PODRAVKA d.d., Koprivnica

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

CONTENTS

PODRAVKA IN 2014 (BUSINESS EVENTS)

Incentive payment

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

Experience is gold

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

Provision program for surplus workers

Early in the year Podravka started creating the severance payment program for surplus workers. Consultations with the Workers Council were performed and Podravka accepted the majority of suggestions provided by the Council, and concerning the Program.

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

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

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

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

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

Podravka and Tecnalia cooperation

Podravka was visited by representatives of Tecnalia, a group of scientists and supreme chefs dealing with research and innovations in food and culinary art.

Podravka, as the project idea carrier and Tecnalia Research & Innovation will cooperate in the fields of developing innovative food products and services, networking through the platform of open innovations and cooperation on European research programs.

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

Podravka acquires canned meat products and pates Piketa and Classic

Management of Podravka, Agrokor and PIK Vrbovec concluded contracts on transfer of trademark, recipes and equipment and on acquiring the business of production and sales of canned meat products and canned pates.

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

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

Cooking shows as part of In Magazin by Nova TV

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

Help for the flooded Slavonia

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

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

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

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

Euromoney – Podravka at the top of the best managed companies

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

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

The biggest cake in Croatia

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

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

Crediting contract

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

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

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

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

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

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

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

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

Complete culinary experience

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

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

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

25. Vegeta Croatia Open Umag – special reward for Podravka

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

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

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

In memory of prof. Zlata Bartl

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

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

Shares of Mirna d.d. acquisition

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

“LeaNcO” project implementation completed

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

The project was managed in cooperation with the consulting company A.T.Kearney, and it consisted of 17 improvement measures, which were a separate, mutually connected projects, having their own project managers and implementation teams. More than 50 employees were included in the implementation of the LeanCo project.

Implementing the above mentioned 17 measures in the processes of finances, administration and reporting, planned annual saving, amounting to HRK 24 million were realized, due to more efficient use of resources and saving in various material costs.

Results of modern tomato growing

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

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

Ninth season of Lino All-rounder

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

Togetherness connecting Podravka employees

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

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

Zvonimir Mršić – vice-president of Croatian Exporters Association

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

Danish queen Margaret visiting Podravka

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

The General Assembly of Mirna d.d.

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

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

As of 21 November 2014 all the previous authorisations issued by the previous Management Board have been recalled and cancelled. At the same session the Supervisory Board of Mirna d.d. appointed Vladimir Bunić as Management Board member - CEO of Mirna d.d. After it conducts a detailed analysis of the business of Mirna d.d., Podravka will take all possible actions, within legal framework, in order to remove the need for bankruptcy over Mirna d.d.

Knowledge on the platter

"Knowledge on the platter" is available to all Podravka employees. Lectures in: English, personal and IT skills are distributed in the period from November 2014 to July 2015. This program is available to all Podravka employees, and it was started with the aim to increase the availability of education and to encourage employees to openness and desire for knowledge and personal development.

Management Board president thanked on achieved results

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

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

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

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

Internship program of the second SHAPE generation completed

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

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

Rewarding employees at year end

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

PODRAVKA IN 2015 (Business events)

New market regions and strengthening of international business

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

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

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

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

Prestigious award „Pečať bonity"

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

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

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

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

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

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

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

Middle East and North Africa regional office

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

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

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

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

Vegeta Marinades – Produkt leta in Slovenia

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

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

Investors' Day held at Podravka

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

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

Incentive payment to Podravka employees this year as well

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

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

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

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

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

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

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

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

PODRAVKA'S RESEARCH AND DEVELOPMENT IN 2014

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

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

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

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

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

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

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

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

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

NEW PODRAVKA'S PRODUCTS IN 2014

Strong innovation cycle in food

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

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

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

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

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

AWARDS & ACKNOWLEDGMENTS

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

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

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

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

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

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

Consumers of **Serbia** chose Podravka pickled gherkins and Ajvar (chutney) as no. 1 products regarding the most favorable purchase.

On the other hand, consumers of **Slovenia** think that Podravka jams offer the highest value for the money invested.

Podravska klet and Kraluš again among the finest restaurants of Croatia

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

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

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

"Slovak Superbrands 2014"

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

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

Halal certificates to Podravka factories

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

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

"Laur consumenta" – to Vegeta in Poland

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

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

Mini web page "Fun on your plate" created in collaboration with digital agency Nivas, was awarded Mixx award in "Direct Response and Lead Generation" category, in Rovinj, on national advertising festival "Communication days".

Campaign "Fun on your plate" originated from the unconventional idea of helping mothers who want their children to eat more soups and vegetables, while keeping them entertained. On the awarded mini web page, children and adults can read everything about Podravka's new "fun" products. The main goal was to connect parents and their children through games and creativity, showing them thereby that playing in kitchen is finally allowed.

Mixx award, organized by HURA and IAB Croatia, is awarded every year to the most creative and effective work in online advertising.

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

As part of FEST CROPAK 2014 packaging festival, organized by the Institute for Packaging and Printing Tectus-IatT, Tectus d.o.o. Zagreb company and professional magazine Ambalaža/REGprint, awards for best packaging on Croatian market CROPAK 2014 and best packaging on regional market REGPAK 2014 have been awarded. More than 140 products applied, a Podravka's Rich Soups won: CROPAK of the year 2014 and CROPAK in category: Croatian Product/Series Packaging. It is the first time for Podravka to win CROPAK of the year award (the award has been continuously awarded for 11 years in the row) and it allows it direct placement for the World Star Award for packaging, under the auspices of WPO (World Packaging Organisation).

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

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

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

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

Podravka awarded with Zlatna kuna (Golden marten) HGK

Podravka was awarded Zlatna kuna (Golden marten) by Croatian Chamber of Economy on the formal session of Economic Council of County Chamber of Koprivnica. Acknowledgement was given to the Management Board member of Podravka, Jadranka Ivanković by the county head of Koprivnica-Križevci County, Darko Koren.

It is an acknowledgement given to companies and individuals for their successes in the economy of Koprivnica-Križevci County in 2013 in following categories: the most successful small business, the most successful medium business and the most successful large company.

Chairman of the Awarding Commission, Julijo Kuruc, explained Podravka's nomination for this acknowledgement by the fact that company, despite the crisis, remained on its feet, became international, have created capacities to go out into the world, have opened new acquisitions and increased sales. Besides that, according to the Ipsos Puls agency research, customers have recognized Podravka as the most successful Croatian company on European market. That justifies its leading position in brand awareness and customers confidence.

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

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

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

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

New Halal certificates awarded

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

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

Podravka awarded Superbrand in Czech Republic

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

Employer Partner Certificate

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

By the detailed analysis of the human resources management system and in comparison with other organizations, it was concluded that Podravka met all the high quality standards of Employer Partner Certificate. By its successful approach to the human resources management, Podravka has proved itself as desirable employer and business partner. At the formal awarding ceremony, analysis results of the five human resources fields were presented by the professional evaluation team: Strategy, Recruitment and selection, Work, Motivation and rewarding, Training and Employee Relations development. Podravka has met all the high standards in all five areas and therefore was evaluated with the highest grades in the area of Recruitment and selection, owing to transparent employment procedures and apprentice employment program "SHAPE your future with a heart".

Prestigious award "Pečať bonity" to Podravka Slovakia

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

Lino chocolate drink product of the year in baby food category

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

SOCIAL COMMUNITY

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

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

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

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

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

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

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

ECOLOGY

PODRAVKA'S ACTIVITIES IN THE AREA OF ENVIRONMENT PROTECTION IN 2014

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

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

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

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

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

Continuous reduction of waste water creation and release

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

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

Managing waste as a useful raw material and resource

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

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

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

Pest protection for all organizational units and business processes

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

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

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

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

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

In 2014 Podravka was a regular member of the following:

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

Other activities in environment protection

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

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

CERTIFICATIONS

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

The audits applied to the entire Podravka in the Republic of Croatia, Podravka Poland and Podravka Lagris, Czech Republic.

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

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

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

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

PODRAVKA'S SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS BIOGRAPHIES

Podravka's Supervisory Board members biografies

Dubravko Štimac

Supervisory Board president

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

Member of Podravka Remuneration Committee.

He started his professional career as an independent sales clerk at Zagrebačka tvornica papira and continued it as an independent officer in foreign trade at PBZ Investholding d.o.o., where he also became the manager of the foreign trade sector. In January 2001 he became the project manager of the retirement reform at Privredna banka Zagreb d.d. From October 2001 he was the Management Board president of PBZ CROATIA osiguranje d.d., the association for managing obligatory retirement fund. He graduated in 1992 from the Faculty of Economy and Business at the Zagreb University, where he also received his MA in Organization and Management course. He participated in the Securities Processing Training Program in New York, organized by the Bank of New York, and in the Fund Management at City University Business School in London.

Mato Crkvenac

Supervisory Board deputy president

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

Member of Podravka Audit Committee.

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

Ivana Matovina

Supervisory Board member

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

Member of Podravka Audit Committe.

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

Martinka Marđetko Vuković

Supervisory Board member

Martina Marđetko Vuković was appointed Podravka Supervisory Board member in April 2012 by company Worker's council.

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

Ivo Družić

Supervisory Board member

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

Milan Stojanović

Supervisory Board member

Milan Stojanović was appointed Podravka Supervisory Board member in July 2012. Member of Podravka Remuneration Committee. He spent 35 years of service as a director or a manager in economy. At the same time, in the period from 1990 to 1996, he was a representative in the Croatian Parliament in two terms. He is retired and performs the function of the Supervisory Board President at Zlatna igla Siscia d.o.o. He was also a Management Board president for the Development and Employment Fund in the Republic of Croatia. His numerous researches and works in marketing and economy have been published. He was twice proclaimed a manager of the year. He received an academic title of Master of Science.

Petar Vlaić

Supervisory Board member

Petar Vlaić was elected Podravka Supervisory Board member in September 2010. Member of Podravka Audit Committee and President to the Remuneration Committee. He started his professional career as a broker in Ilirika and later he advanced to the position as portfolio manager and trade manager. Upon his arrival to Zagreb he became the first fund manager in the Republic of Croatia in the first Croatian investment fund Kaptol Proinvest. Later on he worked as a trade manager in IB Austria, upon which he transferred to the position of fund manager at the Central National Fund, a private investment fund. In 2001 he became the Management Board president of Erste d.o.o. for managing Mandatory Pension Fund. In late 2003 Erste MRF and Helios MRF were merged with the Blue Fund and the fund changed its name to Erste Blue Mandatory Pension Fund, and the management company changed to Erste d.o.o. for management of mandatory pension fund. While working at the association for private investment fund management, he was also a Supervisory Board member of numerous Croatian companies. He graduated from the Faculty of Electrical Engineering and Computer Science in Ljubljana. He also received CFA (Chartered Financial Analyst) title, through program organized by American Institute of Chartered Financial Analysts ICFA.

Dinko Novoselec

Supervisory Board member

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

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

Petar Miladin

Supervisory Board member

Petar Miladin was elected Podravka Supervisory Board member in September 2010. He was employed at the Law Faculty in Zagreb in 1997 as a junior assistant at the Department for Commercial Law and Companies Law. In December 1999 he became the assistant at the same department where he worked as a senior assistant later on. He worked as a senior lecturer at the Faculty of Law in Zagreb since 15 December 2005 and since 2009 he is associate professor. He published over twenty scientific works in the area of commercial law, companies law and banking law. Immediately after graduation he worked as an apprentice at Municipal and Commercial Court in Zagreb. He completed Postgraduate scientific study of commercial and company law at the Faculty of Law in Zagreb, receiving his MA. He defended his doctoral dissertation "Payment by remittance" in 2005 at the Law Faculty of the Zagreb University, receiving his PhD in scientific field of law.

PODRAVKA'S MANAGEMENT BOARD MEMBERS BIOGRAFIES

Zvonimir Mršić

Management Board president

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

Olivija Jakupec

Management Board member

Olivija Jakupec was appointed Podravka Management Board member in February 2012. Since 1992 she was employed at Podravka as Product manager for Fererro, being in charge of promotion and realization of marketing activities in the Croatian market. A year later she became marketing manager in Podravka's company in Bulgaria, where she worked on founding and registering the company and on promoting activities on the market. In 1997 she was appointed director of Podravka's company in Russia where she also worked on founding a company, setting up business processes within the company. In 2001 she returned to Koprivnica and became Market Communication manager. In 2004 she transferred to Nexe Group and became director of Nexe company in Bosnia and Herzegovina. Since 2007 she worked as assistant director at Jadransko osiguranje branch office in Koprivnica. She returned to Podravka in 2012 as Management Board member. She graduated from the Faculty of Organization and Informatics in Varaždin, Marketing. She attended international business school Center, Brdo kod Kranja.

Miroslav Klepač

Management Board member

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

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

Hrvoje Kolarić

Management Board member

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

Jorn Pedersen

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

He received his Master of Business Administration degree in 1985 for Strategic Planning, from the Copenhagen School of Business and Administration. His work experience includes more than 20 years in the international FMCG business with several leadership positions in many different countries, particularly emerging markets and emerging companies. In 1985 he was employed as Section Head Far East for IFU (Semi Governmental Financing institution), working partly in Copenhagen, partly in South Korea, China and Philippines. From 1989 to 2007 he finds his positions at Carlsberg in numerous countries, working as Business Assistant to Vice President, Business Controller, Sales and Marketing Director, Regional Manager, Deputy Managing Director at Panonska pivovara d.o.o. in Croatia, Department Manager, Business Development Manager, Business Development Director and Managing Director. In 2008 he transfers to Sarmat Group, Donetsk, Ukraine, where he is General Director. n 2009 he is CEO for BornPoultry A/S, Bornholm Denmark (supreme chicken products). Before he was appointed Podravka Management Board Member in February 2012, he worked as Senior Vice President at Uhrenholt A/S and CEO Uhrenholt Russia & CIS (Food products to Food Service and Retail channels). He is also a Board Member in Gourmet Bornholm (an organisation of Gourmet Food Producers) and Board Member Confederation of Danish Industry.

Jadranka Ivanković

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

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

BUSINESS RESULTS OF PODRAVKA d.d. (CONTINUING AND DISCONTINUED OPERATIONS)

Sales revenues in the period January – December 2014 amounted to HRK 1,756.0 million and are 6.4% lower when compared to 2013. The achieved result was mostly affected by lower sales revenues on the domestic market as a consequence of unfavourable macroeconomic situation, pressures on business by foreign competition and private labels and the decision to exit the programmes under restructuring (beverages segment and bakery).

Company's gross profit reached HRK 661.1 which is 1.6% higher when compared to 2013, while gross margin climbed to 37.6% which is 298 basis points higher when compared to 2013.

Through the redundant labour programme, 261 employees left the company in 2014 with total severance payment of HRK 34.4 million (January – December 2013; HRK 37.5 million). With respect to continuation of the redundant labour programme, HRK 8.9 million of severance payments for employees that left the company as of 28 February 2015 was agreed and included in 2014 operating expenses.

Compared to the same period last year, a significant drop in expenses was recorded in other operating expenses (64%) as a result of considerably lower value adjustments of investment in related parties and assets held for sale. Value adjustments of non-current and other current assets are also on a lower level as a consequence of lower value adjustments of trade receivables (combination of lower sales and more efficient collection of receivables) and absence of value adjustments of brands which were present in the previous period.

Operating profit in 2014 amounted to HRK 130.3 million while operating margin reached 7.4%. In 2013, operating profit was negative HRK 16.6 million.

Net financial income in 2014 was HRK 71.7 million and is higher when compared to the same period of the last year by 29.7%. Net financial income was supported with HRK 110.0 million dividend income from related parties (January – December 2013: HRK 100.0 million). In addition to the increase in financial income, financial expenses marked a decrease due to lower interest expenses as a result of the refinancing loan obligations at more favourable conditions and lower net effect of foreign exchange differences.

A significant impact on the stated income tax in 2014 came from the decision to utilize tax relief for the planned reinvestment of profit during 2015.

Reported net profit in 2014 was HRK 201.7 million which is almost four times higher when compared to 2013. Net profit margin in 2014 was 11.5%.

FINANCIAL POSITION OF PODRAVKA d.d.

The total assets value on 31 December 2014 is HRK 2,582.7 million, representing an increase of HRK 183.5 million compared to 2013 year end.

Significant increase in assets value is driven by non-current intangible assets which came from the signed contracts on the transfer of trademarks and recipes between Podravka d.d. and PIK Vrbovec d.d.. Podravka d.d. has acquired the meat pates and canned meat program and brands of PIK Vrbovec d.d. for further production and sales to all markets and with that acquisition, Podravka significantly increased its market share in the segment of meat pates, with a good position for expansion to regional markets.

Furthermore, a significant increase in total assets arises from the increase in inventories which show higher non-current assets held for sale. Increased assets held for sale are a result of additional purchase of real estate held for sale and merger of related companies to Podravka d.d. which also had assets held for sale. The additional growth in inventories is a result of purchasing larger quantities of wheat and tomato concentrate required for smooth production process and the aforementioned acquisition of meat pates and canned meat program from PIK Vrbovec d.d.

Related companies Poni d.o.o., Podravka Inženjering d.o.o., and Koti Nekretnine d.o.o. were merged to the company Podravka d.d. at the beginning of the year. In Q3 according to the decision by the Commercial Court in Varaždin of 22 July 2014 two more mergers have taken place. Subsidiaries Ital-Ice d.o.o. and Lero d.o.o. were merged to Podravka d.d. according to simplified procedure in a way that the entire assets of the merged companies was transferred to Podravka d.d. which is shown as a decrease in shares in related parties on one hand and an increase in non-current assets held for sale on the other.

The decrease in current financial assets results from the merger of subsidiaries and partial payment of loans given to related parties.

Trade account payables have been decreased compared to the 2013 year end as a result of continuing effort to meet contractual payment days and positive impact of shorter payment terms reflected in discounts on purchase prices of some raw materials.

The indebtedness as of 31 December 2014 amounts to HRK 864.6 million and has increased by HRK 4.0 million compared to 2013 year end. It refers to long-term liabilities to banks in the amount of HRK 694.7 million, short-term liabilities to banks in the amount of HRK 167.2 million and liabilities on swap arrangements in the amount of HRK 2.7 million. At the beginning of July, Podravka d.d. and European Bank for Reconstruction and Development together with three commercial banks entered a syndicated loan agreement to refinance the existing credit commitments replacing short-term for long-term credit obligations at significantly lower interest rate and prolonged maturities.

The weighted average cost of debt on 31 December 2014 is 3.2%.

Due to a higher level of cash, despite the increase in borrowings, net debt as at 31 December 2014 is HRK 775.8 million and is decreased by HRK 11.9 million compared to 2013 year end.

Podravka d.d. classified the Beverages segment as discontinued operations and has stopped monitoring that business as a strategic business area from the date of the reclassification.

Key business characteristics related to the strategic business areas from the Company’s continuing operations are presented below.

Key business characteristics of the Company's continuing operations

(in HRKm)	2014	% of sales	2013	% of sales	2014/2013
Sales revenue	1,668.2	100.0%	1,755.5	100.0%	(5.0%)
Cost of goods sold	(1,035.8)	(62.1%)	(1,128.2)	(64.3%)	(8.2%)
Gross profit	**632.4**	**37.9%**	**627.3**	**35.7%**	**0.8%**
Other income	18.1	1.1%	9.4	0.5%	92.6%
General and administrative expenses	(182.7)	(11.0%)	(173.4)	(9.9%)	5.4%
Selling and distribution costs	(166.1)	(10.0%)	(201.3)	(11.5%)	(17.5%)
Marketing expenses	(143.3)	(8.6%)	(143.1)	(8.2%)	0.1%
Other expenses	(6.3)	(0.4%)	(81.4)	(4.6%)	(92.3%)
Operating profit	**152.1**	**9.1%**	**37.5**	**2.1%**	**305.6%**
Financial income	116.8	7.0%	112.4	6.4%	3.9%
Financial expenses	(45.1)	(2.7%)	(57.1)	(3.3%)	(21.0%)
Net financial income / (expenses)	**71.7**	**4.3%**	**55.3**	**3.2%**	**29.7%**
Profit before tax	**223.8**	**13.4%**	**92.8**	**5.3%**	**141.2%**
Income tax	(0.4)	(0.0%)	12.6	0.7%	(103.2%)
Net profit from continuous operations	**223.4**	**13.4%**	**105.4**	**6.0%**	**112.0%**

Sales revenues in 2014 were HRK 1,668.2 million, while in 2013 they were HRK 1,755.5 million. Due to lower costs of goods sold, gross profit increased by 0.8% when compared to 2013 while gross profit margin reached 37.9%. Operating profit in 2014 was HRK 151.9 million which is four times higher when compared to 2013. Net profit for the year in 2014 amounted to HRK 223.2 million which is twice as high when compared to 2013. Net profit margin in 2014 was 13.4%.

Key business characteristics of the Company's discontinued operations

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

(in HRKm)	2014	% of sales	2013	% of sales	2014/2013
Sales revenue	87.8	100.0%	121.3	100.0%	(27.6%)
Cost of goods sold	(59.1)	(67.3%)	(98.1)	(80.9%)	(39.8%)
Gross profit	**28.7**	**32.7%**	**23.2**	**19.1%**	**23.7%**
Operating expenses	(39.1)	(44.5%)	(48.1)	(39.7%)	(18.7%)
Other expenses	(11.2)	(12.8%)	(29.3)	(24.2%)	(61.8%)
Operating loss	**(21.6)**	**(24.6%)**	**(54.2)**	**(44.7%)**	**(60.1%)**
Loss before income tax	**(21.6)**	**(24.6%)**	**(54.2)**	**(44.7%)**	**(60.1%)**
Income tax	-	-	-	-	-
Net loss for the year from discontinued operations	**(21.6)**	**(24.6%)**	**(54.2)**	**(44.7%)**	**(60.1%)**

Sales revenues from discontinued business Beverages were HRK 87.8 million in 2014 which is 27.6% lower when compared to 2013 when they were HRK 121.3 million. Gross profit in 2014 with HRK 28.7 million is 23.7% higher than in 2013. Net loss in 2014 was HRK 21.5 million which is more than 50% lower when compared to net loss of HRK 54.2 million in 2013.

PODRAVKA'S EXPECTED DEVELOPMENT

Achieving growth

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

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

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

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

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

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

General strategic goals

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

Key factors of success

Three pillars of success:

I. COMPANY STRENGTHS AND VALUES

Employees

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

Quality

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

Podravka's brands and consumer trust

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

Long-year tradition

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

Wide distribution network

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

Partner relations

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

II PROFITABLE GROWTH

Vegeta, Podravka and Lino

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

Market development

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

Internationalization

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

Business investments

By increasing operating efficiency, additional capital is released, and Podravka intends to invest it into further business. Investment cycle is started, along with significant investments in marketing in the markets where further growth is expected.

Strategic partnerships and acquisitions

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

Social responsibility and sustainable development

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

III OPERATING EFFICIENCY

Cost efficiency

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

Internal competencies development

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

Restructuring of non-profitable businesses

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

Purifying the production range

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

Strategy cascading – clear goals and responsibility

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

Generating the base for profitable growth

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

STRATEGY THROUGH BUSINESS PERSPECTIVES

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

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

RISK FACTORS

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

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

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

BRANDS MANAGEMENT

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

Also, consumer habits, tastes and preferences are constantly changing, so Podravka is constantly faced with the need to try and anticipate them and adapt its products and brands to these changes. The result of that is constant creation and development of innovative solutions of Podravka 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 confirms to be the trend setter in food in Croatia and the region.

BUSINESS SEGMENTS MANAGEMENT

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

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

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

CLIENT RELATIONS MANAGEMENT

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

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

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

MANAGING THE RISKS OF MANAGEMENT AND HUMAN RESOURCES

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

MANAGING THE RISKS OF ECOLOGY, QUALITY ASSURANCE AND PRODUCT SAFETY

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

All products and business processes are based on the principles of quality management, including the selection of key suppliers of raw materials, in order to ensure the required quality of the finished product. Podravka is taking constant and systemic care on the sanitary validity and product safety, compliant to the legislature of the Republic of Croatia, European Union and all the countries where it does business, as well as on adjustment and safety of IT systems which are used as a support to the overall business of Podravka.

FINANCIAL RISKS

Due to its business activities Podravka is exposed to a series of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. Exposure to currency, interest rate and credit risk is a part of regular business. Treasury sector manages the stated risks, i.e. financial departments of individual companies, together with active management of investing the surplus liquidity and active management of financial assets and liabilities.

Currency risk

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

Exposure to foreign exchange differences arises not only from subsidiaries doing business in foreign markets, but also the procurement of raw food materials in the international market is greatly performed in EUR and USD. Likewise, Podravka is in majority financed through loans in foreign currencies. The exchange rate of Croatian Kuna compared to EUR remained relatively stable during the year, with mild depreciation pressures to domestic currency and expected seasonal oscillations. This is the consequence of lack of economic recovery, i.e. reduced demand for kuna in the market and reduced inflow of foreign currency, and similar movements are expected in the next year as well.

Interest rate risk

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

Price risk

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

The cost of raw materials could have a significant role in the cost of finished products that Podravka manufactures, therefore, it is subject to fluctuations of prices on the raw materials markets, the impact of which can't always be compensated through the sale price for the buyer. Podravka realizes most of the total procurement traffic from the domestic market, while the majority of traffic with the foreign suppliers is realized with those from the EU territory.

Protective customs and trade mechanisms in the EU protecting producers, represent a risk in terms of increased customs duties for certain raw materials from third countries. Unavailability of goods in the market due to adverse weather conditions (droughts, floods, etc.), political and social unrest in some countries or speculation with key agri-food products are also risks with increased influence on the business of Podravka. In order to reduce those influences, Podravka Procurement department manages the strategic procurement categories and key suppliers in the way to develop partnership relations with long-year and new suppliers. Also, by enlarging the procurement volumes, full usage of the Commodity Risk management, conducting tenders and using new regimes of import (triangulation), Podravka works on reducing procurement costs.

Credit risk and risk of refund

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

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

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

Protection measures for individual category of buyers are defined according to financial indicators of individual buyer's business, where several services are used through which necessary information are available (financial reports, credit rating and similar). Company exposure analysis and credit exposure is being tracked and controlled through credit limits set by the company and insurers who are constantly controlled and changed as needed. Podravka has no significant concentration of credit risks with one person or groups of persons with similar features.

Liquidity risk

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

CORPORATE GOVERNANCE

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

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

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

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

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

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

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

PODRAVKA D.D. SUBSIDIARIES

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

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

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

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

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

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

GENERAL ASSEMBLY

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

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

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

SUPERVISORY BOARD

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

Supervisory Board members of Podravka d.d. in 2014

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

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

The Audit Committee members were:

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

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

The Audit Committee held six sessions in 2014.

The Remuneration Committee

The Remuneration Committee members were:

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

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

Remuneration Committee held two sessions in 2014.

Supervisory Board members are entitled to a fixed monthly remuneration as decided at the General Assembly on remunerations for Supervisory Board members. In 2014 Podravka d.d. Supervisory Board members have been paid HRK 1,736,026.19.

MANAGEMENT BOARD

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

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

At the session held on 20 December 2012 the Supervisory Board reached a Resolution on appointing Hrvoje Kolarić as Podravka d.d. Management Board member, with the term of office expiry when the entire Management Board's term expires.

Pursuant to the provisions of Podravka d.d. Articles of Association, president and members of the Board are appointed to the period as determined by the Supervisory Board (five years at the most) and they can be reappointed. Start date of their terms is as of the day the Management Board is elected. Members of the Management Board manage the business affairs of the Company, and the way they operate and divide tasks among each other is determined by the Rules of Procedure of the Management Board.

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

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

Management Board members in 2014

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

Salary to an individual Podravka d.d. Management Board member has been determined by a management contract signed between an individual Management Board member and the Company, and approved by the Supervisory Board on behalf of the company. Gross salaries paid in 2014 to Podravka d.d. Management Board members amount to HRK 7,349,301.

During 2014, Management Board members were awarded with 40,658 of the Company optional shares.

CORPORATE GOVERNANCE CODE

Annual questionnaire

ZAGREBAČKA BURZA
THE ZAGREB STOCK EXCHANGE

KODEKS KORPORATIVNOG UPRAVLJANJA
GODIŠNJI UPITNIK

MAIN COMPANY INFORMATION:	Podravka d.d., Ante Starčevića 32, Koprivnica, PIN: 18928523252
CONTACT PERSON AND CONTACT PHONE:	Branka Perković, +38548651441
DATE OF QUESTIONAIRE COMPLETE:	21,01,2015

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

COMPANY HARMONIZATION TO THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

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

	Question No.	Questions	Answer YES/NO	Esxplanation
	1	Did the Company accept the application of the Corporate Governance Code or did it accept its own policy of corporate governance?	YES	
	2	Does the Company have adopted principles of corporate governance within its internal policies?	YES	
	3	Does the Company announce within its annual financial reports the compliance with the principles of ' comply or explain'	YES	
	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	

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

	Question No.	Questions	Answer YES/NO	Esxplanation
	5	Is the company in a cross-shareholding relationship with another company or other companies? (If not, explain)	NO	
	6	Does each share of the company have one voting right? (If not, explain)	YES	
	7	Does the company treat all shareholders equally? (If not, explain)	YES	
	8	Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, explain)	YES	
	9	Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, explain)	NO	Shareholders, who are not able to vote at the assembly in person, by themselves, acting at their own discretion, determine proxies who are obliged to vote in accordance with instructions received from the shareholders.
	10	Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, explain)	YES	
	11	Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, explain)	YES	
	12	Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, explain)	NO	In 2014 the Company did not pay any dividends.
	13	Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, explain)	NO	In 2014 the Company did not pay any dividends.
	14	Were any shareholders favoured while receiving their dividends or advance dividends? (If so, explain)	NO	
	15	Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, explain)	NO	There are no preconditions for such participation of shareholders at the General Assembly.
	16	Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney etc.? (If so, explain)	YES	Registration of participants in advance as a condition of participating at the General Assembly is stipulated due to a large number of small shareholders, with the intention of maintaining order and regularity of the session being held.
	17	Did the management of the company publish the decisions of the general assembly of the company?	YES	
	18	Did the management of the company publish the data on legal actions, if any, challenging those decisions? (If not, explain)	NO	There were no such legal actions.

MANAGEMENT AND SUPERVISORY BOARD

PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS	Zvonimir Mršić (presidenf of the Management Board), Jadranka Ivanković (member of the Management Board until 22,12,2014), Olivija Jakupec (member of the Management Board), Miroslav Klepač (member of the Management Board), Jorn Pedersen (member of the Management Board until 18,6,2014) and Hrvoje Kolarić (member of the Management Board)

PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD AND THEIR FUNCTIONS	Dubravko Štimac (president of the Supervisory Board), Mato Crkvenac (deputy president of the Supervisory Board), Ivo Družić (member of the Supervisory Board), Petar Miladin (member of the Supervisory Board), Dinko Novoselec (member of the Supervisory Board), Petar Vlaić (member of the Supervisory Board), Martinka Marđetko-Vuković (member of the Supervisory Board), Ivana Matovina (member of the Supervisory Board), Milan Stojanović (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

	Question No.	Questions	Answer YES/NO	Exsplanation
	19	Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, explain)	YES	
	20	Did the Supervisory or Management Board pass its internal code of conduct? (If not, explain)	YES	
	21	Is the Supervisory Board composed of, i.e. are non-executive directors of the Management Board mostly independent members? (If not, explain)	YES	
	22	Is there a long-term succession plan in the company? (If not, explain)	YES	
	23	Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company' s business performance? (If not, explain)	NO	The remuneration is fixed and in no part does it depend on efficiency of Company's business.
	24	is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (If not, explain)	YES	
	25	Have detailed records on all remunerations and other earnings of each member of the 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)	NO	The Supervisory Board members are entitled to a fixed monthly remuneration as stated in the General Assembly Resolution on remunerations for the Supervisory Board members of Podravka Inc. Remunerations and other incomes given by the Company for the Management Board and Supervisory Board members are published in the Company's Annual Report for 2014.
	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	
	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)	NO	There were no such transactions.
	28	Are there any contracts or agreements between members of the Supervisory or Management Board and the company?	NO	
	29	Did they obtain prior approval of the Supervisory or Management Board? (If not, explain)	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)	NO	There is no such contract or agreement.
	31	Did the Supervisory or Management Board establish the appointment committee?	NO	Entire Supervisory board has performed the function of the appointment committee.
	32	Did the Supervisory or Management Board establish the remuneration committee?	YES	
	33	Did the Supervisory or Management Board establishe the audit committee?	YES	
	34	Was the majority of the committee members selected from the group of independent members of the Supervisory Board? (If not, explain)	YES	

	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	
	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	
	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	
	38	If there is no internal audit system in the company, did the committee consider the need to establish it? (If not, explain)	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	
	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	
	41	Did the committee prepar rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)	YES	
	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	
	43	Did the audit committee ensur the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (If not, explain)	YES	
	44	Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)	YES	

	45	Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)	YES	
	46	Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?	NO	
	47	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)	NO	
	48	Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the company? (If not, explain)	NO	
	49	Are detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the annual report of the company? (If not, explain)	NO	
	50	Are all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the company? (If not, explain)	NO	
	51	Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (If not, explain)	NO	
	52	Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the anagement of the company, and a special comment on its cooperation with the management? (If not, explain)	YES	

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

	Question No.	Questions	Answer YES/NO	Exsplanation
	53	Does the company have an external auditor?	YES	
	54	Is the external auditor of the company related with the company in terms of ownership or interests?	NO	
	55	Is the external auditor of the company providing to the company, him/herself or through related persons, other services?	YES	The external auditor is providing services related to tax advising and study on trasferred prices for some subsidiares of the Group and due dilligence for two target companies.
	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)	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	

TRANSPARANCY AND THE PUBLIC OF ORGANIZATION OF BUSINESS

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

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

	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	

SHARE

Turnover, volume and price of Podravka share

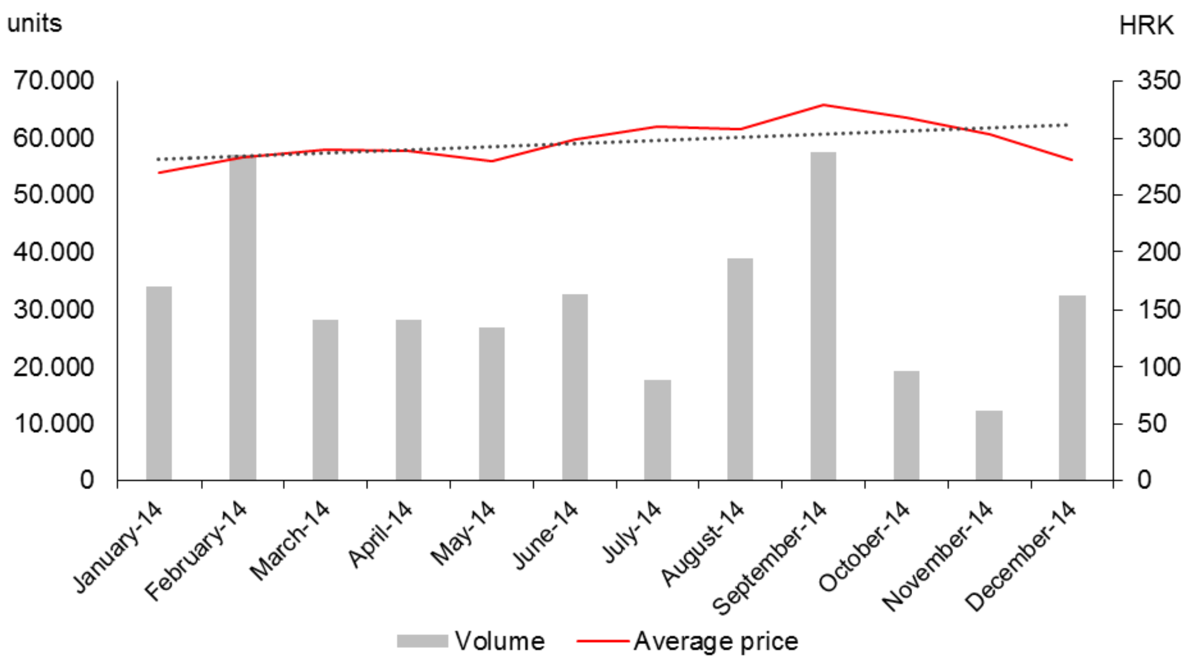
Total turnover of Podravka share in 2014 grew by 138.0 percent compared to 2013, while total turnover of all shares at Zagreb Stock Exchange in the same period recorded a mild decline of 0.4 percent. Podravka share recorded the highest increase of total turnover among all the companies in CROBEX10 index. Total turnover of Podravka share in 2014 was HRK 114.5 million, which is 4.2 percent of total shares turnover at the Zagreb Stock Exchange.
Increase of Podravka share turnover in 2014 is a result of Podravka share price increase, but also a result of traded volumes compared to 2013. Traded volume of Podravka share in 2014 was 108.8 percent higher compared to 2013, where the most intense trading took place in the first and third quarter.

Podravka share turnover and volumes per quarters in 2014

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

Podravka share average price[2] in 2014 was HRK 296.78 and it was 14.0 percent higher comparing to the average price in 2013. Close price of Podravka share at 31 December 2014 was HRK 293.47, which is 15.3 percent growth comparing to close price on 31 December 2013.

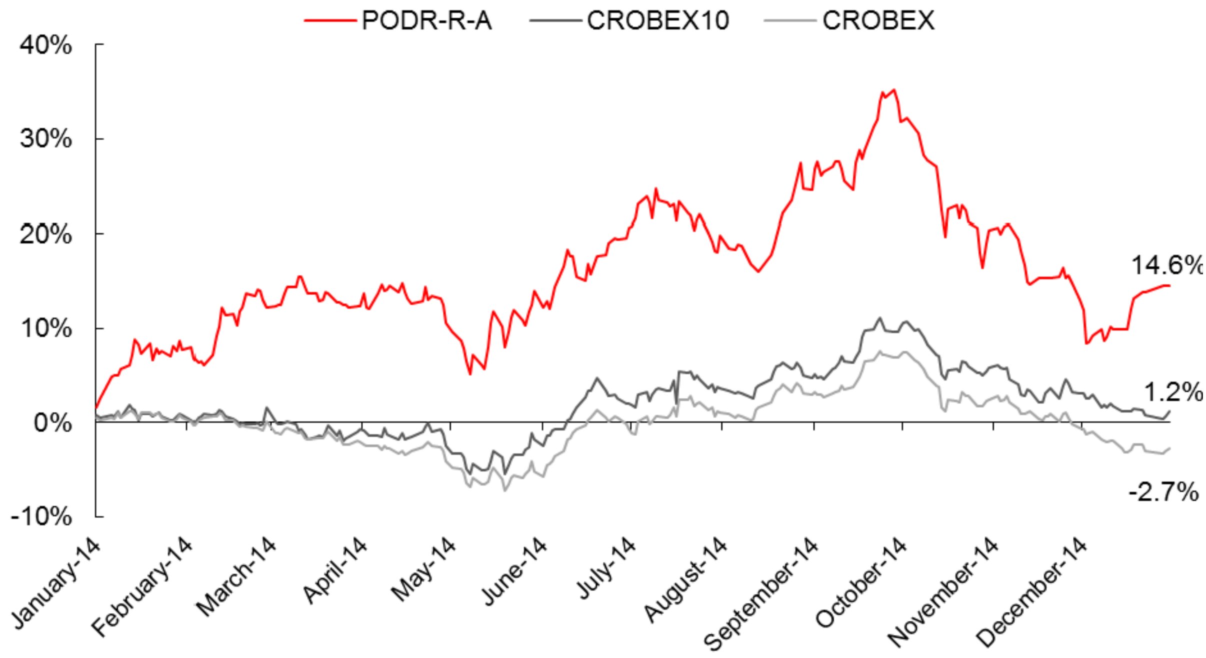
Turnover and average price of Podravka share



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

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

Movement of average daily price of Podravka share and indices CROBEX and CROBEX10[3]



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.

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

Ownership structure

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

*CROATIAN INSTITUTE FOR PENSION INSURANCE

Treasury account status

Considering that during 2014 there were no acquiring or releasing of own shares, on 31 December 2014 the situation was unchanged comparing to the year before, and the number of shares was 177,511 of own shares. On 31 December 2014, Supervisory Board members owned 5 shares of Podravka d.d., while Management Board members owned 1,943 shares of Podravka d.d.

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

Zvonimir Mršić
President of the Management Board

Miroslav Klepač
Member of the Management Board

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 222

Koprivnica, 15 April 2015

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the unconsolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. After making enquiries, the Management Board has a reasonable expectation that the 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 unconsolidated financial statements.

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

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

The Company prepares and issues its annual report in accordance with legal and regulatory requirements.

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

Zvonimir Mršić
President of the Management Board

Miroslav Klepač
Member of the Management Board

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 222

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 15 April 2015

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

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other legal and regulatory requirements

Pursuant to legal and regulatory requirements, management has prepared the annual report set out on pages 1 to 49. Management is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act of the Republic of Croatia. Our responsibility is to express an opinion on the consistency of the information in the annual report with the audited financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act of the Republic of Croatia. In our opinion, the information given in the accompanying annual report for the financial year for which the financial statements are prepared is consistent with those financial statements.

KPMG

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

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

15 April 2015

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

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of HRK)	*Note*	2014	2013
Continuing operations			
Revenue from sales	*8*	1,668,156	1,755,512
Cost of goods sold	*11*	(1,035,843)	(1,128,208)
Gross profit		**632,313**	**627,304**
Other income	*9*	18,069	9,433
General and administrative expenses	*11*	(182,717)	(173,367)
Selling and distribution costs	*11*	(166,133)	(201,269)
Marketing expenses	*11*	(143,336)	(143,125)
Other expenses	*10*	(6,345)	(81,353)
Operating profit		**151,851**	**37,623**
Finance income	*13*	116,782	112,374
Finance expenses	*14*	(45,053)	(57,057)
Net finance income		**71,729**	**55,317**
Profit before tax		**223,580**	**92,940**
Income tax	*15*	(385)	12,621
Net profit for the year from continuing operations		**223,195**	**105,561**
Discontinued operations			
Loss from discontinued operation (net of tax)	*7*	**(21,521)**	**(54,195)**
Total profit		**201,674**	**51,366**
Other comprehensive income		-	-
Total comprehensive income		**201,674**	**51,366**

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

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of HRK)	*Note*	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Intangible assets	*16*	131,250	98,326
Property, plant and equipment	*17*	696,008	693,486
Investments in subsidiaries	*18*	372,392	375,383
Deferred tax assets	*15*	36,966	37,351
Non-current financial assets	*19*	80,234	12,428
Total non-current assets		**1,316,850**	**1,216,974**
Current assets			
Inventories	*20*	322,089	275,241
Trade and other receivables	*21*	640,991	669,730
Cash and cash equivalents	*22*	88,785	72,908
Non-current assets held for sale	*23*	214,007	164,410
Total current assets		**1,265,872**	**1,182,289**
Total assets		**2,582,722**	**2,399,263**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*24*	1,062,160	1,061,182
Reserves	*25*	73,128	21,762
Reserves for reinvested profit	*25*	108,400	-
Retained earnings	*26*	94,176	51,366
Total equity		**1,337,864**	**1,134,310**
Non-current liabilities			
Borrowings	*28*	694,687	527,132
Provisions	*29*	30,539	37,775
Total non-current liabilities		**725,226**	**564,907**
Current liabilities			
Trade and other payables	*30*	329,127	354,638
Financial liabilities at fair value through profit or loss	*27*	2,752	2,709
Borrowings	*28*	167,159	330,791
Provisions	*29*	20,594	11,908
Total current liabilities		**519,632**	**700,046**
Total liabilities		**1,244,858**	**1,264,953**
Total liabilities and shareholders' equity		**2,582,722**	**2,399,263**

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

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of HRK)	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Other reserves	Retained earnings / (Accumulated losses)	Total
As at 1 January 2013	**1,583,958**	**21,762**	**6,849**	**-**	**1,084**	**(531,825)**	**1,081,828**
Comprehensive income							
Profit for the year	-	-	-	-	-	51,366	51,366
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**51,366**	**51,366**
Transactions with owners recognised directly in equity							
Simplified reduction of share capital (note 24)	(542,000)	-	(6,849)	-	(1,084)	531,825	(18,108)
Capital reserves effect of share capital decrease (note 24)	18,108	-	-	-	-	-	18,108
Fair value of share-based payment transactions	1,116	-	-	-	-	-	1,116
Total transactions with owners recognised directly in equity	**(522,776)**	**-**	**(6,849)**	**-**	**(1,084)**	**531,825**	**1,116**
As at 31 December 2013	**1,061,182**	**21,762**	**-**	**-**	**-**	**51,366**	**1,134,310**
Comprehensive income							
Profit for the year	-	-	-	-	-	201,674	201,674
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**201,674**	**201,674**
Transactions with owners recognised directly in equity							
Balance brought forward on merger (note 37)	-	-	-	-	-	902	902
Fair value of share-based payment transactions (note 32)	978	-	-	-	-	-	978
Total transactions with owners recognised directly in equity	**978**	**-**	**-**	**-**	**-**	**902**	**1,880**
Allocation of profits to reserves (note 25)	-	45,842	2,569	-	2,955	(51,366)	-
Transfer from retained earnings for reinvested profit (note 26)	-	-	-	108,400	-	(108,400)	-
	-	**45,842**	**2,569**	**108,400**	**2,955**	**(159,766)**	**-**
As at 31 December 2014	**1,062,160**	**67,604**	**2,569**	**108,400**	**2,955**	**94,176**	**1,337,864**

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

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of HRK)	*Note*	2014	2013
Profit before tax		**202,059**	**38,745**
Depreciation and amortization		76,458	84,985
Impairment of property,plant,equipment and intagibles		-	10,971
Impairment of assets held for sale		13,637	63,561
Change in fair value of financial instruments		43	(4,066)
Dividend income		(110,000)	(100,000)
Share-based payment transactions		978	1,116
Gain on disposal of property, plant, equipment and intangibles		(414)	(123)
Loss on disposal of assets held for sale		1,767	-
Impairment (write-off) of loans given and interest receivable		1,500	-
Impairment losses on trade receivables		1,373	26,576
(Decrease)/increase in provisions		824	(832)
Interest income		(6,782)	(8,308)
Interest expense		43,343	48,811
Impairment of investments		200	34,271
Foreign exchange differences		1,667	8,246
Changes in working capital:		**226,653**	**203,953**
(Increase)/Decrease in inventories		(42,798)	18,535
Decrease in receivables		2,393	25,068
Increase/(decrease) in payables		25,000	(1,603)
Cash generated from operations		**211,248**	**245,953**
Income tax paid		(161)	-
Interest paid		(45,370)	(49,913)
Net cash from operating activities		**165,717**	**196,040**
Cash flows from investing activities			
Incorporation of subsidiary		(2)	(20)
Increase of investments in subsidiaries		(375)	(16,775)
Purchase of equity instruments		(1,413)	-
Purchase of property, plant, equipment and intangibles		(113,749)	(40,553)
Purchase of assets held for sale		(81,380)	-
Proceeds from sale of property, plant, equipment and intangibles		1,979	448
Proceeds from sale of assets held for sale		301	-
Loans given		(30,371)	(15,862)
Proceeds from loans given		61,883	39,729
Interest received		11,405	13,178
Dividends received		25,000	-
Merger of subsidiaries, net of cash acquired		2,398	-
Net cash from investing activities		**(124,324)**	**(19,855)**
Cash flows from financing activities			
Proceeds from borrowings		885,236	146,933
Repayment of borrowings		(910,752)	(291,258)
Net cash from financing activities		**(25,516)**	**(144,325)**
Net increase/(decrease) of cash and cash equivalents		**15,877**	**31,860**
Cash and cash equivalents at beginning of year		72,908	41,048
Cash and cash equivalents at the end of year	*22*	**88,785**	**72,908**

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

The Company's shares are listed on the official market of the Zagreb Stock Exchange. The shareholder structure is shown in note 24.

Corporate governance and management

General Assembly

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

President	Jakša Barbić

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

Supervisory Board

Members of the Supervisory Board in 2014:

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

Management Board during 2014:

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

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

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

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

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

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

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Investments in subsidiaries

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

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

3.2 Non-current assets held for sale and discontinued operations

Non-current assets held for sale

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

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

Discontinued operations

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 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 Company's activities. Revenue is shown, net of value-added tax, returns, volume rebates and trade discounts.

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

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

The Company manufactures and sells its own products and distributes third-party merchandise in the wholesale market. Sales of goods are recognised when the Company has delivered the products to the wholesaler, there is no continuing management involvement over the goods, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

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

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

(iii) Revenue from services

Sales of services, such as private label production, are recognised in the accounting period in which the services are rendered, by reference to stage of completion 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)

3.4 Leases

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the 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 retained by the Company are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Sale and leaseback transactions

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

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income 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)

3.5 Foreign currency transactions

Transactions and balances in foreign currencies

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

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

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

3.6 Borrowings and borrowing costs

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

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the statement of income in the period incurred.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions associated with them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the unconsolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.8 Dividends

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

3.9 Segment reporting

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

A segment represents a separable part of the Group either as a part engaged in providing products or services (business segment) or as a part engaged in providing products or services within a particular economic environment (geographical segment) that is subject to risk and benefits that differ from those of other segments.

At the consolidated level, based on the internal reporting structure, the Company monitors the following segments:

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Taxation

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss 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 income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax assets and liabilities

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of 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) Tax exposures

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

(iv) Value added tax (VAT)

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Property, plant and equipment

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

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

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

Buildings	10 to 50 years
Equipment	3 to 30 years

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

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

Gains and losses on disposals are determined as the difference between the income from the disposal and the 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)

3.12 Intangible assets

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

Brands and distribution rights

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

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

Computer software

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

Internally-generated intangible assets - research and development expenditure

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Impairment of non-financial assets

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

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 of the underlying asset.

3.14 Inventories

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

The cost of work-in-progress and finished goods 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 margins).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Trade receivables

Trade receivables are recognised initially at cost which is equal to the fair value at the moment of recognition and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

3.16 Cash and cash equivalents

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

3.17 Share capital

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

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

3.18 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

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

(iii) Regular retirement benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Employee benefits (continued)

(iv) Long-term employee benefits

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

(v) Short-term employee benefits

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

(vi) Share-based compensation

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

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.

3.19 Provisions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Financial assets

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

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at that value.

A financial asset is classified as held for trading if:

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Financial assets (continued)

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

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

3.21 Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Derecognition of financial liabilities

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

NOTE 4 – NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations have been released and are effective but not mandatory for the year ended 31 December 2014 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. It is not expected that these standards will have a significant effect on the unconsolidated financial statements of the Company.

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 below.

(i) Deferred tax assets recognition

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

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 29).

(iii) Consequences of certain legal actions

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

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

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

Where the Company is a plaintiff in a particular court case, any economic benefits expected to flow to the Company as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits. Provisions for the Company’s obligations arising legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 29).

(iv) Recoverability of trade and other receivables

The recoverable amount of trade and other receivables is estimated at present value of future cash flows discounted at the market interest rate at the measurement date. Short-term receivables with no stated interest rate are measured by the amount of original invoice if the effect of discounting is not significant. The Company regularly reviews the ageing structure of trade receivables and monitors the average collection period.

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

Critical judgements in applying accounting policies (continued)

(iv) Recoverability of trade and other receivables

In cases where debtors with extended payment periods (generally above 120 days) are identified, the Company reduces the related credit limits and payment days for future transactions and, in cases where it deems it necessary, imposes restrictions on future transactions until the outstanding balance is repaid either entirely or in part. In cases where the Company identifies receivables toward debtors which have entered into pre-bankruptcy or bankruptcy proceedings, an impairment loss is immediately recognised in full.

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

(v) Impairment testing for brands and rights

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

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

Brands

Brands relate to acquired rights of use of logos, trademarks and brand names which the Company allocates to business segments in accordance with internal categorisation of products to which the specific brand relates 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 Company annually performs impairment tests in order to assess whether the recoverable amount of brands indicates potential impairment of their carrying amount whereby the primary focus is on brands where the difference between the recoverable amount and the carrying amount indicates a significant sensitivity to changes in key variables used in impairment testing. The calculation of the recoverable amount of brands is based on five year plans for sales of products and categories which comprise a certain brand and which the Company developed bearing in mind its corporate and marketing strategy, trends on relevant markets where the brands are sold (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2%. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for brands as the weighted average cost of capital for the primary market the brand is sold on and the food industry. In cases where brands are sold to a significant extent on several different markets with different risk profiles and characteristics, the cash flows from each of the relevant markets are discounted using the weighted average cost of capital applicable to each particular market.

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

As a result of the impairment tests for brands, during 2014 the Company incurred no impairment losses relating to brands while during 2013 the Company recognised impairment losses in the amount of HRK 10,300 thousand relating to Warzywko and HRK 671 thousand relating to the brand Lero (liquid and powdered drinks) which was written-off in full as at 31 December 2013. A decrease in the terminal growth rate from 2% to 0% would not result in an impairment of the brand Warzywko while the increase in weighted average cost of capital from 9.06% to 10.56% would result in an impairment loss of HRK 1,435 thousand. Impairment tests for brands Čokolešnik, Eva and Piketa do not indicate a possible impairment bearing in mind realistic and reasonably probable changes in key variables.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(vi) Impairment of property, plant and equipment

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

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

During 2014 and 2013, there were no impairment losses with respect to production facilities other than those related to discontinued operations as explained below.

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

During 2014 the Company recognized HRK 11,185 thousand of impairment losses related to production facilities which are part of discontinued operations (segment "Beverages"). During 2013, the Company recognized a total of HRK 29,321 thousand of impairment losses on assets held for sale which are part of discontinued operations and HRK 34,240 thousand with respect to other assets held for sale mainly relating to impairment losses on investments in subsidiaries held for sale.

(vii) Impairment of investment in subsidiaries

The Company annually performs impairment tests for investments in subsidiaries where indications for exist, based on the results of a static analysis of the Company's exposure compared to the net assets of the subsidiary. For investments identified as such, the Company estimates the recoverable amount and compares it with the carrying amount. The calculation of the recoverable amount is generally based on five year business plans for the respective subsidiaries which the Company developed bearing in mind its corporate and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) with respect to the applicable business segment and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period ranging from 1% to 2%. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for brands as the weighted average cost of capital for the respective market and industry (in case of investments in subsidiaries in Croatia where the Company has the most significant exposure this discount rate amounted to 9.53%).

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(vii) Impairment of investment in subsidiaries (continued)

As a result of the impairment tests performed, the Company incurred no impairment losses with respect to investment in subsidiaries during 2014, while during 2013 the Company recognised impairment losses amounting to HRK 17,496 thousand with respect to investments in Danica d.o.o., and HRK 16,755 thousand with respect the subsidiary Podravka d.o.o., Belgrade. The sensitivity analysis indicates that an impairment loss with respect to the investment in subsidiary Danica d.o.o. amounting to HRK 8,393 thousand would occur if the terminal growth rate decreases by 50 basis points (assuming an unchanged weighted average cost of capital), while an increase in the weighted average cost of capital by 50 basis points would result in an impairment loss in the amount of HRK 12,662 thousand (assuming an unchanged terminal growth rate).

NOTE 6 – DETERMINATING FAIR VALUES

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

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

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

Fair values are categorised into different 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 Company has made the following significant fair value estimates statements as further explained in detail in following notes:

- note 7: Discontinued operations
- note 19: Non-current financial assets
- note 23: Non-current assets held for sale
- note 27: Financial liabilities at fair value through profit and loss
- note 32: Share-based payments

NOTE 7 – DISCONTINUED OPERATIONS

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

Depreciation expense relating to discontinued operations amounts to HRK 988 thousand (2013: HRK 12,732 thousand). During 2014, the Company recognised an impairment loss from discontinued operations amounting to HRK 11,185 thousand (see note 5(vi)). The impairment loss is presented within other expenses from discontinued operations. During 2014, the Company did not have expenses in the statement of comprehensive income for discontinued operations with respect to termination benefits for employees (2013: HRK 1,621 thousand). During 2013, the Company recognised HRK 29,321 thousand relating to the write-down of the value of the disposal group to the lower of its carrying amount and its fair value less costs to sell. The impairment loss is presented within other expenses from discontinued operations.

Statement of comprehensive income for discontinued operations is as follows:

	Discontinued operation	
	2014	**2013**
	(in thousands of HRK)	
Revenue from sales	87,827	121,347
Cost of goods sold	(59,081)	(98,104)
Gross profit	**28,746**	**23,243**
Operating expenses	(39,082)	(48,117)
Other expenses	(11,185)	(29,321)
Operating loss	**(21,521)**	**(54,195)**
Loss before income tax	**(21,521)**	**(54,195)**
Income tax	-	-
Net loss for the year	**(21,521)**	**(54,195)**
Other comprehensive income	-	-
Total comprehensive loss	**(21,521)**	**(54,195)**

Statement of cash flow for discontinued operations is:

	2014	**2013**
	(in thousands of HRK)	
Net cash from operating activities	(5,982)	(7,922)
Net cash from investing activities	(1,288)	(5,945)
	(7,270)	**(13,867)**

NOTE 7 – DISCONTINUED OPERATIONS (CONTINUED)

Disposal group held for sale

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

	2014	2013
	(in thousands of HRK)	
Investment in Studenac d.o.o.	20	20
Land and buildings	32,056	34,258
Equipment	33,499	41,498
Finished goods	4,275	8,325
	69,850	**84,101**

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

Fair value measurement

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

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

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

(i) Fair value hierarchy

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

(ii) Valuation techniques and significant inputs

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

Valuation methods and techniques	**Significant unobservable inputs**
Income capitalisation and comparable values method	Average yield: 13%
For buildings, the valuation model considers the present value of cash flows that the asset could generate from rent taking into account the expected net rent based on comparable transactions. For vacant land, the valuation model considers the real sale values achieved in the sale of comparable land at a similar location.	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.

NOTE 8 – REVENUE FROM SALES

	2014	2013
	(in thousands of HRK)	
Revenue from sale of products and merchandise	1,612,424	1,689,662
Revenue from services	55,732	65,850
	1,668,156	**1,755,512**

NOTE 9 – OTHER INCOME

	2014	2013
	(in thousands of HRK)	
Grant income	993	1,668
Interest income relating to trade receivables	4,103	2,864
Revenue from the sale and leaseback transaction	8,813	4,354
Profit on disposal of property, plant, equipment and intangibles (note 16 & 17)	414	123
Income from reversal of legal provision	2,480	424
Foreign exchange gains on receivables and payables	1,266	-
	18,069	**9,433**

Grant income relates to non-refundable government grants for livestock and agriculture. Interest income relating to trade receivables relates to statutory penalty interests collected by the Company. Revenue from the sale and leaseback transaction relates to the leaseback of production facilities in Umag for which deferred income amounting to HRK 15,422 thousand is outstanding as at 31 December 2014 (note 30) and which is expected to be realised by 30 September 2016.

NOTE 10 - OTHER EXPENSES

	2014	2013
	(in thousands of HRK)	
Write-off of related party loans	-	1,594
Interest expense relating to trade payables	426	217
Trade foreign exchange differences	-	60
Impairment loss on brands (note 16)	-	10,971
Impairment of investments	200	34,271
Impairment loss of assets held for sale (note 23)	2,452	34,240
Loss on disposal of assets held for sale	1,767	-
Other	1,500	-
	6,345	**81,353**

NOTE 11 – EXPENSES BY NATURE

	2014	2013
	(in thousands of HRK)	
Raw material, supplies and energy	583,480	589,947
Staff costs	379,282	390,756
Cost of goods sold	272,438	317,452
Advertising and promotion	113,838	114,833
Depreciation	75,492	72,250
Services	63,997	57,056
Changes in value of inventory	(21,371)	272
Rental costs	17,170	21,435
Transport	12,779	20,580
Taxes and contributions independent of operating results	7,868	7,970
Impairment of trade and other receivables	1,373	26,576
Bank charges	1,966	2,089
Packaging waste disposal fee	2,109	1,435
Daily allowances and other business travel expenses	7,322	6,687
Telecommunications	4,299	5,310
Entertainment	5,334	4,660
Other expenses	653	6,661
Total costs of good sold, costs of sale and distribution, costs of marketing and general and administrative costs	**1,528,029**	**1,645,969**

NOTE 11 – EXPENSES BY NATURE *(continued)*

Following table shows the reconciliation of costs of goods sold:

	2014	2013
	(in thousands of HRK)	
Raw material and supplies	582,767	636,467
Cost of goods sold	272,563	318,504
Staff costs	163,569	174,075
Depreciation	44,033	57,212
Production services	12,571	17,647
Taxes and contributions independent of operating results	8,370	8,611
Other expenses (transport, rent, education etc.)	11,051	13,796
	1,094,924	**1,226,312**
Cost of goods sold - discontinued operation	59,081	98,104
Cost of goods sold - continued operation	**1,035,843**	**1,128,208**

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

	2014	2013
	(in thousands of HRK)	
Cost of goods sold	44,033	47,595
Marketing expenses	170	272
Selling and distribution costs	9,568	5,098
General and administrative expenses	21,720	19,284
	75,492	**72,250**

Staff costs allocated to each function are as follows:

	2014	2013
	(in thousands of HRK)	
Cost of goods sold	153,821	163,075
Marketing expenses	19,173	18,873
Selling and distribution costs	87,711	96,670
General and administrative expenses	118,577	112,136
	379,282	**390,756**

NOTE 12 – STAFF COSTS

	2014	2013
	(in thousands of HRK)	
Salaries	316,144	335,982
Termination benefits	43,315	35,915
Transportation	5,219	5,821
Share options (note 32)	978	1,116
Other employee benefits	13,626	11,922
	379,282	**390,756**

As at 31 December 2014 the number of staff employed by the Company was 2,884 (2013: 3,166).

In 2014 a total of HRK 34,409 thousand was paid with respect to termination benefits for 261 employees and another HRK 8,906 thousand was accrued and will be paid in the beginning of 2015 (2013: HRK 37,536 thousand for 302 employees including HRK 1,621 with respect to discontinued operations).

NOTE 13 – FINANCE INCOME

	2014	2013
	(in thousands of HRK)	
Interest on related party loans	5,875	7,853
Interest on term deposits	665	336
Dividends income from related parties	110,000	100,000
Other interest	242	119
Unrealized gains on swap contracts	-	4,066
	116,782	**112,374**

NOTE 14 – FINANCE EXPENSES

	2014	2013
	(in thousands of HRK)	
Interest expense and similar charges	43,343	48,811
Unrealized loss on swap contracts	43	-
Net foreign exchange loss on borrowings	1,667	8,246
	45,053	**57,057**

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

Due to the significant exposure to interest rate risk inherent to floating rate borrowings, the Company hedges the interest rate risk with respect to the syndicated loan facility using derivative financial instruments (interest rate swap). Following the refinancing of borrowings, the Company entered into a new interest rate swap agreement with a commercial bank during 2014, whereby it swapped the floating interest rate (3M EURIBOR) with a fixed interest rate of 0.40% (for details see note 27). The Company recognizes the interest rate swap at fair value through profit or loss, whereby gains are recognized within finance income and losses within finance expenses.

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

NOTE 15 – INCOME TAX

Tax expense/(income) consists of:

	2014	2013
	(in thousands of HRK)	
Current income tax	-	-
Deferred tax expense/(benefit)	385	(12,621)
	385	**(12,621)**

Reconciliation of the effective tax rate

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

	2014	2013
	(in thousands of HRK)	
Profit before taxation	**202,059**	**38,745**
Tax calculated at 20% (2013:20%)	40,412	7,749
Non-taxable income	(22,030)	(20,002)
Non-deductible expenses	2,618	12,009
Tax incentives (research and development, education and other)	(425)	(645)
Temporary differences and tax losses not recognised as deffered tax assets	5,447	2,915
Utilisation of temporary differences previously not recognised as deferr. tax assets	(6,247)	(6,878)
Tax incentive for reinvested profit	(19,390)	-
Utilisation of tax losses previously not recognised as deferred tax assets	-	(7,769)
Tax expense/(income) recognised in the statement of comprehensive income	385	(12,621)
Effective tax rate	**0%**	**-33%**

Unused tax losses

In accordance with tax regulations, as at 31 December 2014 the Company has unused tax losses in the amount of HRK 17,427 thousand (2013: HRK 5,166 thousand). These tax losses may be carried forward for five years subsequent to the year in which they were incurred in.

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

	2014	2013
	(in thousands of HRK)	
Unused tax losses available untill 2015	394	-
Unused tax losses available untill 2017	5,581	5,166
Unused tax losses available untill 2019	11,452	-
	17,427	**5,166**

As a result of merger of subsidiaries, the Company acquired unused tax losses in the amount of HRK 809 thousand.

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets arose from the following:

2014	Opening balance	Recognised in profit or loss	Closing balance
	(in thousands of HRK)		
Intangible assets – brand	20,183	-	20,183
Non-current assets held for sale	6,273	4,547	10,820
Provisions for jubilee awards	1,719	(90)	1,629
Value adjustment of inventories	2,532	(764)	1,768
Provision for termination benefits	1,554	(21)	1,533
Value adjustment of investments	4,057	(4,057)	-
Unutilised tax losses carried forward	1,033	-	1,033
	37,351	**(385)**	**36,966**

2013	Opening balance	Recognised in profit or loss	Closing balance
	(in thousands of HRK)		
Intangible assets – brand	17,989	2,194	20,183
Non-current assets held for sale	-	6,273	6,273
Provisions for jubilee awards	1,617	102	1,719
Value adjustment of inventories	2,948	(416)	2,532
Value adjustment of investments	423	3,634	4,057
Provision for termination benefits	1,753	(199)	1,554
Unutilised tax losses carried forward	-	1,033	1,033
	24,730	**12,621**	**37,351**

Subsequent to the merger of the subsidiaries into the Company during 2014, the basis for recognising deferred tax assets has changed in a way that the deferred tax assets arising from the impairment of investments and recognised in 2013 in the amount of HRK 4,057 thousand is now recognised based on the impairment of non-current assets held for sale.

Deferred tax assets recognised with respect to impairment losses on intangible assets and investments do not expire as they are utilised in the moment of realisation of the respective assets.

Deferred tax assets on long-term provisions for employee benefits (jubilee awards, termination benefits) will be realised in a period longer than one year while the remainder of deferred tax assets is considered short-term deferred tax assets.

NOTE 16 – INTANGIBLE ASSETS

(in thousands of HRK)	Software	Distribution rights	Brand	Investments in progress	Total
Cost					
At 1 January 2013	153,061	12,000	169,239	579	334,879
Additions	-	-	-	8,084	8,084
Transfers	5,677	-	-	(5,677)	-
Transfer to property, plant and equipment	(3,164)	-	-	-	(3,164)
Disposals	(208)	-	-	-	(208)
At 31 December 2013	**155,366**	**12,000**	**169,239**	**2,986**	**339,591**
Accumulated amortisation					
At 1 January 2013	(117,350)	(12,000)	(89,945)	-	(219,295)
Charge for the year	(11,644)	-	-	-	(11,644)
Disposals	208	-	-	-	208
Transfer to property, plant and equipment	437	-	-	-	437
Impairment losses	-	-	(10,971)	-	(10,971)
At 31 December 2013	**(128,349)**	**(12,000)**	**(100,916)**	**-**	**(241,265)**
Carrying amount					
As at 31 December 2013	**27,017**	**-**	**68,323**	**2,986**	**98,326**
Cost					
At 1 January 2014	155,366	12,000	169,239	2,986	339,591
Additions	-	-	-	51,006	51,006
Transfer from property, plant and equipment	-	-	-	422	422
Transfers	5,925	29,410	11,789	(47,124)	-
Merger of subsidiaries	249	-	-	-	249
Transfer to property, plant and equipment	(258)	-	-	-	(258)
Disposals	(348)	-	-	-	(348)
At 31 December 2014	**160,934**	**41,410**	**181,028**	**7,290**	**390,662**
Accumulated amortisation					
At 1 January 2014	(128,349)	(12,000)	(100,916)	-	(241,265)
Charge for the year	(11,753)	(6,535)	-	-	(18,288)
Disposals	348	-	-	-	348
Merger of subsidiaries	(249)	-	-	-	(249)
Transfer to property, plant and equipment	42	-	-	-	42
At 31 December 2014	**(139,961)**	**(18,535)**	**(100,916)**	**-**	**(259,412)**
Carrying amount					
As at 31 December 2014	**20,973**	**22,875**	**80,112**	**7,290**	**131,250**

Accumulated amortization and impairment losses include a total of HRK 100,916 thousand relating to accumulated impairment losses (2013: HRK 100,916 thousand).

Intangibles in progress mostly relate to licence agreements.

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

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment and fittings	Assets under construction	Total
Cost				
At 1 January 2013	1,388,891	1,019,346	55,023	2,463,260
Additions	5	313	32,151	32,469
Transfer from intangible assets	3,164	-	-	3,164
Transfers	14,551	27,335	(41,886)	-
Transfer to non current assets held for sale (i)	(118,886)	(181,327)	-	(300,213)
Disposals	(3)	(13,517)	(35)	(13,555)
At 31 December 2013	**1,287,722**	**852,150**	**45,253**	**2,185,125**
Accumulated depreciation				
At 1 January 2013	(845,091)	(774,344)	(2,850)	(1,622,285)
Charge for the year	(34,806)	(38,535)	-	(73,341)
Transfers from intangible assets	(437)	-	-	(437)
Disposals	-	12,790	-	12,790
Transfer to non current assets held for sale (i)	55,307	135,887	-	191,194
Impairment losses	440	-	-	440
At 31 December 2013	**(824,587)**	**(664,202)**	**(2,850)**	**(1,491,639)**
Carrying amount				
As at 31 December 2013	**463,135**	**187,948**	**42,403**	**693,486**
Cost				
At 1 January 2014	1,287,722	852,150	45,253	2,185,125
Additions	-	-	62,743	62,743
Transfers	2,586	40,211	(42,797)	-
Balance brought forward from merger (ii)	9,777	75	-	9,852
Transfer to intangible assets	-	-	(422)	(422)
Transfer from intangible assets	-	258	-	258
Transfer to non current assets held for sale (i)	-	-	(1,288)	(1,288)
Transfer from assets held for sale (i)	1,380	1,063	-	2,443
Disposals	(535)	(18,333)	(3,613)	(22,481)
At 31 December 2014	**1,300,930**	**875,424**	**59,876**	**2,236,230**
Accumulated depreciation				
At 1 January 2014	(824,587)	(664,202)	(2,850)	(1,491,639)
Charge for the year	(28,579)	(29,591)	-	(58,170)
Balance brought forward from merger (ii)	(9,113)	(57)	-	(9,170)
Disposals	539	17,527	2,850	20,916
Transfers from intangible assets	-	(42)	-	(42)
Transfer from non current assets held for sale (i)	(1,380)	(737)	-	(2,117)
Reversal of impairment losses	-	-	-	-
At 31 December 2014	**(863,120)**	**(677,102)**	**-**	**(1,540,222)**
Carrying amount				
As at 31 December 2014	**437,810**	**198,322**	**59,876**	**696,008**

There are no impairment losses included within the total amount of accumulated depreciation (*2013: HRK 2,850 thousand*).

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

NOTE 17 – PROPERTY, PLANT AND EQUIPMENT *(continued)*

(i) Transfer to and from assets held for sale

During 2014 the Company transferred property, plant and equipment with a carrying amount of HRK 1,288 thousand to assets held for sale (2013.: HRK 109,019 thousand of which HRK 105,077 thousand relates to the carrying amount of assets of the disposal group held for sale while the remainder relates to other equipment). In addition, the Company transferred equipment with a carrying amount of HRK 326 thousand from assets held for sale as the equipment will be used in the Company's production facilities.

(ii) Merger of companies

During the year the Company merged five subsidiaries in the course of which it acquired property, plant and equipment in the net amount of HRK 682 thousand (note 37).

Mortgaged assets

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

Land and buildings of the Company with a carrying amount of HRK 313,151 thousand (2013: HRK 380,984 thousand) are pledged as collateral against the Company's borrowings.

Assets held under finance leases

The Company does not have assets acquired under a finance lease agreement.

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

NOTE 18 – INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country	Ownership interest in% 2014	Ownership interest in% 2013	Equity share in thousands of HRK 2014	Equity share in thousands of HRK 2013	Principal activity
Belupo d.d., Koprivnica	Croatia	100.00	100.00	157,830	157,830	Production and distribution of pharmaceuticals
Danica d.o.o., Koprivnica	Croatia	100.00	100.00	84,720	84,720	Meat processing and production
Ital-Ice d.o.o., Poreč *(merged in 2014)*	Croatia	-	100.00	-	-	Ice-cream production
KOTI Nekretnine d.o.o., Koprivnica *(merged in 2014)*	Croatia	-	100.00	-	3,328	Services
Podravka Inženjering d.o.o., Koprivnica *(merged in 2014)*	Croatia	-	100.00	-	20	Services
Poni trgovina d.o.o., Koprivnica *(merged in 2014)*	Croatia	-	100.00	-	20	Sale of goods
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	68,754	68,754	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	100.00	49,717	49,717	Seasonings manufacture and sale
Podravka-International Kft, Budapest	Hungary	100.00	100.00	5,343	5,343	Sale and distribution of food and beverages
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	1,925	1,925	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100.00	100.00	-	-	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	100.00	1,068	1,068	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution of food and beverages
Podravka d.o.o., Montenegro	Montenegro	100.00	100.00	1,029	1,029	Sale and distribution of food and beverages
Podravka International, Turkey *(closed in 2014)*	Turkey	-	75.00	-	-	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	100.00	98.88	801	426	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100.00	100.00	-	-	Wafers
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	84	84	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia & Herzegovina	100.00	100.00	40	40	Sale and distribution of food and beverages
Podravka International e.o.o.d., Sofia *(closed in 2014)*	Bulgaria	-	100.00	-	-	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100.00	100.00	3	3	Sale and distribution of food and beverages
Podravka d.o.o., Moskva	Russia	100.00	-	2	0	Sale and distribution of food and beverages
				372,392	**375,383**	

NOTE 18 – INVESTMENTS IN SUBSIDIARIES (CONTINUED)

During 2014, the Company merged its subsidiaries Lero d.o.o., Ital-ice d.o.o., KOTI Nekretnine d.o.o., Podravka Inženjering d.o.o. and Poni trgovina d.o.o. The merger of subsidiaries did not have a significant impact on the financial statements of the Company *(note 37).*

During 2014, the subsidiaries Podravka - International e.o.o.d. Sofia and Podravka International Turkey were closed as they did not have any significant activities. This did not have a significant impact on the financial statements of the Company. During 2014, the Company established a new subsidiary Podravka d.o.o. with headquarters in Moscow (Russia).

In 2013, the Company recognised an impairment loss of HRK 17,496 thousand relating to its investment in Danica d.o.o. Also, during 2013 the Company increased its investment in subsidiary Podravka d.o.o., Beograd in the amount of HRK 16,775 thousand for the purpose of covering accumulated losses and accordingly impaired this investment.

NOTE 19 – NON-CURRENT FINANCIAL ASSETS

	2014	**2013**
	(in thousands of HRK)	
Loans to related companies	73,250	7,583
Loans to third parties	4,103	3,537
Deposits and other	1,468	1,308
Other investments	1,413	-
	80,234	**12,428**

Loans to related parties relate to long-term portion of loans to the subsidiaries Belupo d.d. in the amount of HRK 60,000 thousand and Danica d.o.o. in the amount of HRK 13,250 thousand (HRK 7,583 thousand with respect to Danica d.o.o. in 2013) (note 33).

Loans to third parties bear an average variable interest rate of 5%.
Deposit and other mainly relate to finance lease deposits which do not bear interest.

Investments in other equity instruments in the amount of HRK 1,413 thousand relate to the investment in shares of Mirna d.d. Rovinj which is listed on the Zagreb Stock Exchange, but for which there is no active market (for more details concerning this investment see note 36).

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 20 – INVENTORIES

	2014	**2013**
	(in thousands of HRK)	
Raw materials and supplies	117,406	96,958
Advances given	-	5,441
Work in progress	27,484	22,928
Finished goods	109,764	93,502
Merchandise	67,435	56,412
	322,089	**275,241**

In 2014, inventory impairment provision in the amount of HRK 3,820 thousand was released (2013: HRK 2,081 thousand) as the Company managed to sell the impaired inventories at higher prices than expected. The movement in inventory impairment provision is included in the statement of comprehensive income in line item ‘Cost of goods sold’.

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2014	2013
	(in thousands of HRK)	
Current receivables		
Trade receivables	256,099	273,574
Less: Provisions for impairment	(81,966)	(79,383)
Net trade receivables	**174,133**	**194,191**
Related party trade receivables	251,626	270,894
Provision for related party trade receivables	-	(3,043)
Receivable for dividend	110,000	100,000
Loans and interest receivable from related parties	54,673	86,711
Loans receivable	1,752	-
Bills of exchange received	476	5,515
Advances to suppliers	30,665	-
Prepaid expenses	8,375	8,334
Net VAT receivable	5,106	4,661
Receivables from employees	568	726
Other receivables	3,617	1,741
	640,991	**669,730**

Loans given to related parties include short term loans and current portion of long term loans given to related parties (refer to note 33).

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

	2014	2013
	(in thousands of HRK)	
At 1 January	82,426	58,799
Balance brought forward on merger	7,850	-
Increase	1,373	26,576
Amounts collected	(2,034)	(1,275)
Written off as uncollectible	(7,649)	(1,674)
At 31 December	**81,966**	**82,426**

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

Ageing analysis of trade receivables past due but not impaired:

	2014	2013
	(in thousands of HRK)	
Up to 90 days	111,528	129,591
91-180 days	15,256	24,219
181-360 days	580	3,807
	127,364	**157,617**

NOTE 22 – CASH AND CASH EQUIVALENTS

	2014	2013
	(in thousands of HRK)	
Cash in banks	88,731	72,853
Cash in hand	54	54
Cheques received	-	1
	88,785	**72,908**

NOTE 23 – NON CURRENT ASSETS HELD FOR SALE

	2014	2013
	(in thousands of HRK)	
Investments	-	75,105
Land and buildings	142,116	3,304
Equipment	2,041	1,900
Disposal group held for sale (*note 7*)	69,850	84,101
	214,007	**164,410**

Investments

Investments in subsidiaries Ital-Ice d.o.o. and Lero d.o.o. classified as held for sale were eliminated by merging the respective subsidiaries into the Company during 2014. At the same time, through the process of merger, the Company acquired land, buildings and equipment in the amount of HRK 61,816 thousand and classified those as non-current assets held for sale.

In year 2013 the Company recognised an impairment loss relating to its investment in Ital-Ice d.o.o. in the amount of HRK 26,000 thousands and in Lero d.o.o. in the amount of HRK 6,200 thousand to reflect the net assets of the respective subsidiaries.

The impairment losses relating to investments and equipment are presented in the statement of comprehensive income within "Other expenses" (note 10).

Land and buildings

As a result of merging its subsidiaries during 2014, the Company recognized an increase in land and buildings classified as non-current assets held for sale in the amount of HRK 57,432 thousand.

Out of this increase, the amount of HRK 49,900 thousand relates to the land of Lero d.o.o. During the year, the Company also acquired additional land in the amount of HRK 81,380 thousand, situated next to the existing land plot, of the merged entity, in order to facilitate the sale of the combined land plot to a known buyer. The value of entire land plot is HRK 131,280 thousand out of the total of HRK 142,116 thousand relating to land and buildings held for sale. Up to the reporting date, the Company received a non-binding purchase offer that does not indicate an impairment of land and buildings and the Company expects to sell the real estate following the expected change in urban plans. The Company is currently in negotiations with the potential buyer.

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

NOTE 23 – NON-CURRENT ASSETS HELD FOR SALE (CONTINUED)

Fair value measurement

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

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

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

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

Land held for sale in the amount of HRK 81,380 thousand is measured at the cost of purchase incurred in 2014 since this is considered an adequate approximation of its fair value.

Equipment held for sale

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

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

Disposal group held for sale

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

NOTE 24 – SHARE CAPITAL

	2014	2013
	(in thousands of HRK)	
Ordinary shares	1,084,001	1,084,001
Share premium	45,763	44,785
Treasury shares	(67,604)	(67,604)
	1,062,160	**1,061,182**

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
		(in thousands of HRK)			
At 1 January 2013	**5,242,492**	**1,626,001**	**25,561**	**(67,604)**	**1,583,958**
Simplified reduction of share capital	-	(542,000)	-	-	(542,000)
Fair value of options	-	-	1,116	-	1,116
Transfer to capital reserves	-	-	18,108	-	18,108
At 31 December 2013	**5,242,492**	**1,084,001**	**44,785**	**(67,604)**	**1,061,182**
At 1 January 2014	**5,242,492**	**1,084,001**	**44,785**	**(67,604)**	**1,061,182**
Simplified reduction of share capital	-	-	-	-	-
Share based payments	-	-	978	-	978
Transfer to capital reserves	-	-	-	-	-
At 31 December 2014	**5,242,492**	**1,084,001**	**45,763**	**(67,604)**	**1,062,160**

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

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

The Employee Share Option Plan is described in detail in note 32 to the unconsolidated financial statements.

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

Structure of ownership	**2014** Number of shares	**2014** % of ownership	**2013** Number of shares	**2013** % of ownership
AUDIO - Croatian Health insurance association	575,598	10.62%	575,598	10.62%
AUDIO - Republic of Croatia	536,259	9.89%	536,160	9.89%
Erste Plavi OMF	514,863	9.50%	514,863	9.50%
AZ OMF	488,106	9.01%	488,106	9.01%
PBZ Croatia osiguranje d.d. OMF	480,921	8.87%	477,957	8.82%
Unicredit Bank Austria AG - custody account	435,910	8.04%	426,041	7.86%
Kapitalni fond d.d.	321,804	5.94%	321,804	5.94%
Raiffeisen OMF	197,766	3.65%	203,266	3.75%
Zagrebačka banka d.d.	118,475	2.19%	-	0.00%
PBZ d.d. The bank of New York as custodian	61,274	1.13%	54,194	1.00%
PBZ d.d. - custody account	58,952	1.09%	98,891	1.82%
PBZ d.d. - custody account	52,877	0.98%	87,103	1.61%
Treasury account	177,511	3.28%	177,511	3.28%
Other shareholders	1,399,687	25.82%	1,458,509	26.91%
Total	**5,420,003**	**100.00%**	**5,420,003**	**100.00%**

NOTE 25 – RESERVES

	2014	2013
	(in thousands of HRK)	
Reserves for treasury shares	67,604	21,762
Legal reserves	2,569	-
Other reserves	2,955	-
	73,128	**21,762**

	Reserves for treasury shares	Legal reserves	Other reserves	Total
(in thousands of HRK)				
At 1 January 2013	21,762	6,849	1,084	29,695
Coverage of losses	-	(6,849)	(1,084)	(7,933)
At 31 December 2013	**21,762**	**-**	**-**	**21,762**
At 1 January 2014	21,762	-	-	21,762
Transfer to reserves	45,842	2,569	2,955	51,366
At 31 December 2014	**67,604**	**2,569**	**2,955**	**73,128**

The legal reserve is required under Croatian law according to which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares are non-distributable. Other reserves mainly relate to (non-distributable) reserves required by the Company’s statute and to foreign operation translation differences.

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

NOTE 25 – RESERVES (continued)

Reinvested profit reserve

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

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

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

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

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

If the share capital increase is not registered by 31 October 2015, the tax incentive will be reversed which would result in a tax expense of HRK 21,680 thousand plus applicable interest. If the Company were to distribute this reserve to shareholders in future periods or reduce its share capital created from the reinvested profits, that transaction would result in reversal of the tax incentive and retroactive recognition of a tax liability starting from the date when the Company's decision to reinvest profits resulted in the respective tax incentive.

NOTE 26 – RETAINED EARNINGS

	2014	**2013**
	(in thousands of HRK)	
Retained earnings	94,176	51,366

The movement in retained earnings / (accumulated losses) is as follows:

	2014	**2013**
	(in thousands of HRK)	
At 1 January	**51,366**	**(531,825)**
- gain for the year	201,674	51,366
- transfer to reserves	(51,366)	531,825
- balance brought forward on merger (note 37)	902	-
- transfer to reserves for reinvested profit	(108,400)	-
At 31 December	**94,176**	**51,366**

NOTE 27- FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

2014

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

2013

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

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

Fair value measurement

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

NOTE 28 – BORROWINGS

	2014	2013
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	243,913	468,529
Banks in foreign countries	449,612	56,709
Finance lease	1,162	1,894
	694,687	**527,132**
Current borrowings		
Banks in Croatia	76,559	234,550
Banks in foreign countries	89,864	92,678
Finance lease	736	701
Related party borrowings	-	2,862
	167,159	**330,791**
Total borrowings	**861,846**	**857,923**

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

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

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

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

Bank borrowings in the amount of HRK 719,475 thousand (2013: HRK 693,688 thousand) are secured by mortgages over the Company's land and buildings with a carrying amount of HRK 313,151 thousand (2013: HRK 380,984 thousand) and by mortgages over assets of subsidiaries with a carrying amount of HRK 172,835 thousand (note 17).

The finance lease liabilities are as follows:

	Minimum lease payments		Finance cost		Present value of min. lease payments	
	2014	2013	2014	2013	2014	2013
	(in thousands of HRK)					
Up to 1 year	810	808	(74)	(107)	736	701
Between 1 and 5 years	1,190	1,992	(28)	(98)	1,162	1,894
After 5 years	-	-	-	-	-	-
Total	**2,000**	**2,800**	**(102)**	**(205)**	**1,898**	**2,595**

Included in the unconsolidated financial statements within:		
Current borrowings	736	701
Non-current borrowings	1,162	1,894
	1,898	**2,595**

NOTE 28 – BORROWINGS (CONTINUED)

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

	2014	2013
	(in thousands of HRK)	
Between 1 and 2 years	142,301	478,199
Between 2 and 5 years	555,138	51,642
Over 5 years	-	-
	697,439	**529,841**

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

	2014		2013	
	HRK	EUR	HRK	EUR
Non-current borrowings				
Banks in Croatia	3.97%	3.58%	5.19%	4.75%
Banks in foreign countries	-	2.33%	-	3.58%
Finance lease	-	4.08%	-	4.26%
Current borrowings				
Banks	3.88%	-	4.00%	3.72%
Related parties	-	-	7.00%	-

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

	2014	2013
	(in thousands of HRK)	
Kune	307,064	236,341
EUR	557,534	624,291
	864,598	**860,632**

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

The Company has the following undrawn borrowing facilities:

	2014	2013
	(in thousands of HRK)	
Floating rate:		
-Expiring in one year	63,483	55,331
	63,483	**55,331**

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

NOTE 29 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Unused holiday	Retirement benefits	Termination benefits and bonuses	Legal cases	Total
As at 31 December 2013:						
Non-current	7,184	-	7,771	-	22,820	37,775
Current	1,411	5,363	-	4,969	165	11,908
	8,595	**5,363**	**7,771**	**4,969**	**22,985**	**49,683**
Increase/(decrease) in provisions	812	4,868	(110)	48,625	(4,476)	49,719
Utilised during the year	(1,276)	(5,363)	-	(39,378)	(2,878)	(48,895)
Balance brought forward on merger	10	-	6	-	610	626
At 31 December 2014	**8,141**	**4,868**	**7,667**	**14,216**	**16,241**	**51,133**
As at 31 December 2014:						
Non-current	6,794	-	7,667	-	16,078	30,539
Current	1,347	4,868	-	14,216	163	20,594
	8,141	**4,868**	**7,667**	**14,216**	**16,241**	**51,133**

(i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Company which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the unconsolidated statement comprehensive income within 'Administrative expenses'.

Based on the expert opinion of legal advisers, management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2014.

(ii) Termination benefits and bonuses

As at 31 December 2014, the Company recognised HRK 5,310 thousand with respect to provisions for bonuses to key management (2013: HRK 3,962 thousand). Furthermore, during 2014 the Company recognized an expense in the amount of HRK 43,315 thousand relating to payment for early retirement benefits to 317 employees based on a formal workforce restructuring plan.

(iii) Jubilee awards and regular retirement benefits

According to the Collective Labour Agreement the Company has an obligation to pay jubilee awards, retirement and other benefits to its employees. In accordance with the respective agreement, the employees are entitled to a regular retirement benefit (without stimulating retirement benefit) in the net amount of HRK 10 thousand, of which HRK 2 thousand are taxable. No other post-retirement benefits are provided. For employees in Croatia, the Company pays pension contributions on behalf of its employees in accordance with applicable legal regulations. These contributions form the basis of social benefits payable out of the Croatian national pension fund to Croatian employees upon their retirement. The present values of these obligations, the related current service cost and past service cost were measured using the projected credit unit method.

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

	Estimate 2014	2013
Discount rate	3.80%	5.40%
Fluctuation rate	9.36%	8.56%
Average expected remaining working lives (in years)	22	21

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

	2014	**2013**
	(in thousands of HRK)	
At 1 January	16,366	16,849
Current service cost	658	689
Interest expense	554	803
Actuarial (gains) / losses	(494)	(63)
Benefits paid	(1,276)	(1,912)
At 31 December	**15,808**	**16,366**

NOTE 30 – TRADE AND OTHER PAYABLES

	2014	2013
	(in thousands of HRK)	
Trade payables	214,401	226,349
Trade payables to related parties	50,437	41,492
Other liabilities	64,289	86,797
	329,127	**354,638**

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

Other payables include the following:

	2014	2013
	(in thousands of HRK)	
Salaries and other benefits to employees	28,770	29,095
Deferred income (finance lease)	15,422	24,235
Other accrued expenses	10,139	20,524
Package waste disposal fee payable	2,931	2,932
Accrued interest	3,350	5,444
Taxes, contributions and other duties payable	1,765	2,099
Dividends payable	677	681
Other payables	1,235	1,787
	64,289	**86,797**

NOTE 31 – RISK MANAGEMENT

Financial risk management

Categories of financial instruments are as follows:

	2014	2013
	(in thousands of HRK)	
Financial assets		
Trade receivables (including bills of exchange received)	426,235	467,557
Cash and cash equivalents	88,785	72,908
Long-term loans	77,353	11,120
Long-term deposits	1,468	1,308
Short-term loans	56,425	86,711
	650,266	**639,604**
Financial liabilities at amortised cost		
Financial lease liabilities	1,898	2,595
Borrowings	859,948	855,328
Trade and other payables	268,188	273,285
	1,130,034	**1,131,208**
Financial liabilities at fair value through profit and loss		
Interest swap	2,752	2,709
	1,132,786	**1,133,917**

Fair value of financial instruments

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

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

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

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

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

The carrying amounts of finance lease liabilities and loan liabilities approximates their fair values as these liabilities bear variable interest rates or fixed interest rate approximating market interest rates.

Financial liabilities relating to the interest rate swaps are measured at fair value as explained in note 27.

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

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

	2014	2013
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	861,846	857,923
Cash and cash equivalents	(88,785)	(72,908)
Net debt	773,061	785,015
Equity	1,337,864	1,134,310
Net debt to equity ratio	58%	69%

Debt is defined as long-term and short-term borrowings and bonds. Equity includes all capital and reserves of the Company. Besides monitoring the ratio of net debt to equity, the Company also monitors the ratio of consolidated operating profit before depreciation and amortization (EBITDA) and debt as part of its compliance with the terms of the syndicated loan agreement (see note 28). As at 31 December 2014 the Company was within the defined ratio.

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

Credit risk management

Credit risk refers to the risk that counterparties will default on their contractual obligations resulting in a financial loss for the Company. The Company adopted an upgraded “Procedure for collection of due receivables” applied in dealings with customers and it obtains sufficient collateral, where appropriate, as a means of mitigating risks of financial loss from defaults. Furthermore, the Company secured its domestic receivables in order to reduce the risk of potential default.

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

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

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

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

NOTE 31 – RISK MANAGEMENT (continued)

Financial risk management (continued)

Liquidity risk management

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

Liquidity risk analysis

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

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

The Company's analysis below does not show a potential deficit of short term contractual cash flows from financial instruments.

as at 31 December 2014	**Net book value**	**Contracted cash flow**	Up to one year	1 - 5 years	over 5 years
				(in thousands of HRK)	
Non-interest bearing liabilities:					
Interest rate swap	**2,752**	2,752	1,992	760	-
Trade and interest payables	**268,188**	268,188	268,188	-	-
	270,940	270,940	270,180	760	-
Interest bearing liabilities:					
Financial lease liabilities	**1,898**	2,000	810	1,190	-
Loans and borrowings	**859,948**	927,613	192,467	735,146	-
	861,846	929,613	193,277	736,336	-
	1,132,786	1,200,553	463,457	737,096	-
Non-interest bearing assets:					
Trade receivables (including bills of exchange received)	**426,235**	426,235	426,235	-	-
Cash and cash equivalents	**88,785**	88,785	88,785	-	-
	515,020	515,020	515,020	-	-
Interest bearing assets:					
Long-term and short-term loans	**133,778**	151,629	63,988	87,641	-
Long-term deposits	**1,468**	1,468	-	1,468	-
	135,246	153,097	63,988	89,109	-
	650,266	668,117	579,008	89,109	-

NOTE 31 – RISK MANAGEMENT (continued)

Liquidity risk management (continued)

as at 31 December 2013	**Net book value**	**Contracted cash flow**	Up to one year	1 - 5 years	over 5 years
				(in thousands of HRK)	
Non-interest bearing liabilities:					
Interest rate swap	**2,709**	2,709	871	1,838	-
Trade and interest payables	**273,285**	273,285	273,285	-	-
	275,994	275,994	274,156	1,838	-
Interest bearing liabilities:					
Financial lease liabilities	**2,595**	2,800	808	1,992	-
Loans and borrowings	**855,328**	932,907	362,815	570,092	-
	857,923	935,707	363,623	572,084	-
	1,133,917	1,211,701	637,779	573,922	-
Non-interest bearing assets:					
Trade receivables (including bills of exchange received)	**467,557**	467,557	467,557	-	-
Cash and cash equivalents	**72,908**	72,908	72,908	-	-
	540,465	540,465	540,465	-	-
Interest bearing assets:					
Long-term and short-term loans	**97,831**	98,762	87,005	11,757	-
Long-term deposits	**1,308**	1,332	-	1,332	-
	99,139	100,094	87,005	13,089	-
	639,604	640,559	627,470	13,089	-

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. A large majority of the Company's borrowings are at variable rates. The Company uses the interest rate swap for managing interest rate risk (note 27).

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:

	2014	2013
	(in thousands of HRK)	
EURIBOR based bank loans	364,067	140,488
ZIBOR based bank loans	-	73,947
MF bill of exchange based loan	7,917	14,250
EURIBOR based finance lease	1,898	2,595
	373,882	**231,280**

**Ministry of Finance bill of exchange*

*** Prague Interbank offer rate*

Interest rate sensitivity analysis

The sensitivity analyses below is determined based on the exposure to changes in contractual interest rates at the reporting date. For floating rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on floating rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. A 50 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates. The estimated effect of the reasonably possible change in variable interest rates on the Company's result before tax for the reporting periods is as follows:

as at 31 December 2014	**Contractual cash flows**	**up to 1 year**	from 1 to 2 years	from 2 to 5 years	over 5 years
		(in thousands of HRK)			
At currently applicable interest rates	**393,253**	76,671	72,810	243,772	-
At currently applicable interest rates + 50 basis points	**397,336**	77,369	74,148	245,819	-
Effect of increase of interest rate by 50 basis points	**(4,083)**	**(698)**	**(1,338)**	**(2,047)**	-

as at 31 December 2013	**Contractual cash flows**	**up to 1 year**	from 1 to 2 years	from 2 to 5 years	over 5 years
		(in thousands of HRK)			
At currently applicable interest rates	**244,673**	95,369	96,941	52,363	-
At currently applicable interest rates + 50 basis points	**246,413**	96,306	97,425	52,682	-
Effect of increase of interest rate by 50 basis points	**(1,740)**	**(937)**	**(484)**	**(319)**	-

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

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Operational risk management

Market risks

(i) Price risk

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

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

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

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

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

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

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

To minimize these impacts, the procurement function of the Company, through managing the strategic procurement categories and key suppliers, is aiming to develop partnerships with long term suppliers, as well as relationships with new suppliers on the target markets of the EU and third countries, to consolidate purchasing volumes with the aim of strengthening its market position and to reduce procurement costs fully utilising its Commodity Risk Management system and conducting tenders and using new import regulation (triangulation). The Company does not use forward contracts to manage risk of price changes for food raw materials.

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

(ii) Currency risk

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

	Liabilities		**Assets**	
	2014	**2013**	**2014**	**2013**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	638,706	711,850	254,399	287,134
USA (USD)	11,539	6,931	14,262	11,396
Australia (AUD)	-	-	17,261	7,857
Other currencies	609	1,712	7,836	3,460
	650,854	**720,493**	**293,758**	**309,847**

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuations in the exchange rate of Croatian kuna to Euro and the US dollar, since most of the trading on the international market is done in Euro and the US dollar.

The following table details the Company's sensitivity to a 1 % increase in Croatian kuna against the relevant foreign currencies where the Company has significant exposure (EUR, USD and AUD). The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of the Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR exposure		**USD exposure**	
	2014	**2013**	**2014**	**2013**
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) of net result	(3,843)	(4,247)	27	45

	AUD exposure	
	2014	**2013**
	(in thousands of HRK)	
Increase/(decrease) of net result	173	79

NOTE 31 – RISK MANAGEMENT (CONTINUED)

Operational risk management (continued)

Market risks (continued)

Sales function based risks

The Company generates approximately 53.4% (2013: 56.8%) of its revenue on the domestic market, whereas around 46.6% (2013: 43.2%) of the sales are generated on international markets, mainly through related entities. The Company determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets which at the same present the most significant function based risk.

As for domestic operations, the Company expects increased risks associated with maintaining market position due to the expected strengthened entry of competitors. To lessen this effect, the Company aims to further strengthen its competitiveness by increasing productivity, modernising its technology and strengthening its product brands.

The continuation of the economic crisis in the country during 2014 had a negative impact on sales growth opportunities in the domestic market, especially due to falling consumer purchasing power, and consequently increased risk of collectability of receivables.

Therefore, the Company is making efforts through harmonization and optimization of existing pricing policies and price levels for existing markets in the EU / CEE to secure a basis for the continuing successful long-term growth and avoid decrease of profit margins.

NOTE 32 – SHARE-BASED PAYMENTS

Employee share options

Options for the purchase of Podravka d.d. shares were granted to key management of the Company. The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares as per the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the date of option contract signed. Options are acquired separately for each business year.

All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, 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 the key management			
As at 31 December 2010	6,000	Employment until contracted vesting period	31.12.2015
	8,000	Employment until contracted vesting period	31.12.2016
As at 31 December 2011	6,000	Employment until contracted vesting period	31.12.2015
	8,000	Employment until contracted vesting period	31.12.2016
As at 24 February 2012	27,000	Employment until contracted vesting period	31.12.2017
As at 24 February 2012	1,000	Employment until contracted vesting period	31.12.2016
As at 24 February 2012	1,000	Employment until contracted vesting period	31.12.2015
As at 26 June 2012	1,000	Employment until contracted vesting period	31.12.2017
As at 31 December 2012	2,000	Employment until contracted vesting period	31.12.2015
As at 3 January 2013	2,000	Employment until contracted vesting period	31.12.2015
As at 23 December 2013	28,620	Employment until contracted vesting period	31.12.2017
As at 31 December 2013	2,000	Employment until contracted vesting period	31.12.2017
As at 3 October 2014	2,500	Employment until contracted vesting period	31.12.2017
As at 3 January 2013	2,000	Employment until contracted vesting period	31.12.2016
As at 28 December 2014	27,451	Employment until contracted vesting period	31.12.2018
As at 28 December 2014	6,207	Employment until contracted vesting period	31.12.2017
As at 9 October 2014	4,500	Employment until contracted vesting period	31.12.2018
Total	**135,278**		

NOTE 32 – SHARE-BASED PAYMENTS (CONTINUED)

Employee share options (continued)

Fair value measurement

The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Input variables for calculation of fair value:

Share option programme for key management	2014	2013
Fair value at grant date in kuna	78	75
Share price in kuna at grant date (weighted average)	265	255
Exercise price in kuna	276	273
Expected volatility (weighted average)	24%	27%
Expected life (weighted average in years)	4.5	4.5
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds)	5.21%	5.29%

Expense recognised in profit or loss	2014	2013
	(in HRK thousands)	
Equity-settled share-based payment transactions	978	1,116

The exercise price of share options for key management falls within the range HRK 218 to HRK 309. Movement in the number of share options and respective exercise prices is as follows:

	Number of options 2014	Weighted average exercise price 2014	Number of options 2013	Weighted average exercise price 2013
Outstanding at 1 January	108,620	273	76,000	285
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	(17,000)	-	-	-
Granted	43,658	265	32,620	255
At 31 December	**135,278**	**276**	**108,620**	**273**
Exercisable at 31 December	**135,278**		**108,620**	

During 2014 a number of 3,500 share options were distributed retroactively due to significant changes in employment contract terms which have already existed in the 2013 but were formalised in the current year.

As at 31 December 2014, there are 135,278 of outstanding options (2013: 108,620 options). There were no exercised options in 2014 and 2013.

The weighted average exercise price of outstanding options at the year end is HRK 276 (2013: HRK 273).

The weighted average remaining validity of options is 4.5 years at year end (2013: 4.4 years).

NOTE 33 – RELATED PARTY TRANSACTIONS

The Company is in a related party relationship with the company MIRNA d.d., but due to the circumstances described in note 36, the Company has no control over this entity at the reporting date. During 2014, the Company recognised income in the amount of HRK 2,677 thousand with respect to the above mentioned company.

The Company considers that, in the context of IAS 24 *Related party disclosures*, it does not have an immediate related party relationship with any of its shareholders as it believes that no individual shareholder has significant influence on the business decisions of the Company.

Transactions with subsidiaries

REVENUE

	2014	2013
	(in thousands of HRK)	
Revenue from sale of products and merchandise	608,184	616,162
Revenue from services	45,991	55,131
	654,175	**671,293**

	Revenue from sale products and merchandise		Revenue from services	
	2014	**2013**	**2014**	**2013**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Podravka d.o.o., Sarajevo	146,709	154,835	1,630	1,614
Podravka d.o.o., Ljubljana	95,635	101,882	2,457	3,082
Podravka d.o.o., Belgrade	60,674	67,113	703	181
Podravka-Int.Deutschland-"Konar" GmbH	51,151	47,867	219	248
Podravka d.o.o.e.l., Skopje	41,061	42,721	443	485
Podravka-International Pty Ltd, Sydney	34,236	34,619	168	562
Podravka d.o.o., Podgorica	30,878	29,779	710	1,127
Danica d.o.o., Koprivnica	14,773	14,218	18,277	18,799
Podravka-International Inc. Wilmington	37,389	35,518	277	151
Podravka-Polska Sp.z o.o., Kostrzyn	51,346	43,616	2,785	7,822
Podravka-International kft, Budapest	14,824	14,376	746	975
Podravka-International s r.o., Zvolen	15,340	14,134	445	655
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	12,193	11,845	1,104	1,532
Ital-Ice d.o.o., Poreč	-	2,949	30	894
Podravka International Gida Sanayi ve Dis T	-	389	-	-
Belupo d.d., Koprivnica	1,975	301	15,997	16,882
Other companies	-	-	-	122
Total related party sales	**608,184**	**616,162**	**45,991**	**55,131**

NOTE 33 – RELATED PARTY TRANSACTIONS (CONTINUED)

Investment revenue

	2014	2013
	(in thousands of HRK)	
Interest income	5,875	7,853
Dividends from subsidiaries	110,000	100,000
	115,875	**107,853**

EXPENSES

Remuneration to the Management Board members and executives

	2014	2013
	(in thousands of HRK)	
Salaries	23,430	20,845
Termination benefits	1,281	265
Share-based payments (note 32)	978	1,116
	25,689	**22,226**

Key management of the Company comprises the Management Board and executive directors and consists of 28 persons (2013: 29 persons).

During 2014, the Company paid HRK 1,736 thousand to the members of the Supervisory Board (2013: HRK 2,387 thousand).

LOANS RECEIVABLE

Loans receivable:

	2014	2013
	(in thousands of HRK)	
At beginning of year	89,157	141,927
Increase during the year	119,460	13,162
Repayments received	(80,143)	(39,280)
Other changes – write-offs	(920)	(26,637)
Foreign exchange difference	69	(15)
At end of year	**127,623**	**89,157**
Maturity: one year or less	(54,373)	(81,574)
Non-current loans receivable	**73,250**	**7,583**

NOTE 33 – RELATED PARTY TRANSACTIONS (CONTINUED)

The reported receivables from related parties include long-term loans to subsidiaries as follows:

	Interest rate	2014	2013
		(in thousands of HRK)	
Belupo d.d., Koprivnica	7% p.a.	75,000	75,810
Danica d.o.o., Koprivnica	7% p.a.	52,043	11,916
Lero d.o.o., Rijeka	7% p.a.	-	633
Podravka-International USA Inc., Wilmington	7% p.a.	580	511
Podravka Inženjering d.o.o., Koprivnica	7% p.a.	-	287
		127,623	**89,157**

The effective interest rate is 7.00 % p.a.

The maturity of long-term loans is as follows:

	2014	2013
	(in thousands of HRK)	
Between 1 and 2 years	19,160	4,333
Between 2 and 5 years	54,090	3,250
	73,250	**7,583**

BORROWINGS

	Effective interest rate 2014	Effective interest rate 2013	2014	2013
			(in thousands of HRK)	
KOTI Nekretnine d.o.o., Koprivnica	-	7%	-	2,630
Poni trgovina d.o.o., Koprivnica	-	7%	-	232
			-	**2,862**

NOTE 33 – RELATED PARTY TRANSACTIONS (CONTINUED)

TRADE RECEIVABLES AND PAYABLES

	Current trade receivables		Current trade payables	
	2014	**2013**	**2014**	**2013**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Podravka d.o.o., Sarajevo	78,140	78,053	-	3
Danica d.o.o., Koprivnica	17,956	26,362	45,883	23,518
Podravka d.o.o., Belgrade	34,940	32,676	733	13
Podravka d.o.o., Ljubljana	30,113	41,191	8	12
Podravka d.o.o., Podgorica	20,089	17,825	-	-
Belupo d.d., Koprivnica	14,076	14,226	547	325
Podravka d.o.o.e.l., Skopje	12,829	12,663	164	-
Podravka-International Inc. Wilmington	10,965	8,928	507	395
Podravka-International Pty Ltd, Sydney	10,859	7,859	-	-
Podravka-Polska Sp.z o.o., Kostrzyn	7,675	16,725	850	69
Podravka-Int.Deutschland-„Konar“ GmbH	4,870	2,278	52	-
Podravka-International kft, Budapest	2,567	3,137	40	-
Podravka-International s r.o., Zvolen	2,382	2,145	-	-
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	1,401	3,453	1,653	874
Podravka International Gida Sanayi ve Dis T	-	92	-	-
Ital-Ice d.o.o., Poreč	-	197	-	14,495
Podravka Inženjering d.o.o., Koprivnica	-	41	-	337
Lero d.o.o., Rijeka	-	-	-	1,451
Total related party receivables and payables	**248,862**	**267,851**	**50,437**	**41,492**

Relations with other related parties

	2014	2013
	(in thousands of HRK)	
Receivables from Mirna d.d. Rovinj	2,764	-
Investment in Mirna d.d. Rovinj	1,413	-
	4,177	**-**

Receivable for dividend

	2014	2013
	(in thousands of HRK)	
Belupo d.d., Koprivnica	110,000	100,000
	110,000	**100,000**

NOTE 33 – RELATED PARTY TRANSACTIONS (CONTINUED)

OTHER RECEIVABLES

Other interest receivables from related parties

	2014	2013
	(in thousands of HRK)	
Belupo d.d., Koprivnica	-	5,043
Danica d.o.o., Koprivnica	300	68
Podravka Inženjering d.o.o., Koprivnica	-	24
Lero d.o.o., Rijeka	-	2
	300	**5,137**

GUARANTEES AND WARRANTIES

Guarantees and warranties to related companies

	2014	2013
	(in thousands of HRK)	
Danica d.o.o., Koprivnica	78,710	43,056
Belupo d.d., Koprivnica	76,127	53,140
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	27,645	27,842
Podravka d.o.o., Sarajevo	7,834	7,810
Podravka d.o.o., Belgrade	3,498	3,038
Podravka d.o.o., Ljubljana	1,303	1,757
Podravka-International S.R.L., Bucharest	1,039	1,035
Podravka - International Kft, Budapest	766	-
	196,922	**137,678**

NOTE 34 – CONTINGENT LIABILITIES

	2014	2013
	(in thousands of HRK)	
Guarantees – third parties	8,407	8,454
Guarantees – related parties	196,922	137,678
	205,329	**146,132**

Guarantees mainly relate to the potential liability of Podravka d.d. on the basis of Customs Authorities' guarantee, guarantees for concession contract for the extraction of drinking water and mineral water, guarantees for transit procedures, and partly relate to performance guarantees given to customers. With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the unconsolidated statement of financial position as management estimated that, as at 31 December 2014 and 2013, it is not probable that they will result in liabilities for the Company.

NOTE 35 – COMMITMENTS

In 2014, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 6,595 thousand (2013: HRK 15,103 thousand), which are not yet realised or recognised in the statement of financial position.

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

	2014	2013
	(in thousands of HRK)	
Up to 1 year	10,842	12,671
From 1 to 5 years	7,268	10,094
	18,110	**22,765**

NOTE 36 – ACQUISITION OF MIRNA d.d. Rovinj

On 25 August 2014, as part of an out of court settlement procedure, Podravka d.d. acquired 198,209 shares of MIRNA d.d. though a public auction of shares via the trading system of the Zagreb Stock Exchange d.d. representing 53.9% of total issued share capital of that entity. Podravka d.d. acquired the shares of MIRNA d.d. at a price of HRK 38.02 per share totaling HRK 7.5 million. The shares of the entity were voluntary pledged as collateral for loans which Podravka d.d. granted during 2009.

On 29 September 2014, due to the above acquisition of shares and in accordance with the Act on the Takeover of Joint Stock Companies, Podravka d.d. submitted an offer for the takeover of the remaining shares of MIRNA d.d., apart from those under the voluntary pledge, at a price of HRK 38.02 per share. The takeover bid was accepted by seven shareholders whereby Podravka d.d. acquired an additional 37,153 shares amounting to an additional 10.09% of the total issued share capital of MIRNA d.d. Subsequent to this, Podravka d.d. became the owner of 235,362 shares of MIRNA d.d. or 63.95% of the total issued share capital.

On 21 November 2014, the General Assembly of MIRNA d.d. was held whereby former members of the Supervisory Board of MIRNA d.d. were dismissed. Representatives of Podravka d.d. were elected as the new members of the Supervisory Board. Subsequent to the General Assembly of MIRNA d.d., a constitutive resolution of the Supervisory Board of MIRNA d.d. was reached whereby Vladimir Bunić was appointed as the sole member of the management board and the director of MIRNA d.d. while all powers of attorney of the former management board were revoked and repealed.

Subsequently, legal proceedings were initiated based on claims by third parties disputing the public auction over the shares of MIRNA d.d. and the establishment of the voluntary pledge over those shares, as well as the ownership rights over stakes in the entity Mirna Ribolov d.o.o., a subsidiary of MIRNA d.d. Furthermore, in December 2014, the management board of MIRNA d.d. filed for the initiation of a pre-bankruptcy settlement as a result of the bank accounts of MIRNA d.d. being blocked, but the notion was rejected. However, on 29 January 2015, the Commercial Court in Rijeka issued a decision to initiate the process of determining whether the conditions for initiation of bankruptcy against the company MIRNA d.d. exist whereby a temporary administrator was appointed and a hearing scheduled for 30 March 2015.

Although at 31 December 2014 Podravka d.d. held 63.95% of the share capital of MIRNA d.d. together with related voting rights and although it managed the processes of the entity through the appointed management board, due to the significant legal uncertainties with respect to ongoing and pending legal proceedings, the significant restrictions in operating the company in the context of blocked bank accounts and due to the significant administrative uncertainties surrounding the possible initiation of bankruptcy proceedings by which the control over the entity would be taken over by the bankruptcy administrator, Podravka d.d. considers that it has not obtained all necessary prerequisites which would result in the exercise of control over the entity MIRNA d.d. and consequently, the consolidation of that subsidiary into the Group.

The summary of unaudited financial information of the entity MIRNA d.d., Rovinj as at 31 December 2014 were as follows:

	2014	2013
	(in thousands of HRK)	
Statement of financial position		
Non-current assets	122,804	123,275
Current assets	54,262	30,285
Current liabilities	(36,347)	(41,094)
Non-current liabilities	(67,536)	(33,683)
Net assets	**73,183**	**78,783**
Statement of comprehensive income for the period		
Sales revenue	12,020	14,179
Profit / (loss) after tax	(5,623)	497
Other comprehensive income	-	-
Total comprehensive (loss)/ income for the period	**(5,623)**	**497**

NOTE 37 – MERGER OF SUBSIDIARIES

During the year the Company merged the following subsidiaries and the impact on the financial position of the Company is shown below:

(in thousands of HRK)	**Koti Nekretnine d.o.o.**	**Poni d.o.o.**	**Podravka inženjering d.o.o.**	**Lero d.o.o.**	**Ital-Ice d.o.o.**	**Total**
Intangible assets	-	-	249	-	-	249
Acc. depreciation of intangible assets	-	-	(249)	-	-	(249)
Property, plant and equipment	9,777	-	75	-	-	9,852
Acc. depreciation of PPE	(9,113)	-	(57)	-	-	(9,170)
Deferred tax assets	-	-	4	-	-	4
	664	**-**	**22**	**-**	**-**	**686**
Non-current assets held for sale	-	-	-	52,780	9,036	61,816
Gross receivables	-	6,621	441	2,432	11,957	21,451
Impairment of receivables	-	(6,621)	-	(1,144)	(85)	(7,850)
Other receivables	14	2	8	1	40	65
Short-term loans given to related parties	2,630	232	-	-	-	2,862
Cash	293	390	22	21	1,672	2,398
	2,937	**624**	**471**	**54,090**	**22,620**	**80,742**
Total assets	**3,601**	**624**	**493**	**54,090**	**22,620**	**81,428**
Provisions	-	-	(16)	-	(610)	(626)
	-	**-**	**(16)**	**-**	**(610)**	**(626)**
Trade payables	(1)	-	(48)	(7)	(15)	(71)
Other payables	(3)	-	(93)	(200)	(437)	(733)
Borrowings	-	-	(287)	(633)	-	(920)
	(4)	**-**	**(428)**	**(840)**	**(452)**	**(1,724)**
Share capital	(3,328)	(20)	(20)	(86,388)	(26,953)	(116,709)
Statutory and other reserves	-	-	-	-	(8,868)	(8,868)
(Retained earnings)/accumulated losses	(153)	(498)	(403)	32,708	14,395	46,049
(Profit)/loss	(116)	(106)	374	430	(132)	450
	(3,597)	**(624)**	**(49)**	**(53,250)**	**(21,558)**	**(79,078)**
Total payables and equity	**(3,601)**	**(624)**	**(493)**	**(54,090)**	**(22,620)**	**(81,428)**
Net assets	3,597	624	49	53,250	21,558	79,078
Investment in subsidiary	3,328	20	20	53,250	21,558	78,176
Equity effect	**269**	**604**	**29**	**-**	**-**	**902**

NOTE 38 – EVENTS AFTER THE REPORTING PERIOD

The decision on the merger of subsidiary

On 25 February 2015 the Management Board issued a decision to merge the subsidiary Danica mesna industrija d.o.o. Koprivnica in a way that the entire assets and liabilities will be transferred to the acquiring company based on closing financial statements.

According to the above mentioned decision, the acquiring company and the merged subsidiary will conclude a merger agreement that will become valid upon the approval of the Assembly of the merged company.

Assets and liabilities of the merged company will be transferred to the acquirer at the moment of the registration of the merger at the Commercial Court in Varaždin.

Gaining control over the company MIRNA d.d.

At the hearing related to the determination of conditions for initiation of bankruptcy proceedings over the company MIRNA d.d. held on 30 March 2015 at the Commercial Court in Rijeka, it was determined that reasons for initiation of bankruptcy proceedings over MIRNA d.d., Rovinj no longer exist and that the decision to discontinue the bankruptcy proceedings under Article 53.st.9. Bankruptcy Act is to be passed in writing.

As the majority owner of MIRNA d.d., Podravka d.d. directly settled a considerable amount of the debts of MIRNA d.d. and provided guarantees for the settlement of the remaining debts which were recorded in the register of FINA.

As a result of the above, the company Mirna d.d. became financially solvent with its bank account being unblocked and therefore the reasons for conducting further bankruptcy proceedings have lapsed.

The Company believes that these events constitute a significant change in circumstances with respect to business decision making and management of the company MIRNA d.d. and that the Company has thus essentially gained control over MIRNA d.d. Accordingly, starting from 31 March 2015, the consolidated financial statements of the Company and its subsidiaries will include the financial position and results of operations and cash flows of the company MIRNA d.d.

Increase of share capital of the subsidiary Belupo d.d.

At the meeting held on April 7, 2015, the General Assembly of the subsidiary Belupo d.d. decided to increase share capital by asset contribution from the parent company Podravka d.d. in the amount HRK 12,815 thousand. At this meeting, the General Assembly also approved the decision to reinvest the profit of the subsidiary in the amount of HRK 53,663 thousand.