project.

NOTE 15 – INCOME TAX (CONTINUED)

Unused tax losses

In accordance with tax regulations, as at 31 December 2015 the Group has unused tax losses in the amount of HRK 110,461 thousand (2014: HRK 104,091 thousand) which consist of tax losses in Slovenia (in the amount of HRK 52,232 thousand), Croatia (in the amount of HRK 31,088 thousand), Serbia (in the amount of HRK 7,093 thousand), Bosnia and Herzegovina (in the amount of HRK 6,224 thousand), Montenegro (in the amount of HRK 4,735 thousand), Hungary (in the amount of HRK 3,764 thousand), Tanzania (in the amount of HRK 3,172 thousand), Romania (in the amount of HRK 125 thousand) and Poland (in the amount of HRK 2,028 thousand).

Unused tax losses carried forward amounting to HRK 62,550 thousand were recognized as deferred tax assets in the amount of HRK 11,094 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:

	2015	2014
	(in thousands of HRK)	
Tax losses expiring at 31 December 2015	-	301
Tax losses expiring at 31 December 2016	2,996	-
Tax losses expiring at 31 December 2017	7,093	19,487
Tax losses expiring at 31 December 2018	16,333	37,570
Tax losses expiring at 31 December 2019	6,937	46,733
Tax losses expiring at 31 December 2020	20,981	-
Tax losses expiring at 31 December 2022	125	-
Tax losses expiring at 31 December 2025	3,764	-
Tax losses with no expiration date	52,232	-
	110,461	**104,091**

Deffered tax assets

Deferred tax assets arise from the following:

2015	Opening balance	Acquistions	Recognised in profit or loss	Recognised directly in equity	Foreign exchange differences	Closing balance
			(in thousands of HRK)			
Basis:						
Intangible assets	22,433	-	2,363	-	-	24,796
Property, plant and equipment	10,910	-	3,025	-	-	13,935
Financial assets	-	-	505	-	-	505
Provisions	5,431	1,281	954	56	170	7,892
Share-based payments	-	-	2,809	-	-	2,809
Inventories	7,479	-	2,146	-	-	9,625
Investment tax credit	-	-	154,347	-	-	154,347
Unutilised tax losses carried forward	1,033	11,786	(1,764)	-	39	11,094
Other deferred tax assets	2,883	-	2,865	-	195	5,943
Deferred tax assets	**50,169**	**13,067**	**167,250**	**56**	**404**	**230,946**

2014	Opening balance	Recognised in profit or loss	Foreign exchange differences	Closing balance
		(in thousands of HRK)		
Basis:				
Government subsidies	210	(203)	(7)	-
Intangible assets	22,433	-	-	22,433
Property, plant and equipment	10,420	490	-	10,910
Provisions	5,082	438	(89)	5,431
Inventories	8,180	(701)	-	7,479
Unutilised tax losses carried forward	1,033	-	-	1,033
Other deferred tax assets	2,215	668	-	2,883
Deferred tax assets	**49,573**	**692**	**(96)**	**50,169**

NOTE 15 – INCOME TAX (CONTINUED)

Deffered tax assets (continued)

During 2015, the Group re-evaluated the potential for utilization of certain existing temporary differences for which deferred tax assets had not been previously recognized based on the uncertainty of their utilization. In view of the changed circumstances, the Group recognized deferred tax assets in the amount of HRK 10,099 thousand relating to temporary differences for which deferred tax assets were not previously recognized and an additional HRK 2,196 thousand with respect to tax losses.

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), as well as deferred tax assets related to tax incentives 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 assets relate to the other items considered to be a short-term deferred tax assets.

During 2015, with the acquisition of the company Žito d.d., the Group acquired deferred tax assets in the amount of HRK 13,067 thousand which primarily relate to deferred tax assets arising from tax losses.

Deffered tax liability

Deferred tax liabilities arise from the following:

2015	**Opening balance**	**Acquistions**	**Recognised in profit or loss**	**Recognized directly in equity**	**Foreign exchange differences**	**Closing balance**
			(in thousands of HRK)			
Basis:						
Intangible assets	(4,187)	(11,276)	(221)	-	(49)	(15,733)
Property, plant and equipment	(1,357)	(40,356)	429	-	542	(40,742)
	(5,544)	**(51,632)**	**208**	**-**	**493**	**(56,475)**

2014	**Opening balance**	**Recognised in profit or loss**	**Foreign exchange differences**	**Closing balance**
		(in thousands of HRK)		
Basis:				
Intangible assets	(4,612)	425	-	(4,187)
Property, plant and equipment	(965)	(402)	10	(1,357)
	(5,577)	**23**	**10**	**(5,544)**

Deferred tax liabilities mainly relate to temporary differences arising from the allocation of the purchase price in the course of acquisition of subsidiaries Farmavita d.o.o, Žito d.d. and Mirna d.d. and are considered 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 Company 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 160,391 were not exercised (2014: 164,578 options).

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

	2015	2014
Ordinary shares as at 1 January	5,420,003	5,420,003
Issue of new shares	745,205	-
Effect of treasury hares	(177,511)	(177,511)
Weighted average number of shares at 31 December (basic)	**5,987,697**	**5,242,492**
Effect of share based payments	19,287	7,743
Weighted average number of shares at 31 December (diluted)	**6,006,984**	**5,250,235**

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

	2015			2014		
	Continuing operations	Discontinued operations	**Total**	Continuing operations	Discontinued operations	**Total**
Basic earnings / (loss) per share						
Comprehensive income/(loss) attributable to the owners of equity (in HRK thousands)	416,008	(18,698)	**397,310**	115,656	(23,197)	**92,459**
Basic earnings / (loss) per share (in HRK)	69.48	(3.12)	**66.35**	22.06	(4.42)	**17.64**
Diluted earnings / (loss) per share						
Comprehensive income/(loss) attributable to the owners of equity (in HRK thousands)	425,830	(18,698)	**407,132**	116,875	(23,197)	**93,678**
Diluted earnings / (loss) per share (in HRK)	69.48	(3.12)	**66.35**	22.06	(4.42)	**17.64**

NOTE 17 – GOODWILL

(in thousands of HRK)	2015	2014
Cost		
At 1 January	67,304	77,666
Written off	-	(10,362)
At 31 December	**67,304**	**67,304**
Accumulated impairment losses		
At 1 January	41,617	51,785
Effect of changes in the foreign exchange rates	(603)	194
Written off	-	(10,362)
At 31 December	**41,014**	**41,617**
Carrying amount at 31 December	**26,290**	**25,687**

During 2015 and 2014 there were no impairment of goodwill. A more detailed description of the approach and method of used in impairment testing is provided in note 5(v).

NOTE 18 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software and licences**	**Rights, registration files, know how**	**Brands**	**Intangible assets in progress**	**Total**
Cost					
At 1 January 2014	187,212	199,031	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**	**237,279**	**191,582**	**22,556**	**646,592**
Accum. amortisation and impairments					
At 1 January 2014	(155,847)	(105,405)	(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)**	**(121,940)**	**(111,470)**	**-**	**(401,799)**
Carrying amount as at 31 Dec 2014	**26,786**	**115,339**	**80,112**	**22,556**	**244,793**
Cost					
At 1 January 2015	195,175	237,279	191,582	22,556	646,592
Effect of foreign exchange differences	(216)	116	242	217	359
Additions	124	-	-	20,276	20,400
Business combinations (note 41)	1,029	6,031	56,845	-	63,905
Transfers	7,768	9,025	438	(17,231)	-
Disposals	(1,915)	(179)	-	(606)	(2,700)
Transfer to tangible assets	(15)	-	-	-	(15)
At 31 December 2015	**201,950**	**252,272**	**249,107**	**25,212**	**728,541**
Accum. amortisation and impairments					
At 1 January 2015	(168,389)	(121,940)	(111,470)	-	(401,799)
Effect of foreign exchange differences	210	(132)	(242)	-	(164)
Disposals	1,886	162	-	-	2,048
Charge for the year	(10,027)	(20,106)	(2,947)	-	(33,080)
Impairment	-	(11,050)	-	-	(11,050)
Transfer from intangible assets	15	-	-	-	15
At 31 December 2015	**(176,305)**	**(153,066)**	**(114,659)**	**-**	**(444,030)**
Carrying amount as at 31 Dec 2015	**25,645**	**99,206**	**134,448**	**25,212**	**284,511**

Of the total amount of accumulated amortisation and impairment losses HRK 131,157 thousand relates to accumulated impairment losses (2014: 120,107 thousand).

Intangible assets under construction relate to capitalised development expenses and purchased registration files for which health and regulatory approval has not yet been received.

In 2015 the Group recognised an impairment loss of HRK 11,050 thousand relating to rights. A more detailed description of the approach and method of 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 the Group is based on internal estimates of future cash flows and sales plans HRK 11,789 thousand allocated to the brand while HRK 29,410 thousand was allocated to the distribution right. During 2015, the Group changed the useful life of Piketa brand from indefinite to finite and accordingly recognizes amortisation over a period of four years while the distribution right continues to be amortized over the contractual life 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 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	(535)	(28,039)	(3,473)	(32,047)
Transfer to assets held for sale (i)	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**
Accum. depreciation and impairments				
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 assets held for sale (i)	(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 Dec 2014	**755,609**	**357,716**	**89,264**	**1,202,589**
Cost				
At 1 January 2015	2,239,746	1,653,009	89,264	3,982,019
Effect of foreign exchange differences	1,130	1,049	368	2,547
Additions	5,528	12,334	232,976	250,838
Acquisition of subsidiaries (note 41)	475,638	145,434	5,815	626,887
Transfers	30,107	90,515	(120,622)	-
Disposals and retirements	(3,127)	(42,720)	(107)	(45,954)
Transfer to and from assets held for sale	(68,450)	640	(1,548)	(69,358)
Transfer from intangible assets	15	-	-	15
At 31 December 2015	**2,680,587**	**1,860,261**	**206,146**	**4,746,994**
Accum. depreciation and impairments				
At 1 January 2015	(1,484,137)	(1,295,293)	-	(2,779,430)
Effect of foreign exchange differences	(688)	(1,048)	-	(1,736)
Disposals	2,941	42,824	-	45,765
Charge for the year	(49,418)	(65,816)	-	(115,234)
Transfer to and from assets held for sale	41,922	(288)	-	41,634
Transfer from intangible assets	-	(15)	-	(15)
At 31 December 2015	**(1,489,380)**	**(1,319,636)**	**-**	**(2,809,016)**
Carrying amount as at 31 Dec 2015	**1,191,207**	**540,625**	**206,146**	**1,937,978**

Of the total amount of accumulated depreciation and impairment losses HRK 15,067 thousand relates to accumulated impairment losses (2014: HRK 15,067 thousand).

Assets under construction relate mainly to investments in modernisation of production capacities and product mix expansion.

(i) During the year the Group transferred property, plant and equipment with a carrying amount of HRK 27,724 thousand to non-current assets held for sale (2014: 1,288 thousand). During 2014 the Group reclassified part of the assets held for sale to property, plant and equipment amounting to HRK 1,479 thousand since the circumstances indicated a reduced possibility of sale.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment losses

During 2015 there was no impairment loss on property, plant and equipment.

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.

Property mortgaged

During 2014 the Group refinanced the syndicated loan facility against which 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, collaterals under the previous syndicated loan were cancelled and the properties of Podravka d.d. and Belupo d.d. were pledged as collateral for the new loan.

Land, buildings and equipment of the Group with a carrying amount of HRK 593,840 thousand (2014: HRK 576,438 thousand) are mortgaged against the Group's borrowings.

Property which is subject to finance lease agreement

Leased property, plant and equipment where the Group is the lessee under a finance lease comprises the following:

	2015	**2014**
	(in thousands of HRK)	
Cost of capitalised finance leases	13,659	22,805
Accumulated depreciation	(6,417)	(6,910)
Carrying amount	**7,242**	**15,895**

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	2015	2014	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%	Sale and distribution of pharmaceuticals
Danica d.o.o., Koprivnica	Croatia	-	100%	Meet processing and production
Studenac d.o.o. Koprivnica	Croatia	100%	100%	Beverages production and sale
Mirna d.d. Rovinj	Croatia	84%	-	Fish processing and production
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 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
Vegeta Podravka Limited, Dar es Salaam	Tanzania	85%	-	Sale and distribution
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100%	-	Sale and distribution
Žito d.d., Ljubljana	Slovenia	87%	-	Production and distribution of food
Intes Storitve d.o.o., Maribor****	Slovenia	87%	-	Production and distribution of food
Šumi bonboni d.o.o., Ljubljana****	Slovenia	87%	-	Production and distribution of food
Žito maloprodaja d.o.o., Ljubljana****	Slovenia	87%	-	Sale of food and beverages
Šumi nepremičnine d.o.o., Ljubljana****	Slovenia	87%	-	Services
Žito storitve d.o.o., Ljubljana****	Slovenia	87%	-	Services
ZIŽR g.i.z., Ljubljana****	Slovenia	87%	-	Services
LD Žito d.o.o. v likvidaciji, Zagreb****	Croatia	87%	-	Sale and distribution of food and beverages
Žito Beograd d.o.o. v likvidaciji, Beograd****	Serbia	87%	-	Sale and distribution of food and beverages
Žito Pl d.o.o.e.l. v likvidaciji, Skopje****	Macedonia	87%	-	Sale and distribution of food and beverages

*The Group hold 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

***15% of ownership interest is held indirectly through the subsidiary Podravka-Int. Deutschland – "Konar" GmbH

**** The Group holds an effective interest of 87% in these companies through its subsidiary Žito d.d. which holds 100% of ownership interests in these companies

NOTE 20 – SUBSIDIARIES (continued)

During 2014, the Company acquired shares of Mirna d.d., but due to significant legal uncertainty it had not gained control of the company. During 2015, the uncertainties were no longer in effect whereby the Company acquired control of Mirna d.d., and by the end of 2015 purchased additional shares. As at the reporting date, the Company held 84.24% of the share capital of Mirna d.d. For details, see note 41 (i).

During 2015, via two purchase transactions, the Company acquired 308,820 shares of Žito d.d., representing 86.80% of the share capital of Žito d.d. As at 31 December 2015, the Company held 86.80% of share capital and 96.44% of the voting rights, due to the fact that companies from the Žito Group hold additional 35,579 of treasury shares of Žito d.d. For details, see note 41 (ii).

Furthermore, during 2015, the Group incorporated new subsidiaries Podravka Gulf FZE with headquarter in Dubai and Podravka Vegeta Limited in Tanzania.

During 2015, the parent company Podravka d.d. merged its subsidiary Danica d.o.o.

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

	2015	2014
	(in thousands of HRK)	
Loans receivable	3,665	4,103
Other receivables and deposits	2,819	1,199
Investments in other equity instruments	12,231	2,300
	18,715	**7,602**

Loans refer to loans to related parties that carry a variable interest rate which average about 5%.

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

Investments in other equity instruments mainly relate to investments in quoted equity instruments and partly to unlisted equity instruments.

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

	2015	2014
	(in thousands of HRK)	
Raw materials and supplies	298,605	183,729
Work in progress	54,411	39,419
Finished goods	237,732	215,556
Merchandise	192,742	160,460
	783,490	**599,164**

In 2015, the Group recognised income from reversal of impairment loss with respect to inventories in the amount of HRK 10,378 thousand (2014: HRK 6,641 thousand of impairment loss) as the Group managed to sell 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

	2015	2014
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,204,310	1,022,382
Impairment allowance	(174,545)	(170,128)
Net trade receivables	**1,029,765**	**852,254**
Bills of exchange received	645	517
Advances to suppliers	38,805	37,596
Loans given	160	1,819
Net VAT receivable	16,392	12,286
Prepaid expenses	16,566	13,577
Receivables from employees	1,722	1,409
Other receivables	9,496	4,619
	1,113,551	**924,077**

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

	2015	2014
	(in thousands of HRK)	
At 1 January	170,128	166,510
Increase	15,924	15,793
Amounts collected	(7,747)	(3,054)
Written off as uncollectable	(3,760)	(9,121)
At 31 December	**174,545**	**170,128**

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

Ageing analysis of trade receivables which have not been impaired:

	2015	2014
	(in thousands of HRK)	
Not due	772,410	638,165
0-90 days	229,214	185,973
91-180 days	12,967	20,823
181-360 days	15,174	7,293
	1,029,765	**852,254**

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

	2015	2014
	(in thousands of HRK)	
Forward contracts	215	59
	215	**59**

During 2015, the Group used forward contracts entered into with commercial banks with the intention of managing the fluctuations of the Russian ruble and the American dollar related to its balance of deposits and cash funds denominated in those currencies, and which had a positive fair value as at 31 December 2015 amounting to HRK 215 thousand (2014: HRK 59 thousand).

The nominal value of currency forwards as at 31 December 2015 amounted to HRK 5,043 thousand (2014: HRK 8,265 thousand), with the contracts maturing in the period from 5 February 2016 to 4 May 2016.

Gains and losses recognized as changes in the market value of the currency forward contracts 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

	2015	2014
	(in thousands of HRK)	
Cash with banks	274,042	187,301
Short-term deposits – up to 3 months	17,368	32,544
Cash in hand	467	633
	291,877	**220,478**

Cash with banks relates to transaction accounts at commercial banks that carry an average interest rate ranging from 0.0001% to 2.25%.

Deposits relate to deposits at commercial banks with maturity up to three months that carry a variable interest rate ranging from 0.01% to 8.06%**.**

NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE

	2015	2014
	(in thousands of HRK)	
Land and buildings	161,376	142,116
Equipment	1,397	2,041
Disposal group held for sale (note 7)	60,788	70,275
	223,561	**214,432**

(i) *Land and buildings*

Of the total amount of land and buildings held for sale, HRK 134,908 thousand relates to the land and buildings in Rijeka (2014: HRK 131,175 thousand). The Group still actively seeks to realize a plan of selling the assets held for sale. The remainder of land and buildings intended for sale relate mainly to land and buildings in Poreč and in Koprivnica for which the Group is still actively looking for a buyer and to production facilities in Poland, for which the Group recognized an impairment loss of HRK 11,474 thousand in 2015.

Fair value measurement

Land and property held for sale in the amount of HRK 61,437 thousand are measured at fair value less costs of sell due to the fact that this value is lower than the carrying value prior to reclassification.The Group has made an estimation of fair value on reclassification date and regulary checks if estimation needs to be revised. During 2015, management estimated that no new circumstances occur that would require new fair value measurement of non-current assets held for sale.

Fair value measurement according to inputs used in evaluation is classified 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.

(ii) 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 2015 an additional impairment of equipment has been recognised in the amount HRK 626 thousand (2014: HRK 2,452 thousand). The Group expects to sell the equipment in 2016. The loss on the impairment of equipment is presented in the Statement of comprehensive income within "Other expenses" (note 10).

(iii) Disposal group held for sale

Disposal group held for sale relates to assets held for sale which are part of discontinued operations. During 2015, the Group recognised an impairment loss of the respective assets in the amount of HRK 11,454 thousand (2014: HRK 11,185 thousand). The Group expects to sell these assets during 2016 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

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)	*(in thousands of HRK)*			
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**
At 1 January 2015	5,242,492	1,084,001	47,151	(67,604)	1,063,548
Issue of new shares (i)	1,700,000	374,000	132,394	-	506,394
Increase of capital from reinvested profits (ii)	-	108,400	-	-	108,400
Purchase of treasury shares (iii)	18,000	-	-	(5,899)	(5,899)
Excercise of options (iii)	(18,000)	-	(3,104)	6,794	3,690
Fair value of share based payments (iii)	-	-	9,822	-	9,822
At 31 December 2015	**6,942,492**	**1,566,401**	**186,263**	**(66,709)**	**1,685,955**

As at 31 December 2015, the Company's share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 177,511 relates to treasury shares (2014: HRK 1,084,001 thousand and 5,420,003 shares out of which 177,511 related to treasury shares). Nominal value of one share amounts to HRK 220.00. All issued shares are fully paid in.

(i) The issue of new shares

On 3 June 2015, the General Assembly adopted a decision regarding the share capital increase and issue of ordinary shares by public offering in the Republic of Croatia. On 24 July 2015, based on the decision above, the Company issued 1,700,000 new ordinary shares with a nominal value of HRK 220.00 while the share price was set at HRK 300.00 per share thereby increasing the share capital by HRK 374,000 thousand and resulting in a share capital premium amounting to HRK 132,394 thousand (net of transaction costs).

As part of the increase of share capital, the Group launched an employee stock ownership program whereby employees of certain companies of the Podravka Group in Croatia had the right of primary subscription of share as part of the share capital increase with an option of gaining additional shares depending on meeting the conditions for holding of shares over the next three years. The employee stock ownership program is described in more detail in note 37 (i).

(ii) Increase in capital from reinvested profits

During 2015 the Company registered an increase of its share capital on the basis of reinvesting part of the profit from 2014 in the amount of HRK 108,400 thousand (2014: -) by means of increasing the nominal value of shares from HRK 200.00 by HRK 20.00 to HRK 220.00. If during future periods, any distributions of share capital to shareholders or any decrease of share capital created from reinvested profits should occur, this transaction would result in the cancellation of the initial tax incentive and, retroactively, a tax liability would be created as at the date when the initial tax incentive occurred.

(iii) Share based payments

During 2015, the Company purchased 18,000 of its own shares for allocation under the stock option plan for employees. During the year the Company also issued additional options to employees under the stock option plan for employees, but also as part of the employee stock ownership program (ESOP program) in the context of the share capital increase. The share option plan for employees and the ESOP program are described in more detail in note 37 (ii) to the consolidated financial statements.

NOTE 27– SHARE CAPITAL (continued)

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

	2015		2014	
Structure of ownership	**Number of shares**	**% of ownership**	**Number of shares**	**% of ownership**
AZ OMF	895,953	12.58%	488,106	9.01%
PBZ Croatia osiguranje d.d. OMF	764,274	10.73%	480,921	8.87%
AUDIO - Croatian Health insurance association	727,703	10.22%	575,598	10.62%
AUDIO - Republic of Croatia	674,461	9.47%	536,259	9.89%
Erste Plavi OMF	665,166	9.34%	514,863	9.50%
Unicredit Bank Austria AG - custody account	547,341	7.69%	435,910	8.04%
Kapitalni fond d.d.	406,842	5.71%	321,804	5.94%
Raiffeisen OMF	375,448	5.27%	197,766	3.65%
AZ Profit DMO	115,779	1.63%	51,862	0.96%
Zagrebačka banka d.d. - custody account	79,849	1.12%	118,475	2.19%
Treasury account	177,511	2.49%	177,511	3.28%
Other shareholders	1,689,676	23.75%	1,520,928	28.05%
Ukupno	**7,120,003**	**100.00%**	**5,420,003**	**100.00%**

NOTE 28 – RESERVES

(in thousands of HRK)	Reserves for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Total
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**
	-	-	-	-	-	-
At 1 January 2015	67,604	16,543	298,138	43,956	41,299	467,540
Allocation of profits (i)	80,000	14,388	-	3,051	3,190	100,629
Share capital increase (note 27 (ii))	-	-	(108,400)	-	-	(108,400)
Additional purchase of NCI	-	-	-	-	88,962	88,962
Exchange differences	-	-	-	-	1,334	1,334
Actuarial losses (net of tax)	-	-	-	-	(225)	(225)
At 31 December 2015	**147,604**	**30,931**	**189,738**	**47,007**	**134,560**	**549,840**

The legal reserve is required under Croatian law according under which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares, as well as reserves for reinvested profits, are non-distributable. Other reserves mainly comprise statutory reserves recorded in accordance with the Company's Articles of Association and foreign exchange translation reserves.

(i) Transfers within capital and reserves

In 2015 the General Assembly adopted a decision to allocate the Company's profit from 2014 in the amount of HRK 201,674 thousand into legal reserves in the amount of HRK 10,084 thousand, reserves for treasury shares in the amount of HRK 80,000 thousand and other reserves in the amount of HRK 3,190 thousand while the amount of reinvested profit reserve of HRK 108,400 thousand was registered as an increase in share capital from reinvested profits.

During 2015, in accordance with the decision of its General Assembly, the subsidiary Belupo d.d. transferred HRK 3,051 thousand from retained earnings to statutory reserves and HRK 4,304 thousand to legal reserves.

NOTE 29 – RETAINED EARNINGS

Movement in retained earnings is presented as follows:

	2015	2014
	(in thousands of HRK)	
At 1 January	**217,569**	**345,701**
- transfer to legal and other reserves	(100,629)	(58,528)
- reinvestment of profits	-	(162,063)
- profit for the year	397,310	92,459
At 31 December	**514,250**	**217,569**

On 22 March 2016, the Management of the Company proposed a decision to allocate the profit of the Company for 2015 which amounted to HRK 156,972 thousand whereby HRK 56,821 thousand is proposed to be used to cover accumulated losses while HRK 5,007 thousand is proposed to be transferred to legal reserves. Management also proposed a dividend to the shareholders in the amount of HRK 7 per share while the remainder of the profits it to be transferred to other reserves.

NOTE 30 – NON-CONTROLLING INTERESTS

Podravka Group has non-controlling interests arising from acquisitions of 65% of ownership interest in subsidiary Farmavita d.o.o. Sarajevo in year 2008, 96.44% in the subsidiary Žito d.d., acquired during 2015 and 84.24% in the subsidiary Mirna d.d., acquired during 2015 (not deemed to be significant from the perspective of the consolidated Group). Summary financial information for the companies Farmavita d.o.o. Sarajevo and Žito d.d. Ljubljana as at 31 December 2015 (excluding consolidation eliminations) are as follows:

31 December 2015	**Farmavita**	**Žito**
(in thousands of HRK)		
Non-controlling interest	***35.0%***	***3.6%***
Statement of financial position		
Non-current assets	77,255	605,597
Current assets	128,712	374,473
Current liabilities	(103,930)	(113,587)
Non-current liabilities	(17,259)	(210,323)
Net assets	**84,778**	**656,160**
Statement of comprehensive income for the period		
Sales revenue	197,846	239,251
Profit after tax	12,374	13,214
Other comprehensive income	(71)	-
Total comprehensive income for the period	**12,303**	**13,214**
Statement of cash flows		
Net increase / (decrease) in cash and cash equivalents	**1,158**	**28,477**

The movement in non-controlling interest was as follows:

	2015	2014
	(in thousands of HRK)	
Balance at 1 January	36,605	34,040
Increase through acquistions of subsidiaries (note 41)	289,326	-
Effect of acquiring non-controlling interests	(264,166)	-
Foreign exchange differences	(8)	79
Share in current year profit	5,955	2,486
Balance at 31 December	**67,712**	**36,605**

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

	2015	2014
	(in thousands of HRK)	
Interest rate swap	2,469	2,752

31.12.2015	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
SWAP 1 - EBRD	25,671	20,540	1,637	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
SWAP 2 - EBRD	25,671	20,540	832	06.02.2015.	16.08.2019.	3M EURIBOR	0.19%
	51,342	**41,080**	**2,469**				

31.12.2014	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
SWAP - Tranche A	-	-	221	16.11.2012.	16.12.2015.	3M EURIBOR	0.50%
SWAP - Tranche B	-	-	1,771	16.11.2012.	16.12.2015.	3M EURIBOR	0.63%
SWAP - EBRD (A+B)	25,671	24,645	760	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
	25,671	**24,645**	**2,752**				

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

During 2014 the Group entered into an 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. During 2015, 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 as shown in the table above.

Fair value measurement

The fair value of interest rate swaps is based on projections of discontinued cash flows based on terms and maturities of underlying contracts and with market interest rate for a similar instrument at a measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate. According to inputs used, fair value measurement is classified as level 2 in the fair value hierarchy (see note 6).

NOTE 32 – BORROWINGS

	2015	2014
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	328,415	272,250
Banks abroad	422,756	474,560
Finance lease	1,073	2,203
	752,244	**749,013**
Current borrowings		
Banks in Croatia	211,832	150,221
Banks abroad	245,991	173,669
Finance lease	1,721	1,652
	459,544	**325,542**
Total borrowings	**1,211,788**	**1,074,555**

During 2014, the Group refinanced a significant portion of borrowings with the new long term syndicated loan from EBRD and three business banks in 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 upon the bank's request.

Bank borrowings in the amount of HRK 760,500 thousand (2014: HRK 824,334 thousand) are secured by mortgages over the Group's land and buildings with a carrying value of HRK 593,840 thousand (note 19).

The finance lease liabilities of the Group are as follows:

	Minimum lease		Finance cost		Present value	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
			(in thousands of HRK)			
Up to 1 year	1,819	1,803	(98)	(151)	1,721	1,652
Between 1 and 5 years	1,112	2,292	(39)	(89)	1,073	2,203
After 5 years	-	-	-	-	-	-
Total	**2,931**	**4,095**	**(137)**	**(240)**	**2,794**	**3,855**

	2015	2014
Included in the consolidated financial statements within:		
Current borrowings	1,721	1,652
Non-current borrowings	1,073	2,203
	2,794	**3,855**

NOTE 32 – BORROWINGS (CONTINUED)

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

	2015	2014
	(in thousands of HRK)	
Between 1 and 2 years	302,026	158,045
Between 2 and 5 years	425,830	581,583
Over 5 years	26,857	12,137
	754,713	**751,765**

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

	2015			2014		
	HRK	EUR	Other	HRK	EUR	Other
Non-current borrowings						
Banks in Croatia	3.92%	3.45%	-	3.97%	4.01%	-
Banks abroad	-	2.29%	5.30%	-	2.73%	5.30%
Finance leases	-	3.80%	8.10%	-	3.83%	8.38%
Current borrowings						
Banks	2.96%	1.30%	3.18%	3.71%	-	3.86%

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

	2015	2014
	(in thousands of HRK)	
Croatian kuna	435,745	373,398
EUR	678,372	593,753
Other currencies	100,140	110,156
	1,214,257	**1,077,307**

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:

	2015	2014
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	130,670	128,075
	130,670	**128,075**

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	Vacation accruals	Retirement benefits	Termination benefits and bonuses	Legal cases	Total
As at 31 December 2014						
Non-current	10,562	-	13,116	-	16,114	39,792
Current	2,008	8,850	268	22,782	236	34,144
At 1 January 2015	**12,570**	**8,850**	**13,384**	**22,782**	**16,350**	**73,936**
Increase of provisions	2,517	11,771	2,669	29,384	8,909	55,250
Effect of acquistion of subsidiaries (note 41)	4,874	-	10,717	-	-	15,591
Utilised during the year	(3,064)	(8,190)	(1,175)	(28,471)	(446)	(41,346)
At 31 December 2015	**16,897**	**12,431**	**25,595**	**23,695**	**24,813**	**103,431**
Non-current	14,939	2	25,524	-	23,661	64,126
Current	1,958	12,429	71	23,695	1,152	39,305
	16,897	**12,431**	**25,595**	**23,695**	**24,813**	**103,431**

(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 consolidated statement of comprehensive income within 'Administrative expenses'. Based on the expert opinion of legal counsels, the Group's 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 2015.

(ii) Termination benefits and bonuses

As at 31 December 2015, the Group recognised HRK 8,674 thousand of provisions for bonuses to key management (2014: HRK 7,463 thousand). Furthermore, during 2015 the Group recognized an expense in the amount of HRK 15,021 thousand relating to payment of termination benefits to redundant 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. No other post-retirement benefits are provided. 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:

	Estimate 2015	2014
Discount rate	3,8% - 4,1%	3,8% - 4,0%
Fluctuation rate	4,36% - 9,46%	4,9% - 10,0%
Average expected remaining working lives (in years)	21	21

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

	2015		**2014**	
(in thousands of HRK)	**Jubilee awards**	**Retirement benefits**	**Jubilee awards**	**Retirement benefits**
At 1 January	12,570	13,384	13,148	14,425
Acquisition of subsidiaries	4,874	10,714	-	-
Current service cost	520	1,306	715	476
Interest expense	430	472	426	430
Actuarial gains	654	281	295	(956)
Benefits paid	(2,151)	(562)	(2,014)	(991)
At 31 December	**16,897**	**25,595**	**12,570**	**13,384**

NOTE 34 – OTHER LONG TERM LIABILITIES

	2015	2014
	(in thousands of HRK)	
Deferred income on government incentives	19,611	-
	19,611	**-**

Deferred income on government grants relates to non-monetary government grant to subsidiary in Slovenia and it is based on the amount of contributions for the employment of disabled persons.

In accordance with the relevant regulations, the forementioned grant is not paid into the government budget and it can be used for the acquisition of qualifying non-current assets during three years' period. The amount of unpaid contribuitons is then recognized as deferred income and transferred to profit or loss on a systematic basis over the useful life of the related assets. If the grant is not used for the acquisition of non-current asseets within the prescribed period, unpaid contributions become payable.

The amount of deferred income on government grants that is expected to be transferred to profit or loss in the period of up to one year on a basis of depreciation of qualifying assets, or the amount of unpaid contributions, which will not qualify as a government grant and will become payable within one year, is recognized as a current liability in trade and other payables.

NOTE 35 – TRADE AND OTHER PAYABLES

	2015	2014
	(in thousands of HRK)	
Trade payables	565,540	433,707
Other payables	166,429	130,215
	731,969	**563,922**

At 31 December 2015 and 31 December 2014, 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:

	2015	2014
	(in thousands of HRK)	
Salaries and other benefits to employees	82,701	54,673
Accrued expenses	50,967	37,204
Deferred income (sale and leaseback)	6,609	15,422
Taxes, contributions and other duties payable	7,577	9,355
Packaging waste disposal fee payable	2,423	2,929
Accrued interest	4,259	4,251
Advances received	1,791	515
Dividends payable	1,395	677
Other payables	8,707	5,189
	166,429	**130,215**

NOTE 36 – RISK MANAGEMENT

Categories of financial instruments are as follows**:**

	2015	2014
	(in thousands of HRK)	
Financial assets		
Long-term loans	3,665	4,103
Long-term deposits	2,819	1,199
Investments in equity instruments	12,231	2,300
Short-term loans	160	1,819
Trade receivables (including bills of exchange)	1,030,410	852,771
Cash and cash equivalents	291,877	220,478
	1,341,162	**1,082,670**
Financial assets at fair value through profit or loss		
Forward contracts	215	59
	215	**59**
Total financial assets	**1,341,377**	**1,082,729**
Financial liabilities at amortised cost		
Finance lease obligations	2,794	3,855
Borrowings	1,208,994	1,070,700
Trade payables and other liabilities	569,799	437,958
	1,781,587	**1,512,513**
Financial liabilities at fair value through profit or loss		
Interest rate swap	2,469	2,752
	2,469	**2,752**
Total financial liabilities	**1,784,056**	**1,515,265**

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 other financial liabilities (excluding derivative instruments) 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 arising 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 36 – 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:

	2015	2014
	(in thousands of HRK)	
Debt (non-current and current borrowings including interest rate swap)	1,214,257	1,077,307
Cash and cash equivalents	(291,877)	(220,478)
Net debt	922,380	856,829
Equity	2,817,757	1,785,262
Net debt to equity ratio	33%	48%

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 2015 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 balance.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted an upgraded "Procedure for collection of receivables that are due", which is applied in dealing with customers and obtains sufficient collateral, where appropriate, as a means of mitigating risks of financial loss from defaults. Furthermore, the Company has 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.

The Group enters into cooperation with new customers and given the meeting of the Group's credit risk parameters, maintains cooperation with the existing ones with payment delay. Receivables are analyzed on a weekly basis and a necessary measures are taken for their collection.

Risk mitigation instruments are defined based on the financial performance ratios for individual customers collected from several sources (financial statements, credit ratings etc.). The Group's exposure and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least annually.

The Group transacts with a large number of customers from various industries and of various size. The major risk concentration is found in relation to shopping malls.

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 2015.

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management 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 financial assets and liabilities.

Liquidyity risk analysis

Tables below show contracted maturity of financial liabilities and financial assets of the Group stated in statement of financial position at the end of each reporting date.

The tables have been drawn up based on the undiscounted cash flows based on contracted terms at reporting date and include cash flow of interest and equity.

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

as at 31 December 2015	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap	**2,469**	2,469	-	2,469	-
Trade and interest payables	**569,799**	569,799	566,752	2,917	130
	572,268	572,268	566,752	5,386	130
Interest bearing liabilities					
Financial lease liabilities	**2,794**	2,931	1,819	1,112	-
Borrowings	**1,208,994**	1,275,902	488,867	760,437	26,598
	1,211,788	1,278,833	490,686	761,549	26,598
	1,784,056	1,851,101	1,057,438	766,935	26,728
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**1,030,410**	1,030,410	1,025,444	4,966	-
Forward contracts	**215**	215	215	-	-
Cash and cash equivalents	**291,877**	291,877	291,877	-	-
	1,322,502	1,322,502	1,317,536	4,966	-
Interest bearing assets:					
Long-term loans	**3,665**	4,572	1,167	3,405	-
Long-term deposits	**2,819**	3,133	514	2,619	-
Short-term loans	**160**	160	160	-	-
	6,644	7,865	1,841	6,024	-
	1,329,146	1,330,367	1,319,377	10,990	-

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidyity risk analysis (continued)

as at 31 December 2014	**Net book value**	**Contracted cashflow**	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	-
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)	**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 36 – 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)	**2015**	**2014**
EURIBOR based bank loans	303,399	400,535
EURIBOR based finance lease	2,595	3,619
MF bill of exchange based loans*	46,583	53,292
PRIBOR based bank loans**	39,557	31,894
	392,134	**489,340**

**Treasury bills issued by the Ministry of Finance*
*** 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 2015	**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	404,469	226,718	66,223	111,528	-
At current interest rates + 50 basis points	407,137	228,128	66,925	112,084	-
Effect of increase of interest rate by 50 bp	**(2,668)**	**(1,410)**	**(702)**	**(556)**	**-**

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 bp	**(4,620)**	**(1,054)**	**(1,444)**	**(2,122)**	**-**

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

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Operational risk management

Market risks

(i) Price risk

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

The cost of raw materials can play a significant role in the cost of finished products it produces, therefore, it is subject to fluctuations in market prices of food raw materials, whose impact cannot always be mitigated through the sale price for the buyer.

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

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 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 Company, through managing the strategic procurement categories and key suppliers, is aiming to develop partnerships with long term suppliers, as well as relationships with new suppliers on 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).

Pharmaceuticals segment is exposed to the risks of changes in prices of prescription drugs, ie, restrictions on the sale price by the regulator. In addition to the communication with the regulator and coordination with other market participants, Group is unable to actively manage this risk.

(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**	
	2015	**2014**	**2015**	**2014**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	841,889	716,724	503,530	231,247
Bosnia and Herzegovina (BAM)	85,904	101,825	164,518	161,449
Poland (PLN)	19,601	22,053	61,287	44,719
Russia (RUB)	2,976	-	78,700	107,657
Czech (CZK)	52,541	45,106	19,921	19,137
Other currencies	32,544	42,103	137,801	119,909

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.

In addition, by defining the internal policy of foreign exchange risk associated with early warning indicators, and the starting of the project aimed at centralizing management of corporate risk management (Enterprise Risk Management) at the end of 2014, the Company has decided to proactively manage key risks (including currency risks).

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

(ii) Currency risk (continued)

Exchange rate risks arise from operation of subsidiary companies in foreign markets and the purchase of food raw materials in the international market which is in Euro and US dollar. Similarly, the Podravka Group has a significant part of borrowings denominated in foreign currencies. During 2015, the Croatian Kuna exchange rate has remained stable and has stopped slowly sliding of average exchange rate to higher levels at the level of the whole year.

Pharmaceuticals segment is generating a significant portion of its revenues on the Russian market and is therefore exposed to fluctuations in exchange rates RUB, whose volatility during 2015 was extremely high with the strong depreciation pressures. From 31 December 2015 up to the date of this report, the exchange rate of the Russian ruble to the Croatian kuna weakened by approximately 20% (2014: 26%). Taking into account the current political environment in Russia and Ukraine, the Group is closely monitoring development of the situation and has implemented additional measures for currency risk management (including entering into forward agreements and price adjustments denominated in Russisan ruble) in order to effectively monitor and minimize the currency risk stemming from its exposure to the Russian ruble.

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 Dec 2015	31 Dec 2014
EUR	7.6350	7.6615
BAM	3.9037	3.9172
PLN	1.7990	1.7780
RUB	0.0957	0.1188
CZK	0.2826	0.2764

The following table details the Group’s sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies where the Group has significant exposure (EUR, PLN, CZK, BAM), and to a 20% increase against the rouble in 2015. 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 Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR exposure		CZK exposure	
	2015	2014	2015	2014
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	(3,384)	(4,855)	(326)	(260)

	BAM exposure		PLN exposure	
	2015	2014	2015	2014
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	786	596	417	227

	RUB exposure	
	2015	2014
	(in thousands of HRK)	
Increase/(decrease) of net result	15,145	32,297

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

Sales function based risks

The Group generates approximately 37% (2014: 41%) of its revenue on the domestic market, whereas around 63% (2014: 59%) of the 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 is at the same time the maximum sales 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 Group is making efforts in terms of harmonisation and optimisation of existing pricing policies and levels on existing EU and CEE markets in order to ensure a basis for successful long-term growth and to avoid profit margin erosion.

NOTE 37– SHARE-BASED PAYMENT TRANSACTIONS

(i) 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	5,000	Service during the contracted vesting period	31.12.2015.
	8,000	Service during the contracted vesting period	31.12.2016.
As at 31 December 2011	5,000	Service during the contracted vesting period	31.12.2015.
	8,000	Service during the contracted vesting period	31.12.2016.
As at 24 Februray 2012	16,000	Service during the contracted vesting period	31.12.2017.
As at 24 Februray 2012	1,000	Service during the contracted vesting period	31.12.2016.
As at 24 Februray 2012	1,000	Service during the contracted vesting period	31.12.2016.
As at 23 December 2013	5,300	Service during the contracted vesting period	18.7.2017.
As at 3 January 2013	2,000	Service during the contracted vesting period	31.12.2016.
As at 9 October 2014	2,500	Service during the contracted vesting period	31.12.2018.
As at 1 January 2014	2,000	Service during the contracted vesting period	31.12.2018.
As at 23 December 2013	5,300	Service during the contracted vesting period	18.7.2017.
As at 23 December 2013	18,020	Service during the contracted vesting period	31.12.2018.
As at 25 April 2012	2,000	Service during the contracted vesting period	30.6.2016.
As at 12 February 2013	5,300	Service during the contracted vesting period	31.12.2018.
As at 28 December 2014	21,444	Service during the contracted vesting period	31.12.2019.
As at 9 October 2014	4,500	Service during the contracted vesting period	31.12.2019.
As at 3 January 2013	2,000	Service during the contracted vesting period	31.12.2017.
As at 12 February 2013	5,000	Service during the contracted vesting period	31.12.2019.
As at 25 April 2012	2,000	Service during the contracted vesting period	30.6.2017.
As at 31 December 2015	28,089	Service during the contracted vesting period	31.12.2020.
As at 31 December 2015	2,000	Service during the contracted vesting period	31.12.2018.
As at 16 July 2013	2,000	Service during the contracted vesting period	30.6.2018.
As at 24 July 2015	6,938	Service during the contracted vesting period	31.12.2020.
Total share options	**160,391**		

NOTE 37 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Employee share options (continued)

Fair value measurement

The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the 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	**2015**	**2014**
Fair value at grant date (weighted average)	74	77
Share price at grant date (weighted average)	283	265
Exercise price (weighted average)	283	277
Expected volatility (weighted average)	23%	25%
Expected life (weighted average in years)	4.5	4.5
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds)	8.38%	5.26%

Expense recognised in profit or loss	**2015**	**2014**
	(in HRK thousands)	
Equity-settled share-based payment transactions	1,859	1,219

The exercise price of stock options for key management is in the range HRK 218 to HRK 319.

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

	2015		**2014**	
	Number of options	**Weighted average excercise price**	**Number of options**	**Weighted average excercise price**
Outstanding at 1 January	164,578	277	144,920	273
Exercised	(23,000)	-	-	-
Expired	(20,214)	-	(31,000)	-
Granted	39,027	283	50,658	265
Outstanding at 31 December	**160,391**	**283**	**164,578**	**277**
Exercisable at 31 Dec	**160,391**		**164,578**	

As at 31 December 2015, there are 160,391 of outstanding options (2014: 164,578 options). In 2015 23,000 options was exercised. In 2014 there were no options that were exercised.

The weighted average exercise price of outstanding options at the end the year is HRK 283 (2014: HRK 277). The weighted average remaining validity of options is 4.5 years at year end (2014: 4.5 years).

NOTE 37 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(ii) Program of organized employee shareholding

In accordance with the decision of the General Assembly dated 3 June 2015, the Group launched an Employee Stock Ownership Programme (ESOP) for the part of the Group which consists of Podravka d.d., Danica d.o.o., Belupo d.d. and Deltis Pharm Pharmacies. ESOP includes giving rights to workers of the Company to the primary subscription and payment of shares in the share capital increase by public offering, conducted in June 2015. The program also includes a system of rewarding employees who have acquired shares in the first round of public offering in such a way that if a worker-shareholder retains all acquired shares for two years, he will receive one additional share for every ten acquired, and if shares are retained for three years, he will receive two additional shares for each ten acquired.

A total of 88,475 shares were registered in ESOP. The fair value of the shares at the date of issue amounted to HRK 300 and exercise price of additional shares was also HRK 300. The Group recognized HRK 7,963 thousand of expenses based on ESOP within other financial expenses.

NOTE 38 – RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries are eliminated through consolidation and are not presented in this note.

Transactions with key management and Supervisory Board members

	2015	2014
	(in thousands of HRK)	
Key management remuneration		
Salaries and severance payments	44,145	38,781
Share-based payments (note 37 (i))	1,859	1,219
	46,004	**40,000**

Key management of the Group comprises the Management Board and executive directors and consisted of 73 persons (2014: 51 persons).

During 2015, a total of HRK 1,474 thousand (2014: HRK 1,736 thousand) was paid as compensation to members of the Supervisory Board of the Company.

NOTE 39 – CONTINGENT LIABILITIES

	2015	2014
	(in thousands of HRK)	
Guarantees and warranties given	30,968	9,964
	30,968	**9,964**

Guarantees and warranties mainly relate to the potential liability of Podravka d.d. on the basis of statement of joint guarantee for the obligations of the main shareholders of Žito d.d. issued in favor of minority shareholders, customs guarantees of Podravka d.d. and Belupo Group, guarantees for the Concession Contract for the extraction of drinking water, guarantees for transit procedures, and partly relate to 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 the Management Board estimated that, as at 31 December 2015 and 2014, it is not probable that they will result in liabilities for the Group.

NOTE 40 – COMMITMENTS

In 2015, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 203,254 thousand (2014: HRK 36,285 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, refrigerator show-cases and IT equipment are as follows:

	2015	2014
	(in thousands of HRK)	
Up to 1 year	17,466	21,693
From 1 to 5 years	23,389	19,715
	40,855	**41,408**

NOTE 41 – AQUISITION OF SUBSIDIARIES

(i) Acquisition 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 and which have been written off entirely in previous years.

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.

After the hearing at the Commercial Court in Rijeka, subsequent to the settlement of the significant portion of overdue receivables of Mirna d.d. and to the provision of guarantee by Podravka d.d. to cover the remainder of creditors' claims, it was determined that there were no further grounds to initiate bankruptcy proceedings over Mirna d.d. since the company became solvent and its accounts were no longer seized.

Due to the fact that at that date a significant part of the limitations related to the governing of Mirna d.d. by the Group was no longer in effect, as a result of the change in circumstances the Group considers that it acquired control over Mirna d.d. at that date. Consequently, the Group performed a first-time consolidation of Mirna d.d. on 31 March 2015 and during 2015 acquired additional 20.29% of shares for consideration of HRK 2,910 thousand.

NOTE 41 – AQUISITION OF SUBSIDIARIES (CONTINUED)

(i) Acquisition of Mirna d.d. Rovinj (continued)

Fair value of acquired assets and liabilities at the date of acquisition was as followed:

(in thousands of HRK)	**Carrying amount**	**Increase / (decrease)**	**Fair value**
Intangible assets	144	3,300	3,444
Property, plant and equipment	13,949	95,184	109,133
Inventories	16,353	800	17,153
Trade and other receivables	3,109	-	3,109
Cash	72	-	72
Long term liabilities	(15,725)	(20,497)	(36,222)
Short term liabilites	(55,754)	-	(55,754)
Net assets acquired	**(37,852)**	**78,787**	**40,935**
Attributable share (63.95%)			26,178
Consideration paid			1,413
Gain from bargain purchase			**24,765**

Determining fair value of acquired assets and liabilities

For the purpose of initial consolidation of the company Mirna d.d., the Group recognized the acquired assets and liabilities in the consolidated statement of financial position at fair value based on the methods and valuation techniques as follows:

- *Intangible aseets*

  The fair value of intangible assets which mainly consist of the brands is determined on the income method based on implied royalty according to the report of an independent valuer.

- *Property, plant and equipment*

  Fair values of property, plant and equipment recognized as a result of a business combination are based on fair value estimates made by an independent professional valuer (for land and buildings) and by internal valuers (for equipment).

Fair value of property is determined using the following methods:

- Residual values method for construction land: the fair value is based on future market value of developed real estate less cost of construction, fees, related costs and accrued profits.
- Income method for business premises: the fair value is based on pure achievable annual rental income from the property, less management and maintenance costs.
- Comparative transactions method for non-construction land: fair value is based on sale values achieved in the sale of comparable land in a relatively recent period using the data from the valuers' archives, specialized press, real estate agents, the State Bureau of Statistics as well as from other available sources.
- Value in use for equipment: the fair value is based on the estimate of value in use by internal valuers.
- Buildings, except those valued using the income method, are mainly related to facilities located on the construction land in the tourist or mixed-purpose building zones and the fair value of the land and related bulidings is accordingly fully allocated to the value of the underlying land.

NOTE 41 – AQUISITION OF SUBSIDIARIES (CONTINUED)

(i) Acquisition of Mirna d.d. Rovinj (continued)

Determining fair values of acquired assets and liabilities (continued)

- *Inventories*

  The fair value of inventories acquired in a business combination is based on the estimated selling price of inventories in the ordinary course of business, less the estimated costs to sell the inventories.

- *Short term receivables and short term liabilities*

  Trade receivables, other receivables, trade payables and other payables are carried at their nominal value less impairment losses and are approximately equal to their fair value, since they are short-term in nature.

- *Long term liabilities*

  Long-term liabilities are carried at amortised cost and are approximately equal to their fair value as they mainly relate to loans that bear interest rates approximating market interest rates and to long-term provisions for employee benefits which are discounted to their present value.

  Increase in long-term liabilities at acquistion is a result of recognition of deferred tax liabilities arising from temporary differences on the initial recognition of acquired net assets at fair value.

(ii) Acquisition of Žito d.d. Ljubljana

On 21 April 2015 Podravka d.d. acquired 51.5% of ordinary shares of Žito d.d. through a share purchase agreement at a price of EUR 180.1 per share totaling HRK 252,303 thousand. Subsequent to meeting the conditions precedent of the Agreement, the transaction was finalized on 5 October 2015 with KDD (Central Securities Clearing Corporation of Slovenia). Consortium of the sellers consisted of Slovenski državni holding d.d. and Modra zavarovalnica d.d., KD Kapital d.o.o., KD Skladi d.o.o., Adriatic Slovenica d.d. and NLB Skladi d.o.o.

On 22 October 2015, in accordance with the regulations of the Republic of Slovenia, Podravka d.d. announced a public offer for takeover of all of the outstanding shares of Žito d.d. with an excersize period from 23 October 2015 to 23 November 2015.

Upon completion of the public offer, Podravka acquired an additional 35.3% shares in Žito d.d. for consideration of HRK 172,294 thousand and became the owner of 86.8% of the shares of Žito d.d., thus increasing the total cost of acquistions of ownership interests in Žito d.d. to HRK 424,597 thousand.

Since the subsidiary companies of Žito d.d. hold an additional 10% of shares of Žito d.d., i.e. treasury shares from the perspective of the Group, the effective ownership of the Group over Žito d.d. (including treasury shares) as at 31 December 2015 amounts to 96.4%.

On 19 January 2016, the General Assembly of Žito d.d. was held whereby the minority shareholders were excluded from the company and the shares were delisted from the Ljubljana Stock Exchange. By registering the decisions above in the court registry, Podravka d.d. will complete the acquisition of all of the shares of Žito d.d. during 2016.

NOTE 41 – AQUISITION OF SUBSIDIARIES (CONTINUED)

(ii) Acquisition of Žito d.d. Ljubljana (continued)

Fair value of acquired assets and liabilities at the date of acquisition was as followed:

(in thousands HRK)	**Carrying amount**	**Increase / (decrease)**	**Fair value**
Intangibles	908	59,553	60,461
Property, plant and equipment	469,480	48,274	517,754
Long term financial assets	12,005	878	12,883
Deferred tax assets	13,067	-	13,067
Inventories	137,446	(703)	136,743
Assets held for sale	6,899	(2,335)	4,564
Trade receivables and other receivables	197,274	(9,794)	187,480
Cash	16,379	328	16,707
Long term liabilities	(110,917)	(19,973)	(130,890)
Short term liabilities	(176,201)	-	(176,201)
Net assets acquired	**566,340**	**76,228**	**642,568**
Attributable share (57.27% including treasury shares)			367,999
Consideration paid			252,303
Gain from bargain purchase			**115,696**

Determining fair value of acquired assets and liabilities

For the purpose of the first-time consolidation of the Žito d.d., the Group recognized acquired assets and liabilities in the consolidated statement of financial position at fair value based on the methods and valuation techniques as follows:

- *Intangible assets*

  Intangible assets consist of brands and distribution rights. The fair value of brands is determined using the income method based on implied royalty as estimated by an independent valuer, while the value of the distribution rights is estimated on the basis of the so-called "with or without method", i.e. based on the projected cash flows with or without the agreement being in place.

- *Property, plant and equipment*

  The fair values of property, plant and equipment and assets classified as held for sale recognized as a result of the business combination are based on the estimates of fair values as assessed by an independent expert valuer.

  The fair value of property is determined using the following methods:

  - Comparative method for land: fair value is based on sale values achieved in the sale of comparable land in a relatively recent period using the data from the valuers' archives, specialized press, real estate agents, the State Bureau of Statistics as well as from other available sources.
  - Income method for business premises: the fair value is based on pure achievable annual rental income from the property, less management and maintenance costs.
  - The fair value of plant and equipment is determined using the depreciated replacement cost method. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence of assets being valued.

NOTE 41 – AQUISITION OF SUBSIDIARIES (CONTINUED)

(ii) Acquisition of Žito d.d. Ljubljana (continued)

- *Inventories*

  The fair value of inventories acquired in a business combination is based on the estimated selling price of inventories in the ordinary course of business, less the estimated costs to sell the inventories.

- *Long term financial assets*

  Long-term financial assets relate to shares in companies whose equity instruments are listed on the stock exchange and to a smaller extent, to equity stakes in companies not quoted on the stock exchange. The fair value of quoted equity instruments is determined based on quoted market prices at the date of acquisition.

  The fair value of unlisted equity instruments is determined using valuation techniques based on static methods of valuation of the respective company using specific industrial multiples on income, EBITDA and other relevant parameters.

- *Short term receivables and short term liabilities*

  Trade receivables, other receivables, trade payables and other liabilities are carried at their nominal value less impairment losses and are approximately equal to their fair value, since they are short-term in nature.

- *Long term liabilities*

  Long-term liabilities are carried at amortised cost and are approximately equal to their fair value as they mainly relate to loans that bear interest rates approximating market interest rates and to long-term provisions for employee benefits which are discounted to their present value.

  Increase in long-term liabilities at acquistion is a result of recognition of deferred tax liabilities arising from temporary differences on the initial recognition of acquired net assets at fair value.