ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
PODRAVKA GROUP 2016

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PODRAVKA GROUP IN 2016

Important business events

INVESTORS DAY

The fourth Investors day of Podravka Group was held at Podravka, intended for investors and analysts tracking Podravka's business. Podravka Group tries to continuously build and advance relations with investor community which is important for several reasons. Namely, by purchasing and selling Podravka stocks, they have a direct influence on share price.

With representing company results, acquisition of Žito Group was presented, where reasons for the acquisition as well as specific benefits of such business decision for Podravka were presented.

CONTINUED INTEGRATION OF ŽITO INTO PODRAVKA GROUP

At Supervisory Board session of Žito d.d., newly elected president of the Supervisory Board is Zvonimir Mršić, Management Board president of Podravka d.d. The Supervisory Board of Žito d.d. gave consent to acquiring business share of the company Podravka d.o.o., Ljubljana by Žito d.d., thus officially marking the beginning of the integration process of Žito d.d. into the system of Podravka Group, after Podravka d.d. recently became 100% owner of Žito d.d. Complete effects of integration of Žito d.d. into Podravka Group system is expected in 2019 and estimated at about EUR 5 million at EBITDA level of Podravka Group. Supervisory Board approved consensual withdrawal for three present members of Žito d.d. Management Board who retain a job at Žito d.d. as executive directors. Pursuant to the resolution passed by the Supervisory Board, Žito d.d. Management Board consists of two members. Janez Bojc remains Žito d.d. Management Board president, while new Management Board member is Milan Tadić, senior vice-president of Podravka d.d. for Adria region.

ŽITO D.D. SHARES WITHDRAWN FROM STOCK MARKET

Žito d.d. as a company had their shares listed at the Ljubljana Stock Exchange for a number of years and it decided to withdraw its shares from the stock market. The company proceed with such action after having paid out and squeezed out small shareholders from the ownership structure, after which Podravka d.d. took over the majority share in the company.

COMPANY INCENTIVE PAID FOR SUCCESSFUL BUSINESS OPERATIONS IN 2015

- All together we have shown that only together we can achieve results that a lot bigger companies would envy us on. We have proved that we workers, along with out brands, are the strongest competitive advantage that we often use to beat a lot more powerful companies in the market. A time of great new challenges and further strengthening of the company is ahead of us, aiming to create the biggest international company headquartered in Croatia. Contribution of each of us is of great importance for our company. Therefore we creatively and innovatively continue to win the trust of our consumers around the world, and thus achieve great results! – Zvonimir Mršić, Management Board president said on the occasion of paying company incentive to the workers.

IN COOPERATION WITH ADRIATIC GROUP, PODRAVKA STRENGTHENS THE PLACEMENT OF ITS PRODUCTS IN EUROPE REGION

With this contract on cooperation and placement of Podravka products for EU markets, via channels of Adriatic Group GmbH from Vienna, Adriatic Group becomes a distributer of Podravka products for markets of Germany, Austria, Switzerland, France, the Netherlands, Belgium and Luxemburg.

- Aiming to further internationalize our company and to achieve stronger presence of Podravka products in the region of Europe, we have decided to cooperate with renowned company Adriatic Group. We believe that through stated cooperation we will make an additional step forward and become even more available to consumers on those demanding markets – Zvonimir Mršić, Podravka Management Board president pointed out on the ocassion of contracting this new cooperation.

KOFOLA AND PODRAVKA SIGN SALE AND PURCHASE AGREEMENT FOR STUDENAC

Kofola ČeskoSlovensko, one of the leading European soft drinks producers and distributors, and Podravka d.d., signed Sale and Purchase Agreement (SPA) for acquiring business share in Studenac d.o.o. producer of traditional mineral water brand.
- Podravka's growth and development are based on business programs with international perspective and considering that this business program is locally oriented, we have decided to disinvest the beverages segment. We have carefully started the process of selecting a company with serious intentions to advance the current business operations of the stated program, taking into account the employees rights in the process. I am pleased to announce that we have found such a partner in the company Kofola ČeskoSlovensko, and the process of beverages disinvesting is hereby successfully concluded – Podravka Management Board president Zvonimir Mršić said.

After divesting of the beverages business by the end of the year 2016, Podravka d.d. will continue to develop food and pharma portfolio directing additional resources for internationalisation of the main brands in alignment with the Company strategy. Further on, by choosing Radenska d.o.o., as reputable producer of soft drinks and mineral water in the region, and part of the Kofola group, Podravka showed care about future production and safe work places for all employees in Lipik with protection of their rights granted under Collective Agreement of Podravka Group for the next period of 18 months.

PODRAVKA SIGNS A CONTRACT ON LOAN WITH EBRD AND FOUR COMMERCIAL BANKS, RECEIVING THE MOST FAVOURABLE TERMS IN THE REGION

With this new financial deal Podravka additionally strengthens its financial position and creates preconditions for further growth on international market. A contract on syndicated loan was signed between Podravka d.d., Belupo d.d. and Žito d.d. as the user and European Bank for Reconstruction and Development as the arranger (including Unicredit Slovenia through A/B structure) and four commercial banks: Privredna Banka Zagreb d.d., Raiffeisenbank Austria d.d., SKB d.d. and Erste &Steiermarkische Bank d.d. as creditors. Total value of this financial deal is EUR 123 million and the funds have been approved to Podravka for the six year period with extremely favourable interest rate and currently the most favourable crediting terms in the Adria region. Funds approved are intended for refinancing of existing loan liabilities and for further capital investments and possible acquisitions.

AFTER 10 YEARS PODRAVKA PAYS OUT DIVIDEND

As suggested by the Management and Supervisory Boards of Podravka, and adopted by the General Assembly, on 16th September dividend payment was started, amounting to HRK 7 gross per share. After 10 years, dividend payment is a result of successful business, increase in internal business efficiency, financial position stabilization and excellent results realised with the purpose of further business internationalization.

FOOD SOLUTION – NEW BUSINESS SEGMENT

New business segment called *Food Solution* was presented, intending to make a breakthrough in the Horeca segment, making the customers their jobs easier, and helping them in the way that when buying new products they achieve permanent quality of their service, with certain business savings. Recently built Food Solution factory, specialized for production of fresh made and semi-ready meals, extends on 1500 m^2 and is equipped with modern high-quality equipment for food cooking and preparation. Constructed according to highest international standards in food industry, it adheres to all ISO and HACCP standards and plans, and other food safety procedures. Currently the offer holds 130 different products (meals) which are intended, among others, to institutions, retail chains and companies having own corporate restaurants. They are all fresh-made ready or semi-ready meals, of high-quality raw materials and flavours, without preservatives, stabilizers or additional additives. By special rules of preparation and packaging, adhering to certain temperature regimes, durability is achieved, without losing quality in the process regarding nutritive composition, flavour and aroma of food.

ŽITO TRANSFORMS FROM D.D. TO D.O.O.

Žito d.d. is transformed and as of 1st October performs its business operations as Žito d.o.o.. Pursuant of this new organization, the company no longer has Management Board, but two-member management, Janez Bojc as general manager and Milan Tadić as director.

FINAL STAGE OF CONSTRUCTING THE FACTORIES OF THE FUTURE IN 2016

Within new investment cycle, the construction and equipping two new factories is being completed – for solid, semisolid and liquid forms of medications, from whose production facilities in mid 2017 new packages of medications will be launched to Croatian, but also to 16 European markets. Construction of the two new Belupo factories, into which approximately HRK 500 million is invested, is currently the biggest greenfield investment in Croatia. The investment is partially financed from own funds, but also from the loan by the Croatian bank for reconstruction and development. New Belupo factories of the future, as they are called within the company, will be equipped with the latest technology in pharmaceutical industry and will increase the existing production capacities by 1.5 times. In mid 2017 production license can be expected. The factory will then open its door to its new, but also existing employees. Opening of about 100 new jobs is expected for highly educated and high-school degree experts from the area of pharmacy, chemistry and technical jobs.

LUNCH FOR TOMORROW: NEW START OF FAVOURITE CULINARY SHOW

Lunch for tomorrow – favourite TV show records more viewers from one season to the next, and this is why the verified and successful team of Podravka and NovaTV decided to surprise the viewers with a new, refreshed issue of the show. Culinary TV series "Lunch for tomorrow" with Podravka entered its fourth season, opened by Iva Pehar, winner of last year's Masterchef. To recap, Ipsos Puls research for 2015 showed that "Lunch for tomorrow" is among the most viewed culinary shows.

SIGNIFICANCE OF THE MARKET OF BOSNIA AND HERZEGOVINA FOR PODRAVKA EMPHASIZED AT 19TH MOSTAR FAIR

Podravka's exhibition area at the 19th Mostar Fair was visited by Croatian president Kolinda Grabar Kitarović, accompanied by Mostar Fair director Dalfina Bošnjak and other high ranking officials. International Economy Fair in Mostar has become the most successful fair exhibition in B&H, and this year's country partner is the Republic of Turkey. Mayor Bešlić emphasized the positive effect that participation of Podravka and Croatian entrepreneurs leaves to the impressions that the visitors, but also exhibitors from around the world gather during the fair. Bešlić reminded that the cooperation between Mostar, Podravka and Koprivnica-križevci county lasts since the first issue of the Mostar Fair in 1997.

SUCCESSFUL APPEARANCE OF PODRAVKA AT MOSCOW FAIR

Podravka presented its products and business options at 23rd International fair of food products "ProdExpo 2016", making an individual appearance at the exhibition area and winning a gold medal and degree in the contest "The best product - 2016". Podravka presented a wide product range. Visitors were presented with a new line of bio products under brands Natura and Zlato Polje of manufacturers Žito from Slovenia which completely correspond to all international quality standards and have European Eco-certificate for organic products and are already present on the shelves of some chains in Russia. Another important event of the fair was an international competition "the best product – 2016", where Podravka won a gold medal and degree for all purpose food seasoning with vegetables Vegeta and for Ground Paprika.

BRITISH MASTERCHEF THRILLED BY PODRAVKA'S HISTORY AND ITS PRODUCTS

Dhruv Baker, British culinary star, travelling Croatia in the role of a host of the first great Croatian gastronomic travelogue in English language – Croatia's finest, also visited Podravka. Famous British chef is filming 20 TV shows, one of which was recorded in Koprivnica and Podravka.

- You cannot come to Croatia and not to hear about Podravka, primarily for the wide range of products it has in the market, he said, hanging out with Podravka's culinary promotors at Pivnica Kraluš and Podravska klet, tasting various meals and preparing some himself.

Lino startas running shoes promoted at 10th finals of Lino all-rounder

The finest all-rounders from 24 schools from all Croatian counties for the tenth time in a row dueled their sport talents at the finals of Lino all-rounder. The grand final of this project that gathered more than 24,500 pupils during the school year 2015/16, was joined by pupils from Bosnia and Herzegovina, and all together they told one of the most beautiful sport stories in these areas. Positive atmosphere and the vastness of children's joy won over also the top sportsmen who came to hang out with children.

- The finals in Koprivnica is a crown of the joint project of Podravka and Sportske novosti which in the 10 years as it is being held confirmed itself as a unique festival of childrens' joy, optimism and winning spirit. During the course of 10 years, more than 220,000 children participated in this project. Lino tells them to be what they want, and to be what you want you have to believe in yourself, you have to be prepared to spend every part of your free time actively and to absorb the knowledge surrounding you, Zvonimir Mršić Podravka Management Board president said.

Jubilary Lino all-rounder was an ideal opportunity to present Lino startas running shoes as a part of a joint project by Podravka and Borovo, and the first Lino startas were received as a gift by all the contestants at the finals.

8th cool gathering held

For the eighth year in the row, in its gastronomic center Štagelj Podravka hosted the "Cool gathering". Users of the web site Coolinarika proved enthusiastic about visiting this event this year as well, which gives them an opportunity to meet their online friends in real life. About 150 guests from various countries participated at this year's gathering. During the event the guests could enjoy the gastronomic offering inspired by favourite recipes of Coolinarika users, which were prepared with Podravka's products. Owing to the faithful visitors, who are also the creators of the content, Coolinarika.com has become a standard of online culinary content and a right hand of every fan of good food in the region. After 11 years of its existence, almost 150,000 registered users and around 160,000 published recipes, it outgrew the role of culinary portal and became a place of inspiration, socializing and fun, and an oasis for relaxation and an opportunity to exchange personal experiences with the people from all over the world.

Business hackathon surpassed all expectations

Organized by Podravka and Microsoft Croatia, with partners Comping and Maistra, the first Business Hackathon was held. A total of 20 business and IT experts from Podravka, Microsoft, Comping and Maistra worked on developing a system of online ordering Podravka meals from the Food Solution segment. The innovation in the system being developed lies in predictive analytics, i.e. predicting the food range and amounts, based on previous orders, guests profile and type of catering facility to implement the software, which will result in faster, simpler and more precise ordering of meals.

- We are very glad about this cooperation, the fact that Podravka sets trends and that the global company such as Microsoft recognized Podravka as a partner. Our ambitions are much higher and it was therefore important to prove ourselves with own capacities and to reach, not only a solution but many more new ideas - Zvonimir Mršić, Podravka Management Board president said, and added that Podravka is on its way of digital transformation, and this solution is one of the tools for making it as fast and successful as possible. Podravka's project Food Solution started recently, and it is about a production of ready-made meals for hotels and bistros according to highest nutritive standards. Leading Croatian tourist company Maistra is also convinced of the quality of this solution, because of which it became a partner in this Hackathon, offering its experience with guests and ordering meals as a template for teams work in these two days.

RECORD PRODUCTION OF AJVAR ON MODERN PRODUCTION LINE AT KALNIK FACTORY VARAŽDIN

Kalnik factory production plan has increased for this year by 14 percent comparing to the previous one, and records in processing of peppers are also expected. Suppliers of the raw materials for Kalnik Factory are first of all family cooperatives organizationally covered by the production organizers. Peas come from own production, beetroot from own production and producers from the vicinity of Varaždin, and other raw materials are procured mostly from the Northwestern and Eastern part of Croatia. Kalnik factory in Varaždin also received a co-financed amount of about HRK 6.2 million from the Rural development program, for the first part of the project "Vegetable factory modernization". Funds received represent 50 percent of the total investment.

PODRAVKA BREAKS RECORDS IN FIRST CLASS TOMATO PURCHASE

Podravka's Vegetable factory in Umag processes sufficient amounts of tomato for own production and the tomato is coming from Croatian fields of about 70 cooperatives, and what is specially emphasized is the record percent of first-class tomato with 5 percent dry matter. This year's tomato quality is excellent, which is a result of dedication of Podravka's team of experts and cooperatives who are continuously working on advancing agricultural and technical measures, adopting new technologies in primary raw material production, but also a result of favourable weather. Supreme quality of Podravka products was also confirmed by the Superior Taste Award won by the products Passata, Chopped tomato with basil and oregano and Chopped tomato with olive oil and garlic. Apart from the domestic market, Podravka distributes tomato-based products also to the markets of Poland, Bosnia and Herzegovina, Slovenia and Serbia.. Podravka is the biggest tomato processing company in Croatia, and in this cooperation with cooperatives this year a total of 4,500,000 tomato plants were planted on the surface of 220 acres.

FRIENDSHIP, SPORT AND PLAY – REAL VIBE WITH LINO

Ceremonious opening of the 11th season of Lino All-rounder in Ivanić-Grad confirmed that the title of the most successful and most emotional sport manifestation for children in Croatia is justified.

- We are proud that in cooperation with Sportske novosti for the 11th season in a row in elementary schools across Croatia we encourage healthy living and creativity of children and enrich their growing up. The host school was a perfect organizer, cheering and the atmosphere were fantastic, and we from Podravka were especially pleased that children who like social networks also accepted Lino Viber stickers. Particularly due to the fact that one of the illustrators for Lino stickers is a former student of this school Jurica Koletić – Marinka Akrap, director of Corporate and Marketing Communications of Podravka said.

MORE THAN 3.2 MILLION MESSAGES WITH LINO VIBER STICKERS SENT

In less than a month and a half as they were launched, more than 225,000 people downloaded Lino sticker pack, and even more important information is that more than 3.2 million messages with Lino Viber stickers were sent.

- Viber is a platform which we use for daily communication, so we wanted Lino to be a part of this daily routine. We are seeking for fun and innovative ways of communication, both as users and as experts, and considering the growing number of messages in which Lino stickers are exchanged every day, we know we have done a great job, Marinka Akrap, Corporate and Marketing Communications director said.

The project originated as cooperation between the Media integration and production department and Lino team, who recognized this channel as an obligatory part of every day communication, especially among young population.

NEW GENERATION OF HIGHLY EDUCATED TRAINEES

Continuing its present practice of employment, through the contest "SHAPE your future with a heart" Podravka again provides employment opportunities to young, highly educated people.

- You have been given the opportunity to work in the best company in the region, Podravka Management Board president Zvonimir Mršić said: - You don't have to emigrate to win the world, you can do it from Croatia, from Podravka, the company that wishes to compete with the best, which fights and wins world markets. You have been selected among great competition, and our expectations are great. Podravka is a platform which provides possibilities, and it is up to you to use them and to win the world with Podravka.

Through this program of employing highly educated trainees, Podravka enables young experts of supreme potentials and competencies to start their career on trainees positions in this successful food processing company.

PODRAVKA PRODUCTS ACHIEVE EXCELLENT RESULTS ON HALAL MARKET

Vegeta, Lino pillows, Lino lada, Kviki snack and Ajvar achieve excellent results on Halal market and along with other Halal certified products achieve continuous growth and double their sales results. World Halal Day, this year's biggest event of the Halal market, tourism and Islamic banking, was held in Opatija. Participating in the panel "Halal Market – New Global Trend", Podravka Management Board president Zvonimir Mršić said:

- Podravka is already a domestic leader with as much as 130 Halal certified products, and we maintain this leading position. We wish to increase the export market which was recognized as globally growing. In 2014 Podravka opened its company in Dubai in order to get closer to consumers with our product range. The number of consumers seeking halal products in target markets is growing, which opens great possibilities for our growth and in 5 years we aim to make the revenue from these products 10% of our total revenue.

In 2014 Podravka obtained Halal certificates for its 4 factories: Vegeta soups, Baby food and cream spreads, Fruit and Kalnik, for the total of 130 of its products. In the same year it established business in the UAE. As a new player in the market, in barely two years of existing in this market Podravka achieves continuous growth by doubling its sales results, achieving recognizability in B2B relations and continuously working on increasing recognizability among general consumer population.

FOURTH INTERNATIONAL CONFERENCE "KNOWLEDGE IN FOCUS"

Main topic of 4th International conference "Knowledge in focus" was organizational culture of learning and innovations in digital era, and as part of the conference it was also discussed about the transfer of knowledge and innovations between various cultures, learning, innovation and corporate culture in digital era, and female view on increased competitiveness of organizations through innovativeness. The conference gathered more than 200 participants who contributed through lectures, business cases, panel discussion and workshops. Organizing this conference Podravka wishes to include all of its stakeholders, into a joint process of solving problems with joint contribution and co-creation. As a socially responsible company, it wishes to encourage innovative processes, not only internally, but also in the community in which it does business. As part of the conference, rewards were given to the winning teams of the first regional Food Hackathon called "Hack the future of food", organized by Podravka in October.

PODRAVKA AT FAIR IN SAUDI ARABIA

Of all the fairs in the Middle East, HORECA has the longest tradition. Every year world manufacturers and corporations gather to present their products, and this year Podravka was among them. Considering the potential of the market and the entire region, appearing on such a fair next to biggest world names in HORECA channel is definitely a step forward for the company towards better positioning and setting a path to consumers in Saudi Arabia. Recognizable red-colour booth with a big heart attracted the attention of the visitors during the three-day fair. The complete range of represented products satisfies the provisions of HALAL certificate, and apart from enjoying Podravka meals, visitors could also taste the bread and bagels from Žito range of products.

BEST PODRAVKA EMPLOYEES AND VOLUNTEERS REWARDED

At the ceremony award held as part of the afterwork party – Thursday with Marketing, winners of the contest "I am also a Podravka employee starting initiatives" were presented. Podravka Management Board president Zvonimir Mršić congratulated the winners and presented them with the rewards:

- It is traditional that late in the year we reward Podravka employees who live Podravka values, proving that we are ready to emphasize those who we recognize as best among us. More than 750 nominations are a proof that we recognize and wish to reward the best of our colleagues from all parts of the company, Podravka Management Board president Zvonimir Mršić said.

The contest "I also start initiatives" was started in Žito this year as well. The contest "I am also a Podravka employee" continues the good practice of rewarding employees living Podravka values, and nominated are the colleagues who start various initiatives, motivate the environment with their passion or offer creative solutions bringing improvements, positive changes and create additional value for our company. The best volunteers were also pronounced, chosen by the PULS association for the first time.

STRATEGIC PARTNERSHIP BETWEEN PODRAVKA AND GAMMACHEF PRESENTED ON AN INNOVATIVE PROJECT OF ROBOT-CHEF

Founders and creators of Gammachef idea are Dražen Drnas and Đulijano Nola, and they have developed an innovative robot technology which can automatically prepare a one-pot meal. In line with its own innovation strategy and growth strategy, Podravka continuously explores the possibilities of cooperation with start-ups. The future of preparing and eating food is a global challenge, and in that segment Gammachef offers innovation and disruption, which was recognized and strategically supported by Podravka. Podravka has invested into this Gammachef project and is included in preparation of disposable food cartridges and ingredients needed for preparing meals in Gammachef. With the clear vision and striving to be a leader in the segment of innovation in food industry, Podravka is constantly exploring the possibilities and taking over the responsibility to choose and implement potential new business models.

Podravka Research and Development

Activities of Research and development sector were carried out during 2016 through the following key areas: Product development (food seasonings and meals, baby food, cream spreads and breakfast cereals, desserts, snacks and mill and bakery products; processed fruits, vegetables and condiments; fish products, meat products and beverages), Nutrition and sensorics, 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 food safety (two central and 10 operational laboratories), Open innovations, Regulatory Affairs and Ecology development.

PRODUCT INNOVATIONS

2016 remains remembered for the completion of a two-year research-development project, the result of which is a new and innovative ingredient – salt with 30% less sodium, which opens a new chapter in product development with added value for the consumers who take care of their eating habits, without giving up the enjoyment in taste. Salt with 30% less sodium, patented under trademark Supisol®, was developed in cooperation with a micro company from Croatia and Podravka's Research and development sector. This way Podravka continues to follow global and national recommendations on reduced salt intake (5g/day), continuing thus to achieve the strategic goals of the company's Nutritive strategy. Research results commercialization is expected in 2017.

2016 also remains remembered as the year of Lino products. Lino lada coconut has from a summer hit become a year-round hit for all generations, especially young people in the Adria region. Apart from having the great flavour, it was also followed by a technological innovation in production, extraordinary popularity on social networks, within the first few hours after it was posted. Lino lada coconut will continue its journey on the new markets of China and UAE in 2017.

In addition to Lino lada coconut, adjusted to local flavour preferences, Lino pillows also "traveled" to the Chinese market. Other products from the Kviki snacks range of products also found their way to Chinese consumers, next to Lino pillows.

Supervised by the expert teams from Maintenance and Podravka's Research and Development, late this year the first production of 23 products in the range of all-purpose and special, dried food seasoning, dehydrated cubes branded Vegeta, was realized in the completely new, technologically modern Podravka's factory in Bagamoyo, Tanzania. This event remains remembered as the 1st intercontinental technological "scale-up" in Podravka's history, which was supported by various expert teams from entire Podravka. Sales results are expected in 2017.

Podravka's Ajvar found the new way to the Swedish consumers, and in variations of various flavours it also accomplished a great success. New flavours were developed through team efforts of culinary researchers and Podravka engineers, supported by Marketing and Sales departments. Product's quality and continuity is accompanied by traditionally top grade raw materials, especially types of peppers, which have been developed over many years by research efforts of Podravka's agriculture teams and produced on Croatian soil. In 2016 Podravka received the "Golden seed" award for a type of red pepper Podravka, which is in addition to Slavonka type the only Croatian type of vegetable with performed DUS test (Distinguish, Uniformity, Stability) and as such entered with the Common catalogue of species of the European Union.

Podravka's product always received numerous awards for their top flavours, but significant success was achieved in 2016. More than 120 European chefs, organized under the International Taste and Quality Institute, awarded 23 Superior Taste awards to Podravka products, which is considered the biggest success since 2008, ever since Podravka started competing for the prize. Special winner is Podravka's lemon-lime tea, winning the Crystal Taste Award this year, which is an award for a product receiving the highest grade by expert jury - 3 STA stars for 3 years in a row.

PROCESS INNOVATIONS

Informatization of business processes started in 2015 continued in 2016. Worth emphasizing is continued implementation of the project SAP module RDM (engl. Recipe Development Module), started in order to achieve more efficient documentation management, but also to create preconditions for long-distance sales. The project will continue in 2017, when full integration with other SAP modules is expected.

In the beginning of the year an innovative project was started in order to shorten significantly the stage of comparing and controlling declaration texts, which is a constituent part of the product development. Applying a completely innovative IT tool, appropriate for Podravka, the number of repetitions (cycles) is reduced, transparency level increased and process measuring enabled, which will definitely speed up product-to-market process.

INTEGRATION PROCESSES

Integration processes of Žito d.d. continued, seasonings production is moved to Koprivnica and tea production is moved to Slovenia, while new products are being developed having synergy effects of both companies in mind.

OPEN INNOVATIONS SYSTEM IMPLEMENTATION CONTINUED

Initiated by the Research and development department in 2014, and supported by Podravka Management Board, open innovations project was started at company level. While in 2015 activities were initiated aiming to promote the innovation culture internally, in 2016 individuals were rewarded for innovation projects within the company, which were proven by a specific result. Food Hackaton was also organized, where about forty participants considered solutions for the future of food, and Podravka's 4^{th} international conference "Knowledge in focus" set as the main topic of the conference the organizational culture of learning and innovation in the digital era. Business model of open innovation development was presented at the World Open Innovation Conference in Barcelona. Among others, Podravka also invested in technological startup GammaChef, continuing the step forward towards innovations in food production.

EMPLOYEE EDUCATION

In addition to brands, Podravka employees are company's most important resource. Continuous investment in competencies development and knowledge of employees continued during the year, and employees at Research and development actively acted on local, national and international level, participating at business and expert conferences, creating regulatory policies (Croatia, EU), publishing research and expert works, educations for the interested academic and expert public and in the work of associations.

Belupo Research and Development

Having successfully completed registration procedures during 2015, in 2016 the first deliveries of certain medications were completed to the markets of Denmark and Germany. The products thus first appeared in the markets of Western Europe, confirming that the quality of Belupo products can satisfy the criteria of the most demanding world markets. Continuing in this directions, in 2016 application procedures were started for several medications on EU markets where Belupo has not operated so far.

Good manufacturing practice rules continue to be stricter. So this year was marked by implementing guidelines on controlling residues of elementary pollutions in raw materials and ready made medications. Complying to guidelines required the procurement of new sophisticated machines into laboratories, therefore an instrument was procured and method of inductively coupled plasma mass spectrometry introduced, enabling measuring of presence of elementary pollution particles in low detection limit conditions.

Over 2015 Belupo's portfolio increased by 5 new brands in 7 different doses and forms. New products are intended for treating cardiovascular diseases, iron insufficiency and osteoporosis. However, the most important novelty in 2016 is Belupo's entry into segment of special medical food, so called enteral diet. Nutrixa brand is launched in 4 different flavours for now, and it will soon be further diversified. The product was developed, registered and launched in cooperation of relevant segments of Podravka and Belupo, which represents an idea of using synergy potentials of the food and pharmaceutical parts of the company.

As in previous years, many resources are dedicated to production rationalization by implementing technology transfer and by installing additional manufacturers of active substances.

Intensive works continue on new factories for solid, semi-solid and liquid medications. Construction works and furnishing are almost completed, and preparations are underway for equally demanding qualification and validation part of work and transfer of products into new production facilities.

New products 2016 - Podravka

One of the main focuses in **Culinary** category rested upon re-innovation of Vegeta special seasonings, preceded by new positioning, design and communication platform of Vegeta "Cook freely". Formulations have been upgraded by means of naturalness and new flavors were added. Special seasoning assortment was divided into two product lines: Vegeta Grill and Vegeta Twist. Since special seasonings product line respects the diversities of individual markets, Central Europe market assortment was enriched by product Vegeta for meat. On the US market Vegeta broth was launched, which is Vegeta's breakthrough on broth market, typical for the US. Product line of Vegeta bouillon cubes was expanded with new flavors on the markets of Central Europe and Serbia. Vegeta all-purpose seasoning was launched in Africa together with Vegeta Msosi meal preparation mixes, whose recipes are adjusted to African consumer habits. Following re-innovation and launch of new cream soups in late 2015, Podravka soups started year 2016 with innovative Millenials-oriented communication approach through communication platform "Prepare a soup. Create a feeling."

In **cream spreads** category new product Lino Lada Coconut was launched and became a great hit in Adria region. Lino cereals category was also complemented by a new flavor, Lino pillows with jaffa filling. As the part of "Back to school" autumn activity, attractive Lino assortment was prepared – from various promo packaging to Lino cereals containing Lino figurines based on communication platform "When you grow up, be whatever you want."

Category **sweets, cereals for adults, snacks and drinks,** while maintaining focus on key products for every season, especially on **Dolcela** puddings through integrated approach customer communication, was also innovated by new attractive flavors. Dolcela fondant is a novelty in sweets decoration line of products. New products Coconut flavored pudding and Gourmet panna cotta with raspberry chunks were launched, together with Dolcela Ice Wind, Pumpkin filled muffins and Pumpkin cream. Podravka **teas** use their new design to accent naturalness and richness of their ingredients, which are well preserved due to innovated aroma wrapper.

Mediterranean food, condiments and core food category was complemented with new flavors of Podravka passata and Chopped tomato for the markets of Central Europe. In Adria region new segment of Podravka pesto sauces was launched, alongside with premium Eva tuna and mackerel paté packed in elegant tube. In **Fruits** segment new line of Podravka citrus marmalades was launched: grapefruit and orange with ginger. **Podravka ajvar** was re-launched in a new design that emphasizes ingredients naturalness and vegetable richness. On the market of Sweeden, this product line was complemented by additional new flavors.

In the **Meat program** category Podravka delicacy patés, premium products of rich flavor, aroma and texture, were launched. When creating Delicacy patés, Podravka's culinary experts found their inspiration in taste of Croatian and Mediterranean cusine, combining familiar ingredients into unexpected and unique combinations of flavors like *pašticada*, cracklings, pumpkin seeds, *kulen*, asparagus and chickpeas with olive oil. Podravka delicacy patés represent a true gourmet innovation on paté market. On markets of western Europe Podravka patés assortment was expanded, and design and formulations were modernized, which are presumptions for entering into new consumption segments.

In **Žito brand product range**, innovation cycle in fresh and frozen dough category was rounded off by launch of puff pastry, filo pastry and spelt-based gnocchi alongside with buckwheat and teragon-based pies, which are very healthy, modern and trendy victuals.

Frozen fritters are supplemented by four-legume fritters. Žito flour, a leader in the Slovenian market, was supplemented by full grain spelt flour and unique product on the market – so-called ancient-grain flour (made of ancient wheat types), which is in correlation with trends of turning to ancient-grain as alternative to wheat. **Gorenjka** chocolates are freshened up with refined taste Chef chocolate that contains 70% of cocoa. Also, under the brand of Gorenjka Mistica new chopped-nuts flavor was launched, which is unique on the Slovenian market. The most popular **bread** in the assortment – Stoletni ("Centennial"), made of 100% spelt flour is enriched by chia seeds and black sesame seeds. Due to its rich content it is a great source of dietary fiber. Pasta program **Zlato polje** is supplemented in soup-pasta segment with two new products of special pasta: soup noodles and full-grain spelt flour stelline. The story of spelt is also supplemented in toast category by introduction of spelt toast, which offers a healthy, tasty and crunchy experience to its consumers. Candy category was enhanced by unique gummi candies Friends which are characterized by two fruity flavors in one candy, in attractive shapes and without artificial colors and aromas. The great anniversary – 140 years of brand **Šumi** was celebrated with limited edition retro box containing combination od chosen candy from the rich history of Šumi brand – High C, jelly candy and Šššum apple.

New products 2016 - Belupo

When it comes to **prescription drugs** category, Belupo has broadened its cardio portfolio in 2016 with another medicine from calcium channel blocker group – dihydropyridine derivate. It is lacidipine that comes to the market under the generic name LACIDIPIN BELUPO. LACIDIPIN BELUPO is used in monotherapy for the treatment of hypertension or in combination with other antihypertensives such as beta-blockers, diuretics or ACE-inhibitors. Therapeutic effect of these Belupo's medicaments is similar, however lacidipine stands out with somewhat better impact on diastolic pressure as well as lesser frequency of side effects manifestation (peripheral edema).

BELOXIM 500 mg film-coated tablets is Belupo's new antibiotic in the category of second-generation cephalosporin, generic named cefuroxime. Cefuroxime is used in treatment of acute streptococcal tonsillitis and pharyngitis, acute bacterial sinusitis, acute otitis media, acute exacerbation of chronic bronchitis, cystitis, pyelonephritis, uncomplicated skin and soft tissue infection and treatment of early stages of Lyme disease. Until now our portfolio contained only a representative of 1st generation of cephalosporin - cephalexin, which for a number of years has been available in the market under generic name CEFALEKSIN® BELUPO.

In 2016 Russian market was enriched with two new products. AMOFIN medicated nail lacquer is used in treatment of fungal infection of the nails. MONLAST is a leukotriene receptor antagonist that blocks substances called leukotrienes. Leukotrienes cause narrowing and swelling of airways in the lungs as well as the allergy symptoms. By blocking leukotrienes, MONLAST alleviates asthma symptoms, helps asthma control and eases symptoms of seasonal allergies (known as hay fever or seasonal allergic rhinitis).

In the third quarter of 2016 Belupo launched new RX program product on Croatian market, under brand name **NUTRIXA**, whereby entering new area – enteral nutrition. NUTRIXA is a high calorie, high protein liquid food with added fibers for a complete, balanced diet. It is a food for special medical purposes and is intended for dietary management of patients with malnutrition, or at risk of developing malnutrition. It can be used as the only nutrition source or as a dietary supplement and is given only under medical supervision. Developing this new eternal nutrition product portfolio accomplishes a synergy potential between Pharmaceutical and Food segments, which helps achieve Belupo's strategic goals crucial for company business growth and development.

Category of OTC medicines has been enriched by FERSAN JUNIOR liquid dietary supplement in 2016. Product contains liposomal iron and is used as natural iron supplement. LIPOSOME is a hollow microsphere, effective and innovative carrier of medicines, minerals, vitamins and other active substances. Liposome membrane matches human cell membrane by structure which eases liposome and membrane amalgamation and improves absorption of substances fused in liposome. FERSAN JUNIOR contains ferric pyrophosphate situated inside liposomal structure. By the virtue of liposomal technology, absorption and bioavailability is increased 3.5 times in relation to iron that is not liposomal. FERSAN JUNIOR is not intended for children under 3 years of age.

Croatian market was enriched in 2016 with RojazolDerm cream, OTC medicine from pharmacotherapeutic group of local application antimycotics, derivates of imidazole and triazole. RojazolDerm cream is intended in treatment of skin infections caused by fungus. Infections can affect following areas: hands and feet (including "Athlete's foot"), torso and groin (including skin surface around genital parts), ears and scalp.

On the Czech market Belupo launched three new products: BELMIRAN DAN relaxation tablets, BELMIRAN SAN tablets contributing to reducing the time needed to fall asleep and maintain normal sleep and UROSAL LADY herbal product created especially for women, intended to prevent and soothe ailments of the urinary system like frequent and painful urination accompanied by burning sensation.

Media integration and production – digital innovations in 2016

In 2016 the extensive growth of digital platforms was continued. In total 9 web sites were redesigned, 7 new launched and 6 new profiles on social networks opened, so that we could get closer to the new, younger consumers. Upgrade of Dolcela mobile app offers a series of new additional, interesting functionalities.

The biggest twist in marketing activities is evident in visual communication. Interesting, attractive and more challenging contents are selected, to which young audience has a positive response. Emphasized projects are **Kvikifunpedia, Čokolinology, For fine bottoms, King of latino pop for the queen of desserts, Get a grip** and so on. Only a few months after it was launched, Kvikifunpedia won the **"SoMo fighter"** award at the Weekend Media Festival.

The importance of mobile apps is growing so we followed the trend of launching **Viber stickers** for Lino and Coolinarika. In only a few moths more than **7.5 million messages with our stickers** was exchanged.

The best evidence of following world trends is **shooting video recipes** for Coolinarika which are distributed on numerous platforms. Almost **200 video recipes** was seen by **31 million consumers** on Facebook, Instagram, Youtube, web sites Coolinarika, Vegeta and Podravka, and they are played on 158 city lights in major shopping centers and squares around Croatia. This good practice was adopted by 6 markets, and the number is continuously growing.

The most significant online project is definitely Coolinarika, which daily acquires more and more users. Having more than **106 million visits**, it definitely belongs among one of the most powerful, not only web sites, but also social networks in the region.

Awards and recognitions

FOR THE FOURTH TIME IN A ROW - SUPERBRAND IN SLOVAKIA

This year Podravka repeated its great success on Slovakian market and it proudly carries the label "Slovak Superbrands 2016". This renowned recognition Podravka received for five times so far, and this is the fourth year in the row. Superbrand was awarded to Podravka by the leading Slovak experts in brands, ranking it in the very top of quality and recognizability. Successful business is also confirmed by other previous recognitions received from experts and consumers, and except for Superbrand, Podravka Slovakia won the award "Pečat bonity" last year.

SOUPS RICHNESS OF VEGETABLES – PRODUKT LETA 2016 IN SLOVENIA

After the Slovenian consumers chose Vegeta marinades as "Produkt leta" last year, this year they gave their trust to **Podravka soups Richness of vegetables** choosing them as the best in the soups category. "Produkt leta" is being awarded each year for new products in the market, it is awarded by the consumers, 3,000 of them who participate in an independent research performed by the agency AC Nielsen. Consumers evaluate new products in 4 categories: innovativeness, attractiveness, satisfaction and intent to purchase. Soups Richness of vegetables completely satisfy the demands of modern consumer, because they are without flavour enhancers and added flavouring, and they are of excellent taste, which was recognized by the consumers. The seal "Produkt leta" is a warranty to the consumers that the products holders of this seal are the best in their category and make the purchasing decision easier. On an extremely demanding market, this seal makes a difference between products of the competition and ensures consumer trust. We therefore believe that this award will contribute to even better placement of Podravka products in the market of Slovenia.

FIRST AWARD FOR THE OPEN INNOVATIONS PROJECT

"Best HR practices" is an award to the dedicated and planned work of companies and organizations, teams and individuals who are excellent in managing human resources. "Best HR practices" is organized by the web site "Moj Posao" and Selectio company. Through this project special attention was dedicated to creating corporate innovative culture and process and regulatory preconditions for implementing open innovations, which was recognized by the expert committee, awarding it the first award in the competition of about thirty projects from Croatia.

Managing ideas and innovations is a new challenge that organizations are faced with, especially at the time of digital transformation, and Podravka's example has been recognized as the best in Croatia.

PODRAVKA A SHINING EXAMPLE IN HUMAN RESOURCES MANAGEMENT

Podravka once again confirmed its dedication to excellence in human resources management and received for the second time the Employer Partner certificate. In the past year Podravka advanced as many as 22 processes of managing employees, of the total number of 45 processes which are being evaluated during the certification for this prestigious award Employer Partner. Significant breakthrough was marked in all five evaluated areas: Strategy, Recruitment and selection, Work, motivation and rewarding, Professional education and development and Employee relationship. Such result proves the strong focus of Podravka to the development of transparent system of managing employees with the purpose of cherishing the culture of developing competencies and executing strategic goals of the organization. Podravka particularly emphasizes talent development within the company, and for that it has created a program called "Recipe for excellence". Apart from that, the company is devoted to encouraging knowledge sharing among employees and development of the innovation culture. It enables its employees mentoring, coaching and numerous education programs, such as internal MBA program and program for increasing available education "Knowledge on a tray".

VEGETA PACKAGING WINS CROPAK AWARD BY CONSUMER EVALUATION

Winning a prestigious award CROPAK for Vegeta, as per consumer evaluation, only confirmed that we have reached the target consumers and did a great job. Apart from CROPAK for Vegeta, Podravka also received two awards for packaging solutions designed in compliance with the guidelines of Safe Food initiative, for Delicacy pates and Čokolino. For the thirteenth year in the row the Institute for packaging and printing Tectus - IatT, Zagreb organizes Festa – CROPAK. Festival of packaging FESTA CROPAK is a central gathering of expert events intended for users and manufacturers of packaging in Croatia and the region, designers, printers and anyone who is in any way connected to the packaging, as a very demanding and complex product.

PODRAVKA DECLARED MANUFACTURER OF THE YEAR 2015

Congress center at the Zagreb Fair was the venue of the grand ceremony of awarding the "Golden basket" to consumer goods industry representatives, in the following six categories: Manufacturer of the year, Product of the year, Merchant of the year, Retailer of the year, Socially responsible company of the year and Technological supplier of the year. All the award categories referred to business achievements in 2015, where particularly valued were the contributions in the quality of investments, opening new sales facilities and new jobs, investments in production facilities, performed acquisitions and total contribution to advancement of the sector through creating added value for the market and consumers. Podravka was declared the best manufacturer of the year 2015, and the award was accepted by Olivija Jakupec, Podravka Management Board member. It is the intention of this project, organized by the magazine Ja TRGOVAC, specialized in retail and FMCG, to direct the attention of the public on the importance of the retail and FMCG sectors for the overall Croatian economy and to point out positive examples of Croatian entrepreneurship.

"GOLDEN KEY" TO PODRAVKA AS THE BEST EXPORTER TO B&H

Podravka is among the winners of this year's award "Golden key", receiving this reward as the best exporter to Bosnia and Herzegovina. The award was given at the 11th Convention of the Croatian Exporters Association, which is this year being awarded for the ninth time in a row for the most important export markets and "new" markets for Croatian companies. Among the most popular Podravka products in B&H are Vegeta, soups, Dolcela brand products, Kviki, Lino, Eva, Chicken pate and Beef stew.

PODRAVKA RECEIVES 23 AWARDS FOR THE QUALITY OF ITS PRODUCTS IN BRUSSELLS

Podravka beat its record from last year's award ceremony in Brussels and this year received as many as 23 Superior Taste Awards. Out of 27 applied products, as many as **23 Podravka's products** received this award, which confirms the excellence of taste in categories in which they were competing. With all the awards given, Podravka also received a special "Crystal Taste Award" for Podravka tea Lemon Lime. This award is for those products which have for 3 years in the row been awarded the highest **3 STA stars** by 3 various panels of tasters. Apart from this, Superior Taste Award was given this year among others to Podravka Ajvar, Podravka tomato puree, Podravka nettle soup with cheese, Dolcela pudding vanilla, Eva mackerel fillets, Lino Lada milk, Delikates chicken liver pate with cracklings, Delikates hummus spread, Podravka cream spinach soup, Podravka cream tomato soup with mozzarella and Vegeta Grill BBQ marinade. As evaluated by the expert jury of the **International Taste & Quality Institute, Superior Taste Award** as the confirmation of quality of Podravka products was awarded at the ceremony held on 2nd June in Brussels. The jury comprises renowned European chefs and sommeliers from culinary institutions, by blind test method, where, among others a special emphasis is given to evaluation of taste, aroma, texture and product appearance.

PODRAVKA RECEIVES AWARD FOR BEST INVESTOR RELATIONS IN CENTRAL AND EASTERN EUROPE

At the great CEE Capital Markets Awards ceremony held in Warsaw, Podravka won the award for best Investor relations in Central and Eastern Europe. It was given by the expert jury consisting of international institutional investors focused on the region of Central and Eastern Europe and by the representatives of regional capital markets. On behalf of Podravka, the award was accepted by Podravka Management Board member Iva Brajević. The goal of CEE Capital Markets Awards is to promote the region of Central and Eastern Europe so that global investors would decide to invest in the best regional companies.

VEGETA THE STRONGEST DOMESTIC BRAND IN ADRIA REGION

Research by the international agency Ipsos again shows that Vegeta is the strongest domestic brand in Adria region. Next to Vegeta, the high ranking 4th position for the strength of domestic brands in the region was taken by Podravka soups. It should be pointed out that Vegeta remains a leading brand for its strength in Croatian market, before all strong domestic and international brands. With these results once again Podravka confirms its status of a company with the strongest domestic brands in the Adria region, which includes the markets of Croatia, Slovenia, Bosnia and Herzegovina and Serbia. Ipsos agency obtained these results with the help of a unique "brand score" indicator which enables comparison of brands of various product categories and is an indicator of brand strength in the market. The research includes a minimum of 1000 survey participants aging from 15 to 64 in each country, of various age, gender and education.

PODRAVKA'S SUCCESS IN SLOVAKIA - PEČAT BONITY

Podravka Slovakia again proved excellence in doing business, by winning for the third time in a row the award Pečat bonity. This is a prestigious recognition awarded by the Slovakian agency for informing and marketing and the National information center of Slovakia, who developed a model of evaluation of business entities, using predictive methods of financial analyses. Criteria for winning the award were extremely demanding and only a small percentage of commercial entities operating on Slovak market can be proud of owning the "Pečat bonity". Therefore, as they point out from Podravka Slovakia, they are extremely proud of this award by the independent agency for proven excellence in business. "Pečať bonity" is the award that Podravka International, s.r.o. got for meeting the demanding criteria, which were defined in order to evaluate business results of the companies doing business in Slovakia in 2015. A total of 716,134 companies were analysed, and only 1.6% of them got the award.

AWARDS FOR COOLINARIKA FACEBOOK PAGE AND KVIKI WEB SITE KVIKIFUNPEDIA.COM

Coolinarika Facebook page and Kviki web site Kvikifunpedia.com at this year's Weekend Media Festival won SoMo Fighter awards as the best digital platforms in the region. Weekend Media Festival is the biggest gathering of regional media and communication industry, and twenty members of the jury and preselection jury evaluated the best Facebook pages, digital campaigns, web sites, mobile apps and works on all other digital platforms. As many as 130 works in nine categories competed in the race for the leading regional digital award. In the category SoMo Face for the best Facebook page, Podravka's Facebook page for Coolinarika was among three finalists, taking home this deserved prize for the combination of excellent communication, clever posts, fast solving of crisis situations and top results.

In the category of SoMo Content for the best digital content marketing, Podravka's web site Kvikifunpedia.com was among the first three finalists.

PODRAVKA LAGRIS – SUPERBRAND

Global program Superbrand, an independent authority in the region for evaluation and estimation of brands, as part of the ceremonious dinner Superbrand Tribute Event in Prague presented the most successful brands in the Czech Republic for the year 2016. Among the most successful brands was also Podravka's brand Lagris. This award is only one among many in the series of proven strength of Lagris brand in the market of the Czech Republic, and we can rightfully be proud that Lagris is a part of this selected group. Lagris has been a part of Podravka Group since 2002. Lagris brand exists on the markets of the Czech Republic, Slovakia and Hungary for 25 years, selling rice, pulses and healthy food, and in Czech market those products are leaders in the categories of rice and pulses.

LINO LADA COCONUT – SELECTED PRODUCT OF THE YEAR

Awarding Lino lada coconut as the "Selected product of the year" Croatian consumers awarded Podravka for new, improved and innovative products. The award was presented on 13th October in Hypo center in Zagreb, and it was received by Gordana Periškić, senior vice-president for marketing at Podravka. This is the biggest world award for innovative products, decided on by the votes of consumers. Winning products or services get a seal Selected product of the year, and the awards have been given in several categories, according to the research which was performed by Nielsen, leading world company for research and consumer brands on 2,000 Croatian consumers. Research "Selected product of the year" was conducted for the first time in Croatia this year, and the products have been sorted in categories – food, household products and personal care products. Category winner has been selected according to three main criteria: innovativeness, attractivenesss and satisfaction of product usage. Special, red label "Selected product of the year" will be applied to 21 products which were evaluated as the best by the Croatian consumers.

"GOLDEN SEED" AWARD FOR PODRAVKA

Within Ninth international congress "Improving herbs, seed-growing and nursery-gardening" held from 9th – 11th November at Sveti Martin na Muri, Podravka received the recognition "Golden seed" which is awarded by the Croatian Association of Agronomy for types which significantly advanced Croatian Economy by participating in production. Recognition to Podravka was awarded for red pepper type called Podravka. This red pepper type Podravka, in addition to Slavonka, are the first and so far only Croatian types of vegetables with performed DUS (Distinguish, Uniformity, Stability) test, and as such registered with the Joint catalogue of the European Union types. Type creators are mr. sc. Svjetlana Matotan and dr. sc. Zdravko Matotan, and owner of the type is Podravka d.d. Koprivnica.

PODRAVKA WINS SPECIAL AWARD FOR HUMAN RIGHTS

At 8th conference on socially responsible business, organized by the Croatian Business Council for sustainable development, sponsored by the president of the Republic of Croatia Kolinda Grabar Kitarović, Ministry of finance, Ministry of economy, entrepreneurship and craft, Ministry of environment protection and energetics and the City Council of Zagreb, Podravka was presented with a Special award for human rights for its PULS association.

Podravka's Association of volunteers PULS originated within traineeship program SHAPE. Today it has 138 members, while in the past three years 24 activities and initiatives were performed, and Podravka Management Board members are also members of the association. Association goals, set in their Articles of Association, are the promotion of the idea of volunteering, providing free aid to those in need and ensuring and improving the quality of living of the socially endangered and excluded social groups. Engagement of the PULS association provided Podravka with numerous new partners, such as Latice association, Our angels, Ana Rukavina foundation, Smile association and numerous others.

VEGETA AWARDED IN ROMANIA

Vegeta won an excellency award in Romania at the most significant national competition rewarding excellence in the area of public relations.

The importance of this competition is characterized by a large number of contestants, their creativity and high level of professional conduct of the expert jury. According to their choice, Vegeta won the Degree in the category press kit for the project Vegeta moments in a jar. The campaign Vegeta moments in a jar has been created in an innovative way, and bloggers were also included in the campaign.

SCROLL OF HONOR TO BELUPO FOR SUPPORTING THE SCIENTIFIC WORK OF THE ACADEMY

President of the Croatian Medical Sciences Academy, prof.dr.sc. Jasna Lipozenčić awarded on 29th March 2016 at the Croatian Doctors Association a Scroll of honor to Belupo for supporting the scientific work of the Academy. On behalf of the company the scroll of honor was received by the Management Board president Hrvoje Kolarić.

"As a long-established member supporting the work of the Academy, with its activities Belupo is helping the modern medical science, which is a generator of society improvement and carrier of its development", Hrvoje Kolarić said, thanking the Academy members.

QUALITY OF ŽITO PRODUCTS CONFIRMED

Quality of Žito products was again confirmed at the 16th traditional evaluation of bread, bakery and fine bakery bagel, pasta, cookies and fresh pastry, organized by the Slovenian chamber of agricultural and food processing companies. Žito Group was awarded as many as 23 golden awards for excellent quality, which is a fine proof and confirmation of the quality recognized by the consumers and experts.

Social community

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, in addition to creativity, trust, passion, consumer satisfaction and excellence.

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 conducts 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 many 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 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 operates.

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 60 countries around the world, because their confidence is the confirmation of our positive action.

Activities in environment protection Podravka

Podravka d.d. continuously develops and improves processes, products and services, aiming to reduce negative effect on the environment. In 2016 improvements have been achieved in production of waste, reduced water consumption and power sources and increased level of ecological awareness and responsibility of employees. Based on defined fundamental goals of Podravka in the area of environment protection, a series of planned activities were performed in 2016, resulting in significant economic, environmental and social achievements.

Most significant accomplishments in 2016

RENEWABLE ENERGY SOURCES

During 2016 the construction of boiler-house running on bio-mass was started at Danica industrial zone. 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.

At location A. Starčevića 32, Koprivnica, a solar collector is installed intended for hot water preparation, aiming to reduce the consumption of natural gas, the primary power source, and thus reduce produced CO_2.

TRANSPORT

Drivers from the Transport vehicles department underwent an education over the past years on eco driving, and they continuously implement their knowledges during performing transport tasks. EKO driving training includes improved driving techniques (moderate usage of the throttle pedal, when changing gear – driving in higher speed with lower rotations, maintaining continuous speed and avoiding sudden accelerations, sudden breaking or slowing down) and increasing awareness when driving.

Comparing to the period before education and training, average fuel consumption in the car fleet of the Transport vehicles department was reduced by 3.5% in the last 2 years. Also, abovementioned education resulted in reduced CO_2 emissions, also showing company care of the environment.

Procuring 8 cargo vehicles of the Euro 6 norm, normatives of average fuel consumption per vehicle category have been reduced: for cargo vehicles up to 9t capacity the consumption was reduced by 4%, for cargo vehicles up to 13t consumption was reduced by 2% and for cargo vehicles up to 23t the consumption was reduced by 9%, thus reducing CO_2 emissions. Electric vehicles Mitsubishi i-MiEV are used for local driving. Procuring and using vehicles with reduced CO_2 emissions, Podravka once again proved that it sets and follows new trends, and most importantly, it takes care about environment protection.

ENERGY EFFICIENCY

In 2016 series of activities were performed aiming to improve energy efficiency of the company. Apart from continued replacement of existing lighting with LED in production facilities of Kalnik factory Varaždin, Soups and Vegeta factory, Mill and Danica factory and engineering and overhaul workshops of the Central maintenance, a number of activities and investments were made in production facilities and the Central energetic department, aiming to reduce costs of power and water and dissipation of heat.

REDUCED WASTE PRODUCTION

On all locations of Podravka d.d. waste management system is advanced with more efficient waste sorting, reduced squandering of materials and raw materials, rationalized usage of consumables and education of employees, which resulted in reduced creation of certain types of waste. On all locations a system for renting mops for multiple usage was introduced, which are used for cleaning in workshops and for washing and cleaning in production facilities. By washing used mops are enabled for further usage, reducing creation of hazardous waste.

REDUCED USAGE OF HAZARDOUS MATERIALS AND CHEMICALS

In 2016 the replacement of active substances R-22 in cooling systems of the baby food and cream spreads factory and retail facility with ecologically acceptable active substances was continued.

Optimizing the testing method in Quality control laboratories, there has been significant reduction of individual chemicals, reducing creation of waste chemicals and using hazardous materials. Replacing the method of determining sodium chloride by titration and transferring to conductometric verification, consumption of silver nitrate ($AgNO_3$) is reduced by 60%. DMA (Direct Mercury analyser) device is introduced for determining mercury by *solid sampling* method, where there no chemicals are used, because measuring is performed on a device which does not require previous preparation of samples. Stated activities are a part of the continued project OPTIMET, aiming to save time during analysis and reduce the usage of chemicals.

NON-FINANCIAL REPORTING – PODRAVKA GROUP SUSTAINABLE DEVELOPMENT REPORT 2015

Podravka Group started a process of non-financial reporting. The result is a created and published Podravka Group Sustainable development report for 2015, which is compliant to the most accepted global reporting framework, Guidelines for sustainability reporting GRI G4. Podravka Group Sustainable development report for 2015 is published on company web site at (http://www.podravka.hr/kompanija/odgovornost/odrzivi-razvoj/) and is available to all interested parties.

Activities in environment protection Belupo

ENVIRONMENT PROTECTION ACTIVITIES

Educations of new employees continued during 2016, and all work instructions have been revised, describing procedures and preparations of all types of waste for treatment.

WASTE MANAGEMENT

Environment is mostly polluted by waste, therefore regular waste managment 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 and testing machines for new production 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 2016, 28 different types of waste was recorded at Belupo, in total amount of approximately 260 tons.

PROCESSING METHOD/ PER TOTAL QUANTITY	RECYCLING	THERMAL PROCESSING	LANDFILL
WASTE AMOUNT%	61.1 %	34	4.9

By proper management, a majority of waste has become a secondary raw material, with the purpose of saving natural resources and reducing amounts of waste intended for landfills. For packaging material arisen from selling medications, the amount of packaging materials is regularly reported to the Environment Protection and Energy Efficiency Fund and the appropriate fee is paid.

AIR PROTECTION

Air emissions are paid great attention by tracking dust emissions and organic solvents from technological drains, as well as emissions of NO2, CO, SO2 and CO2 from energy drains.

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

During 2016 air emissions from power plant measuring was performed regarding gas as fuel. 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 control of the devices with activated charcoal, performing the absorption of solvents. Plant is automated and regeneration or replacement of activated charcoal 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 greenhouse gases, records are being updated on all cooling devices where controlled or substitute substances damaging the ozone layer are used, and authorised repairmen provide servicing and permeability control. During 2016 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 prescribed by law. Precipitation waters do not burden the device, but are drained through a separate sewage into the natural recipient.

During 2016, pursuant to legislature, examination of water impermeability of the waste water system 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 as much as possible.

RISKS MONITORING

Aiming to avoid the possibility of an incident with hazardous substances, Endangerment evaluation as well as Operating plan for protection and rescue have been created, detailing the potential effects on tangible assets, possible endangerment of the employees and environment, as a consequence of using dangerous matter and that way the risk of incident is reduced as much as possible.

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 minimized.

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 treatment, as well as the calculation of the amounts and places for air and water emissions.

SUPERVISION OVER COMPLIANCE WITH REGULATIONS ON ENVIRONMENT PROTECTION

In 2016 supervision was performed by the inspection of the Ministry for environment protection over compliance with regulations on environment protection. Belupo d.d. completely satisfies all the regulations on environment protection and no rulings have been issued on non-compliance.

Podravka Group management systems audits in 2016

PODRAVKA

During 2016, 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.

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

Audits confirmed compliance with the following international standards:

NO.	STANDARD	LOCATIONS	AUTHORITY
1	ISO 9001:2008	PODRAVKA D.D. (ALL LOCATIONS IN REPUBLIC OF CROATIA) STUDENAC D.O.O. LIPIK	CERTIFICATION AUTHORITY SGS
2	HACCP ACCORDING TO CODEX ALIMENTARIUS	PODRAVKA D.D. (ALL LOCATIONS IN REPUBLIC OF CROATIA) STUDENAC D.O.O. LIPIK	CERTIFICATION AUTHORITY SGS
3	IFS FOOD, VERSION 6 INTERNATIONAL FEATURED STANDARDS - FOOD	PODRAVKA D.D. HEADQUARTERS, KOPRIVNICA SOUPS AND VEGETA FACTORY, KOPRIVNICA BABY FOOD AND CREAM SPREADS FACTORY, KOPRIVNICA DANICA FACTORY, KOPRIVNICA KALNIK FACTORY, VARAŽDIN VEGETABLE FACTORY, UMAG MIRNA D.D., POREČ PODRAVKA LAGRIS, THE CZECH REPUBLIC*	CERTIFICATION AUTHORITY SGS *FOR PODRAVKA LAGRIS CERTIFICATION AUTHORITY TÜV SÜD
4	BRC, ISSUE 6 (BRITISH RETAIL CONSORTIUM) GLOBAL STANDARD FOR FOOD SAFETY	PODRAVKA D.D. HEADQUARTERS, KOPRIVNICA SOUPS AND VEGETA FACTORY, KOPRIVNICA BABY FOOD AND CREAM SPREADS FACTORY, KOPRIVNICA	CERTIFICATION AUTHORITY SGS
6	NSF	STUDENAC D.O.O. LIPIK	NSF INTERNATIONAL
7	HALAL	DANICA FACTORY, KOPRIVNICA* SOUPS AND VEGETA FACTORY, KOPRIVNICA* BABY FOOD AND CREAM SPREADS FACTORY, KOPRIVNICA* KALNIK FACTORY, VARAŽDIN FRUIT FACTORY, KOPRIVNICA SNACKS FACTORY, KOPRIVNICA* PODRAVSKA KLET, KOPRIVNICA	HALAL QUALITY CERTIFICATION CENTER AND *EMIRATES AUTHORITY FOR STANDARDIZATION & METROLOGY

NO.	STANDARD	LOCATIONS	AUTHORITY
8	KOSHER	KALNIK FACTORY, VARAŽDIN SOUPS AND VEGETA FACTORY, KOPRIVNICA FRUIT FACTORY, KOPRIVNICA SNACKS FACTORY, KOPRIVNICA MILL PRODUCTS FACTORY, KOPRIVNICA	RABBI KOTEL DA-DON
9	EQM - EMIRATES QUALITY MARK	STUDENAC D.O.O. LIPIK	EMIRATES AUTHORITY FOR STANDARDIZATION & METROLOGY

Compared to previous years, in 2016 the following changes occurred:

- Discontinued certification of Danica factory pursuant to standard FSSC 22000
- Halal certifications of Soups and Vegeta factory, Baby food and cream spreads factory, Danica factory and Snacks factory by the Emirates Authority For Standardization & Metrology (ESMA)

ŽITO

During 2016 at Žito Group the following certificates were renewed in the area of quality, ingredients safety, ecological products, along with other certificates responding to specific requests of the buyers.

NO.	STANDARD	LOCATIONS	AUTHORITY
1	ISO 9001:2008 AND FIRST PART OF TRANSFERRING TO ISO 9001:2015	ŽITO GROUP INCLUDING ŠUMI BONBONI D.O.O., KRŠKO	SIQ_ SLOVENIAN QUALITY INSTITUTE LJ
2	IFS FOOD VER.6	ŽITO PC ŽITO ŠMARTINSKA LJ ŽITO PC GORENJKA ŽITO PC BREAD AND BAGELS ŽITO PC PEK. VRHNIKA ŽITO PC DOLENSKE PEKARNE ŽITO PC GRADIŠČE- TEAS ŠUMI BONBONI D.O.O. KRŠKO ŽITO PEKARNA VIČ	QA –QUALITY AUSTRIA
3	BIO CERTIFICATE ŽITO	103 PRODUCTS, IE. PROCESSES, INCLUDING ŽITO RETAIL D.O.O.	INSTITUTE KON-CERT, MARIBOR
4	BIO CERTIFICATE PODRAVKA D.O.O. LJUBLJANA	BIOPRODUCTS SALE	INSTITUTE KON-CERT, MARIBOR
5	RSPO SUPPLY CHAIN CER. SYSTEM -(PALM OIL)	ŠUMI BONBONI D.O.O., KRŠKO FROZEN FOODS AND PREPEČENEC ŽITO D.O.O.	BV – BUREAU VERITAS D.O.O. SLOVENIA, LJUBLJANA

NO.	STANDARD	LOCATIONS	AUTHORITY
6	HALAL	ŠUMI BONBONI D.O.O., KRŠKO	ISLAMIC COMMUNITY IN REPUBLIC OF SLOVENIA
7	HALAL	ŠUMI BONBONI D.O.O., KRŠKO	INSTITUTE MANNHEIM, GERMANY
8	UTZ	ŠUMI BONBONI D.O.O., KRŠKO	
9	KOSHER	PREPEČENEC LJUBLJANA	K MESHULASH / TRIANGEL K INC. NY, USA

Due to closing down of a manufacturing facility, one IFS certificate was not renewed, while Bio certificate was extended to sales through Podravka d.o.o., Ljubljana.

SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS BIOGRAPHIES

Podravka d.d. Supervisory Board members biographies

DUBRAVKO ŠTIMAC
SUPERVISORY BOARD PRESIDENT

Dubravko Štimac, the Company's 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 two years later. He participated in the Securities Processing Training Program in New York, organized by the Bank of New York, and in the Fund Management at City University Business School in London.

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

Mato Crkvenac, Podravka Supervisory Board deputy president graduated from the Faculty of Economy and Business in Zagreb, and received his MA from the Institute of Economic Sciences in Belgrade. He received his PhD from the Faculty of Economy and Business in Zagreb.

He started his professional career at the Republic Institute for Planning, and five years later he became sector director at the Republic Institute for Economic 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 and Remuneration Committee.

He has been performing the duties of Podravka Supervisory Board deputy president since 24th February 2012.

IVO DRUŽIĆ
SUPERVISORY BOARD MEMBER

Ivo Družić, Podravka Supervisory Board member graduated from the Faculty of Economy and Business 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, USA. He authored two books and co-authored six (two of which he also edited). He also published 19 scientific papers in journals with international critical review, 10 papers in Proceedings from international scientific conferences and 18 papers in domestic journals and proceedings.

He has been performing the duty of Supervisory Board member since 23rd February 2012.

MILAN STOJANOVIĆ
SUPERVISORY BOARD MEMBER

Milan Stojanović, Podravka Supervisory Board member from 6th July 2012 to 6th July 2016. He 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 was 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 was also a member of Podravka Remuneration Committee.

IVANA MATOVINA
SUPERVISORY BOARD MEMBER

Ivana Matovina, Podravka Supervisory Board member in the period from 6th July 2012 to 6th July 2016. She graduated in 1996 from the Faculty of Economy and Business in Zagreb, Accounting and Finance course.

She started her professional career as accounting manager, and in 1997 she became a director of KPMG Croatia d.o.o.. In 2009 she became a partner and director of Cinotti savjetovanje d.o.o. and worked in fields of auditing, internal auditing, accounting and business counseling and education. In late 2011 she founded Antares revizija d.o.o., where she worked as director 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 as of 5th September 2016 its president, and is also a member of Supervisory Board of Belupo d.d.

DINKO NOVOSELEC
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 d.d. as the head of the analytics department, and afterwards he transferred to ZB Invest d.o.o., 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 mandatory retirement fund, and in April 2003 he was appointed Management Board president of Allianz ZB d.o.o., the company for managing the mandatory retirement fund. He is the president of Podravka Audit Committee and since 5th September 2016 its member.

Supervisory Board member since 7th September 2010.

PETAR VLAIĆ
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 a program organized by American Institute of Chartered Financial Analysts (CFA Institute).

He started his professional career as a broker in Ilirika d.d., Slovenia and later he advanced to the position 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 d.o.o., upon which he transferred to the position of fund manager at the Central National Fund. In 2001 he became the Management Board president of Adriatic Invest d.o.o. – the company for managing Blue 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 company for privatization investment fund management, he was also a Supervisory Board member of numerous Croatian companies. He is a member of Podravka Audit Committee, president of the Remuneration Committee, and deputy president of Žito d.o.o. Supervisory Board.

He has been performing the duties of Company Supervisory Board member since 7th September 2010.

PETAR MILADIN
SUPERVISORY BOARD MEMBER

Petar Miladin, Podravka Supervisory Board member, graduated from Law Faculty in Zagreb and in 1999 he received his MA in 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.

Upon graduating he was employed as a trainee at the Municipal and Commercial Court in Zagreb.

He was employed at the Law Faculty in Zagreb in 1997 as a junior assistant at the Department for Commercial Law and Companies Law. In December 1999 he was elected assistant at the same department where he later works as senior assistant. He worked as lecturer since 2005, and since 2009 as associate professor. He published more than 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
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 on 1st July 2015 by the company Workers' Council, and has been performing the duties of Company Supervisory Board member since.

Podravka d.d. Management Board members biographies

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.

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

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

He has been performing the duties of Management Board president since 24th February 2012.

OLIVIJA JAKUPEC
MANAGEMENT BOARD MEMBER

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

She started her professional career in 1992 when she was employed at Podravka 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 subsidiary in Bulgaria, where she worked on founding and registering the company and on promotional activities on the market. In 1997 she was appointed director of Podravka's subsidiary 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 Nexe Group and became director of Nexe company in Bosnia and Herzegovina. Since 2007 she worked as assistant director at Jadransko osiguranje branch office in Koprivnica.

She has been performing the duties of Management Board member since 24th February 2012.

MIROSLAV KLEPAČ
MANAGEMENT BOARD MEMBER

Miroslav Klepač, Management Board member in the period from 24th February 2012 to 31st March 2016 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 and acquired the title of Master of Business Administration - MBA. 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 CEO advisor on financial and operating analyses and acquisition activities within the group Hrvatski Telekom d.d. Two years later he was appointed Controlling director at HT mobilne komunikacije d.o.o., and in 2004 he became executive director at T-Mobile Croatia 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 d.d., and in 2009 he became Management Board member of HT d.o.o. Bosnia and Herzegovina, and afterwards Supervisory Board member for that company.

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, receiving 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 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 and Herzegovina, and subsequently the allergology and respiratory line of products of the Schering-Plough Representation Office in Croatia.

In 2005, he was appointed as Management Board member in Belupo, in charge of marketing, sales and international markets, and has been reappointed in 2010.

Two years later he was appointed Belupo Management Board president.

He has been performing the duties of Management Board member since 20th December 2012.

IVA BRAJEVIĆ
MANAGEMENT BOARD MEMBER

Iva Brajević, Management Board member, earned her degree in accounting and finance at the Zagreb Faculty of Economics and Business. Through additional training and education she also earned licenses for Head of Investor Relations and Head of Development and Implementation of Projects Financed by EU funds, and she also attended numerous professional training courses from the fields of finance, auditing and human resources management.

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

Iva Brajević has been working at Podravka d.d. since September 2013 in the capacity of Director of Corporate Accounting and Taxes. Two years later, in September 2015, she took over the post of Director of Controlling.

Iva Brajević was appointed Management Board member as of 1st April 2016.

MANAGEMENT'S INTERIM REPORT

Business results

MAIN CHARACTERISTICS OF THE PODRAVKA GROUP BUSINESS RESULTS IN 2016 (CONTINUING AND DISCONTINUED OPERATIONS)

Sales revenues of the Podravka Group amounted to HRK 4,185.5 million and were 15.4% higher compared to 2015. Sales of the Strategic Business Area Food amounted to HRK 3,370.3 million and were 19.4% higher compared to 2015, while sales of the Strategic Business Area Pharmaceuticals amounted to HRK 815.2 million and were 1.3% higher compared to 2015. The recorded sales of the Strategic Business Area Food were positively impacted by the consolidation of the Žito Group as of 1 October 2015. The recorded sales of the Strategic Business Area Pharmaceuticals were positively impacted by the expansion of business cooperation in the market of Russia.

Gross profit of the Podravka Group in 2016 amounted to HRK 1,518.9 million, which is 9.7% higher compared to 2015. At the same time, the gross margin was 36.3%, which is a decrease of 190 basis points compared to 2015 when it was 38.2%. The lower gross margin was impacted by the Žito Group's product range which on average has lower margins compared to the average Podravka Group's product range. In 2015, sales of the Žito Group's range were included only in the fourth quarter, while in 2016 they were included in the entire year, which decreased the gross margin.

Operating profit (EBIT) in 2016 amounted to HRK 268.9 million, which is 5.7% lower compared to 2015. The EBIT margin was reduced by 144 basis points, from 7.9% to 6.4%. Operating profit in 2015 was under one-off effects of: (i) HRK 115.7 million of gain on a bargain purchase of Žito[1] (ii) HRK 24.8 million of gain on a bargain purchase of Mirna[2], (iii) costs of severance payments of HRK 41.1 million, and (iv) costs related to the acquisition and integration of Žito of HRK 9.4 million. If all the above mentioned one-off effects are excluded, operating profit records a 37.7% increase.

Net profit after minority interests in 2016 amounted to HRK 182.4 million, while in 2015 it amounted to HRK 397.3 million. In addition to the previously mentioned one-off effects, the net profit after minority interests was in 2015 impacted by: (i) costs related to the ESOP[3] programme of HRK 8.0 million, (ii) Danica's tax losses carried forward of HRK 11.6 million, and (iii) deferred tax income of Belupo[4] of HRK 163.7 million. If all the above mentioned one-off effects are excluded, net profit after minority interests records a 30.3% increase.

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, and recorded gain on a bargain purchase in other income in the amount of HRK 24.8 million.
3 Employee Stock Ownership Programme.
4 The recorded tax income is related to incentives received for the construction of the new Belupo factory.

Net debt as at 31 December 2016 amounted to HRK 1,041.7 million, which is a 12.9% increase compared to the end of 2015, primarily due to borrowings for the construction of the new pharmaceutical factory.

Total assets as at 31 December 2016 record a 5.9% increase compared to 31 December 2015, primarily due to the construction of the new pharmaceutical factory.

KEY FINANCIAL INDICATORS (CONTINUING AND DISCONTINUED OPERATIONS)

FINANCIAL POSITION (IN HRKM)	2016	2015	CHANGE
TOTAL ASSETS	5,285.7	4,991.6	5.9%
CASH AND CASH EQUIVALENTS	337.6	291.9	15.7%
CAPITAL AND RESERVES	2,926.4	2,817.8	3.9%
FINANCIAL DEBT	1,379.4	1,214.3	13.6%
CASH FLOW FROM OPERATING ACTIVITIES	476.7	274.2	73.8%

PROFITABILITY INDICATORS (IN HRKM)	2016	2015	CHANGE
GROSS MARGIN	36.3%	38.2%	-190 BB
EBITDA* MARGIN	11.2%	12.9%	-170 BB
EBIT MARGIN	6.4%	7.9%	-144 BB
NET PROFIT MARGIN AFTER MINORITY INTERESTS	4.4%	11.0%	-660 BB
RETURN ON AVERAGE EQUITY (ROAE)	6.5%	17.7%	-1118 BB
RETURN ON AVERAGE ASSETS (ROAA)	3.5%	9.3%	-580 BB

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

DEBT INDICATORS (IN HRKM)	2016	2015	CHANGE
NET DEBT*	1,041.7	922.4	12.9%
INTEREST EXPENSE	31.2	36.9	(15.5%)
NET DEBT / EBITDA	2.2	2.0	12.6%
EBITDA / INTEREST EXPENSE	15.0	12.7	18.7%
EQUITY TO TOTAL ASSETS RATIO	55.4%	56.5%	-109 BB

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

MULTIPLES	2016	2015	CHANGE
EV* / SALES REVENUES	0.9	0.8	7.4%
EV / EBITDA	7.9	6.4	23.6%
EV / EBIT	13.8	10.5	31.5%
LAST PRICE PER SHARE / EARNINGS PER SHARE**	14.3	5.0	184.9%

*Enterprise value: Market Capitalization + Net debt + Minority interests. Market Capitalization has been calculated as last market price at period end times weighted average number of shares in a period. **The weighted average number of shares in 2016 was 6,929,648, and in 2015 it was 5,987,697.

MAIN CHARACTERISTICS OF THE PODRAVKA GROUP'S CONTINUING OPERATIONS RESULTS IN 2016

Key characteristics of the Group's operations related to strategic business areas that represent the Group's continuing operations are presented below. As explained in Note 7 to the audited financial statements, the Group classified a portion of operations related to the business segment Beverages as discontinued operations and as of the date of the reclassification it is not monitored and analysed as a strategic business area. At the end of 2016, Podravka d.d. sold the 100%-share in Studenac d.o.o., whereby the Beverages programme that had been recorded as discontinued operations was sold.

Note: The consolidation of the income statement of the Žito Group into the Podravka Group began as of 1 October 2015. As a result, sales revenues of the Strategic Business Area Food and the Podravka Group in 2016 are not fully comparable to 2015.

SALES REVENUES BY STRATEGIC BUSINESS AREA (CONTINUING OPERATIONS)

SALES REVENUES (CONTINUING OPERATIONS)	REPORTED RESULT				
IN HRKM	2016	% OF SALES REVENUES	2015	% OF SALES REVENUES	CHANGE
SBA FOOD	3,288.1	80.1%	2,734.5	77.3%	20.2%
SBA PHARMACEUTICALS	815.2	19.9%	805.0	22.7%	1.3%
PODRAVKA GROUP	**4,103.4**	**100.0%**	**3,539.5**	**100.0%**	**15.9%**

Sales of the **Strategic Business Area Food** in 2016 amounted to HRK 3,288.1 million, which is 20.2% higher compared to 2015. The recorded sales revenues were positively impacted by the consolidation of the Žito Group as of 1 October 2015.

The recorded sales of the **Strategic Business Area Pharmaceuticals** were positively impacted by the expanded business cooperation in the Russian market, while the negative impact came from the decrease in prices of prescription drugs in the Croatian market by the Croatian Health Insurance Fund, which had an estimated negative effect of HRK 3.8 million.

SALES REVENUES BY CATEGORY (CONTINUING OPERATIONS)

SALES REVENUES (CONTINUING OPERATIONS) (IN HRKM)	2016	% OF SALES REVENUES	2015	% OF SALES REVENUES	CHANGE
SBA FOOD	**3,288.1**	**80.1%**	**2,734.5**	**77.3%**	**20.2%**
CULINARY	889.3	21.7%	867.2	24.5%	2.5%
SWEETS, CEREALS FOR ADULTS, SNACKS AND DRINKS	261.8	6.4%	199.6	5.6%	31.1%
LINO WORLD	242.3	5.9%	240.8	6.8%	0.6%
MEDITERRANEAN FOOD, CONDIMENTS AND CORE FOOD	707.1	17.2%	637.1	18.0%	11.0%
MEAT PROGRAMME	273.2	6.7%	290.8	8.2%	(6.1%)
BAKERY AND MILL PRODUCTS	427.9	10.4%	155.6	4.4%	175.0%
OTHER SALES	486.6	11.9%	343.3	9.7%	41.8%
SBA PHARMACEUTICALS	**815.2**	**19.9%**	**805.0**	**22.7%**	**1.3%**
PRESCRIPTION DRUGS	587.3	14.3%	556.3	15.7%	5.6%
NON-PRESCRIPTION PROGRAMME	94.4	2.3%	90.1	2.5%	4.9%
OTHER SALES	133.5	3.3%	158.6	4.5%	(15.8%)
PODRAVKA GROUP	**4,103.4**	**100.0%**	**3,539.5**	**100.0%**	**15.9%**

The **Culinary category** recorded an increase in sales of 2.5% compared to the comparative period, impacted by the new Žito product range that was not fully present in the comparative period, the increase in sales of the seasonings subcategory and the increase in sales of soups. The seasonings subcategory recorded the most significant sales growth in Russia as a result of the successful implementation of the new business model, resulting in direct contracts with a number of leading retail chains in Russia and the extension of the existing product range. Soups recorded the most significant growth in the Adria region following stronger selling and marketing activities. This managed to annul the pressures on sales in the Adria region resulting from the decrease in the overall market of some key culinary subcategories.

The increase in sales of the **Sweets, cereals for adults, snacks and drinks category** of 31.1% compared to the comparative period is primarily the result of the new Žito product range that was not fully present in the comparative period.

The **Lino world category** recorded a 0.6% increase in sales compared to the comparative period. The increase is primarily impacted by the increase in sales of creamy spreads as a result of activities and innovation on the Lino lada brand in the Croatian market, and the introduction of baby purees range that were not present in the comparative period.

Sales of the **Mediterranean food, condiments and core food category** recorded an 11.0% increase compared to the comparative period. The increase is primarily the result of the new Žito product range that was not fully present in the comparative period.

The **Meat programme category** recorded 6.1% lower sales than in the comparative period. This was, among other things, a result of restructuring the sausage programme. The restructuring put the focus on support to certain parts of the programme, which currently reflects on the amount of revenues compared to the comparative period, but in the long term it should result in keeping only those with the potential for growth and expected profitability rates.

The **Bakery and mill products category** recorded a 175.0% growth compared to the comparative period. The growth is primarily the result of the new Žito product range that was not fully present in the comparative period.

The **Prescription drugs category** recorded a 5.6% sales growth following the further expansion of business cooperation on the Russian market and the expansion of heart and blood vessels drugs range on the market of Bosnia and Herzegovina. The negative impact of the decrease in prices of prescription drugs by the Croatian Health Insurance Fund amounted to estimated HRK 3.8 million.

Sales of the **Non-prescription programme category** grew by 4.9%, primarily as a result of the increase in sales of the OTC subcategory in the market of Russia following the expansion of business cooperation, and in the market of Slovenia due to extended product range.

The **Other sales category** in the Food segment recorded a sales growth of 41.8%, primarily impacted by the new Žito product range that was not fully present in the comparative period. At the same time, the Other sales category in the Pharmaceuticals segment recorded 15.8% lower sales as a result of the changed business policy of the Pharmaceuticals segment, with a stronger focus on own brands.

SALES REVENUES BY REGION (CONTINUING OPERATIONS)

SALES REVENUES (CONTINUING OPERATIONS) (IN HRKM)	2016	% OF SALES REVENUES	2015	% OF SALES REVENUES	CHANGE
ADRIA REGION	2,915.8	71.1%	2,504.2	70.8%	16.4%
EUROPE REGION	778.8	19.0%	703.3	19.9%	10.7%
RUSSIA, CIS AND BALTICS REGION	262.1	6.4%	193.1	5.5%	35.8%
NEW MARKETS REGION	146.7	3.6%	138.9	3.9%	5.6%
PODRAVKA GROUP	**4,103.4**	**100.0%**	**3,539.5**	**100.0%**	**15.9%**

In 2016, the **Adria region** recorded 16.4% higher sales than in the comparative period, primarily impacted by the new Žito product range that was not fully present in the comparative period. The operations of the Food segment in the Adria region in 2016 were marked by the restructuring of the Meat programme, reflected on the level of revenues of the category compared to the comparative period, decreased scope of cooperation in the area of private labels and the decrease in the overall market of some key subcategories. Trends in the entire region indicate the strengthening of private labels that force branded producers to adapt prices, leading to the decrease in the value of entire market categories. According to the research conducted by the company Nielsen, 52% of Podravka's strategic subcategories in the Adria region recorded value drops in 2016 compared to the comparative period, while Podravka's shares are stable or increasing in 88% of strategic subcategories. The company aims to compensate for the decrease in the overall market of some subcategories by innovation of new products or entering new categories such as Food Solution. However, it is evident that the region offers a highly limited potential for organic growth in the Food segment. Total revenues of the Pharmaceuticals segment were negatively impacted by the decrease in sales of trade goods, resulting from the focus on own brands in the market of Bosnia and Herzegovina, while at the same time own brands recorded a sales growth.

The sales of the **Europe region** in 2016 recorded a 10.7% growth compared to the comparative period, primarily impacted by the new Žito product range that was not fully present in the comparative period. In 2016, Western Europe recorded a growth in sales of the universal seasonings subcategory, mainly due to targeted selling and marketing activities in Germany, while Central Europe was marked by the decrease in the overall market of the universal seasonings subcategory, whereby the company managed to retain its market shares. Sales of the Pharmaceuticals segment were negatively impacted by the results in the Polish market due to activities of the existing and new competitors.

The **Russia, CIS and Baltic region** recorded 35.8% higher sales in 2016 than in 2015, with equal contributions by the Food and Pharmaceuticals segments. The Food segment recorded an above-average growth rate due to the successful implementation of the new business model that resulted, among other things, in direct contracts with a number of leading retail chains in Russia and the extension of the existing product range. In the observed period, the Pharmaceuticals segment recorded expanded business cooperation in the market of Russia.

In 2016, sales of the **New Markets region** grew by 5.6% compared to the comparative period. The sales growth is partly a result of opening new markets at the beginning of 2015, but also of the expansion of the distribution and the Žito product range. In 2016, newly-opened markets met all prerequisites for the normal commencement of operations and from 2017 their visible contribution to revenues is expected.

PROFITABILITY (CONTINUING OPERATIONS)

Note: The consolidation of the income statement of the Žito Group into the Podravka Group began as of 1 October 2015. As a result, the reported income statements of the Strategic Business Area Food and the Podravka Group for 2016 are not fully comparable to 2015.

PROFITABILITY OF THE STRATEGIC BUSINESS AREA FOOD (CONTINUING OPERATIONS)

SBA FOOD (CONTINUING OPERATIONS)	REPORTED RESULT		
IN HRKM	2016	2015	CHANGE
SALES REVENUES	3,288.1	2,734.5	20.2%
GROSS PROFIT	1,060.0	931.3	13.8%
EBITDA*	316.9	376.1	(15.7%)
EBIT	169.0	256.2	(34.0%)
NET PROFIT AFTER MI	122.0	228.7	(46.7%)
GROSS MARGIN	32.2%	34.1%	-182 BB
EBITDA MARGIN	9.6%	13.8%	-412 BB
EBIT MARGIN	5.1%	9.4%	-423 BB
NET MARGIN AFTER MI	3.7%	8.4%	-465 BB

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

In 2016, the Food segment recorded an increase in revenues and **gross profit** primarily due to the consolidation of the Žito Group. The gross margin was 32.2% compared to 2015 when it was 34.1%. The lower gross margin was impacted by the Žito Group's product range which on average has lower margins compared to the average Podravka Group's product range. In 2015, sales of the Žito Group range were included only in the fourth quarter, while in 2016 they were included in the entire year, which decreased the gross margin.

Operating profit (EBIT) in 2016 was 34.1% lower compared to 2015. It should be noted that operating profit in 2015 was under the impact of several one-off items: (i) HRK 140.5 million of gain on bargain purchases of Žito and Mirna, (ii) costs of severance payments of HRK 33.3 million, and (iii) costs related to the acquisition and integration of Žito of HRK 9.4 million. If the above mentioned one-off effects are excluded, operating profit of the Food segment is 6.6% higher than in the comparative period.

Net profit after minority interests in 2016 was 46.7% lower than in the comparative period. It should be noted that net profit after minority interests in 2015 was, in addition to the previously mentioned effects, under the one-off effects of costs related to the ESOP programme of HRK 6.7 million and Danica's tax losses carried forward of HRK 11.6 million. If all the above mentioned one-off effects are excluded, in 2016, 3.2% lower net profit after minority interests was recorded than in the comparative period. Lower net profit is a result, in addition to the mentioned above, of higher tax liability in 2016 compared to 2015, when the company utilised tax losses carried forward by subsidiaries.

PROFITABILITY OF THE STRATEGIC BUSINESS AREA PHARMACEUTICALS (CONTINUING OPERATIONS)

SBA PHARMACEUTICALS (CONTINUING OPERATIONS)	REPORTED RESULT		
IN HRKM	2016	2015	CHANGE
SALES REVENUES	815.2	805.0	1.3%
GROSS PROFIT	428.1	424.0	1.0%
EBITDA*	152.3	98.9	54.0%
EBIT	110.7	47.7	132.3%
NET PROFIT AFTER MI	71.1	187.3	(62.0%)
GROSS MARGIN	52.5%	52.7%	-15 BB
EBITDA MARGIN	18.7%	12.3%	+640 BB
EBIT MARGIN	13.6%	5.9%	+766 BB
NET MARGIN AFTER MI	8.7%	23.3%	-1454 BB

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

In 2016, the Pharmaceuticals segment recorded an increase in **gross profit** of 1.0%, while gross margin recorded a slight decrease due to, among other things, 1.6% higher cost of goods sold. The higher cost of goods sold is primarily a result of an increase in the number of employees in 2016 as the preparation for the commencement of production in new factories.

In 2016, **operating profit** (EBIT) grew by significant 132.3% compared to 2015, which was impacted by costs of severance payments of HRK 7.8 million. Without the impact of severance payments costs, EBIT recorded a 99.6% growth, positively impacted, in addition to the previously mentioned factors, by 13.9% lower total operating expenses (excluding the cost of goods sold and the mentioned effect of severance payments costs). Lower operating expenses were primarily impacted by foreign exchange gains on trade receivables and payables in 2016, which were negative in 2015.

In 2016, **net profit after minority interests** amounted to HRK 71.1 million, while in 2015 it amounted to HRK 187.3 million. It should be noted that 2015 was significantly impacted by deferred tax income of HRK 163.7 million, ESOP costs of HRK 1.3 million and the previously mentioned severance payments costs. Without all the above one-off effects, net profit after minority interests in 2016 would record a 117.8% growth.

PROFITABILITY OF THE PODRAVKA GROUP (CONTINUING OPERATIONS)

PODRAVKA GROUP (CONTINUING OPERATIONS)	REPORTED RESULT		
IN HRKM	2016	2015	CHANGE
SALES REVENUES	4,103.4	3,539.5	15.9%
GROSS PROFIT	1,488.1	1,355.3	9.8%
EBITDA*	469.2	475.0	(1.2%)
EBIT	279.7	303.9	(8.0%)
NET PROFIT AFTER MI	193.2	416.0	(53.6%)
GROSS MARGIN	36.3%	38.3%	-203 BB
EBITDA MARGIN	11.4%	13.4%	-198 BB
EBIT MARGIN	6.8%	8.6%	-177 BB
NET MARGIN AFTER MI	4.7%	11.8%	-705 BB

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

In 2016, the Podravka Group recorded an increase in revenues and **gross profit** primarily due to the consolidation of the Žito Group. The gross margin was 36.3% compared to 2015 when it was 38.3%. The lower gross margin was impacted by the Žito Group's product range which on average has lower margins compared to the average Podravka Group's product range. In 2015, sales of the Žito Group range were included only in the fourth quarter, while in 2016 they were included in the entire year, which decreased the gross margin.

Operating profit (EBIT) in 2016 was 8.0% lower compared to 2015. It should be noted that operating profit in 2015 was under the impact of several one-off items: (i) HRK 140.5 million of gain on bargain purchases of Žito and Mirna, (ii) costs of severance payments of HRK 41.1 million, and (iii) costs related to the acquisition and integration of Žito of HRK 9.4 million. If the above mentioned one-off effects are excluded, operating profit of the Podravka Group is 30.7% higher than in the comparative period.

Net profit after minority interests in 2016 was 53.6% lower than in the comparative period. It should be noted that net profit after minority interests in 2015 was, in addition to the previously mentioned effects, under the one-off effects of costs related to the ESOP programme of HRK 8.0 million, Danica's tax losses carried forward of HRK 11.6 million and deferred tax income of Belupo of HRK 163.7 million. If all the above mentioned one-off effects are excluded, in 2016, 21.7% higher net profit after minority interests was recorded.

PODRAVKA GROUP'S OPERATING EXPENSES STRUCTURE (CONTINUING OPERATIONS)

PODRAVKA GROUP (CONTINUING OPERATIONS)	REPORTED RESULT		
IN HRKM	2016	2015	CHANGE
COST OF GOODS SOLD	2,615.2	2,184.2	19.7%
GENERAL AND ADMINISTRATIVE EXPENSES	324.5	318.6	1.9%
SELLING AND DISTRIBUTION COSTS	550.8	493.3	11.7%
MARKETING EXPENSES	369.0	350.4	5.3%
OTHER EXPENSES (REVENUES), NET	(35.8)	(111.0)	(67.7%)
TOTAL OPERATING EXPENSES	**3,823.7**	**3,235.5**	**18.2%**

Operating expenses of the Podravka Group in 2016 recorded growth on all levels, primarily as a result of the acquisition of the Žito Group, which in 2015 was included in the income statement of the Podravka Group only in the fourth quarter. It should be noted that operating expenses in 2015 were significantly impacted by several one-off items: (i) HRK 140.5 million of gain on bargain purchases of Žito and Mirna, included in "other expenses (revenues), net", (ii) HRK 41.1 million of costs of severance payments, included in "general and administrative expenses", and (iii) HRK 9.4 million of costs related to the acquisition and integration of Žito, also included in "general and administrative expenses". Foreign exchange differences on trade receivables and payables are also included in "other expenses (revenues), net". These foreign exchange differences were negative in 2015, and positive in 2016, resulting in a positive impact of this item of operating expenses on the achieved result.

MAIN CHARACTERISTICS OF THE PODRAVKA GROUP'S DISCONTINUED OPERATIONS RESULTS IN 2016

Following the Decision of the Company's Management Board of 20 June 2013, the intention to initiate the procedure for abandoning the Beverages business programme was announced, for the purpose of improving business, decreasing operating expenses and strengthening innovation and competitiveness of the company in its key business programmes. As at the reporting date, the Company classified the Beverages programme as discontinued operations in accordance with IFRS. At the end of 2016, Podravka d.d. sold the 100%-share in Studenac d.o.o., whereby the Beverages programme that had been recorded as discontinued operations was sold.

DISCONTINUING OPERATIONS	REPORTED RESULT		
IN HRKM	2016	2015	CHANGE
SALES REVENUES	82.2	87.3	(5.9%)
GROSS PROFIT	30.8	29.8	3.4%
EBITDA*	0.4	(6.4)	(106.8%)
EBIT	(10.8)	(18.7)	(42.5%)
NET PROFIT AFTER MI	(10.8)	(18.7)	(42.5%)
GROSS MARGIN	37.5%	34.1%	+337 BB
EBITDA MARGIN	0.5%	(7.3%)	+786 BB
EBIT MARGIN	(13.1%)	(21.4%)	+832 BB
NET MARGIN AFTER MI	(13.1%)	(21.4%)	+832 BB

* 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, Dolcela and Žito), operating efficiency and long-term profitability. Apart from organic growth, further expansion is expected inorganically – by acquisitions and strategic alliances.

Further internationalization of business, preserving position on domestic market, will be the company focus in the upcoming periods. Modernization of processes, digitalization and new business models will be among key development guidelines.

In both business areas, Food and Pharmaceuticals, a strong investment cycle is underway, and an additional growth potential is seen in strengthening of the nutraceutics and in achieving results derived from synergy of these two business areas.

In the markets of Adria region, Podravka Group aims to be the leading manufacturer of branded products, by expanding the product range and maintaining leader position which is achieved in large number of categories of food and pharmaceuticals, by supporting all activities regarding strengthening market positions in food and pharmaceuticals and by consolidating the food part of the business.

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 brands are recognizable and well positioned. Growth is planned to be achieved by expanding the product range and strengthening distribution in chain stores.

Revenue growth is expected also on New markets, especially markets of China, Middle East and Africa, by opening of which Podravka Group continues to achieve business internationalization goal.

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.
- To keep pace with or be ahead of the average of industries in which

Podravka does business on key markets regarding the levels of cost and production efficiency.

- To reduce costs of procurement, sales and distribution, general and administrative costs and thus enable higher investments into marketing, research and product development.
- To improve cash flow, necessary for optimum operations, by better financial managment.
- To provide new and innovative culinary and pharmaceutical solutions for the consumers.
- To contribute to general community development with its activities.

Key factors of success

Three pillars of success:

I. COMPANY STRENGTHS AND VALUES

Employees
The key of Podravka's success are professional, creative and entrepreneurial employees, willing at each moment to make their contribution to company well-being and to invest additional efforts and time in achieving above-average results. 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, Belupo and Žito is a result of long tradition, know-how and caring for consumer health and well-being.

Podravka's brands and consumer trust
Proof of Podravka's brands strength 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-established 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.

II. PROFITABLE GROWTH

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

Market development

Podravka Group consists of Podravka d.d. and 33 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 in the upcoming period.

Business investments

By increasing operating efficiency, additional capital is released, and Podravka Group intends to invest it into further business. 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 through acquisitions and strategic alliances.

Synergy of food segment and pharmaceutical segment

The company aims to accomplish a synergy between the food segment and the pharmaceutical segment, 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 of products, and constant care for health and environment.

III. OPERATING EFFICIENCY

Cost efficiency

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

Internal competencies development

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

Restructuring of non-profitable businesses

Podravka continues its restructuring process, with the aim of further regional and international growth and development. After 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. 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, strengthen internal resources and capabilities and by investing we will be focusing on strategic brands on key markets.

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 industries. 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, 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 operations 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 which expose the company to increased political, economic and social risks on the other.

Podravka Group activities in the area of risk management are focused on developing the project of Enterprise Risk Management; ERM. The project refers to the process of integrated analyses and reports on key risks that the company is exposed to, identifying potential events which can have a negative effect on company business results and managing identified risks. Within the project, key risks are divided into three basic groups: strategic, financial and operating risks. Treasury department of Podravka d.d. is in charge of management and supervision of the ERM project, and it is performed in cooperation with other organization units and related companies of the Podravka Group. All the risks can be divided to insurable and non-insurable. Insurable risks are managed by the Insurances division within Treasury department, and together with uninsurable risks they undergo the analysis and reporting process within ERM project.

The purpose of ERM project is limiting company's potential losses, improving stakeholder management, increasing company financial safety and integrating risk into decision making process, so that in the future business return rates be aligned with risks taken over.

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 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 price-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 is the 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 for 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.

In 2016 activities initiated in 2015 were continued which should result in strengthening the presence in the markets of Middle East, China and Africa. That way we wish to create better grounds for further growth and development of Podravka Group's business.

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, activity 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 negotiation positions when defining the terms and conditions with customers.

Besides, Podravka Group invests efforts to ensure through harmonization and optimization of the existing pricing policies and price levels on existing markets, grounds for further successful long-term growth. The erosion of the profit margins is thus avoided, i.e. the risk of not achieving the planned sales realization is reduced.

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 redundancy labour programs the age structure of the company is improved. 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 ENVIRONMENTAL, QUALITY ASSURANCE AND PRODUCT SAFETY RISKS

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 consumers, and convenience in the consumption and safety of its products. Therefore, special attention is paid to defining and implementing activities that are based on assessment of critical areas in the chain of 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 systematic care on the sanitary validity and product safety, compliant to the legislature of the Republic of Croatia, the 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

In November 2016 reporting procedure was approved with the purpose of managing financial risks which can arise during Podravka Group business activities, in case when it is evaluated that due to extraordinary circumstances urgent resolutions need to be passed on individual business activities in the manner different from the prescribed procedures, and which can endanger profitability or cause significant financial losses to the company (Escalation procedure for managing financial risks). The stated procedure is a constituent part of the overall ERM project.

Financial risks are: 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 most significant exposure of Croatian currency to exchange rate fluctuations during 2016 was in comparison to EUR, PLN, CZK, BAM and RUB.

Currency risks arise not only from operations of related parties in foreign markets, but also from the procurement of raw food materials in the international market, which is largely performed in EUR and USD. Likewise, a significant portion of Podravka Group borrowings is denominated in EUR. During 2016, the exchange rate of the Croatian kuna against EUR remained stable, but at lower average levels than the year before, as a consequence of appreciation pressures on the Croatian kuna due to favourable economic trends.

As of October 2016 model of managing transaction exchange rate risk called layer hedging is applied to the following currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The stated model describes identification of risk sources and exposure measurement (using Monte Carlo method of Value at Risk simulation), process of contracting derivative financial instruments for hedging purposes and the control and reporting system. Additionally, within the model exposure limit parameters were set which are triggers for contracting prescribed hedging levels. Using Bloomberg terminal, macroeconomic projections are regularly being monitored and derivative financial instruments for currency risk management are being contracted. During 2016 the company has changed its business model on several export markets in order to achieve that the inflows from related parties, where ever that is possible, are forwarded to Podravka d.d. in the domicile currency of the country where the related company does business. That way the exchange rate risk is greatly transferred from related parties to Podravka d.d. which synchronises financial inflows with outflows (natural hedging) and thus reduces overall exchange rate risk exposure, and also creates the opportunity to contract derivative financial instruments for the remaining net cash flow amount on central level.

During 2016 Podravka d.d. contracted fx forward contracts for managing exchange rate risks for USD, AUD, CAD, RUB, HUF and PLN. For exposure to differences between Croatian kuna and Eur, no derivative financial instruments for hedging purposes were contracted, due to limited exchange rate volatility and exchange rate regime implemented by Croatian National

Bank. Belupo d.d., a company within Podravka Group, achieves significant part of its incomes on Russian market and is thus exposed to changes of RUB exchange rate, whose volatility during 2016 was extremely high, with strong depreciation pressures. With the purpose of active monitoring and minimizing the exchange rate risks, in 2016 fx *forward* contracts were contracted as available hedging instruments and for the correction of prices denominated in RUB.

Interest rate risk
Podravka Group manages cash flow interest rate risk in the way to have contracted interest rate swaps, replacing the liabilities at variable interest rate by fixed interest rate. Changes and projections of interest rates are continuously monitored. For a part of its debts, Podravka Group contracted fixed interest rates. Considering all stated, and the fact that the current interest rates are relatively low, Podravka Group is not significantly exposed to interest rate risk.

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 agricultural and food raw materials markets, the impact of which cannot always be compensated through the sale price for the buyer.

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

Also, there is a trend of primary raw materials producers' consolidation on the European and global level, which could lead to 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 existing and new suppliers. Also, by enlarging the procurement volumes, fully applying the Commodity Risk Management, conducting e-tenders and using new regimes of import, Podravka Group works on reducing procurement costs, in the conditions of extreme price volatility of individual strategic raw materials.

Credit risk and risk of collection

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

Podravka Group does business exclusively with creditworthy contractual parties, insuring, if needed, debts in order to reduce the risk of financial losses as a consequence of non-fulfilling contractual obligations. Podravka Group exposure and credit position of other contractual parties have continuously been monitored.

During 2016 Podravka Group had no major issues with collecting debts from related and nonrelated buyers.

New buyers are accepted, and with the existing ones business cooperation continues, with payment delay after they have satisfied the set company parameters examining creditworthiness. Receivables 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 are being monitored and controlled through credit limits set by the company and insurers, which are constantly controlled and changed as needed.

Depending on the needs and collection of receivables on individual markets, during 2016 Podravka Group contracted insurance of receivables for a selected group of markets.

During 2016 Podravka Group experienced no significant damages reports related to receivables insurance.

Liquidity risk

Podravka Group manages liquidity risks, by setting an appropriate framework for managing liquidity risks, with the purpose of managing short-term, mid-term and long-term financing and liquidity demands, and maintaining adequate reserves and credit lines. During 2016 additional efforts were made in cash flow planning for all related parties aggregated at the Podravka Group level, continuously comparing the planned and achieved cash flow, with monitoring the maturities of receivables and payables. Podravka Group continuously monitors and analyzes cash flows, aiming to optimally manage liquidity, in order to ensure sufficient level of funds for business needs, with using contracted credit lines when that is necessary. Such a way of planning cash flow takes into account Podravka Group plans regarding regular settlement of payables and synchronisation with set contracts.

CORPORATE GOVERNANCE

Statement on corporate governance

In compliance with 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 with 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 prepare a Corporate Governance Code with the purpose of equalizing the rights of all the shareholders and open, professional and transparent approach to relations with investors 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 bodies 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 entities, 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 with principles of responsibility, truthfulness, efficiency, transparency, quality, acting in good faith and respecting the principles of good business practice with partners, business and social environment and own employees.

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

Consolidated annual financial statements of the company and annual report on business status of the company are submitted as one annual report of the Podravka Group, which includes the subsidiaries of Podravka d.d stated below.

Subsidiaries

NAME OF SUBSIDIARY	COUNTRY	2016	PRINCIPAL ACTIVITY
Belupo d.d., Koprivnica	Croatia	100%	Production and distribution of pharmaceuticals
Belupo doel, Skopje*	Macedonia	100%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100%	Sale and distribution of pharmaceuticals
Belupo Ljubljana*	Slovenia	100%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm Koprivnica*	Croatia	100%	Sale and distribution of pharmaceuticals
Farmavita d.o.o. Vogošća*	B&H	65%	Production and distribution of pharmaceuticals
Mirna d.d. Rovinj	Croatia	84%	Fish processing and production
Lagris a.s., Lhota u Luhačovic	Czech Republic	100%	Rice sale and distribution
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100%	Seasonings manufacture and sale
Podravka-International Kft, Budapest	Hungary	100%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen **	Slovakia	100%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	100%	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100%	Production of wafers
Podravka-International s.r.l., Bucharest	Romania	100%	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100%	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	B&H	100%	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100%	Sale and distribution of food and beverages
Podravka d.o.o., Moscow	Russia	100%	Sale and distribution of food and beverages

Vegeta Podravka Limited, Dar es Salaam***	Tanzania	85%	Production and sale of food
Vegeta Ltd.****	Kenya	80.81%	Sale and distribution
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100%	Sale and distribution
Žito d.o.o., Ljubljana*****	Slovenia	100%	Production and distribution of food
Intes Storitve d.o.o., Maribor	Slovenia	100%	Production and distribution of food
Šumi bonboni d.o.o., Ljubljana	Slovenia	100%	Production and distribution of food
Žito maloprodaja d.o.o., Ljubljana	Slovenia	99.89%	Sale of food and beverages - retail
ZIŽR g.i.z., Ljubljana	Slovenia	100%	Services
LD Žito d.o.o. v likvidaciji, Zagreb	Croatia	100%	Sale and distribution of food
Žito Beograd d.o.o. v likvidaciji, Belgrade	Serbia	100%	Sale and distribution of food
Žito Pl d.o.o.e.l. v likvidaciji, Skopje	Macedonia	100%	Sale and distribution of food
Podravka d.o.o., Ljubljana	Slovenia	100%	Sale and distribution of food and beverages

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

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

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

**** The Group holds the 80%-share through the subsidiary Vegeta Podravka Limited, Dar es Salaam

***** In accordance with the legal obligation, the Company as a shareholder squeezed out the remaining minority shareholders and consequently in 2016 acquired the 100%-share in Žito d.d.. In addition, during the year, Žito d.o.o. adopted the decision to withdraw its shares from the Ljubljana Stock Exchange and its legal form was changed to a limited liability company.

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 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. All the materials related to the calling and holding the General Assembly are available at Podravka's web site in the Investors/Corporate governance/General Assembly section.

Supervisory Board

Supervisory Board has nine members, eight of whom are elected 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, i.e. their appointment, unless otherwise determined by an election resolution. Supervisory Board supervises business operations of the Company, and on issues in their domain Supervisory Board makes decisions based on law, Articles of Association of Podravka d.d. and the Rules of Procedure of the Supervisory Board.

Podravka d.d. Supervisory Board members in 2016:
1. Dubravko Štimac – president
2. Mato Crkvenac – deputy president
3. Ivo Družić – member
4. Ivana Matovina – member till 6th July 2016
5. Petar Miladin – member
6. Dinko Novoselec – member
7. Milan Stojanović – member till 6th July 2016
8. Petar Vlaić – member
9. Ksenija Horvat – member (representing workers)

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

The Audit Committee members in 2016 were:
1. Dinko Novoselec – president of the Committee till 4th September 2016 and member since 5th September 2016
2. Mato Crkvenac – member
3. Petar Vlaić – member
4. Ivana Matovina – member till 4th September 2016, and since 5th September 2016 president of the Committee.

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 consolidated financial statements, to monitor the independence of independent auditors or auditing companies performing the audit, and particularly contracts on additional services, to discuss plans and annual report by the internal audit, and to discuss significant issues related to this area, to provide recommendations to the Supervisory Board on choosing an independent auditor or an auditing company.

The Audit Committee held seven sessions in 2016.

The Remuneration Committee members were:

1. Petar Vlaić – president of the Committee
2. Dubravko Štimac – member
3. Milan Stojanović – member till 6th July 2016
4. Mato Crkvenac – member since 22nd July 2016

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 three sessions in 2016.

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

In 2016 members of Podravka d.d. Supervisory Board were paid HRK 1,269 thousand, and if the remunerations to members of the Supervisory Boards of Belupo d.d., Mirna d.d. and Žito d.o.o. are added to this amount, Supervisory Board members of Podravka Group have been paid HRK 1,923 thousand.

Management Board

Pursuant to the provisions of the Articles of Association of Podravka d.d., the president and members of the Management Board are appointed to the period as determined by the Supervisory Board (five years at the most) and they can be reappointed. Term start date is as of the date the Management Board members are appointed. Management Board members manage Company affairs, and the way of working and dividing tasks among Management Board members has been determined by the Rules of Procedure on Management Board operations.

On 24th February 2012, the Supervisory Board appointed the president and four members of Podravka d.d. Management Board to a five year term. Zvonimir Mršić was appointed Management Board president, and members appointed were Jadranka Ivanković, Olivija Jakupec, Miroslav Klepač and Jorn Pedersen.

On its session held on 20th December 2012 Supervisory Board appointed Hrvoje Kolarić as Podravka d.d. Management Board member, with term ending together with the rest of the Management Board's term.

On its session held on 18th June 2014, the Supervisory Board approved concluding 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 concluding an agreement with Management Board member Jadranka Ivanković on discontinuation of her term and membership at Podravka d.d. Management Board as of 22nd December 2014.

On its session held on 15th February 2016, the Supervisory Board approved concluding an agreement with Management Board member Miroslav Klepač on discontinuation of his term and membership at Podravka d.d. Management Board as of 31st March 2016, and also appointed Iva Brajević as Podravka Management Board member, whose term started as of 1st April 2016, and lasting till this Management Board's term ends completely.

Management Board consists of four members appointed by the Supervisory Board.

Management Board members in 2016:

1. Zvonimir Mršić – president
2. Olivija Jakupec – member
3. Miroslav Klepač – member till 31st March 2016
4. Iva Brajević – member from 1st April 2016
5. 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 2016 to Podravka d.d. Management Board members amount to HRK 7,066 thousand and if this amount is added with remunerations for Management Board members for Belupo d.d., Podravka Group Management Board members have been paid a total of HRK 9,828 thousand.

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

During 2016, members of Podravka d.d. Management Board have been awarded with 36,801 of the Company stock options.

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: 10 JANUARY 2017

All the questions contained in this questionnaire relate to the period of one business year 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 so, 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 ☐

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 ☑

According to article 223 of the Company Law dividend payable is due not later than 60 days from the date of decision making.

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

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 (president of the Management Board), **Olivija Jakupec** (member of the Management Board), **Miroslav Klepač** (member of the Management Board until 31 March 2016), **Iva Brajević** (member of the Management Board from 1 April 2016) 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), **Ksenija Horvat** (member of the Supervisory Board), **Ivana Matovina** (member of the Supervisory Board until 6 July 2016), **Petar Miladin** (member of the Supervisory Board), **Dinko Novoselec** (member of the Supervisory Board), **Milan Stojanović** (member of the Supervisory Board until 6 July 2016) and **Petar Vlaić** (member of the Supervisory Board).

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 d.d. Remunerations and other incomes given by the Company for the Management Board and Supervisory Board members are published in the total amount in the Company's Annual Report for 2016.

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

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

Yes ☑ No ☐

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 ensure 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 ☑

There is no obligation of submitting requested information.

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 ☑

There is no obligation of submitting requested information.

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 ☑

There is no obligation of submitting requested information.

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 ☑

There si no obligation of submitting requested information. Total amount of remuneration to the Management Board and Supervisory Board members are published in the Company's Annual Report for 2016.

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 ☑

There were no such transactions.

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 management of the company, and a special comment on its cooperation with the management? (If not, explain)

Yes ☑ No ☐

AUDIT AND MECHANISMS OF INTERNAL AUDIT

Answers to this questionnaire chapter will be valued with 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 provided services related to the transfer pricing study for some subsidiares 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 ☐

TRANSPARENCY 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 prepare 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

Share

TURNOVER, VOLUME AND PRICE MOVEMENT OF PODRAVKA'S SHARE

Total turnover of Podravka's share in 2016 was 28.3 percent lower when compared to 2015, while total turnover of all shares at Zagreb Stock Exchange in the same period recorded a decline of 13.4 percent. Total regular turnover of Podravka's share in 2016 was HRK 96.2 million, which is 5.0 percent of total shares turnover at the Zagreb Stock Exchange.

Decrease in Podravka's share turnover in 2016 is a result of lower volume when compared to 2015, which was cushioned by Podravka's share price increase. Traded volume of Podravka's share in 2016 was 34.4 percent lower when compared to 2015, whereas the most intense trading took place in the second and third quarter.

PODRAVKA'S SHARE TURNOVER AND VOLUMES PER QUARTERS IN 2016

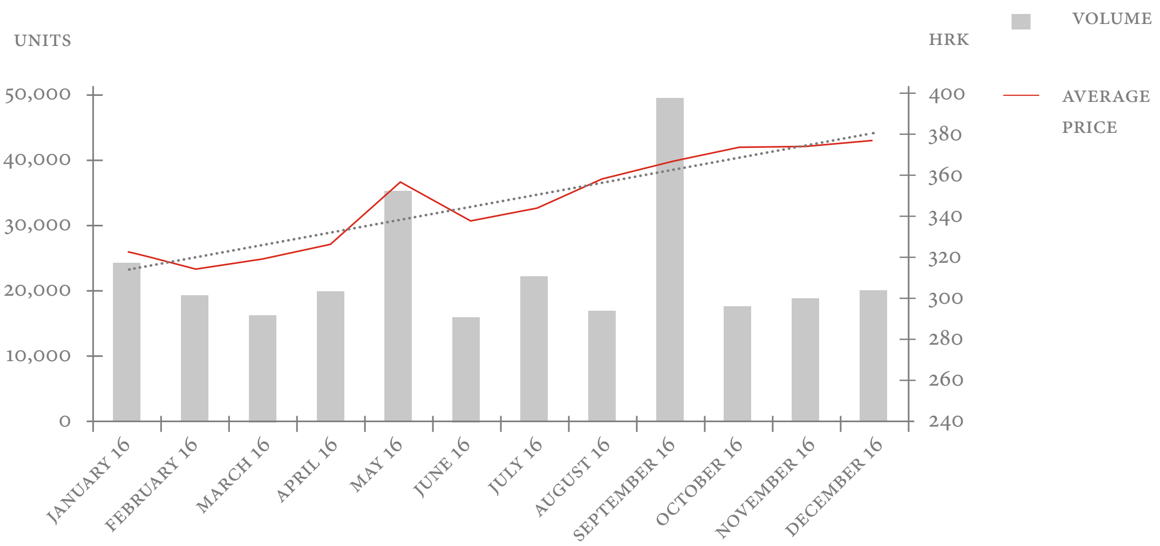
	2016		2015	
PERIOD	TURNOVER (HRK)	VOLUME	TURNOVER (HRK)	VOLUME
I QUARTER	18,995,803	59,476	18,120,072	61,019
II QUARTER	23,967,122	71,025	32,535,496	104,433
III QUARTER	31,962,500	88,811	50,125,904	156,371
IV QUARTER	21,253,675	56,531	33,349,147	98,931
TOTAL	**96,179,100**	**275,843**	**134,130,619**	**420,754**

Source: ZSE

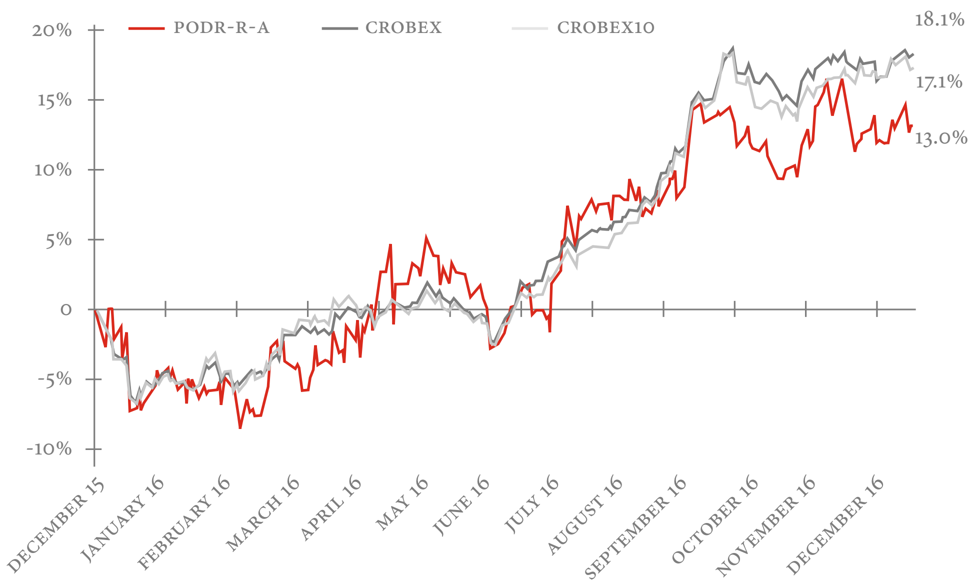
In 2016, the average daily price[5] of Podravka's share was HRK 348.7 and it was 9.4% higher when compared to the comparative period. Closing price of Podravka's share as at 31 December 2016 was HRK 377.5, which is 13.0% higher when compared to 31 December 2015.

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

VOLUME AND AVERAGE PRICE MOVEMENT OF PODRAVKA'S SHARE



MOVEMENT OF AVERAGE DAILY PRICE OF PODRAVKA SHARE AND INDICES CROBEX AND CROBEX10 IN 2016



Podravka's share price rose 13.0% in 2016, while in the same period domestic stock indices CROBEX and CROBEX10 grew by 18.1% and 17.1%, respectively.

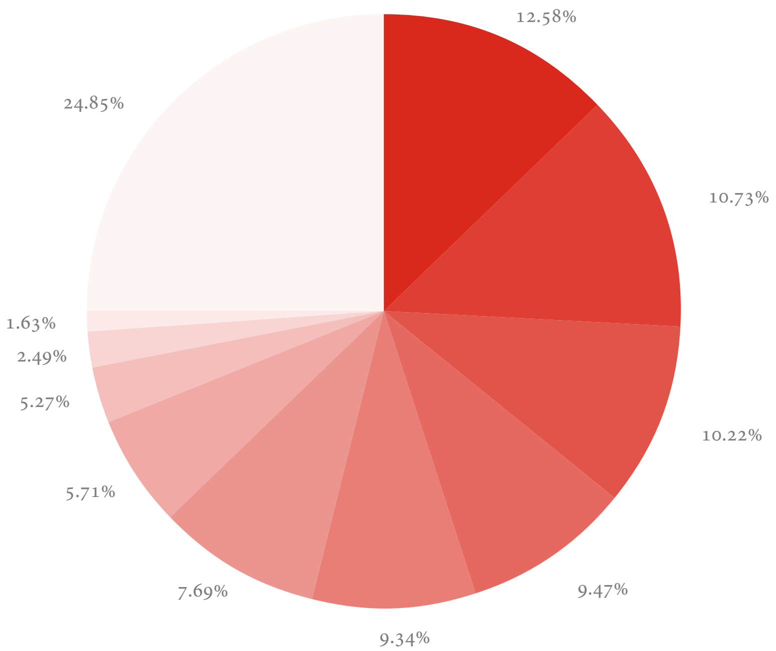
STOCK MARKET INDICES

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 31 DECEMBER 2016

RECOMMENDATION PROVIDER	DATE OF THE RECOMMENDATION	RECOMMENDATION	TARGET PRICE
INTERCAPITAL SECURITIES	-	UNDER REVIEW	-
RAIFFEISENBANK AUSTRIA	15.09.2016	HOLD	HRK 383.00
ERSTE GROUP BANK AG	06.10.2016	HOLD	HRK 400.00
UNICREDIT GROUP	24.03.2015	BUY	HRK 398.96
WOOD & COMPANY	13.07.2016	HOLD	HRK 376.00

OWNERSHIP STRUCTURE



Treasury account status

As at 31 December 2016 Podravka d.d. had 194,900 of treasury shares. As at 31 December 2016, Supervisory Board members owned 19 shares of Podravka d.d., while Management Board members owned 6,703 shares of Podravka d.d.

In 2016, Podravka d.d. acquired 36,589 treasury shares for HRK 13.0 million. The basis for the acquisition of treasury shares was the authorisation given to the Management Board of Podravka d.d. by the Decision of the General Assembly of 3 June 2015. The purpose of the acquisition of treasury shares was implementing the ESOP programme and rewarding management.

SHAREHOLDER	NUMBER OF SHARES
PBZ CO MANDATORY PENSION FUND CATEGORY B	925,602
AZ MANDATORY PENSION FUND CATEGORY B	902,874
RESTRUCTURING AND SALE CENTER / CPII*	727,703
RESTRUCTURING AND SALE CENTER / REPUBLIC OF CROATIA	673,845
ERSTE PLAVI MANDATORY PENSION FUND CATEGORY B	665,166
RAIFFEISEN MANDATORY PENSION FUND CATEGORY B	625,298
KAPITALNI FOND D.D.	406,842
PODRAVKA D.D. / TREASURY ACCOUNT	194,900
AZ PROFIT VOLUNTARY PENSION FUND	111,752
RAIFFEISEN VOLUNTARY PENSION FUND	99,965
OTHER SHAREHOLDERS	1,786,056
TOTAL	**7,120,003**

*CPII - CROATIAN PENSION INSURANCE INSTITUTE

PODRAVKA d.d. and its subsidiaries, Koprivnica

Annual Report and the
Consolidated Financial Statements
for the year ended

31 December 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.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board 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 ("the Group") and of the results of its operations and its cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the 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 also responsible for the preparation of the Annual report and the Statement on implementation of the corporate governance code in accordance with the Croatian Accounting Act. The Annual report and the Statement on implementation of corporate governance code are authorised and signed by the Management Board. The Management Board is responsible for the submission to the Supervisory Board of its Annual report together with the annual consolidated and separate financial statements, following which the Supervisory Board is required to approve the annual consolidated financial statements for submission to the General Assembly of Shareholders for adoption.

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

The consolidated financial statements were authorised by the Management Board on 20 February 2017 for issue to the Supervisory Board and are signed below to signify this.

Zvonimir Mršić
President of the Management Board

Iva Brajević
Member of the Management Board

Hrvoje Kolarić
Member of the Management Board

Olivija Jakupec
Member of the Management Board

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republika Hrvatska

Koprivnica, 20 February 2017

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

Opinion

We have audited the consolidated financial statements of Podravka d.d. ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of comprehensive income, consolidated cash flows and consolidated changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 2016, 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 ("IFRS EU").

Basis for opinion

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

Key Audit Matters

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

Accounting treatment of customers rebate expense

Revenue (from continuing operation) for the year ended 31 December 2016 amounts to HRK 4,103,362 thousand. Accrued rebate expenses are included within accrued expenses in other liabilities.

Refer to page 107 (accounting policies note) and page 131 (Note 8).

Key Audit Matters	Audit approach
Revenue is measured taking account of discounts, incentives and rebates earned by customers. The presented amount of revenue (from continuing operations) for the year ended 31 December 2016 of HRK 4,103,362 thousand is reported net of these discounts, incentives and rebates whose effects are significant to the statement of comprehensive income for the reporting period. Due to the variety of contractual terms across the Group's markets, the estimation of the amounts of such discounts, incentives and rebates to be recognised is considered to be complex.	Our audit procedures in this area included, among others: • evaluating and testing of the controls over the process of estimating and accounting for the discounts, incentives and rebate expenses and related liabilities of the Group. • obtaining customer confirmations of amounts due with a sample of customers, and investigating any significant differences between confirmations received and the Group's records. • evaluating recognised accrued rebate expenses and incentives for the reporting period, by reference to the accuracy of accrued rebate expenses and customer incentives in prior reporting periods as compared to the actual outcomes.

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

<table>
<tr><td colspan="2">Accounting treatment of customers rebate expense (continued)</td></tr>
<tr><td>Key Audit Matters (continued)</td><td>Audit approach (continued)</td></tr>
<tr><td>There is a large number of individual customer arrangements for the Group to monitor and there is a risk over the incorrect inclusion or non-inclusion of discounts, incentives and rebates in the current period and year-end accruals, or incorrect calculation of the amounts recorded. Accruals for discounts, incentives and rebates are not all confirmed by customers at 31 December, albeit discounts, incentives and rebates measurement periods are retrospective and in most cases coterminous with the 31 December year-end.</td><td>• for a sample of key customers, inspecting respective contractual terms and independently recalculating the amounts of discounts, incentives and rebates due by reference to those terms, and also considering post year-end credit notes and payments.</td></tr>
<tr><td colspan="2">Impairment of intangible assets and goodwill</td></tr>
<tr><td colspan="2">As at 31 December 2016 in the consolidated financial statements intangible assets amount to HRK 267,984 thousand, including the carrying amount of brands of HRK 125,765 thousand. The goodwill as at 31 December 2016 amounts to HRK 26,024 thousand.
Refer to page 114 (accounting policies note) and pages 124-125 (Note 5).</td></tr>
<tr><td>Key audit matters</td><td>Audit approach</td></tr>
<tr><td>As at 31 December 2016, the Group reported a significant amount of intangible assets, such as brands and goodwill associated with an acquisition effected in one of the prior periods. As required by relevant financial reporting standards, such intangibles and goodwill are tested by the Group at least annually or at the reporting date for potential impairment, irrespective of any related impairment indicators, as integral part of the related cash generating units. Any such impairment would be recognised in the amount by which the carrying amount of the asset exceeds its recoverable amount (higher of fair value less cost to sell and value in use).

Measuring the recoverable amount is associated with significant estimation uncertainty as it requires management to exercise judgment in forecasting and discounting the future cash flows expected to be derived from the assets. These estimates of future cash flows are based on management's view of variables for future profitability growth, capital expenditure, working capital and the most appropriate discount rate.</td><td>Our audit procedures in this area included, among others:
• evaluating the appropriateness of allocation of intangible assets and goodwill to cash-generating units.
• evaluating the impairment model, in terms of its compliance with the relevant accounting standards.
• including our own valuation specialists, challenging the assumptions used by the Group in its impairment model for goodwill and intangible assets, which specifically involved:
- evaluating the consistency of the assumptions used with the actual outcomes and examining the causes of differences between past cash flow projections and actual outcomes.
- comparing the assumptions used, where possible, to externally derived data and sensitivity analysis to changes in key assumptions such as growth rates and discount rates.</td></tr>
</table>

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

Other information

Management is responsible for the other information. The other information comprises the consolidated Annual Report and Statement on implementation of the corporate governance code, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

With respect to the consolidated Annual Report and the Statement of implementation of corporate governance code, we have also performed the procedures required by Article 20 of the Croatian Accounting Act. These procedures include considering whether the consolidated Annual Report and the Statement of implementation of corporate governance code include the disclosures required by Articles 21, 22 and 24 of the Croatian Accounting Act and obtaining evidence regarding specified information provided in the Statement of implementation of corporate governance code.

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

- The information given in the consolidated Annual Report and the relevant sections of the Statement of implementation of corporate governance code which contain the information referred to in Article 22, paragraph 1, items 3 and 4 and article 24 paragraph 2 of the Croatian Accounting Act (extract from Statement of implementation of corporate governance code) for the financial year for which the consolidated financial statements are prepared, is consistent, in all material respect, with the consolidated financial statements.
- The information given in the consolidated Annual Report and the extract of the Statement of implementation of corporate governance code have been prepared in all material respect in accordance with the applicable legal requirements of the Croatian Accounting Act.
- The Statement on implementation of corporate governance code includes the information required by Article 22 paragraph 1, items 2, 5, 6 and 7 of the Croatian Accounting Act.
- In addition, in light of the knowledge and understanding of the Group and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the consolidated Annual Report, the Statement of implementation of corporate governance code that we obtained prior to the date of this auditors' report. We have nothing to report in this respect.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS EU, 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.

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Joško Džida.

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
5

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

Zagreb, 20 February 2017

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of HRK)	*Note*	2016	2015 Restated
Continuing operations			
Revenues	*8*	4,103,362	3,539,466
Cost of goods sold	*11*	(2,615,248)	(2,184,171)
Gross profit		**1,488,114**	**1,355,295**
Other income	*9*	41,246	158,903
General and administrative expenses	*11*	(324,499)	(318,599)
Selling and distribution costs	*11*	(550,838)	(493,341)
Marketing expenses	*11*	(368,975)	(350,443)
Other expenses	*10*	(5,399)	(47,872)
Operating profit		**279,649**	**303,943**
Finance income	*13*	11,065	7,078
Finance expenses	*14*	(40,996)	(51,077)
Net finance costs		**(29,931)**	**(43,999)**
Profit before tax		**249,718**	**259,944**
Income tax	*15*	(51,209)	162,019
Profit for the year from continuing operations		**198,509**	**421,963**
Discontinued operations			
Loss for the year (net of tax)	*7*	**(10,756)**	**(18,698)**
Profit for the year		**187,753**	**403,265**
Other comprehensive income:			
Exchange differences on translation of foreign operations		(8,846)	1,326
Actuarial gains (net of deferred tax)		(1,583)	(225)
Total comprehensive income		**177,324**	**404,366**
Profit attributable to:			
Equity holders of the parent		182,399	397,310
Non-controlling interests		5,354	5,955
Total comprehensive income attributable to:			
Equity holders of the parent		172,177	398,419
Non-controlling interests		5,147	5,947
Earnings per share (in HRK):			
- Basic	*16*	26.32	66.35
- Diluted	*16*	26.32	66.35
Earnings per share - continuing operations (in HRK):			
- Basic	*16*	27.87	69.48
- Diluted	*16*	27.87	69.48

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(in thousands of HRK)	***Note***	**31 December 2016**	**31 December 2015 Restated**
ASSETS			
Non-current assets			
Goodwill	*17*	26,024	26,290
Intangible assets	*18*	267,984	284,511
Property, plant and equipment	*19*	2,304,442	1,937,978
Non-current financial assets	*21*	17,028	18,715
Deferred tax assets	*15*	185,769	230,946
Total non-current assets		**2,801,247**	**2,498,440**
Current assets			
Inventories	*22*	773,595	783,490
Trade and other receivables	*23*	1,177,321	1,159,394
Financial assets at fair value through profit and loss	*24*	751	215
Income tax receivable		10,738	34,617
Cash and cash equivalents	*25*	337,611	291,877
Non-current assets held for sale	*26*	184,465	223,561
Total current assets		**2,484,481**	**2,493,154**
Total assets		**5,285,728**	**4,991,594**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*27*	1,681,261	1,685,955
Reserves	*28*	612,643	549,840
Retained earnings	*29*	583,272	514,250
Attributable to equity holders of the parent		**2,877,176**	**2,750,045**
Non-controlling interests	*30*	49,218	67,712
Total shareholders' equity		**2,926,394**	**2,817,757**
Non-current liabilities			
Loans and borrowings	*32*	998,535	752,244
Provisions	*33*	70,675	64,126
Other non-current liabilities	*34*	21,179	19,611
Deferred tax liability	*15*	50,764	56,475
Total non-current liabilities		**1,141,153**	**892,456**
Current liabilities			
Trade and other payables	*35*	805,270	777,812
Income tax payable		5,260	2,251
Financial liabilities at fair value through profit and loss	*31*	4,197	2,469
Loans and borrowings	*32*	376,618	459,544
Provisions	*33*	26,836	39,305
Total current liabilities		**1,218,181**	**1,281,381**
Total liabilities		**2,359,334**	**2,173,837**
Total equity and liabilities		**5,285,728**	**4,991,594**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

(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 2015	**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 gains (net of deferred tax)	-	-	-	-	-	(225)	-	(225)	-	(225)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**1,109**	**397,310**	**398,419**	**5,947**	**404,366**
Transactions with owners recognised directly in equity	-	-	-	-	-	-	-	-	-	-
Share capital increase through issue of new shares	506,394	-	-	-	-	-	-	506,394	-	506,394
Share capital increase from reinvested profits	108,400	-	-	(108,400)	-	-	-	-	-	-
Allocation from retained earnings	-	80,000	14,388	-	3,051	3,190	(100,629)	-	-	-
Purchase of treasury shares	(5,899)	-	-	-	-	-	-	(5,899)	-	(5,899)
Excersize of options	3,690	-	-	-	-	-	-	3,690	-	3,690
Fair value of share-based payment transactions	9,822	-	-	-	-	-	-	9,822	-	9,822
Acquistion of subsidiaries	-	-	-	-	-	-	-	-	289,326	289,326
Additional acquisition of minority interests	-	-	-	-	-	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**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	182,399	182,399	5,354	187,753
Effect of sold companies	-	-	-	-	-	-	(40)	(40)	-	(40)
Foreign exchange differences	-	-	-	-	-	(8,946)	-	(8,946)	(207)	(9,153)
Profit or loss from reevaluation of financial assets available for sale	-	-	-	-	-	347	-	347	-	347
Actuarial gains (net of deferred tax)	-	-	-	-	-	(1,583)	-	(1,583)	-	(1,583)
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(10,182)**	**(40)**	**(10,222)**	**(207)**	**(10,429)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(10,182)**	**182,359**	**172,177**	**5,147**	**177,324**
Transactions with owners and transfers recognised directly in equity										
Allocation from retained earnings (note 28)	-	-	11,006	-	8,548	45,303	(64,857)	-	-	-
Purchase of treasury shares	(12,977)	-	-	-	-	-	-	(12,977)	-	(12,977)
Excersize of options	504	-	-	-	-	-	-	504	-	504
Fair value of share-based payment transactions (note 27)	7,779	-	-	-	-	-	-	7,779	-	7,779
Dividends paid	-	-	-	-	-	-	(48,480)	(48,480)	-	(48,480)
Additional acquisition of minority interests (note 30)	-	-	-	-	-	8,128	-	8,128	(23,641)	(15,513)
Total transactions with owners recognised directly in equity	**(4,694)**	**-**	**11,006**	**-**	**8,548**	**53,431**	**(113,337)**	**(45,046)**	**(23,641)**	**(68,687)**
As at 31 December 2016	**1,681,261**	**147,604**	**41,937**	**189,738**	**55,555**	**177,809**	**583,272**	**2,877,176**	**49,218**	**2,926,394**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of HRK)	***Note***	**2016**	**2015**
Profit for the year		**187,753**	**403,265**
Income tax		51,209	(162,019)
Depreciation and amortization		191,430	148,314
Gain on bargain purchase	*9*	-	(140,461)
Impairment loss on property, plant, equipment and intagibles	*10*	1,867	11,050
Impairment loss on assets held for sale	*10*	9,299	23,554
Reversal of impairment loss on assets held for sale	*9*	(222)	-
ESOP reserve	*37*	(216)	-
Remeasurement of financial assets and liabilities at FVTPL		1,465	(156)
Share-based payment transactions		7,995	9,822
(Gain)/loss on disposal of property, plant, equipment and intangibles		(6,188)	(1,345)
(Gain)/loss on disposal of assets held for sale		(729)	(864)
Gain on share disposal		(18)	-
Impairment losses for trade receivables		2,746	8,177
Decrease in provisions		(5,920)	(14,878)
Interest income		(5,079)	(2,247)
Liabilitiy write off		(1,704)	-
Interest expense		36,918	42,831
Effect of changes in foreign exchange rates		(7,038)	(3,290)
		463,568	**321,753**
Changes in working capital:			
Decrease/(increase) in inventories		15,134	(30,949)
Increase in trade and other receivables		(856)	(8,360)
Increase in trade and other payables		37,115	55,113
Cash generated from operations		**514,961**	**337,557**
Income taxes paid		(2,126)	(20,225)
Interest paid		(36,097)	(43,106)
Net cash from operating activities		**476,738**	**274,226**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles		(437,112)	(271,238)
Purchase of assets held for sale		-	(3,733)
Expenditure on the purchase of equity securities		(884)	-
Sale of assets held for sale	*26*	64,700	-
Proceeds from sale of property, plant, equipment and intangibles		8,155	5,928
Proceeds from sale of shares		672	-
Loans given		(619)	(969)
Proceeds from loans given		1,391	349
Net cash from investments in money market funds		(274)	2,318
Interest received		5,079	2,247
Acquisition of subsidiary, net of cash acquired		-	(410,728)
Net cash from investing activities		**(358,892)**	**(675,826)**
Cash flows from financing activities			
Dividends paid		(48,480)	-
Acquisition of additional minority interest	*30*	(8,827)	-
Proceeds from issue of share capital	*27*	-	506,394
Purchase of treasury shares	*27*	(12,977)	(5,899)
Sale of treasury shares		3,308	4,792
Proceeds from loans and borrowings		853,619	480,513
Repayment of loans and borrowings		(858,755)	(512,801)
Net cash from financing activities		**(72,112)**	**472,999**
Net increase of cash and cash equivalents		**45,734**	**71,399**
Cash and cash equivalents at beginning of year		291,877	220,478
Cash and cash equivalents at the end of year	*25*	**337,611**	**291,877**

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, 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.

Supervisory Board

Supervisory Board members during 2016:

President	Dubravko Štimac
Deputy President	Mato Crkvenac
Member	Ivana Matovina (until 6 July 2016)
Member	Milan Stojanović (until 6 July 2016)
Member	Petar Vlaić
Member	Dinko Novoselec
Member	Petar Miladin
Member	Ivo Družić
Member	Ksenija Horvat

Management Board during 2016

President	Zvonimir Mršić
Member	Olivija Jakupec
Member	Miroslav Klepač (until 31 March 2016)
Member	Hrvoje Kolarić
Member	Iva Brajević (from 1 April 2016)

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 20 February 2017.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

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 of the Group 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 2016. 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 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 consolidated statement of financial position are not reclassified in the comparative consolidated statement of 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 of resale. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative information in the 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 recognised, net of value-added tax, volume rebates, trade discounts, listing fees and various promotional and marketing activities that are an integral part of contracts with customers.

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. Revenue is 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 statement of comprehensive income on a straight-line basis over the period of the lease.

Sale and leaseback transactions

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

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

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 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 year) 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 of foreign operations.

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 consolidated statement of comprehensive income 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 profit or loss 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, cereals for adults, snacks and drinks
- Lino world
- Mediterranean food, condiments and core food
- Meat programme
- Bakery and mill products
- 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 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 performance 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 definite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost of licences, distribution rights and registrations, and brands with definite useful lives 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 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. 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 is 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, if significant; if not, at nominal amount 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 fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified 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. Trade receivables, loan receivables and other receivables with fixed or determinable payments are measured at amortised cost using the effective interest method, less any cumulative impairment losses.

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

Impairment of financial assets

Financial assets, other than those at 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 available for sale (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 as investments revaluation reserve. In respect of AFS debt securities, impairment losses 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 the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 6.

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 are initially measured at fair value and subsequently, if they are not destined for at fair value through profit or loss, the higher of:

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

Derecognition of financial liabilities

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

3.23 Changes in accounting policies and restatement of comparative data

(i) Changes in accounting policies

As of 1 January 2016, the Group changed its policy of sales revenue recognition. Certain charges and discounts granted to customers for various promotional and marketing activities were previously recognised within marketing expenses. Since such activities are defined in sales contracts and arise with the aim of generating sales revenue, as of 2016, the Group records such charges as a decrease to sales revenue, whereby the Group is in line with the generally adopted practice of other companies in the consumer goods sector.

The change in the revenue recognition policy has no impact on the Group’s net result.

Based on such standards, the reclassification from marketing expenses to sales revenue for 2015 is as follows:

Continued operations	**2015. Previously reported**	**Restatement**	**2015. Restated**
		(in thousands of HRK)	
Revenue from sale	3,686,343	(146,877)	3,539,466
Gross profit	1,502,172	(146,877)	1,355,295
Marketing expenses	(497,320)	146,877	(350,443)
Net profit	421,963	-	421,963

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Changes in accounting policies and restatement of comparative data (continued)

(i) Changes in accounting policies (continued)

Discontinued operations	2015. Previously reported	Restatement	2015. Restated
		(in thousands of HRK)	
Revenue from sale	90,873	(3,543)	87,330
Gross profit	33,307	(3,543)	29,764
Marketing expenses	(7,069)	3,543	(3,526)
Net profit	(18,698)	-	(18,698)

(ii) Restatement of comparative data

During 2016, a number of corrections were made in the Group's financial statements for the year ended 31 December 2015. In accordance with the requirements of the International Accounting Standard ("IAS") 8: *Accounting Policies, Changes in Accounting Estimates and Errors*, the events stated below were restated in the comparative information presented in these financial statements.

The Group restated the opening balance and recognised receivable from discounted bills of exchange and factoring payables in the amount of HRK 45,843 thousand and trade and other receivables and other payables were restated as follows:

	2015. Previously reported	Restatement	2015. Restated
		(u tisućama kuna)	
Trade receivables	1,204,310	45,843	1,250,153
Total current assets	**2,447,311**	**45,843**	**2,493,154**
Payables to factoring	-	45,843	45,843
Other payables	166,429	-	166,429
Total other payables	166,429	45,843	212,272
Total current liabilities	**1,235,538**	**45,843**	**1,281,381**

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 2016 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. Their overview is set out below:

a) IFRS 15 Revenue from Contracts with Customers

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

b) IFRS 9 Financial Instruments

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

c) IFRS 16 Leases

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

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

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

d) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

It is not expected that this new initiative 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 2016, 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.

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).

(ii) 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, and the provisions for the Group's obligations arising from these legal actions are recognised on a consistent basis.

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 from 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)

(iii) 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.

(iv) 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 and brands and rights with definite 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	-	32,315	-
Sweets, cereals for adults, snack and drinks	-	12,050	-
Lino world	-	21,144	-
Mediterranean food, condiments and core food	26,024	26,265	-
Meat programme	-	5,895	3,270
Bakery and mill products	-	28,096	-
Pharmaceuticals	-	-	65,176
Other - unallocated	-	-	14,578
	26,024	**125,765**	**83,024**

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

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Podravka Lagris a.s. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five year plans for sales on the Czech market and business plans of the subsidiary developed by the Group bearing in mind its corporate and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2%. Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for goodwill as the weighted average cost of capital for the Czech market and the food industry and amounts to 5.0%.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

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

Goodwill (continued)

As a result of the impairment testing of goodwill, the Group had no impairment losses relating to goodwill during 2016 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 210 basis points (assuming an unchanged weighted average cost of capital) and would amount to HRK 354 thousand. If the weighted average cost of capital increased by 100 basis points (assuming an unchanged terminal growth rate) an impairment loss would arise in the amount of HRK 1,154 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 from 0.5% to 2.5%, depending on the brand. 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 in 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 pre-tax discount rate used in the impairment test is 9.00% for brands where the dominant market is Poland and 8.81% before tax for brands where the dominant market is Croatia. For brands where the dominant market is Slovenia the post-tax discount rate of 5.46% was used as the valuation method as it is based on savings of fees for the use of trademark after tax. In 2016, impairment tests were performed that do not indicate a need for impairment in case of a change in key variables.

As a result of the impairment tests for brands, the Group incurred no impairment losses relating to brands during 2016 and 2015.

As of 1 January 2016, the Company changed the useful life of a brand whose dominant market is Poland from indefinite to definite and accordingly started to recognise an amortisation charge over a period of 6 years. The effect of the change in the current year was an increase in amortisation cost by HRK 5,194 thousand.

An increase in WACC of 50 basis points (assuming a stable terminal growth rate) would result in an impairment of a brand whose dominant market is Poland in the amount of HRK 6,915 thousand while a decrease in the terminal growth rate of 50 basis points (assuming an unchanged WACC) would result in an impairment loss of HRK 6,414 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 8.29%.

During 2016, the Group had no impairment losses with respect to goodwill, brands and rights.

The impairment tests for rights do not indicate a significant sensitivity to changes in key variables.

(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 pre-tax 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 before tax related to the food industry on 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.

Accordingly, the pre-tax discount rate used in impairment tests was 8.81%.

During 2016, the Group had no impairment losses with respect to property, plant and equipment.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (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 at the level of depreciation that would have been recognised had those assets not been classified as held for sale.

During 2016, the Group recognized HRK 9,299 thousand (2015: HRK 11,454 thousand) of impairment losses related to production facilities which are part of discontinued operations (the former segment "Beverages") based on approximation of depreciation that would result from the use of those assets if they were not classified as held for sale.

Impairment tests for production facilities do not indicate a significant sensitivity to changes in key variables.

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, as further explained in detail in the 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 a 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. As at 31 December 2013, the Group classified the Beverages segment as discontinued operations in accordance with IFRS 5.

During 2016, the Group recognised an impairment loss with respect to assets which are part of discontinued operations in the amount of HRK 9,299 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	**2016**	**2015 Restated**
Revenue from sale		82,158	87,330
Cost of goods sold		(51,384)	(57,566)
Gross profit		**30,774**	**29,764**
Operating expenses		(32,231)	(37,008)
Other expenses		(9,299)	(11,454)
Operating loss		**(10,756)**	**(18,698)**
Finance income		-	-
Finance costs		-	-
Net financial expenses		-	-
Loss before tax for the year		**(10,756)**	**(18,698)**
Income tax		-	-
Loss for the year		**(10,756)**	**(18,698)**
Loss per share (in HRK)			
- Basic	*16*	(1.55)	(3.12)
- Diluted	*16*	(1.55)	(3.12)

The loss from discontinued operations of HRK 10,756 thousand (2015: HRK 18,698 thousand) is attributable entirely to the owners of the parent Company.

Cash flow for discontinued operations is as follows:

(in thousands of HRK)	**2016**	**2015**
Net cash from operating activities	2,075	(7,610)
Net cash from investing activities	(720)	(1,602)
	1,355	**(9,212)**

NOTE 7 – DISCONTINUED OPERATIONS (CONTINUED)

Disposal group held for sale

Assets of the disposal group held for sale as at 31 December 2016 are as follows:

(in thousands of HRK)	**2016**	**2015**
Land and buildings	-	29,885
Equipment	-	25,664
Inventories	-	5,239
	-	**60,788**

As at 20 December 2016, the Group sold discontinued operations (Beverages segment), as presented in note 41.

Due to practical reasons the Group does not present liabilities for the disposal group held for sale since raw materials purchase and financing 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 net 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.

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 was categorised in 2015, 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 For buildings, the valuation model considers the present value of cash flows that the asset could generate from rent taking into account the expected net rent based on comparable transactions. For land, the valuation model considers the real sale values achieved in the sale of comparable land at a similar location.	Average yield: 13% Among other factors, the estimated discount rate considers the underlying quality of the property, its location and the currently realisable rent conditions for similar locations and the comparable type of property.

NOTE 8 – SEGMENT INFORMATION

Sales revenue

	2016	2015 Restated
	(in thousands of HRK)	
Revenue from sale of products and merchandise	4,079,459	3,518,764
Revenue from services	23,903	20,702
	4,103,362	**3,539,466**

In 2016, the Group changed the policy of sales revenue recognition as described in note 3.23. The total effect of reclassification in 2016 amounts to HRK 163,462 thousand, of which HRK 4,081 thousand relates to discontinued operations (2015: HRK 150,420 thousand, of which HRK 3,543 thousand relates to discontinued operations).

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, cereals for adults, snacks and drinks
- Lino world
- Mediterranean food, condiments and core food
- Meat programme
- Bakery and mill products
- 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 *Operating segments* 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)	**2016**	**2015 Restated**	**2016**	**2015 Restated**
Culinary	889,286	867,237	205,779	215,385
Sweets, cereals for adults, snack and drinks	261,779	199,644	12,726	22,933
Lino world	242,314	240,775	23,878	22,113
Mediterranean food, condiments and core food	707,061	637,086	(25,373)	(15,705)
Meat programme	273,178	290,830	(27,290)	(23,817)
Bakery and mill products	427,888	155,615	49,678	(1,551)
Pharmaceutical	815,199	804,992	97,296	89,093
Other	486,657	343,287	(5,176)	(2,409)
	4,103,362	**3,539,466**	**331,518**	**306,041**
Financial income (note 13)			11,065	7,078
Other income (note 9)			41,246	158,903
Central administration costs			(87,716)	(113,129)
Other expenses (note 10)			(5,399)	(47,872)
Financial expenses (note 14)			(40,996)	(51,077)
Profit before tax			**249,718**	**259,944**

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (continued)

The Culinary segment comprises the following product groups: seasonings, soups, semi-finished meals and bouillons and food mixes.

The Sweets, cereals for adults, snacks and drinks segment comprises the following product groups: Sweets, cereals for adults, drinks, tea and snacks.

The Lino world segment comprises the following product groups: baby food, cereals for children, creamy spreads and other.

The Mediterranean food, condiments and core food segment comprises the following product groups: Mediterranean food, core food, condiments and food solution.

The Meat programme segment comprises the following product groups: finished meals and meat sauces, sausages, pates and sliced meats and meat.

The Bakery and mill products segment comprises the following product groups: bread and baked goods, flour, 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, 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)	**2016**	**2015**
Region Adria	2,915,762	2,504,195
Region Europe	778,752	703,267
Region Russia, CIS and Baltics	262,099	193,057
Region New markets	146,749	138,947
	4,103,362	**3,539,466**

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Information about major customers

Third-party sales in Croatia account for 32% (2015: 38%) of the total revenue from external customers, whereas the remaining 68% (2015: 62%) represent foreign sales. Top 20 customers participate in 32% (2015: 31%) 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	Iraq
Bosnia and Herzegovina	Austria	Ukraine	United Arab Emirates
Macedonia	Switzerland	Kazakhstan	Kuwait
Serbia	France	Estonia	Qatar
Montenegro	Great Britain	Lithuania	Yemen
Kosovo	Italy	Latvia	Oman
Albania	Denmark	Moldova	Saudi Arabia
Greece	Sweden	Belarus	Turkey
	Finland	Armenia	Jordan
	Norway	Kyrgystan	Uganda
	Iceland		Kenya
	Nederlands		Zambia
	Belgium		Tanzania
	Ireland		South African Republic
	Spain		Liberia
	Cyprus		USA
	Portugal		Canada
	Poland		Panama
	Czech Republic		Australia
	Slovakia		New Zealand
	Hungary		China
	Romania		India
	Bulgaria		Taiwan
			Israel
			Others

NOTE 9 – OTHER INCOME

	2016	2015
	(in thousands of HRK)	
Grant income	4,635	4,298
Profit on disposal of assets held for sale (note 41)	729	864
Revenue from sale and leaseback transaction	6,609	8,813
Profit on disposal of property, plant, equipment and intangibles	6,188	1,345
Reversal of provisions	-	2,022
Interest and foreign exchange differences on trade receivables	19,753	-
Reversal of impairment of assets held for sale	222	-
Gain on bargain purchase	-	140,461
Other income	3,110	1,100
	41,246	**158,903**

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 had been outstanding as at 31 December 2015 and which was realised until 30 September 2016 (note 35).

In 2015, 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.

NOTE 10 – OTHER EXPENSES

	2016	2015
	(in thousands of HRK)	
Interest and foreign exchange differences on trade payables	877	1,594
Impairment loss on intangible assets (note 18)	-	11,050
Impairment loss on assets held for sale (note 26)	-	12,100
Impairment loss on property, plant and equipment (note 19)	1,867	-
Loss on disposal of property, plant, equipment and intangibles	393	-
Interest and foreign exchange differences on trade receivables	-	22,281
Other costs	2,262	847
	5,399	**47,872**

Foreign exchange losses are mainly caused by the unfavorable exchange rate fluctuations of the Russian ruble during 2015.

NOTE 11 – EXPENSES BY NATURE

	2016	2015
	(in thousands of HRK)	
Raw materials and consumables used, energy and cost of goods sold including change in inventory	2,039,440	1,803,092
Staff costs (note 12)	935,490	795,470
Advertising and promotion	201,359	186,769
Services	234,407	187,827
Depreciation and amortisation	191,430	148,314
Transportation	90,915	58,676
Rental expense	42,967	40,511
Impairment of trade receivables (note 23)	2,746	8,177
Entertainment	26,058	28,723
Daily allownaces and travel expenses	23,365	18,294
Taxes and contributions independent of operating results	20,983	17,354
Telecommunication costs	11,229	9,800
Cost of disposal of packaging, administrative fees, etc	11,453	10,829
Bank charges	6,458	5,458
Other	21,260	27,260
Total cost of goods sold, selling and distribution costs, marketing costs and general and administrative costs	**3,859,560**	**3,346,554**

Depreciation and amortisation include HRK 240 thousand of government grants for co-financing of assets (2015: HRK 0).

In accordance with the change of revenue recognition presented in note 3.23., the Group reclassified promotional and marketing expenses. The total effect of reclassification in 2016 amounts to HRK 163,462 thousand, of which HRK 4,081 thousand relates to discontinued operations (2015: HRK 150,420 thousand, of which HRK 3,543 thousand relates to discontinued operations).

NOTE 11 – EXPENSES BY NATURE (continued)

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

	2016	2015
	(in thousands of HRK)	
Raw materials, consumables and change in inventories	1,415,106	1,173,030
Cost of merchandise sold	608,390	606,288
Staff costs	407,026	304,373
Depreciation and amortisation	118,899	82,248
Production services	78,213	41,386
Taxes and contributions independent of operating results	11,504	11,933
Other expenses (transport, rent, education, etc)	27,494	22,479
	2,666,632	**2,241,737**
Cost of goods sold - discontinued operation	(51,384)	(57,566)
Cost of goods sold - continued operation	**2,615,248**	**2,184,171**

Depreciation and amortisation allocated to each function is as follows:

	2016	2015
	(in thousands of HRK)	
Cost of goods sold	118,899	82,248
Marketing expenses	6,615	6,519
Selling and distribution costs	36,974	29,372
General and administrative expenses	28,942	30,175
	191,430	**148,314**

Staff costs allocated to each function is as follows:

	2016	2015
	(in thousands of HRK)	
Cost of goods sold	397,354	294,032
Marketing expenses	93,537	88,239
Selling and distribution costs	250,821	225,341
General and administrative expenses	193,778	187,858
	935,490	**795,470**

NOTE 12 – STAFF COSTS

	2016	2015
	(in thousands of HRK)	
Salaries	867,622	714,698
Termination benefits	14,562	41,141
Transportation	18,622	11,911
Share options (note 37)	7,995	1,859
Other	26,689	25,861
	935,490	**795,470**

As at 31 December 2016, the number of staff employed by the Group was 6,404 (2015: 6,657).

In 2016 termination benefits of HRK 25,124 thousand were paid to 264 employees (2015: termination benefits of HRK 29,096 thousand were paid to 274 employees). In 2016, the Group accrued HRK 11,450 thousand of termination benefits.

NOTE 13 – FINANCE INCOME

	2016	2015
	(in thousands of HRK)	
Interest on term deposits	935	916
Other interest	4,117	1,331
Unrealised gains per interest rate swap contract	27	283
Net foreign exchange gains on borrowings	5,986	4,333
Remeasurement of financial instruments at fair value through profit or loss	-	215
	11,065	**7,078**

NOTE 14 – FINANCE EXPENSES

	2016	2015
	(in thousands of HRK)	
Interest expense and similar charges	36,918	43,114
Remeasurement of financial instruments at fair value through profit or loss	1,217	-
Other financial expenses	2,861	7,963
	40,996	**51,077**

During 2016, the Group refinanced a significant portion of borrowings in the amount of EUR 98,850 thousand by a syndicated loan, thus using more favourable funding terms. In addition, during 2016, reference interest rates remained at low levels, resulting in decreased interest expense on borrowings.
Given that a portion of Group’s borrowings is granted 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.

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2016	2015
	(in thousands of HRK)	
Current income tax	11,369	5,439
Deferred tax	39,840	(167,458)
	51,209	**(162,019)**

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:

	2016	2015
	(in thousands of HRK)	
Profit before taxation	**238,962**	**241,246**
Income tax at 20% (2015: 20%)	47,792	48,249
Non-taxable income	(2,728)	(27,008)
Non-deductible expenses	7,341	7,471
Other tax incentives	(1,716)	(164,793)
Recognition of previously unrecognized temporary differences and tax losses as deferred tax assets	(3,316)	(12,294)
Temporary differences and tax losses not recognised as deferred tax assets	5,770	5,877
as deferred tax asset	-	(1,622)
Utilisation of tax losses previously not recognised as deferred tax asset	(3,105)	(16,238)
Effect of different tax rates	(741)	(1,661)
Effect of changes in tax rates on deferred tax assets and liabilities	1,839	-
Income tax for previous year	73	-
Income tax	**51,209**	**(162,019)**
Effective tax rate	21%	-67%

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 receive 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 than 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, in financial statements for 2015, 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 2016 the Group has unused tax losses in the amount of HRK 85,613 thousand (2015: HRK 110,461 thousand) which consist of tax losses in Slovenia (in the amount of HRK 32,013 thousand), Croatia (in the amount of HRK 22,873 thousand), Serbia (in the amount of HRK 2,451 thousand), Hungary (in the amount of HRK 2,955 thousand), Tanzania (in the amount of HRK 15,325 thousand), Kenya (in the amount of HRK 702 thousand) and Poland (in the amount of HRK 9,294 thousand).

Unused tax losses carried forward were recognized as deferred tax assets in the amount of HRK 7,232 thousand. In the financial statements, 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 by the companies they relate to. Unused tax losses (gross) at the reporting date were as follows:

	2016	**2015**
	(in thousands of HRK)	
Tax losses expiring at 31 December 2016	-	2,996
Tax losses expiring at 31 December 2017	2,832	7,093
Tax losses expiring at 31 December 2018	3,849	16,333
Tax losses expiring at 31 December 2019	15,242	6,937
Tax losses expiring at 31 December 2020	10,365	20,981
Tax losses expiring at 31 December 2021	18,357	-
Tax losses expiring at 31 December 2022	-	125
Tax losses expiring at 31 December 2025	2,955	3,764
Tax losses with no expiration date	32,013	52,232
	85,613	**110,461**

Deferred tax assets

Deferred tax assets arise from the following:

2016	**Opening balance**	**Acquistions**	**Recognised in profit or loss**	**Recognised directly in equity**	**Foreign exchange differences**	**Closing balance**
			(in thousands of HRK)			
Basis:						
Intangible assets	24,796	-	(10,677)	-	(5)	14,114
Property, plant and equipment	13,935	-	(10,006)	-	(5)	3,924
Financial assets	505	-	260	-	-	765
Provisions	7,892	(150)	247	107	(37)	8,059
Share-based payments	2,809	-	514	-	-	3,323
Inventories	9,625	-	(1,545)	-	-	8,080
Investment tax credit	154,347	-	(20,441)	-	-	133,906
Unutilised tax losses carried forward	11,094	-	(3,770)	-	(92)	7,232
Other deferred tax assets	5,943	-	435	-	(12)	6,366
Deferred tax assets	**230,946**	**(150)**	**(44,983)**	**107**	**(151)**	**185,769**

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**

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets (continued)

In 2016, the Group's sale of intangible and tangible assets resulted in the right to a decrease in the tax base that was increased in previous periods, resulting in a decrease in deferred tax asset by the amount of HRK 20,683 thousand.

In November 2016, a new income tax act was announced in the Republic of Croatia, reducing the income tax rate from 20% to 18% as of January 2017. In accordance with International Accounting Standard, the Group recognised deferred tax asset and liability as at 31 December 2016 at the tax rate of 18%, i.e. the rate at which the asset or liability will be realised in the future. The tax rate also changed in the Republic of Slovenia. Based on the changed tax rate, the Group recorded an additional tax expense in the amount of HRK 1,839 thousand.

Deferred tax liability

Deferred tax liabilities arise from the following:

2016	**Opening balance**	**Acquistions**	**Recognised in profit or loss**	**Recognized directly in equity**	**Foreign exchange differences**	**Closing balance**
			(in thousands of HRK)			
Basis:						
Intangible assets	(15,733)	-	2,699	-	155	(12,879)
Property, plant and equipment	(40,742)	-	2,444	-	413	(37,885)
	(56,475)	**-**	**5,143**	**-**	**568**	**(50,764)**

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)**

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 166,053 were not exercised (2015: 151,698 options). Basic and diluted weighted average number of shares is as follows:

	2016	2015
Ordinary shares as at 1 January	7,120,003	5,420,003
Issue of new shares	-	745,205
Effect of treasury hares	(190,355)	(177,511)
Weighted average number of shares at 31 December (basic)	**6,929,648**	**5,987,697**
Effect of share based payments	31,885	19,287
Weighted average number of shares at 31 December (diluted)	**6,961,533**	**6,006,984**

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

	2016			2015		
	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)	193,155	(10,756)	**182,399**	416,008	(18,698)	**397,310**
Basic earnings / (loss) per share (in HRK)	27.87	(1.55)	**26.32**	69.48	(3.12)	**66.35**
Diluted earnings / (loss) per share						
Comprehensive income/(loss) attributable to the owners of equity (in HRK thousands)	200,934	(10,756)	**190,178**	425,830	(18,698)	**407,132**
Diluted earnings / (loss) per share (in HRK)	27.87	(1.55)	**26.32**	69.48	(3.12)	**66.35**

NOTE 17 – GOODWILL

(in thousands of HRK)	2016	2015
Cost		
At 1 January	67,304	67,304
At 31 December	**67,304**	**67,304**
Accumulated impairment losses		
At 1 January	41,014	41,617
Effect of changes in the foreign exchange rates	266	(603)
At 31 December	**41,280**	**41,014**
Carrying amount at 31 December	**26,024**	**26,290**

During 2016 and 2015 there was no impairment of goodwill. A more detailed description of the approach and methods 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 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 to tangible 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**
Cost					
At 1 January 2016	201,950	252,272	249,107	25,212	728,541
Effect of foreign exchange differences	51	(114)	(646)	(9)	(718)
Additions	87	-	-	24,793	24,880
Transfers	20,231	5,274	-	(25,505)	-
Disposals	(1,267)	(12,636)	(45,546)	(42)	(59,491)
Transfer to tangible assets	-	-	-	(148)	(148)
At 31 December 2016	**221,052**	**244,796**	**202,915**	**24,301**	**693,064**
Accum. amortisation and impairments					
At 1 January 2016	(176,305)	(153,066)	(114,659)	-	(444,030)
Effect of foreign exchange differences	-	-	104	-	104
Disposals	1,416	12,188	45,546	-	59,150
Charge for the year	(11,269)	(20,894)	(8,141)	-	(40,304)
At 31 December 2016	**(186,158)**	**(161,772)**	**(77,150)**	**-**	**(425,080)**
Carrying amount as at 31 Dec 2016	**34,894**	**83,024**	**125,765**	**24,301**	**267,984**

Of the total amount of accumulated amortisation and impairment losses HRK 85,611 thousand relates to accumulated impairment losses (2015: HRK 131,157 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 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 2016, through the realisation of the disposal group, the Group sold the brand Lero.

As of 1 January 2016, the Group changed the useful life of Warzywko brand from indefinite to definite and accordingly recognized amortisation over a period of 6 years. The effect of this change on the current and expected amortisation cost in future periods, included in selling expenses, is presented as follows:

(in thousands of HRK)	**2016.**	**2017.**	**2018.**	**2019.**	**2020.**	**2021.**
Increase in amortisation	**5,194**	5,194	5,194	5,194	5,194	5,194

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Equipment**	**Assets under construction**	**Total**
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	475,638	145,434	5,815	626,887
Transfers	30,107	90,515	(120,622)	-
Disposals	(3,127)	(42,720)	(107)	(45,954)
Transfer to assets held for sale (i)	(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 assets held for sale (i)	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**
Cost				
At 1 January 2016	2,680,587	1,860,261	206,146	4,746,994
Effect of foreign exchange differences	(6,464)	(1,734)	777	(7,421)
Additions	62,735	116,888	389,737	569,360
Disposals and write off	(211)	(24,977)	(27)	(25,215)
Transfer to and from assets held for sale	(46,550)	(16,475)	(17,646)	(80,671)
Transfer from intangible assets	-	-	148	148
At 31 December 2016	**2,690,097**	**1,933,963**	**579,135**	**5,203,195**
Accum. depreciation and impairments				
At 1 January 2016	(1,489,380)	(1,319,636)	-	(2,809,016)
Effect of foreign exchange differences	1,859	-	-	1,859
Disposals	(923)	24,512	-	23,589
Impairment of fixed assets	-	(1,867)	-	(1,867)
Charge for the year	(56,091)	(94,275)	-	(150,366)
Transfer to and from assets held for sale	20,401	16,647	-	37,048
At 31 December 2016	**(1,524,134)**	**(1,374,619)**	**-**	**(2,898,753)**
Carrying amount as at 31 Dec 2016	**1,165,963**	**559,344**	**579,135**	**2,304,442**

Of the total amount of accumulated depreciation and impairment losses HRK 1,867 thousand relates to accumulated impairment losses.

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

During 2016, the Group had investments under which interest expense in the amount of HRK 3,797 thousand (2015: 0) was capitalised in property and equipment using the estimated capitalisation rate of 3.96%.

(i) During 2016, the Group transferred property, plant and equipment with a carrying amount of HRK 43,623 thousand to non-current assets held for sale (2015: HRK 27,724 thousand).

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment losses

During 2016, the Group recognised HRK 1,867 thousand of impairment losses with respect to property, plant and equipment.

Mortgaged assets

In 2016, the Group refinanced a portion of borrowings by a new syndicated loan agreed with the EBRD and several business banks in the total amount of EUR 123 million. Collateral under the previous repaid borrowings was cancelled and the properties of Podravka d.d., Belupo d.d. and Žito d.o.o. (users of the new syndicated loan) were pledged as a new security instrument.

Land, buildings and equipment of the Group with a carrying amount of HRK 618,547 thousand (2015: HRK 593,840 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:

	2016	**2015**
	(in thousands of HRK)	
Cost of capitalised finance leases	3,996	13,659
Accumulated depreciation	(704)	(6,417)
Carrying amount	**3,292**	**7,242**

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	2016	2015	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
Mirna d.d. Rovinj	Croatia	84%	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., 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
Podravka d.o.o., Moskva	Russia	100%	-	Sale and distribution of food and beverages
Vegeta Podravka Limited, Dar es Salaam	Tanzania	85%	85%	Production and distribution of food
Vegeta Ltd.****	Kenya	81%	-	Sale and distribution
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100%	100%	Sale and distribution
Žito d.d., Ljubljana	Slovenia	100%	87%	Production and distribution of food
Intes Storitve d.o.o., Maribor	Slovenia	100%	87%	Production and distribution of food
Šumi bonboni d.o.o., Ljubljana	Slovenia	100%	87%	Production and distribution of food
Žito maloprodaja d.o.o., Ljubljana	Slovenia	100%	87%	Sale of food and beverages
ZIŽR g.i.z., Ljubljana	Slovenia	100%	87%	Services
LD Žito d.o.o. v likvidaciji, Zagreb	Croatia	100%	87%	Sale and distribution of food
Žito Beograd d.o.o. v likvidaciji, Beograd	Serbia	100%	87%	Sale and distribution of food
Žito Pl d.o.o.e.l. v likvidaciji, Skopje	Macedonia	100%	87%	Sale and distribution of food
Podravka d.o.o., Ljubljana	Slovenia	100%	87%	Sale and distribution of food and beverages

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

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

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

****80% of ownership interest is held through the subsidiary Vegeta Podravka Limited, Dar es Salaam

***** In line with the legal obligation, the Company as a shareholder squeezed out the remaining minority shareholders, whereby in 2016 it acquired a 100% share in Žito d.d. In addition, during the year, Žito d.d. adopted the decision to withdraw from the Ljubljana Stock Exchange and its legal form was changed to a limited liability company. For more details, see note 30.

NOTE 20 – SUBSIDIARIES (continued)

During 2015, the Company gained control of Mirna d.d., and by the end of 2015 purchased additional shares and as at the balance sheet date the Company held 84.24% of the share capital of Mirna d.d.

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. During 2016, it squeezed out the remaining minority shareholders.

In 2016, the Company sold the 100% share in the subsidiary Podravka d.o.o. Ljubljana to the subsidiary Žito d.o.o. Ljubljana, as part of the reorganisation of the business model on the market of Slovenia.

In addition, in 2016, Vegeta Podravka Limited in Tanzania established the subsidiary Vegeta Ltd. Kenya.

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

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

	2016	2015
	(in thousands of HRK)	
Loans receivable	2,489	3,665
Other receivables and deposits	2,546	2,819
Investments in other equity instruments	11,993	12,231
	17,028	**18,715**

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

Deposit and other receivables mainly relate to lease deposits.

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

	2016	2015
	(in thousands of HRK)	
Raw materials and supplies	268,236	298,605
Work in progress	53,119	54,411
Finished goods and merchandise	452,240	430,474
	773,595	**783,490**

In 2016, the Group recognised impairment cost with respect to inventories in the amount of HRK 3,500 thousand (2015: HRK 10,378 thousand income from reversal of impairment loss) as the Group managed to sell impaired inventories at lower 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

	2016	2015 Restated
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,325,290	1,250,153
Impairment allowance	(219,874)	(174,545)
Net trade receivables	**1,105,416**	**1,075,608**
Bills of exchange received	306	645
Advances to suppliers	25,998	38,805
Loans given	705	160
Net VAT receivable	19,507	16,392
Prepaid expenses	15,551	16,566
Receivables from employees	1,348	1,722
Other receivables	8,490	9,496
	1,177,321	**1,159,394**

Trade receivables include receivables from discounted bills of exchange that are subject to factoring agreements. According to these agreements, the Group transferred HRK 82,720 thousand to a factoring company (31 December 2015: HRK 45,843 thousand) in exchange for cash. The Group retained the risk of default of the original debtor and the related liability to the factoring company is recorded within other liabilities.

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

	2016	2015
	(in thousands of HRK)	
At 1 January	174,545	170,128
Increase	6,339	15,924
Amounts collected	(3,593)	(7,747)
Written off as uncollectable	42,583	(3,760)
At 31 December	**219,874**	**174,545**

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:

	2016	2015 Restated
	(in thousands of HRK)	
Not due	901,615	818,253
0-90 days	172,593	229,214
91-180 days	23,316	12,967
181-360 days	7,892	15,174
	1,105,416	**1,075,608**

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

	2016	2015
	(in thousands of HRK)	
Forward contracts	751	215
	751	**215**

During 2016, the Group used forward contracts entered into with commercial banks with the intention of managing the fluctuations of foreign currencies (EUR, RUB, AUD, CAD, PLN and HUF) related to the purchase and sale of those currencies, and which had a positive fair value as at 31 December 2016 amounting to HRK 751 thousand (2015: HRK 215 thousand).

The nominal value of currency forwards as at 31 December 2016 amounted to HRK 55,254 thousand (2015: HRK 5,043 thousand), with the contracts maturing in the period from 12 January 2017 to 14 November 2017.

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

	2016	2015
	(in thousands of HRK)	
Cash with banks	326,565	274,042
Short-term deposits – up to 3 months	10,668	17,368
Cash in hand	378	467
	337,611	**291,877**

Cash with banks relates to transaction accounts at commercial banks that carry an average interest rate ranging from 0.009% to 2.54%.

Deposits relate to deposits at commercial banks with maturity up to three months that carry a variable interest rate ranging from 0.6% to 7.31%.

NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE

	2016	2015
	(in thousands of HRK)	
Land and buildings	183,125	161,376
Equipment	1,340	1,397
Disposal group held for sale (note 7)	-	60,788
	184,465	**223,561**

In 2016, the Group sold a portion of non-current assets held for sale with the carrying value of HRK 63,971 thousand and realised gain on sale in the amount of HRK 729 thousand.

(i) Land and buildings

Of the total amount of land and buildings held for sale, HRK 131,175 thousand relates to land and buildings in Rijeka (2015: HRK 134,908 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 relates mainly to land and buildings in Poreč and properties in Koprivnica for which the Group is still actively looking for a buyer and to properties 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 regularly checks if estimation needs to be revised. During 2016, 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 77,647 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 2016, the impairment loss on equipment was reversed in the amount HRK 222 thousand (2015: cost of HRK 626 thousand). The Company expects to sell the equipment in 2017.

Gains on the reversal of impairment of equipment are presented in “Other income”. Impairment loss on 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, which was realised at the end of 2016. During 2016, the Group recognised an impairment loss of the respective assets in the amount of HRK 9,299 thousand (2015: HRK 11,454 thousand). 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 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
Share capital increase 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	-	-	9,822	-	9,822
At 31 December 2015	***6,942,492***	**1,566,401**	**186,263**	**(66,709)**	**1,685,955**
At 1 January 2016	*6,942,492*	1,566,401	186,263	(66,709)	1,685,955
Purchase of treasury shares (iii)	*(36,589)*	-	-	(12,977)	(12,977)
Excercise of options (iii)	*19,200*	-	(6,642)	7,146	504
Fair value of share based payments (iii)	-	-	7,779	-	7,779
At 31 December 2016	***6,925,103***	**1,566,401**	**187,400**	**(72,540)**	**1,681,261**

As at 31 December 2016, the Company’s share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 194,900 relates to treasury shares (2015: HRK 1,566,401 thousand and 7,120,003 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 (ii).

(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 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 in 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 2016, the Company purchased 36,589 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:

	2016		2015	
Structure of ownership	**Number of shares**	**% of ownership**	**Number of shares**	**% of ownership**
PBZ CO OMF - Category B	925,602	13.00	764,274	10.73
AZ OMF category B	902,874	12.68	895,953	12.58
CERP - Croatian Health insurance association	727,703	10.22	727,703	10.22
CERP - Republic of Croatia	673,845	9.46	674,461	9.47
Erste Plavi OMF category B	665,166	9.34	665,166	9.34
Raiffeisen OMF category B	625,298	8.78	375,448	5.27
Kapitalni fond d.d.	406,842	5.71	406,842	5.71
AZ Profit dobrovoljni mirovinski fond	111,752	1.57	115,779	1.63
Raiffeisen DMF	99,965	1.40	31,542	0.44
State street bank and trust company, Boston	80,930	1.14	79,849	1.12
Treasury account	194,900	2.74	177,511	2.49
Other shareholders	1,705,126	23.96	2,205,475	30.98
Ukupno	**7,120,003**	**100.00**	**7,120,003**	**100.00**

NOTE 28 – RESERVES

(in thousands of HRK)	**Reserves for treasury shares**	**Legal reserves**	**Reserves for reinvested profit**	**Statutory reserves**	**Other reserves**	**Total**
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**
At 1 January 2016	147,604	30,931	189,738	47,007	134,560	549,840
Allocation of profits (note 29)	-	11,006	-	8,548	45,303	64,857
Additional purchase of NCI	-	-	-	-	8,128	8,128
Exchange differences	-	-	-	-	(8,946)	(8,946)
Fair value of financial assets available for sale	-	-	-	-	347	347
Actuarial losses (net of tax)	-	-	-	-	(1,583)	(1,583)
At 31 December 2016	**147,604**	**41,937**	**189,738**	**55,555**	**177,809**	**612,643**

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 related to subsidiaries abroad.

(i) Transfers within capital and reserves

In 2016, the General Assembly reached a decision to allocate the Company's profit from 2015 in the amount of HRK 156,972 thousand to the coverage of accumulated losses in the amount of HRK 56,821 thousand, to transfer into legal reserves the amount of HRK 5,007 thousand, into other reserves the amount of HRK 45,303 thousand, declared dividend in the amount of HRK 48,480 thousand, while the remainder of HRK 1,360 thousand is retained unallocated in retained earnings.

In addition, in 2016, in accordance with the decision of its General Assembly, the subsidiary Belupo d.d. transferred HRK 8,548 thousand from retained earnings to statutory reserves and HRK 5,999 thousand to legal reserves, while the remaining portion of net profit in the amount of HRK 156,419 thousand was allocated to retained earnings.

NOTE 29 – RETAINED EARNINGS

Movement in retained earnings and accumulated loss is presented as follows:

	2016	2015
	(in thousands of HRK)	
At 1 January	**514,250**	**217,569**
- transfer to legal and other reserves	(64,857)	(100,629)
- effect of sold companies	(40)	-
- dividends declared	(48,480)	-
- profit for the year	182,399	397,310
At 31 December	**583,272**	**514,250**

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.

In 2016, the General Assembly reached the decision to distribute dividend in the amount of HRK 48,480 thousand (HRK 7 per share).

At the end of February 2017, the Management of the Company will propose a decision to allocate the profit of the Company for 2016 which amounted to HRK 179,321 thousand, whereby HRK 8,966 thousand is proposed to be transferred to legal reserves.

Management also proposed a dividend to the shareholders in the amount of HRK 8.00 per share while the remainder of the profits is 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 and 84.24% in the subsidiary Mirna d.d., acquired during 2015 (not deemed to be significant from the perspective of the consolidated Group). During 2016, through a squeeze-out transaction, the Group acquired the 100% share in the subsidiary Žito d.o.o. Summary financial information for the company Farmavita d.o.o., Sarajevo as at 31 December 2016 (excluding consolidation eliminations) are as follows:

31 December 2016	**Farmavita**
(in thousands of HRK)	
Non-controlling interest	***35.0%***
Statement of financial position	
Non-current assets	71,606
Current assets	132,316
Current liabilities	(78,654)
Non-current liabilities	(24,715)
Net assets	**100,553**
Statement of comprehensive income for the period	
Sales revenue	183,917
Profit after tax	19,510
Other comprehensive income	(257)
Total comprehensive income for the period	**19,253**
Statement of cash flows	
Net increase in cash and cash equivalents	**1,523**

The movement in non-controlling interest was as follows:

	2016	**2015**
	(in thousands of HRK)	
Balance at 1 January	67,712	36,605
Increase through acquistions of subsidiaries	-	289,326
Effect of acquiring non-controlling interests	(23,641)	(264,166)
Foreign exchange differences	(207)	(8)
Share in current year profit	5,354	5,955
Balance at 31 December	**49,218**	**67,712**

Acquisition of remaining non-controlling interests in Žito d.d.

In line with the legal obligation, the Company as a shareholder squeezed out the remaining minority shareholders, whereby in 2016 it acquired a 100% share in Žito d.d. In addition, during the year, Žito d.d. reached the decision to withdraw from the Ljubljana Stock Exchange and its legal form was changed to a limited liability company.

At the end of February 2016, the Group acquired additional remaining non-controlling interests of 3.56% in the subsidiary Žito d.o.o. in the carrying amount of HRK 23,641 thousand and obliged to pay compensation to minority shareholders of Žito d.o.o. in the total amount of HRK 15,513 thousand, of which HRK 8,827 thousand was paid until 31 December 2016.

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

	2016	2015
	(in thousands of HRK)	
Interest rate swap	2,443	2,469
Forward contracts	1,754	-
	4,197	**2,469**

31.12.2016	Nominal amount of loan under IRS '000 EUR	Loan liability under IRS '000 EUR	Fair value of IRS '000 HRK	Date of IRS agreement	Maturity date of IRS	Floating part of interest rate before IRS	Fixed part of interest rate per IRS
SWAP 1 - EBRD	20,540	16,434	1,467	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
SWAP 2 - EBRD	20,540	16,434	976	06.02.2015.	16.08.2019.	3M EURIBOR	0.19%
	41,080	**32,868**	**2,443**				

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**				

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

Interest rate swaps 1 and 2 were entered into in 2014 and 2015 for the syndicated loan entered into by Podravka d.d. with the EBRD in 2014. This loan was refinanced prior to its maturity by a new syndicated loan with the EBRD and commercial banks with maturity on 16 August 2022, used in addition to Podravka d.d. by Belupo d.d. and Žito d.o.o., with a repayment plan adjusted to interest rate swaps that fixed interest rate expense for 35% of the total principal of the new syndicated loan to its maturity on 16 August 2019. For the period until 16 August 2019 and after 16 August 2019, it is planned to contract new interest rate swaps that would fix interest rate expense for the period until the loan maturity. As at 31 December 2015, the Group fixed interest rate expense for 70% of the principal of the syndicated loan with the EBRD concluded in 2014, 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 – LOANS AND BORROWINGS

	2016	2015
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	395,985	328,415
Banks abroad	601,323	422,756
Finance lease	1,227	1,073
	998,535	**752,244**
Current borrowings		
Banks in Croatia	187,027	211,832
Banks abroad	188,662	245,991
Finance lease	929	1,721
	376,618	**459,544**
Total borrowings	**1,375,153**	**1,211,788**

Long-term syndicated loan of Podravka d.d. from 2014 was granted by the EBRD and three business banks (in the total amount of HRK 559,417 thousand) maturing on 16 August 2019 and a portion of long-term and short-term borrowings of Podravka d.d., Belupo d.d. and Žito d.o.o. were refinanced in September and October 2016 by a new syndicated loan arranged by the EBRD, in the total amount of EUR 123 million. A total of EUR 98,850 thousand, maturing on 16 August 2022, were used by the Company and two related companies for refinancing the existing borrowings. Increase in borrowings in 2016 in the amount of HRK 153,331 thousand relates to non-cash transactions from the Group perspective as the creditor bank settled liabilities for the purchase of plant and equipment.

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

a) Interest coverage ratio (ICR). The parameter is calculated as the ratio of consolidated EBITDA and consolidated interest expense for the year. At the reporting date, the Group was in compliance with this covenant.

b) Debt coverage ratio (DCR). The parameter is calculated as the ratio of consolidated net debt and consolidated EBITDA. At the reporting 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.

Bank borrowings in the amount of HRK 941,125 thousand (2015: HRK 760,500 thousand) are secured by mortgages over the Group’s land and buildings and movables with a carrying value of HRK 618,547 thousand (Note 19).

The finance lease liabilities of the Group are as follows:

	Minimum lease		Finance cost		Present value	
	2016	2015	2016	2015	2016	2015
			(in thousands of HRK)			
Up to 1 year	1,017	1,819	(88)	(98)	929	1,721
Between 1 and 5 years	1,292	1,112	(65)	(39)	1,227	1,073
Total	**2,309**	**2,931**	**(153)**	**(137)**	**2,156**	**2,794**

Included in the consolidated financial statements within:		
Current borrowings	929	1,721
Non-current borrowings	1,227	1,073
	2,156	**2,794**

NOTE 32 – LOANS AND BORROWINGS (CONTINUED)

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

	2016	2015
	(in thousands of HRK)	
Between 1 and 2 years	240,810	302,026
Between 2 and 5 years	587,081	425,830
Over 5 years	173,087	26,857
	1,000,978	**754,713**

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

	2016			2015		
	HRK	EUR	Other	HRK	EUR	Other
Non-current borrowings						
Banks in Croatia	4.00%	3.00%	-	3.92%	3.45%	-
Banks abroad	-	1.49%	4.89%	-	2.29%	5.30%
Finance leases	-	6.09%	5.97%	-	3.80%	8.10%
Current borrowings						
Banks	-	-	2.75%	2.96%	1.30%	3.18%

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

	2016	2015
	(in thousands of HRK)	
Croatian kuna	397,043	435,745
EUR	904,664	678,372
Other currencies	75,889	100,140
	1,377,596	**1,214,257**

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:

	2016	2015
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	225,512	130,670
	225,512	**130,670**

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 2015						
Non-current	14,939	2	25,524	-	23,661	64,126
Current	1,958	12,429	71	23,695	1,152	39,305
At 1 January 2016	**16,897**	**12,431**	**25,595**	**23,695**	**24,813**	**103,431**
Increase of provisions	1,982	8,523	2,575	11,813	5,481	30,374
Utilised during the year	(2,573)	(8,065)	(679)	(24,162)	(815)	(36,294)
At 31 December 2016	**16,306**	**12,889**	**27,491**	**11,346**	**29,479**	**97,511**
Non-current	14,620	-	27,491	-	28,564	70,675
Current	1,686	12,889	-	11,346	915	26,836
	16,306	**12,889**	**27,491**	**11,346**	**29,479**	**97,511**

(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 2016.

(ii) Termination benefits and bonuses

As at 31 December 2016, the Group recognised HRK 10,162 thousand of provisions for bonuses to key management (2015: HRK 8,674 thousand). Furthermore, during 2016 the Group recognized an expense in the amount of HRK 1,184 thousand relating to payment of termination benefits that will be paid during 2017.

(iii) Jubilee awards and regular retirement benefits

According to the Collective Labour Agreement signed by the Group companies, the Group has 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 2016	2015
Discount rate	2.8% - 5.4%	3.8% - 4.1%
Fluctuation rate	4.78% - 9.3%	4.36% - 9.46%
Average expected remaining working lives (in years)	21	21

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

	2016		**2015**	
(in thousands of HRK)	**Jubilee awards**	**Retirement benefits**	**Jubilee awards**	**Retirement benefits**
At 1 January	16,897	25,595	12,570	13,384
Acquisition of subsidiaries	(309)	(272)	4,874	10,714
Current service cost	636	964	520	1,306
Interest expense	315	383	430	472
Actuarial gains	1,288	1,344	654	281
Benefits paid	(2,521)	(523)	(2,151)	(562)
At 31 December	**16,306**	**27,491**	**16,897**	**25,595**

NOTE 34 – OTHER LONG-TERM LIABILITIES

	2016	2015
	(in thousands of HRK)	
Deferred income on government incentives	21,179	19,611
	21,179	**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 aforementioned contributions are 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 contributions 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 assets 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

	2016	2015 Restated
	(in thousands of HRK)	
Trade payables	562,744	565,540
Other payables	242,526	212,272
	805,270	**777,812**

At 31 December 2016 and 31 December 2015, 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:

	2016	2015 Restated
	(in thousands of HRK)	
Salaries and other benefits to employees	71,477	82,701
Payables to factoring	82,720	45,843
Accrued expenses	60,720	50,967
Deferred income	5,949	6,609
Taxes, contributions and other duties payable	6,153	7,577
Packaging waste disposal fee payable	1,865	2,423
Accrued interest	5,080	4,259
Advances received	1,468	1,791
Dividends payable	1,198	1,395
Other payables	5,896	8,707
	242,526	**212,272**

Factoring payables relate to recourse right of discounted bills of exchange for several customers that are discounted with several factoring companies. Payables are non-interest bearing for the Group.

NOTE 36 – RISK MANAGEMENT

Categories of financial instruments are as follows:

	2016	2015 Restated
	(in thousands of HRK)	
Financial assets		
Long-term loans	2,489	3,665
Long-term deposits	2,546	2,819
Investments in equity instruments	11,993	12,231
Short-term loans	705	160
Trade receivables (including bills of exchange)	1,105,722	1,076,253
Cash and cash equivalents	337,611	291,877
	1,461,066	**1,387,005**
Financial assets at fair value through profit or loss		
Forward contracts	751	215
	751	**215**
Total financial assets	**1,461,817**	**1,387,220**
Financial liabilities at amortised cost		
Finance lease obligations	2,156	2,794
Loans and borrowings	1,372,997	1,208,994
Trade payables, factoring payables and interest payable	650,544	615,642
	2,025,697	**1,827,430**
Financial liabilities at fair value through profit or loss		
Interest rate swap and forward contracts	4,197	2,469
	4,197	**2,469**
Total financial liabilities	**2,029,894**	**1,829,899**

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 is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments

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

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

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

The 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 borrowings approximates their fair values as these liabilities bear variable interest rates or fixed interest rate approximating market interest rates.

Financial liabilities relating to the interest rate swaps are measured at fair value as explained in note 31.

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management

In November 2016, the reporting procedure was approved for the purpose of managing financial risks that may arise in the course of Company's operations, when it is assessed that due to extraordinary circumstances an immediate decision on some business activities has to be made in a manner that differs from the Company's prescribed procedures, which may jeopardise the profitability or cause a significant loss of Company's cash (Escalation procedure for managing financial risks). This procedure is an integral part of the overall ERM project.

Financial risks include capital risk, credit risk, liquidity risk and market risks (interest rate risk, price risk, currency risk and sales function based risk).

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

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:

	2016	**2015**
	(in thousands of HRK)	
Debt (non-current and current loans and borrowings including interest rate swap)	1,379,350	1,214,257
Cash and cash equivalents	(337,611)	(291,877)
Net debt	1,041,739	922,380
Equity	2,926,394	2,817,757
Net debt to equity ratio	36%	33%

Debt is defined as long- and short-term borrowings. 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 2016 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 Group.

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

During 2016, the Group in practice had no major problems with collection from related and external buyers.

The Group accepts new customers and continues cooperation with existing customers with payment delays subject to meeting the Company's credit risk parameters. Receivables are analysed on a weekly basis and necessary measures are taken with respect to their collection. Risk mitigation instruments are defined based on the financial performance ratios for individual customers collected from several sources (financial statements, credit ratings etc.). The Group's exposure and credit rating are continuously monitored through credit limits set by the company and insurer, which are continuously controlled and adjusted if appropriate.

During 2016, the Podravka Group did not have significant damage claims related to the insurance of collection of receivables.

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

The Group manages liquidity risk by setting an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements and maintaining adequate reserves and credit lines. During 2016, additional efforts were made in planning cash flows at the level of all related companies that are aggregated at the Podravka Group level and forecast and actual cash flows and matching the maturity profiles of receivables and payables is continuously monitored. The Group continuously monitors and analyses cash flows with the aim of an optimum liquidity management in order to ensure sufficient level of cash funds for the purpose of operations with using contracted credit lines as necessary. Planning cash flows in this way takes into account the Group's plans with respect to regular settlement of debt and adjustment to the relations set by contracts.

Liquidity risk analysis

Tables below show contracted maturity of financial liabilities and financial assets of the Group stated in the consolidated 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 liquidity risk analysis below shows no potential deficit of short term liquidity for the Group.

as at 31 December 2016	**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 and forward contracts	**4,197**	4,197	4,197	-	-
Trade, factoring and interest payables	**650,544**	650,544	650,544	-	-
	654,741	654,741	654,741	-	-
Interest bearing liabilities					
Financial lease liabilities	**2,156**	1,863	855	1,008	-
Loans and borrowings	**1,372,997**	1,373,291	375,765	851,648	145,878
	1,375,153	1,375,154	376,620	852,656	145,878
	2,029,894	2,029,895	1,031,361	852,656	145,878
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**1,105,722**	1,105,722	1,105,722	-	-
Forward contracts	**751**	751	751	-	-
Cash and cash equivalents	**337,611**	337,611	337,611	-	-
	1,444,084	1,444,084	1,444,084	-	-
Interest bearing assets:					
Long-term loans	**2,489**	4,026	1,551	2,475	-
Long-term deposits	**2,546**	1,196	14	1,169	13
Short-term loans	**705**	675	675	-	-
	5,740	5,897	2,240	3,644	13
	1,449,824	1,449,981	1,446,324	3,644	13
Net liquidity position	**(580,070)**	**(579,914)**	**414,963**	**(849,012)**	**(145,865)**

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

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, factoring and interest payables (Restated)	**615,642**	615,642	612,595	2,917	130
	618,111	618,111	612,595	5,386	130
Interest bearing liabilities					
Financial lease liabilities	**2,794**	2,931	1,819	1,112	-
Loans and 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
	1,829,899	1,896,944	1,103,281	766,935	26,728
Non-interest bearing assets:					
Trade receivables (including bills of exchange) Restated	**1,076,253**	1,076,253	1,071,287	4,966	-
Forward contracts	**215**	215	215	-	-
Cash and cash equivalents	**291,877**	291,877	291,877	-	-
	1,368,345	1,368,345	1,363,379	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	-
	1,374,989	1,376,210	1,365,220	10,990	-
Net liquidity position	**(454,910)**	**(520,734)**	**261,939**	**(755,945)**	**(26,728)**

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks

(i) Interest rate risk management

The Group manages cash flow interest rate risk in a manner that it has contracted interest rate swaps that exchanged its variable interest rate liability with the fixed interest rate (note 31). Changes and projections of interest rates are monitored continuously. The Company contracted a part of its debt at a fixed interest rate. Taking into account the stated above and the fact that key interest rates are currently at low levels, the Company is not significantly exposed to interest rate risk. Exposure to changes in interest rates on borrowings and loans (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)	**2016**	**2015**
EURIBOR based bank loans	473,877	303,399
EURIBOR based finance lease	1,994	2,595
MF bill of exchange based loans*	0	46,583
PRIBOR based bank loans**	34,657	39,557
	510,528	**392,134**

**Trezorski Zapisi Ministarstva Financija*
*** Prague Interbank Offer Rate*

Analiza osjetljivosti na kamatni rizik

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 2016	**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	712,808	132,191	99,966	386,569	94,082
At current interest rates + 50 basis points	721,549	134,545	101,916	390,773	94,315
Effect of increase of interest rate by 50 bp	**(8,741)**	**(2,354)**	**(1,950)**	**(4,204)**	**(233)**

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)**	**-**

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 (continued)

(ii) 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.

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

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

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.

(iii) 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**	
	2016	**2015**	**2016**	**2015**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	1,035,434	841,889	518,509	503,530
Bosnia and Herzegovina (BAM)	61,177	85,904	161,054	164,518
Poland (PLN)	16,917	19,601	58,268	61,287
Russia (RUB)	906	2,976	100,795	78,700
Czech (CZK)	48,770	52,541	25,523	19,921
Other currencies	39,928	32,544	154,251	137,801

Foreign currency sensitivity analysis

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 largely in Euro and US dollar. Similarly, the Group has a significant part of borrowings denominated in EUR. During 2016, the Croatian Kuna exchange rate against EUR remained stable, but at lower average levels than the year before, as a consequence of appreciation pressures on the Croatian kuna due to favourable economic trends.
Since October 2016, the model of managing transaction currency risk called "Layer hedging" has been applied. This model prescribes the procedures for identifying the source of risk and measuring exposure, the process of contracting derivative financial instruments for hedging purposes and the system of control and reporting.

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Foreign currency sensitivity analysis (continued)

In addition, as part of the model, parameters of the exposure limit are set, which are triggers for contracting the prescribed hedging levels. During 2016, the Company changed its business model on several export markets to achieve that inflows from related parties, wherever possible, are directed to Podravka d.d. in the domestic currency of the country where the related party operates. This way, the currency risk is largely transferred from related parties to the Company that adjusts these cash inflows with outflows (natural hedging), thus reducing the overall exposure to currency risk, and also creating the opportunity to contract derivative financial instruments on the remaining amount of net cash flow at the central level.
During 2016, the Company concluded fx forward contracts for managing currency risk of the following foreign currencies: USD, AUD, CAD, RUB, HUF and PLN. For the exposure to changes in exchange rate of the Croatian kuna against the Euro no derivative financial instruments for hedging purposes were contracted due to the limited volatility of the exchange rate and the exchange rate regime implemented by the Croatian National Bank.

The currency risk analysis is based on the official exchange rates for the currencies analysed above as per the Croatian National Bank, which were as follows, except for the Russian ruble for which the ECB exchange rate is used:

	31.12.2016	31.12.2015
EUR	7.5578	7.6350
BAM	3.8642	3.9037
PLN	1.7086	1.7990
RUB	0.1175	0.0957
CZK	0.2799	0.2826

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 RUB). The sensitivity analysis includes only outstanding cash items in foreign currency and their translation at the end of the period based on the percentage change in currency exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of 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	
	2016	2015	2016	2015
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	(5,169)	(3,384)	(232)	(326)

	BAM exposure		PLN exposure	
	2016	2015	2016	2015
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	999	786	414	417

	RUB exposure	
	2016	2015
	(in thousands of HRK)	
Increase/(decrease) of net result	999	757

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Sales function based risks

The Group generates approximately 32% (2015: 38%) of its revenue on the domestic market, whereas 68% (2015: 62%) of the sales are generated on international markets. 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, leaving the company, relocation within the company, etc., in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above. The following share-based payment arrangements were effective in the current and comparative reporting periods:

Date of issue	**Number of options**	**Vesting terms**	**Contracted vesting period**
Options granted to key management of the Group			
As at 31 December 2010	8,000	Service during the contracted vesting period	31.12.2016.
As at 31 December 2011	8,000	Service during the contracted vesting period	31.12.2016.
As at 24 Februray 2012	9,800	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	3,800	Service during the contracted vesting period	31.12.2017.
As at 23 December 2013	300	Service during the contracted vesting period	18.7.2017.
As at 23 December 2013	12,720	Service during the contracted vesting period	31.12.2018.
As at 28 December 2014	15,137	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	6,307	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.
As at 2 February 2015	6,307	Service during the contracted vesting period	31.12.2017.
As at 22 March 2016	5,359	Service during the contracted vesting period	31.12.2021.
As at 15 February 2016	24,296	Service during the contracted vesting period	31.12.2021.
As at 1 June 2016	12,500	Service during the contracted vesting period	31.12.2021.
As at 16 September 2016	4,000	Service during the contracted vesting period	31.12.2021.
Total share options	**166,053**		

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	**2016**	**2015**
Fair value at grant date (weighted average)	86	73
Share price at grant date (weighted average)	316	284
Exercise price (weighted average)	305	282
Expected volatility (weighted average)	20%	22%
Expected life (weighted average in years)	4.4	4.5
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds)	5.59%	5.58%

Expense recognised in profit or loss	**2016**	**2015**
	(in HRK thousands)	
Equity-settled share-based payment transactions	7,995	1,859

The exercise price of stock options for key management is in the range HRK 245 to HRK 349.

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

	2016		**2015**	
	Number of options	**Weighted average excercise price**	**Number of options**	**Weighted average excercise price**
Outstanding at 1 January	151,698	282	164,578	277
Exercised	(45,253)	-	(33,000)	-
Expired	-	-	(20,214)	-
Granted	59,608	316	40,334	284
Outstanding at 31 December	**166,053**	**305**	**151,698**	**282**

As at 31 December 2016, there are 166,053 of outstanding options (2015: 151,698 options). In 2016, 45,253 options were exercised (2015: 33,000 options).

The weighted average exercise price of outstanding options at the end the year is HRK 305 (2015: HRK 282). The weighted average remaining validity of options is 4.4 years at year end (2015: 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 the ESOP. As at 31 December 2016, the number of shares within the ESOP is 86,077, whereby HRK 216 thousand of reversal of capital reserve was recognised in other finance costs. The fair value of the shares at the date of issue amounted to HRK 300 and exercise price of additional shares was also HRK 300. As at 31 December 2016, the Company had a capital reserve in the amount of HRK 7,747 thousand based on ESOP (2015: HRK 7,963 thousand).

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

	2016	2015
	(in thousands of HRK)	
Key management remuneration		
Salaries and severance payments	46,919	38,773
Share-based payments (note 37 (i))	7,995	1,859
	54,914	**40,632**

Key management of the Group comprises the Management Board and executive directors and consisted of 58 persons (2015: 63 persons).

During 2016, a total of HRK 1,923 thousand (2015: HRK 1,891 thousand) was paid as compensation to members of the Supervisory Board at the Group level.

NOTE 39 – CONTINGENT LIABILITIES

	2016	2015
	(in thousands of HRK)	
Guarantees and warranties given	13,269	30,968
	13,269	**30,968**

Guarantees and warranties mainly relate to the potential liability of Podravka d.d. on the basis of customs guarantees and guarantees for transit procedures and contingencies on the basis of customs guarantees of the Belupo Group, the Žito Group and Podravka d.o.o. Beograd.

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 2016 and 2015, it is not probable that they will result in liabilities for the Group.

NOTE 40 – COMMITMENTS

In 2016, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 94,458 thousand (2015: HRK 203,254 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

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

	2016	**2015**
	(in thousands of HRK)	
Up to 1 year	23,038	17,466
From 1 to 5 years	43,177	23,389
	66,215	**40,855**

NOTE 41 – SALE OF DISCONTINUED OPERATIONS

(in thousands of HRK)	**20.12.2016**
Property, plant and equipment	45,605
Long term financial assets	60
Deferred tax assets	150
Inventories	8,681
Trade receivables and other receivables	9,133
Cash	277
Long term liabilities	(711)
Short term liabilities	(17,276)
Net assets	**45,919**
Revenue from sales Studenac	46,648
Gain on disposal	**729**

As at 20 September 2016, the Company entered into a purchase and sale agreement for the sale of the Beverages business programme. According to the contractual preconditions for the sale, the Company increased the share capital of Studenac d.o.o. with the assets of the disposal group and as of 1 October the business programme Beverages functioned through the subsidiary Studenac d.o.o. Upon meeting all the agreed preconditions, at the end of 2016, the Company sold the 100% share in the subsidiary and thereby sold the Beverages programme that was carried as discontinued operations.

NOTE 42 – EVENTS AFTER THE BALANCE SHEET DATE

In accordance with the Management's decision the Company's dividend receivable in the amount of HRK 69,000,000.00 was transformed into the share capital of Belupo d.d. by contribution of rights – receivables, whereby the capital of this subsidiary was increased from the existing nominal amount of HRK 410,087,600.00 to the amount of HRK 479,087,600.00.

As at 27 January 2017, the Commercial Court in Varaždin issued the Decision for the increase in the share capital of the subsidiary Belupo d.d. by the amount of HRK 69,000,000.00.

As at 20 February 2017, the Company's Management Board reached the decision on additional capital contribution by transforming the parent company's dividend receivable in the amount of HRK 100,000,000.00 into the share capital of the subsidiary Belupo d.d.