PODRAVKA GROUP ANNUAL REPORT FOR 2017

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PODRAVKA GROUP

Important events

APPOINTMENTS OF THE PRESIDENT AND MEMBERS OF THE MANAGEMENT BOARD OF PODRAVKA AND SUPERVISORY BOARDS OF PODRAVKA GROUP COMPANIES

At the General Assembly session held in February 2017, Marko Kolaković, Slavko Tešija, Luka Burilović and Damir Grbavac were appointed members of the Supervisory Board of Podravka d.d. At the same time, members of the Supervisory Board of Podravka d.d. Mato Crkvenac and Ivo Družić were recalled. The term of the appointed members of Podravka d.d. Supervisory Board started as of 21st February 2017 and ends on 7th September 2018. Dubravko Štimac was appointed President of the Supervisory Board of Podravka d.d., and Luka Burilović Deputy President.

In February 2017, new members were appointed to the Management Board of Podravka d.d. as follows: Marin Pucar – the President of the Management Board of Podravka d.d., Ljiljana Šapina – Member of the Management Board of Podravka d.d., Iva Brajević – Member of the Management Board of Podravka d.d. until 30th April 2017 and Hrvoje Kolarić – Member of the Management Board of Podravka d.d.

In May 2017, Davor Doko was appointed Member of the Management Board of Podravka d.d., and in July 2017 Marko Đerek. The Supervisory Board also adopted the decision that the term of the President Marin Pucar and all Members of the Management Board be prolonged until 23rd February 2022. Thereby, the Management Board gained trust and full support to continue with strengthening market positions in the domestic as well as in foreign markets where the Podravka Group has been present for many years. Goals of the present Management Board include increasing efficiency of the overall operations and continuing positioning of Podravka as the trendsetter in the segment of product innovation and modern technological solutions.

Marin Pucar, Petar Miladin and Davor Doko were appointed as new members to the Supervisory Board of Belupo d.d., and Marin Pucar was also appointed the President of the Supervisory Board of Žito d.o.o.

NEW BELUPO FACTORY OPENED - THE BIGGEST CROATIAN GREENFIELD INVESTMENT

The President of the Croatian Government Andrej Plenković opened the new Belupo factory in Koprivnica, the biggest greenfield investment in the Republic of Croatia in 2017, in the construction and equipment of which HRK 530 million were invested. In addition to the state-of-the-art technology and process organisation in line with the latest standards of good manufacturing practice, this factory represents one of the most advanced pharmaceutical plants in the region which, in addition to 1,386 existing employees opened another two hundred new jobs. The newly-opened production lines will increase the production capacity by 150 percent compared to the existing one, and ensure an annual production of 100 million of packages of drugs.

The new factory has two production facilities. The first facility will produce solid drugs - tablets and capsules in blister packs or bottles. The other facility will produce semi-solid and liquid drugs - creams, ointments, solutions, syrups, suspensions, lotions and suppositories. These two production facilities fully cover the Belupo drugs portfolio and provide opportunities for producing new forms and formats.

The Agency for Medicinal Products and Medical Devices of Croatia issued the production permit to Belupo, confirming that the factory of solid, semi-solid and liquid drugs fulfils all legal requirements related to the premises, equipment, employed staff and documentation, and that all principles of good manufacturing practice are applied. The production permit covers all Belupo's newly constructed plants, which allows the drugs produced in the new factory to be put on market. In addition to the production permit, Belupo was also issued a new Good Manufacturing Practice (GMP) Confirmation, representing the assurance that all manufacturing procedures for drugs and/or tested drugs are in line with good manufacturing practice and the production permit. Thus Belupo once again proves it is a pharmaceutical company that complies with the highest European regulatory standards and ensures safe, efficient and top-quality drugs for patients.

INVESTMENT CYCLE IN MIRNA D.D. ROVINJ WORTH APPROXIMATELY HRK 45 MILLION

In the year when Mirna Rovinj marks 140 years of operation, an investment cycle worth approximately HRK 45 million in the new line for processing and production of sardine, mackerel and tuna is being finalised. As Podravka bases its development on strong brands and top-quality products, the investment enables consolidating the production of fish brands in a single location, but also the growth and development of producing top-quality fish products in Mirna.

"WE KNOW WHERE WE ARE GOING, BECAUSE WE KNOW WHERE WE COME FROM" – 70TH ANNIVERSARY OF PODRAVKA

In 2017, Podravka celebrated 70 years of business. The message "We know where we are going because we know where we come from", the banner of the birthday campaign, highlights Podravka's values, tradition, traceability, contribution to the Croatian economy and society, as well as the link with consumers around the world.

Podravka builds the quality and competitiveness of its products, which are distributed to over 60 markets across the world, on domestic origin of raw materials, with investment in research and development and new knowledge, following technologies and trends.

The President of the Republic of Croatia, as well as many other guests from public life and Podravka's business partners, were present at the jubilee ceremony.

PODRAVKA MARKS 50 YEARS OF OPERATIONS IN RUSSIAN MARKET

The Russian market became the first export market of Podravka in 1967. First products on this large and significant market were Vegeta, Podravka chicken soup with noodles and beef soup. They gained trust among consumers very quickly, and were soon followed by a whole range of soups in bags and cubes, baby food, ajvar, tomato-based products, frozen vegetables, pâtés, etc. Today, the Podravka Group earns significant sales revenues in this market from food and pharmaceutical products, and is present across the Russian Federation – from Kaliningrad to Far East.

50 YEARS OF KALNIK FACTORY UNDER PODRAVKA

The quality of Podravka's vegetables largely depends on Kalnik Factory where the majority of the vegetable range is processed and produced. In addition to vegetables, Kalnik also produces condiments. After becoming a part of Podravka in 1967, Kalnik's strong development and significant investments in the vegetables production, but also in new lines, began. Due to investments, in only a few years, Kalnik increased the production volumes by almost 100 percent. Over the years, with significant investments, many new products have been launched that were at the time well accepted by consumers, and which are present until today. Raw materials suppliers for Kalnik Factory are primarily family cooperatives and small family farms organisationally covered by the production organisers. Kalnik Factory is a great example of how Podravka supports domestic agricultural production, as the basis for the long-term sustainability of Croatian production and creating competitive advantages.

VISIT OF THE CROATIAN PRESIDENT TO PODRAVKA

The President of the Republic of Croatia, Kolinda Grabar-Kitarović, visited Podravka.

"Podravka is the standard bearer of our food industry. It was bringing memories of home to us who spent some time abroad. On my part, within the economic diplomacy I conduct as part of state visits and economic forums, I will continue to work on the promotion of the company's products. I will do this in close cooperation with Podravka's management", President Kolinda Grabar-Kitarović said on this occasion.

Marin Pucar, the president of the Management Board of Podravka, emphasised the President's continuous support to Podravka's export plans and entering foreign markets.

PODRAVKA'S INNOVATION OF SALT SUBSTITUTE PRESENTED

Podravka presented its own innovation, salt substitute with 35 percent less sodium compared to the regular kitchen salt. According to World Health Organisation's recommendations on the reduction of daily salt intake, Podravka's research and development sector in cooperation with an external partner conducted research and developed own salt substitute that due to its contents balances the flavour of food and dishes and represents a simple and efficient solution for the process of reformulating the contents of conventional products, without compromising the flavour.

COOPERATION AGREEMENT BETWEEN THE MINISTRY OF VETERANS' AFFAIRS AND PODRAVKA

The Ministry of Veterans' Affairs and Podravka signed the Cooperation Agreement for the purchase of Croatian veterans cooperatives' products for Podravka's processing needs in the 2018-2020 period. In addition to the business cooperation with veterans' cooperatives, Podravka will also provide expert support in agricultural production from the beginning of the vegetation period to harvest, with respect to education, ensuring production materials and supervision of production and product quality.

DIVIDEND DISTRIBUTED TO PODRAVKA'S SHAREHOLDERS

Following the proposition of the Podravka's Management Board, the General Assembly adopted the decision on the dividend distribution to shareholders of Podravka d.d. in the gross amount of HRK 7.00 per share, due to Podravka's net profit for 2016 in the amount of HRK 179,321,686.91. The dividend was paid on 30th August 2017, in the total amount of HRK 48.6 million.

STIMULATION PAYMENTS FOR PODRAVKA'S EMPLOYEES

Podravka paid stimulation to its employees for results achieved in 2016, allocating the amount of almost HRK 4 million. The decision on the stimulation payment was made by the Podravka's Management Board of the basis of the Collective Agreement of the Podravka Group for the contribution of employees to the business results in 2016.

MICROSOFT IS PODRAVKA'S PARTNER IN DIGITALISATION PROCESS

The president of the Podravka's Management Board Marin Pucar and Microsoft's president for Central and Eastern Europe Don Grantham, agreed partnership on the project of Podravka's digital transformation. The global cooperation of Podravka and Microsoft begins on the Coolinarika project, alongside the development of other innovative solutions and business models based on new technologies.

"The partnership with Microsoft, one of the biggest technological companies in the world, begins a new digital era of Podravka's business. Podravka has been the trendsetter in the food industry in the segment of innovation and modern technological solutions, and the cooperation with Microsoft is the biggest step towards the digital transformation and strong digital competitiveness of Podravka at the global level", the president of Podravka's Management Board Marin Pucar said.

CONTINUED INTERNATIONALIZATION OF PODRAVKA – DISTRIBUTION AGREEMENT WITH MAJOR QATARI DISTRIBUTER

By signing the agreement with the company Arabian Supplies, Podravka gained a strong partner that enables it to enter all selling points in Qatar and long-term business development in one of the key markets of the Middle East and North Africa region.

NEW INFORMATION SYSTEM ENABLES FULL INTEGRATION OF ŽITO INTO PODRAVKA GROUP

In March 2016, the introduction of the SAP information system in Žito began, which was successfully completed in September 2017. The introduction was aimed at lower costs, better connection with the parent company, better control, reducing the risk of dependence on external subcontractors and reducing data security risks, and a higher level of transparency and simpler reporting.

STRENGTHENING OF PODRAVKA AND BELUPO SYNERGY IN DEVELOPING NEW PRODUCTS

The Management Boards of Podravka and Belupo decided that Podravka's Nutraceutics sector becomes a part of the Belupo's organisational scheme. The Nutraceutics service, whose project assignments are the development of new groups of products, in the pharmaceutical, as well as in the food segment, will operate within the sector of Business development and registrations. Nutraceutics was founded two years ago for the purpose of a better use of synergy effects of the two core segments, food and pharmaceuticals. The experts of Nutraceutics in the previous period launched Nutrixa, liquid food rich in calories and proteins with added fibres for a complete, balanced diet. This is food for special medical purposes, intended for the dietary needs of patients with malnutrition or at risk of its occurrence. It may be used as the sole food source or as food supplement, and is provided only under medical supervision.

NEW PRODUCTION LINE IN KALNIK FACTORY IN VARAŽDIN

Since April 2017, sterilized chickpeas are produced in Kalnik Factory in Varaždin, on a new modern production line for sterilised vegetables. The standard of finished product safety, the capacity and high cost efficiency of the production process were increased, which enabled the development of new products and returning a part of the vegetables range from outsourcing to own production. The beginning of the production of chickpeas in Varaždin is the continuation of a beautiful and successful story that began on the same model in 2014 and was completed in 2016, by transferring more than 3,000 tonnes of the growing range of canned brown, red and white beans from outsourcing to own production.

PODRAVKA BREAKS RECORDS IN PURCHASES OF FIRST-CLASS TOMATO AND WHEAT

Podravka's Vegetable factory in Umag, for the purpose of own production, processes tomato coming from Croatian fields from around 70 subcontractors, and what is especially important is the record-high share of first-class tomato with 5 percent dry substance. Podravka's factory for processing tomato in Umag, unique in Croatia, can annually process 12,000 tonnes of tomato. Apart from the domestic market, Podravka distributes tomato-based products to the markets of Poland, Bosnia and Herzegovina, Slovenia and Serbia. In 2017, Podravka also purchased from domestic producers more than 15 thousand tonnes of wheat, which exceeded the quality of the last-year's wheat, when the purchase included 75 percent of first and second class wheat.

JUBILEE 20TH TOMATO DAY HELD IN UMAG

Organized by Podravka, the City of Umag and the Tourist Board of the City of Umag, the 20th Tomato Day was held in Umag. This charity and culinary project for twenty years attracts attention of numerous tomato fans and wider public. It gathers leading experts and farmers who share experience on recent trends in the production, selection, treatment and processing of tomato. In the evening, the Tomato Festival was held, which is traditionally a charity event. This year funds were raised for the purchase of a radiological device for Health Centre in Umag.

PODRAVKA AT THE 20TH MOSTAR ECONOMY FAIR

Since the beginnings of the Mostar Fair, Podravka understands the strategic importance of participation, and contributes to the abundance of offer and attractiveness of this internationally recognized event. Marking the jubilee confirms the significance of the event, and the excellence of the

Mostar Fair lies in opportunities it offers to entrepreneurs and exhibitors to present their products and company's products, to get to know each other, make deals and exchange experience.

PODRAVKA SIGNED DIVERSITY CHARTER

The Diversity Charter is a document signed by business and other organizations for the purpose of promoting diversity as a core value of modern society which enables long-term success. On behalf of Podravka, the Charter was signed by the president of the Management Board, Marin Pucar, whereby Podravka joined around thirty Croatian companies and organisations committed to implementing policies of diversity and non-discrimination in their working and business environment. Diversity enables the fulfilment of each person's full potentials, and the policy of diversity and non-discrimination in the workplace is a precondition for the development of creativity, innovation and individual talents.

TRADITIONAL ANNUAL PENSIONERS' MEETING HELD

In 2017, Podravka once again organized the annual meeting of its pensioners and employees with jubilee years of service. Podravka is the only company in Croatia which organizes this kind of annual meetings for its former and jubilee employees to thank them for their contribution to the company's success. At the beginning of the meeting, guests were greeted by Marin Pucar, the president of Podravka's Management Board, who thanked them for valuable work they have built in the achievement of business results of the Podravka Group.

PODRAVKA GROUP'S EXPOSURE TO MAJOR CUSTOMER IN ADRIA REGION

As of 10 April 2017, the extraordinary administration over companies in the Agrokor Group headquartered in Croatia was initiated and Podravka pays special attention to monitoring its exposure in operations with these companies. As at 10 April 2017, receivables of Podravka d.d. from Agrokor companies in the Croatian market amounted to HRK 136.7 million. In the extraordinary administration procedure, Podravka claimed receivables in the total amount of HRK 97.4 million, of which HRK 60.9 million is for bills of exchange related to goods sold (the Podravka Group had no financial exposure to the Agrokor Group in terms of loans given, etc.). The extraordinary administration accepted 99.3% of the claimed receivables, while the remaining portion relates to receivables that were recorded in Podravka after 9 April 2017. As at 31 December 2017, receivables of Podravka d.d. from Agrokor companies in the Croatian market amounted to HRK 101.2 million, of which HRK 57.9 million related to "border debt", HRK 6.1 million to "old debt", while the remaining portion relates to receivables from regular operations. In line with available relevant information on the settlement within the extraordinary administration procedure, Podravka d.d. estimated the recoverability of the claimed receivables and recognised value adjustment of receivables in the amount of HRK 44.1 million.
In 2017, the Podravka Group successfully controlled its exposure to Agrokor companies, especially on the Croatian market where additional security measures were agreed with a simultaneous shortening of payment terms.

The most significant negative impact on sales and profitability came from the market of Slovenia, where in November 2016 the product range was narrowed and Žito Group bakery products changed shelf positions. In the market of Bosnia and Herzegovina, the Podravka Group intentionally decreased its exposure to Agrokor companies, which resulted in lower sales. In the market of Serbia, due to inability to collect receivables, in the first three quarters of 2017 the Podravka Group often suspended deliveries even for longer time periods, which also resulted in reduced exposure. In the market of Montenegro, a revenue growth was recorded in 2017, coupled with reduced exposure.

REDEFINING BUSINESS MODELS ON MARKETS OF AFRICA, MENA AND CHINA

Analyses performed by Podravka d.d. management determined that operations on the markets of Africa, MENA and China are not sustainable because since 2015 they have continuously departed from business plans on which the business decision to invest in these markets was grounded. Cash expenditure for these markets since the beginning of 2015 is estimated at HRK 150 million, while at the same time revenue of slightly over HRK 20 million was recorded. The estimated total negative result on three HUB's in 2017 amounts to HRK 27.6 million on the EBITDA level, or HRK 51.6 million on the net profit level, which negatively impacted the Food segment profitability.

Consequently, the Management Board of Podravka adopted decisions related to operations on these markets, so at the end of 2017 the cost of value adjustment of assets for the company in Africa in the amount of HRK 16.3 million, the value adjustment cost for the company in MENA in the amount of HRK 1.3 million and provision expense for closing the representative office in China of HRK 1.3 million were recorded.

REFINANCING BORROWINGS UNDER MORE FAVOURABLE TERMS

In April 2017, the Podravka Group refinanced borrowings of HRK 95.0 million under more favourable commercial terms, while in July 2017 additional HRK 132.5 million of borrowings were refinanced under more favourable commercial terms. In December 2017, more favourable commercial terms were agreed for EUR 37.2 million borrowing used for the construction of the new Belupo factory.

STRICTER CONTROL OF INVESTMENTS IN 2017

For the purpose of a better cash flow management, a stricter control of investments in 2017 was introduced. The investment plan for 2017 amounted to HRK 325.8 million, while only necessary HRK 206.2 million were realised.

RESEARCH AND DEVELOPMENT

Podravka d.d. Research and Development

TEACHING BASE IN EDUCATION OF YOUNG PEOPLE

For many years, Podravka's Research and Development has been the teaching base for the Faculty of Food Technology and Biotechnology of the University of Zagreb, Faculty of Food Technology of the University of Osijek and Secondary School in Koprivnica. The activity is aimed at vocational practice, visits of students and pupils to Podravka's facilities, visits by teachers, cooperation in professional and scientific work and teaching classes. Podravka's Research and Development is a part of the system of the Ministry of Science and Education of the Republic of Croatia.

RESEARCH AND DEVELOPMENT PROJECTS AND INNOVATION

The company's investment in research projects in the area of finding solutions for reducing salt content in products in 2017 was marked by continuation of activities in the commercialisation phase. The application of the original and patentable ingredient of the salt mixture with reduced sodium content in the meat programme of semi-durable and durable products in the Croatian market, created a new range of products with the "25% less salt" label. The products are intended for customers who care about health, especially salt intake, as salt/sodium is directly linked to a number of chronic non-communicable diseases such as high blood pressure, heart diseases, obesity, etc. Experts from the Research and Development published the results of their research to international scientific audience in scientific papers and as invited presenters at the 15th Annual Food Innovative Summit in Amsterdam and the 5th International Congress of Nutritionists in Zagreb.

In 2017, two research and development projects were signed with the Faculty of Food Technology of the University of Osijek, in the field of the application of Podravka's patentable ingredient in the development of dairy products with reduced salt content and in the application of food processing by-products as ingredients in the development of products with added value.

The innovation cycle continued through the strategic project of the development of products for the markets of Western Europe, the USA, Canada and Australia. The project's goals are aimed at repositioning of the existing products in the market and developing new products and new product platforms.

PODRAVKA'S NUTRITIVE STRATEGY - RESULTS

The development of new products according to the nutritive profile is in line with the goals of the company's Nutritive Strategy regarding the reduction of salt, sugar and fat and/or enrichments with health-friendly ingredients (probiotics, proteins, fibres, etc.) and the Croatian Strategic plan for the reduction of excessive kitchen salt intake and other national and global recommendations and policies. As the regional food industry leader, Podravka continues its activities in the innovation cycle of contents of its products in the following period as well.

PROCESS INNOVATIONS

Informatization of business processes started in 2015 was continued in 2017: continued implementation of the project SAP module RDM (Recipe Development Module), initiated in order to achieve more efficient documentation management, but also to create preconditions for distance sales. At the beginning of 2017, an innovative project was finalised, aimed at creating preconditions for shortening the label texts control time as part of the product development, by applying a completely innovative IT tool, tailored for Podravka.

Belupo d.d. Research and Development

The most important tasks of Research and Development in 2017 were related to the overall efforts by the entire Belupo to finish the construction, equipment and qualification of the newly-built extension of production plants. The employees of Research and Development intensely worked on tasks related to the validation of cleaning, and technology transfer and process validation tasks are still in progress. Thereby the employees of Research and Development contributed to the remarkable success of Belupo in 2017 – successful GMP inspection by HALMED and obtaining the production licence for the entire production site, including the new extensions.

During 2017, Belupo launched to the market products with effects on the respiratory system, Naxil and Naxil Forte effervescent tablets that specifically disintegrate mucus and thereby facilitate expectoration; Belodin A Derm, the product for skin application that relieves itching caused by dermatoses, hives, insect bites, sunburns and surface burns; and Nutribel Complex, the product from the range of food for special medical purposes specifically intended for oncological patients.

New products Podravka

The Vegeta brand in the Adria region stepped into the world of monospices with the new Vegeta Maestro line. By rebranding monospices from Podravka into Vegeta Maestro, Vegeta strengthens its position as a culinary brand that encourages culinary inspiration, and expands the blue shelf block at sales points. On the other hand, the Maestro brand in the Slovenian market in its new design aims to position itself as a modern, optimistic brand for young people. Modern design and range of carefully selected spices are tailored for young consumers and global culinary trends. In addition to innovation in the spices range, the Culinary business unit sees the continuation of the innovation cycle also in the soups range. For the MENA region markets, onion and lentil soups have been created, adapted to the taste preferences of local consumers. Podravka bouillons, as one of the Podravka's key categories, come to store shelves and consumers' tables with new, redesigned "free-from" recipes based on Podravka's nutritive strategy, as well as in refreshed design that emphasises the pleasure in the recognizable Podravka soup flavour. This innovation is aimed at market development by attracting new consumers, and at further strengthening of Podravka's market positions within the soups category.

In the Baby food, sweets and snacks business unit Podravka responds to current market trends through the redesign of Kviki snacks. By emphasising the information important to consumers and communication on the label "baked, not fried" consumers' search for a "healthier" snack product is facilitated. Filled Dolcela muffins with coconut represent a fusion of favourite chocolate muffins and the popular coconut flavour. Dolcela muffins filled with vanilla cream and lemon cream also represent innovation in the cake mixes segment. Čokolino, the flavour familiar to several generations, shined in a new and innovative packaging design. Made in papercut technique, representing the fusion of paper cutting skill and modern illustration, the design significantly improved the visibility of Čokolino on shelves and additionally highlighted the brand and its functional advantages.

In the tomato subcategory, within the Podravka food business unit, the new design of Passata emphasises the communication of the origin of domestic Istrian tomato and key functional benefits. Processing within 24 hours from harvest contributes to the product's top quality. The product has only one ingredient, fresh processed tomato (no added salt, no additives, source of lycopene). Emphasizing important information enables differentiation that will make choice of product easier for consumers, according to the criteria they find most important.

In the Meat products, meat solutions and savoury spreads business unit, the subcategory cracklings, a well-known traditional product, got their snack variant. By added various flavours in the convenient "on-the-go" packaging, the product approaches young consumers and represents an interesting snack full of flavour and pleasure, for any occasion. In the market of Switzerland, Corned beef has been launched, a brand new product in Podravka's meat range. It is made of the highest quality beef and contains 85% of cooked chopped and salted beef. The combination of natural spices and salt gives it a rounded flavour of extraordinary juiciness and nutritive values make this product an ideal choice for those who consider a balanced diet rich in protein.

During 2017, the portfolio of the Žito business unit was extended by many new products. Novelties include new Mistica Wellness chocolates, new flavours and new packaging of 1001 CVET teas, new flavours of risotto bases and three-coloured rice mix Zlato Polje, bio spelt couscous, new BIO Natura products – bio oatmeal and quinoa cereals and a mixture of ancient grains flour. New products also include new flavours with redesigned packaging of pralines and new Gorenjka chocolate dressing, Žito toast with hemp, classic and rustic breadsticks, Vrtanek special bread, spelt doughnut and chocolate cake with orange. The exclusive New Year line of Gorenjka chocolate cakes and sponge cakes was put on shelves in December. In 2017, novelties in the candy category were also launched, such as Šumi fruit jelly, a unique product on the market combining 2 flavours in one jelly candy. The Herbe segment was expanded with two soft candies: Herba original and Herba ice ginseng.

The largest segment of the Žito business unit is bakery in which, by innovative products, Žito justified its leading position on the Slovenian market. One of the most significant novelties in the bakery segment is the new bread Krušnik, characterized by the traditional shape, and its name comes from the pot in which bread was kept after baking. Also, customers were offered bread from 100% Slovenian wheat.
The toast category is expanded by a new product, Toast with hemp, in line with dietary trends and customers' demands for products with added value. In autumn, the new packaging and new flavours of breadsticks were presented, where rustic breadsticks were added to the existing varieties: classic and with added olives. All breadsticks have added olive oil and are without palm oil.

The range of Zlato polje pastas was extended in the special segment with two new products: shells with nettle and three-colour pasta, combining beet, gourd and nettle pastas. In 2017, Žito also launched a new line of Gorenjka dark chocolates – Gorenjka Wellness. This line is characterized by a high percentage of cocoa with added "superfood". At the end of the year, Gorenjka traditionally launched products in the festive, New Year's design.

New products Belupo

In 2017, Belupo obtained approvals for putting on market a total of 99 products. In Croatia, 19 new approvals were issued, and 80 on international markets. Of newly-registered products, until the end of 2017, 12 new products were launched, of which 4 products on the Croatian, and 8 products on international markets. Other products will be on the market in the first and second quarters of 2018. During 2017, Belupo has introduced into the production programme a total of 10 new products with new active substances, which were not part of the portfolio until now. In Croatia, 8 new active substances/brands (14 approvals) were introduced in the portfolio, and 7 new active substances/brands (25 approvals) were introduced in the portfolio of international markets.

Naxil and Naxil forte effervescent tablets
Belupo's portfolio of the non-prescription drugs programme was extended with two new medicines introduced to the Croatian market in the third quarter – Naxil 200 mg effervescent tablets and Naxil forte 600 mg effervescent tablets. Naxil and Naxil forte effervescent tablets contain acetylcysteine, which helps in reducing viscosity of bronchial secretion in the respiratory tract for easier expectoration in respiratory system diseases related to productive cough.

Nutribel Complex
In the Croatian market, Belupo's portfolio of enteral nutrition from the prescription drugs programme was extended by a new product for dietary nutrition of oncological patients which was introduced to the market as Nutribel Complex in mid November. Nutribel Complex is a high-calorie, high-protein, nutritionally complete liquid food with added eicosapentaenoic acid (EPA), fibres and medium chain triglycerides (MCT). This is food for special medical purposes, intended for the dietary needs of patients with malnutrition or at risk of its occurrence, especially for oncological patients, cachexia patients and patients with chronic catabolic diseases.

Belodin A Derm 1 mg/g gel
At the end of the previous year, Belupo expanded its already famous Belodin brand with another non-prescription drug, Belodin A Derm 1 mg/g gel. This medicine is used for short-term relief of itching accompanying skin reactions such as rashes, hives, insect bites, sunburns and surface burns (1st degree).

In 2017, Belupo launched the product Maxi Omega for the protection of heart and blood vessels on the Slovakian market. The portfolio on the Slovenian market was added the medical product Belobaza 100 g in an airless pump tube, used for everyday protection and care of sensitive skin in children and adults.
In the Russian market, Belupo launched a new product, Viner chewing ta-

blets for erectile dysfunction treatment. Two new products appeared on the Ukrainian market - Herplex 2 g and Portalak syrup. Herplex cream is an antivirus medicine for local application on skin, for treating cold sores (herpes labialis), skin infection caused by Herpes simplex virus. Portalak syrup is used in the treatment of obstipation, also for stool softening in case of haemorrhoids and after colon surgeries.

Belupo also launched new products on the market of Kazakhstan, where new products from the dermatology segment were launched, already present in other Belupo markets: Herplex cream, Herplex tablets, Belakne cream, Beloderm spray, Neofen spray and Belosalic spray.

In the market of Bosnia and Herzegovina, Betiden gel is a new product in the Belupo's range, used in treating and relieving skin reactions caused by surface burns, insect bites, rashes and sunburns.
Neofen spray and Neofen plus gel were introduced to the market of Ukraine. Neofen gel is a medicine with analgesic and anti-inflammatory effects used locally for the treatment of rheumatic pain, muscle pain, back pain, pain and swellings caused by dislocation, strain and other sport injuries and in neuralgias. Neofen spray contains ibuprofen and is used for alleviation of pain, reduction of swellings and inflammations and it causes cooling sensation in painful spots.

In the markets of the Czech Republic and Slovakia, Belupo presented a new product, Pregabalin, belonging to the group of medicines used for the treatment of epilepsy, neuropathic pain and generalized anxiety disorder (GAD)) in adults.

REGISTRATION DECISIONS

In 2017, Belupo registered a total of 94 drugs (prescription and non-prescription drugs) and 9 products in the category of dietary supplements, cosmetic products, medicinal products and food for special medical purposes on 15 markets (Croatia, Slovenia, the Czech Republic, Slovakia, Poland, Bosnia and Herzegovina, Macedonia, Serbia, Montenegro, Albania, Russia, Ukraine, Uzbekistan, Kazakhstan and Botswana). Most of them are registered in the group of drugs with effect on the central nervous system (23 drugs), drugs with effect on the urogenital system (15), musculoskeletal system (12), with effect on the skin (9), with effect on the respiratory system (8), digestive system (6), cardiovascular system (6), and 2 drugs for the treatment of systemic infections. Of these, 15 drugs were registered on the Croatian market, 14 of which are in the prescription drugs and 1 in non-prescription drugs status. Most prescription drugs belong to a group of medicines for the treatment of heart and blood vessels, digestive system, nervous system, musculoskeletal system, urogenital system, and medicines with effects on skin. Of the drugs registered in 2017, Belodin A Derm 1 mg/g gel (dimetindene) was launched to the Croatian market at the end of the year. Products from the category of dietary supplements, cosmetic products, medicinal products and food for special medical purposes were approved on 5 markets (Croatia, Slovakia, the Czech Republic, Macedonia and Russia). On the Croatian market in 2017, Nutribel Complex, chocolate flavour, was approved in the category of food for special medical purposes, while Favora primrose, Favora mallow and Favora greater plantain were approved in the category of dietary supplements. Of these products, Nutribel Complex was introduced to the Croatian market in 2017.

Digital innovation

Podravka continuously monitors market trends and needs and successfully adapts to the new, digital era of business. Therefore, 2017 was again marked by the development of communication platforms. The Vegeta brand's range was extended by the new Vegeta Maestro monoscpice range and for the purpose of promoting spices and their benefits, a new platform was launched, www.prstohvat-inspiracije.hr. Also, two new Lino websites were started (www.lino.al and www.coko.lino.si), as well as the new Facebook page – Lino lada in Montenegro (https://www.facebook.com/linoladacg/). Social network profiles Podravka Vegeta Deutschland and Lino lada Montenegro were opened.

Continuous monitoring of global trends reflected in the number of views of the Coolinarika video recipes which are distributed on numerous platforms. More than 200 video recipes were seen by 31 million consumers on Facebook, Instagram, Youtube, websites Coolinarika, Vegeta and Podravka and on 158 city lights in all major shopping centres and squares across Croatia. The trend of importance of video recipes has been recognised, and they are adopted by eight other markets. With 170,000 registered users and more than 445,000 followers on Facebook and 65,000 on Instagram, Coolinarika is definitely one of the strongest, not only websites, but also social networks in the region, and its Facebook profile has an average monthly reach of 1,500,000 users. Facebook and Instagram pages record a strong growth, so Facebook Podravka Croatia has more than 155,000 followers.

The key role of digital competitiveness in successful operations is proved by some of the projects implemented. At the Communication Days, Lino.eu web won the MIXX award for the best web, and two more Podravka's projects were in the MIXX finals – Podravka Facebook in the "Best Social" category and Kvikifunpedia in the "Best Branded Content" category.

RajčiCar is a campaign of innovative creative concept where during the entire harvest season of Istrian tomatoes, consumers could in a way virtually participate in the harvest, trying to guess the amounts of tomatoes picked every week. By launching Lino Viber stickers, in 2017 the strength and importance of mobile chat apps was confirmed. Lino Viber stickers have been, in addition to Croatia, also launched on the market of Bosnia and Herzegovina, Serbia and Macedonia, and during the year, the Lino sticker package was downloaded by over a million people and almost 19 million messages with Lino Viber stickers were sent.

Awards and recognitions

PODRAVKA WON 18 SUPERIOR TASTE AWARDS

All products applied for the international quality assessment in Brussels won prizes, which is the biggest success of Podravka at the prestigious Superior Taste Award competition and the confirmation of the excellence of taste in categories in which they competed. In addition, as many as 5 Podravka's products, the greatest number since Podravka participates in this international quality assessment received the highest grade, 3 STA stars. For the second time, Podravka cream nettle soup, Podravka Urosal bearberry tea and Žito stoletni bread with chia seeds won 3 STA stars, and Podravka cream broccoli and cauliflower soups and Vegeta smoked sweet pepper also received the highest grade.

FOR THIRD CONSECUTIVE YEAR PODRAVKA WAS AWARDED THE EMPLOYER PARTNER CERTIFICATE

For the third consecutive year, Podravka was awarded the Employer Partner Certificate. From year to year Podravka improves human potential management processes and it once again confirmed its dedication to excellence in relations with its employees.

PODRAVKA WON SHINE AWARD – FOR AFFIRMATION OF SOCIALLY RESPONSIBLE BUSINESS AND COMPANY SUSTAINABILITY

Podravka's valuable collection of awards for social responsibility is richer by the SHINE award, awarded for the affirmation of socially responsible business and company sustainability by Good Croatia – Business initiative for the affirmation of socially responsible business and sustainable development with M.E.P. d.o.o. and the Croatian Employers' Association. M.E.P. is active in a responsible way by implementing a number of activities in the society – as an initiator or a participant. It sponsors the activities of associations in the area of safety and in educational activities with the youth.
The SHINE award is awarded to companies that stand out in communicating social responsibility, on their websites and in company's other digital media. Among many social responsibility projects of Podravka, the Lino all-rounder project stands out, which for 12 years gathers school-aged children and through socialising and sports activities encourages their healthy habits and active sport lifestyle.

PULS WON THE ANNUAL AWARD FOR CHARITY WORK

Podravka's Association of volunteers – PULS won the Annual award for charity work of the Ministry for Demographics, Family, Youth and Social Policy. This award is the biggest recognition awarded by the Republic of Croatia for exceptional achievements and contribution to the development and improvement of charity work.

VEGETA AGAIN THE STRONGEST DOMESTIC BRAND IN ADRIA REGION, ACCORDING TO IPSOS SURVEY

The survey by one of the leading global research agencies – Ipsos again confirmed that Vegeta is the strongest domestic brand in the Adria region, which includes the markets of Croatia, Slovenia, Bosnia and Herzegovina and Serbia. The list of TOP50 strongest brands in Croatia also includes other

Podravka's brands: Dolcela, Lino lada and Podravka soup. The international agency Ipsos obtained these results by a thorough survey that includes, depending on a particular country, from 1,000 to 2,000 participants aged 15 to 64 years, of various age, education and gender. The unique "brand score" indicator, which enables comparison of brands from various product categories, measures the market strength of individual brands. The calculation takes into account various aspects of consumers' relations with the brand to find out whether it is well recognised and used by the consumers.

GREAT GLOBAL RECOGNITION FROM POLAND FOR PODRAVKA'S AJVAR

Mintel, one of the most influential global companies for business intelligence, the authority in monitoring and analysing trends in the food and beverages category, analysed the superfood trend in the savoury spreads category on the market of Poland. The best examples included Podravka's hot ajvar, produced from natural ingredients, without preservatives, additives or artificial colours. The listing among the best in this category once again confirmed the quality of Podravka's ajvar.

GREEN FROG AWARD FOR IMPROVEMENT IN REPORTING ON SUSTAINABLE DEVELOPMENT

In Deloitte's contest for the best report on sustainable development in Croatia, for the first time a prize was awarded for the biggest improvement in reporting, won by Podravka d.d. For the first time, in the sustainable development report, quantified non-financial impacts of operations in the local context of the Podravka Group sustainability were added, which was recognised by an independent expert jury and awarded Podravka.

PODRAVKA SLOVAKIA WON FOR THE FOURTH TIME "PEČAŤ BONITY"

Podravka Slovakia met exceptionally demanding criteria for assessing business and economic results of business entities in Slovakia and won, for the fourth time, "Pečať bonity". In selecting the winners, the overall credibility of a business entity is assessed based on a detailed analysis of its management. More than 734,000 entities operating in Slovakia were analysed, and only 0.87% of them were assessed as creditworthy companies and were awarded "Pečať bonity", which makes this award even more significant.

W³ AWARDS FOR VEGETA'S CAMPAIGN IN AUSTRALIA

Vegeta's campaign "Catch the Thief" in the market of Australia won W³ awards. W³ award creative excellence on the web and recognise creative and marketing experts behind the awarded websites, videos and marketing programs. The campaign's success is even bigger since the campaign won prizes in two categories: user experience and website. The campaign was a fusion of the existing tools, Vegeta's website, social media and an approach requiring engagement and interaction, resulting in involvement and excitement of participants, which was recognised by the Academy of Interactive and Visual Arts that awards W³ awards.

TWO CZECH SUPERBRANDS 2017 AWARDS, FOR PODRAVKA AND LAGRIS

For the first time in history, Podravka won two Czech Superbrands 2017 awards in the same year, for Podravka and Lagris brands. Podravka won this renowned recognition several times previously, but for the first time for two brands and for the first time in two years in a row for the Lagris brand. The Superbrand recognition was awarded to Podravka and Lagris by the leading Czech experts for brands, thus placing them in the top recognisable and supreme-quality products.

MIXX AWARD IN WEBSITE CATEGORY FOR LINO.EU WEBSITE

At Communication Days, Podravka's website www.lino.eu took first place, winning the MIXX award in the "Website" category. It was created in cooperation with the digital agency Web.Burza. Innovation is the base of this online platform: three thematically different websites in one. Each of them is adapted to a different group: Lino Baby is an educational centre for parents of children aged up to 3 years, Lino Kids - a gaming platform for a bit older children and their parents and Čokolinologija - an audio-visual ode to Čokolino. Smart filters in the product catalogue facilitate finding the desired product range, a dynamic and visually attractive home page enables faster navigation through themes, and participation in activities on the Lino website enables registered users to win prizes and position higher in rankings. The site is adapted to a device it is used on, regardless of the device type.

ŽENA.HR – PODRAVKA'S PRODUCTS BEST IN 3 CATEGORIES

The žena.hr portal, the most popular women's medium in Croatia and the region, organized the selection of the product of the year according to readers' votes. As many as three Podravka's products were awarded in three categories: Dolcela Premium pudding coconut was the winner in the Ready-to-eat meals and foodstuffs category, Lino lada coconut in the Baby food category, and Eva tuna pâté in the Meat and fish category.

KRALUŠ BEER PUB AND PODRAVSKA KLET AMONG TOP RESTAURANTS

Podravka's catering facilities Kraluš Beer Pub and Podravska klet have won the loyalty of a sufficient number of guests and catering professionals to be listed among top Croatian restaurants – Restaurant Croatica. By being listed in top 100 Croatian restaurants again this year, they proved the quality of their service. The selection was made among 2,450 restaurants in Croatia: the first phase on the www.gastronaut.hr portal, the second phase by votes of managers and owners of restaurants, while the final decision was on the Honourable Committee of the project.

FLAVOURS OF PODRAVINA AND PRIGORJE CERTIFICATE

Podravka klet and Kraluš Beer Pub received, among eight catering facilities in Koprivničko-križevačka county, the Flavours of Podravina and Prigorje certificates. Certification of local catering facilities contributes to the development of continental tourism, and one of the key criteria for receiving the certificate is having four traditional meals on the restaurant's menu.

28 GOLDEN AWARDS TO ŽITO PRODUCTS

At the 17th national expert assessment of bread, bakery and fine bakery bagels, pasta, cookies and fresh pastry, Žito won the most, as many as 28 golden awards for the supreme quality of products. The assessment of bread is traditionally organised by the Bakery Section of the Chamber of agricultural and food companies in the Slovenian Chamber of Economy.

SPELT PUFF PASTRY THE MOST INNOVATIVE FOODSTUFF

Žito spelt puff pastry was awarded, in the group of cereal products, the title of the most innovative foodstuff of 2017, according to the Institute for Nutrition.

PRIZMA AWARD TO THE ŠUMI CANDIES CAMPAIGN

Candies of all generations won the "Prizma" award for the excellence in communication awarded by the Slovenian association for public relations, for the project 140 years of the Šumi brand. The award was won in the category of the overall campaign, and the goal of the campaign was to raise consumers' awareness of the brand that is present for 140 years.

TRUSTED BRAND AWARD TO 1001 CVET TEAS

The 1001 CVET brand won the Trusted brand award for an exceptional consumer trust. It is the eighth consecutive year that 1001 CVET was recognised by the consumers and won the Trusted brand award in the Slovenian market. The Trusted brand is awarded by the Reader's Digest magazine according to the survey conducted among the magazine readers in Slovenia.

QUDAL CERTIFICATE FOR QUALITY OF GORENJKA

Gorenjka's slogan "full of everything good" was confirmed by the Qudal certificate of the research company Iceritas. Slovenian consumers recognised Gorenjka and selected it as the best-quality chocolate. Carefully selected ingredients, quality, long experience in the development of technology and chocolate products is what Slovenian market requires and rewards.

TASTE & QUALITY INSTITUTE AWARDS TO ŽITO AND PODRAVKA PRODUCTS

This year, many Žito products were recognised as the best by Slovenian and international evaluators. The International Taste & Quality Institute (iTQi), which assesses the product's quality and taste, gave awards this year to four Žito products and as many as 14 Podravka products. Also, Žito received the award for the most innovative foodstuff, spelt puff pastry and 28 awards in the evaluation of bread, bakery and fine bakery bagels, pasta, cookies and fresh pastry.

HRVOJE KOLARIĆ RECEIVED RECOGNITION FOR THE PROMOTION OF PHARMACY IN ECONOMY

At the special Assembly session held on 25th October, the president of the Croatian Pharmaceutical Society Darko Takač handed to Hrvoje Kolarić, the president of the Management Board of Belupo, the "Recognition for the promotion of pharmacy in economy". This is the Society's annual award to prominent individuals, pharmacists, who promote the principles of excellent and responsible business in economy and thus enhance the reputation of the profession. Thanking to the professionals for recognising Belupo's activities in linking pharmacy as a scientific discipline with pharmaceutics as a strategic industry, Hrvoje Kolarić announced that in the future he will continue to encourage the growth of the domestic production, as every new job in pharmaceutics multiplies several times the number of jobs in related organisations.

BELUPO RECEIVED "LIDER INVEST" AWARD FOR CONTINUOUS INVESTMENTS IN CONTEST FOR BEST LARGE, MEDIUM AND SMALL PRODUCTION INVESTMENTS

Belupo won a special award for continuous investments, awarded by the weekly magazine Lider in "LIDER INVEST", the contest for the best large, medium and small production investments. The award was handed to Ksenija Punčikar, a member of the Management Board of Belupo, by Miodrag Šajatović, the main editor of the weekly magazine Lider.

Social responsibility

The Podravka Group promotes the application of socially responsible business norms, and the compliance of economy with development goals of the social community and preservation of environment for future generations. Socially responsible business is the constituent part of the identity and business activities of the Podravka Group, and it represents yet another added value for the company, in addition to creativity, trust, passion, consumer satisfaction and excellence.

Being aware of its influence and responsibility towards social community, the Podravka Group is actively involved in lives of its employees, but also of the entire community in which it operates. It actively supports and conducts programs of informing and counselling about preserving the health of its employees, members of their families and the local community. Also, with the high standards of product quality, over many years it has built and kept the trust of its consumers. Relationships with partners are built and maintained through mutual respect and trust, and in its production processes, Podravka tends to use as little as possible of the non-renewable resources and to produce less waste, taking special care of the environmental protection. Present in households for over 70 years, it endeavours to be a company which gains consumers' trust by providing culinary pleasure as well as by caring for their health. By specific projects, it contributes to the development and increasing the quality of life of its employees, but also of the wider social community and ever since it was founded, it has been investing in science and education, sustainable development, culture, arts and sports, and promoting corporate social responsibility.

During 2017, Podravka Group companies initiated and joined many socially responsible and charity projects. Among long-term socially responsible projects, we should mention Lino all-rounder, which for 12 seasons in a row in primary schools across Croatia encourages healthy lifestyle and children's creativity and brightens their childhood. Its charity actions and assistance to the community whenever it is needed, the Podravka Group proved in 2017, by joining the assistance provided to the flooded areas of Zadar and surroundings and providing assistance to Croatian firemen during great fires on the coast. Together with its customers in Slovenia, Žito joined the project of restoration of Slovenian forests, hit by natural storms and the spruce bark beetle.

The Association of Podravka's volunteers – PULS is especially active in charitable activities, and in 2017 it won the Annual Award for charity activities by the Ministry for Demographics, Family, Youth and Social Policy. This award is the biggest recognition awarded by the Republic of Croatia for exceptional achievements and contribution to the development and improvement of the charity work. The Association of Podravka's volunteers – PULS has initiated or partnered many significant activities such as, among others, aid to flooded Slavonia, assistance in the transit of refugees, purchase of therapy horses and purchase of a swing for children with special needs that was installed in Koprivnica's city park.

By promoting healthy lifestyle, professional training of employees and encouraging their excellence and creativity, as well as the sensibility for the needs of the social community, the Podravka Group acts socially responsibly in Croatia, as well as in other regions where it operates.
In its future business, the Podravka Group will readily continue to satisfy the desires and needs of the social community, as well as those of the consumers in more than 60 countries around the world, because their trust is the proof of correct actions.

Activities in environmental protection Podravka

Podravka continuously develops and improves processes, products and services, aiming to reduce the negative effect on the environment. In 2017, improvements were achieved in the production of waste, reduced water consumption and power sources and increased level of ecological awareness and responsibility of employees.

WASTE MANAGEMENT

Waste management system advancements were continued, with more efficient waste sorting by placing containers for separating waste in offices, reduced squandering of materials and raw materials, rationalized use of consumables and education of employees, which resulted in reduced production of municipal waste. In 2017, Podravka d.d. produced 15 types of hazardous waste in the amount of 17.8 tonnes, 27 types of non-hazardous waste in the amount of 3,164.1 tonnes, of which 406.2 tonnes of municipal waste. All produced hazardous and non-hazardous waste was submitted with the accompanying documentation to authorised waste collectors who hold effective permits for waste management, in compliance with provisions of the Act on Sustainable Waste Management.

AIR PROTECTION

Podravka d.d. uses natural gas as the primary fuel in all technological processes, and air emissions from stationary sources are regularly measured in line with legal regulations by certified intuitions. The measurement report is delivered to the Croatian Agency for the Environment and Nature.
Podravka d.d. actively participates in activities arising from the obligations defined by the EU Emissions Trading System (EU ETS) for locations Ante Starčevića 32, Koprivnica and Industrial zone Danica, Koprivnica that have a valid licence for emission of greenhouse gases. Podravka's ETS team, consisting of certified and additionally certified representatives, contributes by its activities to timely meeting of legal obligations and submitting the emission units to the Union Registry and provides guidelines for the purchase of emission units.

For the purposes of air protection against fluorinated greenhouse gases, service maintenance and permeability control of all cooling devices are regularly performed by certified maintenance services.

WASTEWATER MANAGEMENT

Treatment and pre-treatment of wastewater of Podravka d.d., analytical tests by certified laboratories of wastewater samples (taken from control points) and their frequency, are performed in line with the effective legal regulations and water management licenses for each location.

RENEWABLE ENERGY SOURCES

In 2017, the boiler-house running on bio-mass in industrial zone Danica became operational. The intended purpose of the new boiler-house is the production of steam, and as basic fuel forest biomass is used. Biomass belongs to the category of renewable energy sources and introducing such technology contributes to measures for reducing CO2 emissions from the energy sector, another proof that Podravka contributes to preserving the environment.

At location Ante Starčevića 32, Koprivnica, a solar collector is installed intended for hot water preparation, which reduces the consumption of natural gas, the primary energy source, and thus reduces the amount of produced CO2.

COMPLIANCE WITH REGULATIONS

With the purpose of timely informing employees about obligations arising from laws and regulations concerning environmental protection, the Podravka Group continuously monitors and systematically updates the List of laws and regulations, where all amendments to the environmental protection legislation are recorded. All obligations arising from the effective laws and regulations concerning environmental protection are implemented in the existing internal systems for environmental protection.

INSPECTION CONTROLS

As a socially responsible company, Podravka implements all prescribed activities in line with the effective national and international legal provisions from the area of environmental protection and in line with international standards and guidelines.

In monitoring legal regulations and continuous care of environmental protection, during 2017, no irregularities related to non-compliance with laws and regulations concerning environmental protection were recorded, and accordingly, no significant fines or penalties were imposed.

NON-FINANCIAL REPORTING - PODRAVKA GROUP SUSTAINABLE DEVELOPMENT REPORT

In 2017, the Podravka Group's Sustainable Development Report for 2016 was prepared and published, which is in line with the most widely accepted global reporting framework, the GRI G4 Sustainability Reporting Guidelines. In the contest for the best sustainable development report, Green Frog Award 2017, Podravka d.d. won the prize for the biggest progress in reporting.

Activities in environmental protection Belupo

In 2017, education of new employees continued regularly, and all work instructions describing procedures for the preparation of all types of waste for treatment were revised.

WASTE MANAGEMENT

Environment is mostly polluted by waste, therefore regular waste management is systemically performed. Waste is recorded according to work units, waste is sorted for recycling and waste intended for thermal processing is stored appropriately. Since during the year machines and the production were tested, and at the end of the year regular production in the new factory began, the amounts of technological waste on the site increased.

Following the principle of efficient waste management, all the waste produced is managed, recycled or thermally processed in a safe and ecologically acceptable manner.

In 2017, 32 different types of waste were recorded at Belupo, in the total amount of approximately 280 tonnes.

PROCESSING METHOD / PER TOTAL QUANTITY	RECYCLING	THERMAL PROCESSING	LANDFILL
WASTE AMOUNT %	54.6 %	39.6 %	5.8 %

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

AIR PROTECTION

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

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

During 2017, air emissions from the boiler-house were measured. Border values of emissions are within limits, as proven by records, and measurement results are reported to the Croatian Agency for the Environment and Nature.

Control of all installed filters for reducing dust air emissions is regularly performed, as well as control of the devices with activated charcoal, performing the absorption of solvents. Plants are automated and regeneration or replacement of activated charcoal is performed after it is saturated, and computer records on monitoring the work of plants allow tracking

the emissions into the atmosphere. Plants in which organic solvents are used have been reported to the register at the Ministry of Environment and Energy. By keeping records of organic solvents used, the amounts of solvents used are controlled.
With the purpose of protecting the air from fluorinated greenhouse gases, records are being updated on all cooling devices where controlled or substitute substances damaging the ozone layer are used, and authorised service provides maintenance and permeability control. During 2017, the regular control of permeability of controlled substances from cooling devices was performed.

WATER PROTECTION

Water protection is performed compliant to the Water license for waste waters discharge for Podravka's factories at Danica site. Technological and sanitary waters are drained from the Belupo site through a separate sewage system, they are mixed with waste waters from other factories and drained to the device for mechanical and biological treatment. Waste water analyses are regularly performed by authorised laboratories, pursuant to regulations and the Water license. Due to correct treatment of hazardous substances and waste which is not drained in the sewage system, waste waters satisfy border values prescribed by law. Precipitation waters do not burden the device, but are drained through a separate sewage into the natural recipient. Records are kept on all the means used for water disinfection. Maintenance and cleaning of the system for waste water drainage is regularly performed. In case of sudden pollution of the facilities and internal drainage system, employees act in line with the Operating plan of intervention measures for water protection, with which they are familiar and according to the plan, they attempt to minimise the risks of water pollution.

RISKS MONITORING

With the aim to avoid the possibility of an incident with hazardous substances, the Endangerment assessment and the Operating plan for protection and rescue were prepared, detailing potential effects on tangible assets, possible danger for the employees and environment, as a consequence of using hazardous substances. This way the risk of incident is minimised.
Amounts of dangerous substances have been updated, compliant to the Regulation and have been reported to the Croatian Agency for the Environment and Nature and the National Protection and Rescue Directorate.
Proper handling of dangerous substances and chemicals is a constituent part of employee training, whereby the possibility of an incident is minimized.

ENVIRONMENT POLLUTION REGISTER

Using the database - ROO of the Croatian Agency for the Environment and Nature, all the pollutions and emissions into the environment have been reported, separately for all types of waste with the final method and location of treatment, as well as the calculation of the amounts and locations of air and water emissions.

CONTROL OVER COMPLIANCE WITH REGULATIONS ON ENVIRONMENTAL PROTECTION

In 2017, the inspection of the Ministry of Environment and Energy performed the control of the compliance with regulations on environmental protection. Belupo fully satisfies all the regulations on environmental protection and no rulings on non-compliance have been issued.

Podravka Group management systems audits

During 2017, audits by authorised certification authorities were performed on the quality assurance and food safety management systems, compliant to several international standards.
Audits performed refer to the entire Podravka Group in the Republic of Croatia, except for Belupo.

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

Audits confirmed compliance with the following international standards:

N.O.	STANDARD	LOCATIONS	AUTHORITY
1	ISO 9001:2008	PODRAVKA D.D. (ALL LOCATIONS IN THE REPUBLIC OF CROATIA)	CERTIFICATION AUTHORITY SGS
2	HACCP ACCORDING TO CODEX ALIMENTARIUS	PODRAVKA D.D. (ALL LOCATIONS IN THE REPUBLIC OF CROATIA)	CERTIFICATION AUTHORITY SGS
3	IFS FOOD, VERSION 6 NTERNATIONAL FEATURED STANDARDS - FOOD	PODRAVKA D.D. HEADQUARTERS , KOPRIVNICA SOUPS AND VEGETA FACTORY, KOPRIVNICA BABY FOOD AND CREAM SPREADS FACTORY, KOPRIVNICA DANICA FACTORY, KOPRIVNICA FRUIT FACTORY, KOPRIVNICA FOOD SOLUTION FACTORY, KOPRIVNICA KALNIK FACTORY, VARAŽDIN VEGETABLE FACTORY, UMAG MIRNA D.D., POREČ PODRAVKA LAGRIS, THE CZECH REPUBLIC*	CERTIFICATION AUTHORITY SGS *FOR PODRAVKA LAGRIS CERTIFICATION AUTHORITY TÜV SÜD
4	BRC, ISSUE 6 (BRITISH RETAIL CONSORTIUM) GLOBAL STANDARD FOR FOOD SAFETY	PODRAVKA D.D. HEADQUARTERS, KOPRIVNICA SOUPS AND VEGETA FACTORY, KOPRIVNICA BABY FOOD AND CREAM SPREADS FACTORY, KOPRIVNICA	CERTIFICATION AUTHORITY SGS
5	HALAL	DANICA FACTORY, KOPRIVNICA* SOUPS AND VEGETA FACTORY, KOPRIVNICA* BABY FOOD AND CREAM SPREADS FACTORY, KOPRIVNICA* KALNIK FACTORY, VARAŽDIN FRUIT FACTORY, KOPRIVNICA SNACKS FACTORY, KOPRIVNICA* PODRAVSKA KLET, KOPRIVNICA VEGETA PODRAVKA LTD, TANZANIA**	HALAL QUALITY CERTIFICATION CENTRE *EMIRATES AUTHORITY FOR STANDARDIZATION & METROLOGY ** TANZANIA HALAL CERTIFICATION
6	KOSHER	KALNIK FACTORY, VARAŽDIN SOUPS AND VEGETA FACTORY, KOPRIVNICA FRUIT FACTORY, KOPRIVNICA SNACKS FACTORY, KOPRIVNICA MILL PRODUCTS FACTORY, KOPRIVNICA	RABIN KOTEL DA-DON
7	BIO	PODRAVKA D.D., KOPRIVNICA ECOLOGICAL TEA	AUSTRIA BIO GARANTIE

Compared to previous years, in 2017 the following changes occurred:
Studenac factory Lipik is not certified due to the sale;
Certification of the Fruit factory in line with the IFS standard;
Certification of the Food solution factory in line with the IFS standard;
BIO certification of products: ecological tea;
Halal certification of Vegeta Podravka LTD, Tanzania by Tanzania Halal certification;

CERTIFICATE OF KURDISTAN'S DRUG AGENCY TO BELUPO

On 16 February 2017, Belupo obtained the certificate from the Kurdistan's drug agency, an integral part of the Ministry of Health, which confirms the registration of Belupo for the market of Kurdistan, the autonomous region of the state of Iraq.
Thereby the permit was obtained that allows imports, distribution and sales of Belupo's drugs in the market of Kurdistan. The registration was mediated by Medicine Company for Medicines trading and Medical Supplies Ltd, in Erbil, with which Belupo cooperated and realised sales and launching of two Belupo's dietary supplements. The registration of Belupo in Kurdistan is the first step in further pharmaceutical business on this market. The company's registration is valid for 50 years.

BELUPO OBTAINED THE DIGITAL CERTIFICATE OF SOLVENCY EXCELLENCE A+ FOR 2017

The CompanyWall business portal awarded Belupo the digital certificate of solvency excellence A+ for 2017. Thanks to all its employees, Belupo once again proved its excellence and credibility in all aspects of operations, joining the top of the solvency excellence and best companies on the CompanyWall business portal. CompanyWall d.o.o., registered in Zagreb, is active in four markets: in Great Britain, Slovenia, Croatia and Serbia. It provides access to data for companies and business partners, thus enabling an easier and safer contracting of business cooperation.

SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS BIOGRAPHIES

Podravka d.d. Supervisory Board members biographies

DUBRAVKO ŠTIMAC

Dubravko Štimac was appointed president of the Supervisory Board of Podravka d.d. in February 2012. At the beginning of the same year he held the position of the deputy president of the Supervisory Board of Podravka d.d., and he had been a member of the Supervisory Board of Podravka d.d. since 2006. He is a member of the Remuneration Committee and Audit Committee of Podravka d.d.

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

He graduated in 1992 from the Faculty of Economy and Business of the University of Zagreb, where he also received his MA in Organization and Management two years later. He participated in the Securities Processing Training Program in New York, organized by the Bank of New York, and in the Fund Management at City University Business School in London.

LUKA BURILOVIĆ

Luka Burilović was appointed deputy president of the Supervisory Board of Podravka d.d. in February 2017. He is the president of the Remuneration Committee and a member of the Corporate Governance Committee of Podravka d.d.

He began his professional career as the owner of Agrotehna Lipovac and in 1996 he becomes the deputy municipal mayor of Nijemci. In April 2004 he becomes an assistant minister in the Ministry of Agriculture, Forestry and Water Management. In early 2006, he was appointed deputy president of the Management Board of Sladorana d.d., Županja, and at the beginning of 2008 the president of the Management Board of Sladorana d.d., Županja. In 2014, he becomes the president of the Croatian Chamber of Economy.

He graduated in 2006 from the Faculty of Economy and Business in Banja Luka, and six years later he completed PhD studies in management at the Faculty of Economy and Business in Osijek. He has professional training as an advisor for small sized enterprises in the Ministry of Crafts, Small and Medium-sized Enterprises and in 2008 he obtained the certificate in Corporate management for members of supervisory and management boards at the Faculty of Economy and Business in Osijek.

MARKO KOLAKOVIĆ

Marko Kolaković was appointed as a member to the Supervisory Board of Podravka d.d. in February 2017. He is a member of the Corporate Governance Committee of Podravka d.d.

He began his professional career in 1995 as a trainee in Sloboda d.o.o. Samobor and Ledo d.d., and in 1996 he becomes a research and teaching assistant at the Faculty of Law in Zagreb. In 2001 he becomes assistant professor at the Faculty of Economy and Business of the University of Zagreb where he works as a full-time professor. He was advisor to the mayor of the City of Samobor for strategic planning and city development.
He graduated in 1994 from the Faculty of Economy and Business of the University of Zagreb. Four years later he obtained his master's degree and in 2001 PhD from the Faculty of Economy and Business of the University of Zagreb.

SLAVKO TEŠIJA

Slavko Tešija was appointed as a member to the Supervisory Board of Podravka d.d. in February 2017. He is a member of the Audit Committee of Podravka d.d.
He began his professional career in 1981 in Privredna banka d.d. Zagreb. In 1983 he joined the Croatian National Bank as an inspector in the department for foreign currency operations and monetary inspection, and in 1994 he becomes the director of the department. In 1995 he moved to the Government of the Republic of Croatia as the Director of the Agency for Bank Resolution. In 1996 he returned to the Croatian National Bank where he works until present, first as the director of the department for foreign currency operations and monetary inspection, 2 years later as the director of the department for international banking, and in 2014 he becomes the main advisor in the department for service support.
He obtained his master's degree at the Faculty of Economy and Business of the University of Zagreb. He also holds the certificate of Permanent court expert for finance, banking, foreign currency operations and foreign trade with the Commercial Court in Zagreb.

DAMIR GRBAVAC

Damir Grbavac was appointed as a member to the Supervisory Board of Podravka d.d. in February 2017.
He began his professional career in 1978 in Đuro Đaković d.d., advancing from the position of a credit administrator to the deputy general manager of Holding. In 1997 he joined Raiffeisenbank Austria d.d. Zagreb as the director of the Investment banking Sector. In 1997 he becomes a member of the Management Board of Raiffeisen Investment d.o.o., and two years later the president of the Management board of Raiffeisen Vrijednosnice d.o.o. In 2003 he becomes an advisor to the Management Board in Raiffeisenbank Austria d.d. Zagreb. Since 2004 he is the president of the Management Board of Raiffeisen company for management of mandatory and voluntary pension funds. Damir Grbavac is a member of the Supervisory Board of Hrvatski Telekom d.d. and president of the Supervisory Board of Quaestus Nekretnine joint stock company for real estate, in liquidation.
He graduated from the Faculty of Economy and Business of the University of Zagreb in 1978, and obtained his master's degree at the same Faculty in 1985.He is a licensed manager of pension funds and pension insurance companies.

IVANA MATOVINA

Ivana Matovina was appointed as a member to the Supervisory Board of Podravka d.d. in June 2017. She is the president of the Audit Committee of Podravka d.d.

She began her professional career in 1996 as the head of accounting and in 1997 she became a director of KPMG Croatia d.o.o. Two years later she became a partner and director of Cinotti revizija d.o.o./Cinotti savjetovanje d.o.o. for audit, internal audit, accounting and business counselling and education services. Since 2011, she is the founder and director of Antares revizija d.o.o./ Antares savjetovanje d.o.o., for audit, internal audit, accounting and business counselling and education services. From 2009 to 2012 she was a member of the Management Council of the Croatian Audit Chamber and since 2012 a member of the Committee for financial reporting standards and a member of the HANFA Council.

She graduated in 1996 from the Faculty of Economy and Business in Zagreb in accounting and finance. In 2000 she becomes a Chartered accountant of Great Britain and two years she obtains the title of Croatian certified auditor.

PETAR VLAIĆ

Petar Vlaić was appointed as a member to the Supervisory Board of Podravka d.d. on 7 September 2010. He is a member of the Audit Committee and the Corporate Governance Committee of Podravka d.d. and the deputy president of the Supervisory Board of Žito d.o.o.

He graduated from the Faculty of Electrical Engineering and Computer Science in Ljubljana. He also received CFA (Chartered Financial Analyst) title, through a program organized by American Institute of Chartered Financial Analysts (CFA Institute). He started his professional career as a broker in Ilirika d.d., Slovenia and later he advanced to the position of a portfolio manager and trade manager. Upon his arrival to Zagreb he became the first fund manager in the Republic of Croatia in the first Croatian investment fund Kaptol Proinvest. Later he worked as a trade manager in IB Austria d.o.o., and later he transferred to the position of fund manager at the Central National Fund. In 2001 he became the Management Board president of Adriatic Invest d.o.o. – company for managing Blue Mandatory Pension Fund. In late 2003 Erste MPF and Helios MPF were merged with the Blue Fund and the fund changed its name to Erste Blue Mandatory Pension Fund. While working in the company for privatization investment fund management, he was also a member of supervisory boards of several Croatian companies.

PETAR MILADIN

Petar Miladin was appointed as a member to the Supervisory Board of Podravka d.d. on 7 September 2010. He is a member of the Remuneration Committee and the Corporate Governance Committee of Podravka d.d.

He graduated from the Faculty of Law in Zagreb and in 1999 he received his MA in Commercial and Companies law. He defended his PhD thesis "Payment by remittance" in 2005 at the same faculty, receiving his PhD title in the scientific field of law. Upon graduating he was employed as a trainee at the Municipal and Commercial Courts in Zagreb. He was employed at the Faculty of Law in Zagreb in 1997 as a junior assistant at the Department for Commercial Law and Companies Law. In December 1999 he became a teaching assistant at the same department where he later worked as senior assistant. He worked as assistant professor since 2005, and since 2009 as associate professor. He published more than twenty scientific papers in the area of commercial law, companies law and banking law.

KSENIJA HORVAT

Ksenija Horvat was appointed to the Supervisory Board by the Workers' Council of Podravka d.d. and she is a member of the Supervisory Board of Podravka d.d. since 1 July 2015.
She began her professional career in the Company in 1984 as an administrator, and after successfully continuing her education while working, she took on commercial tasks in the Croatian market sector, where she works until today. In 2001, serving as the representative of the largest union in Podravka d.d., PPDIV, she took on a full-time position in the union and has since been one of the leading union negotiators in improving the rights of Podravka employees through the Collective agreement of the Podravka Group. In 2002, she was first elected into the Podravka Workers' Council, and from 2013 to the present day, she has served as the Council's president. She first served as the workers' representative in the Podravka d.d. Supervisory Board from 2004 to 2012, and in that period also served as the deputy president of the Supervisory Board, and interim president of the Supervisory Board in the 2009-2010 period.

DINKO NOVOSELEC

He was a member of the Supervisory Board of Podravka d.d. until 30 June 2017 and a member of the Audit Committee of Podravka d.d.
He started his professional career in the Croatian National Bank on managing foreign reserves. In late 1998 he joined Zagrebačka banka d.d. as the head of the analytics department, and afterwards he transferred to ZB Invest d.o.o., company for managing investment funds as a Management Board member. Since 2001 he is a Management Board member of Allianz ZB d.o.o., company for management of AZ mandatory pension fund, and in April 2003 he was appointed president of the Management Board of Allianz ZB d.o.o., company for management of mandatory pension fund.
He graduated math at the Faculty of Science in Zagreb, and in 2000 he received his CFA (Chartered Financial Analyst) title, in a program organized by American Association of Investment Professionals (CFA Institute).

MATO CRKVENAC

Mato Crkvenac was the deputy president of the Supervisory Board of Podravka d.d. until 21 February 2017 and a member of the Audit Committee and the Remuneration Committee of Podravka d.d.
He graduated from the Faculty of Economy and Business in Zagreb, and received his MA from the Institute of Economic Sciences in Belgrade. He received his PhD from the Faculty of Economy and Business in Zagreb. He started his professional career at the Republic Institute for Planning, and

five years later he became sector director at the Republic Institute for Economic Trends and Economic Policy. In 1978 he became the general manager of the Republic Institute for Planning and also a member of the Executive Council of the Parliament of the Socialist Republic of Croatia and in 1986 he became a representative and deputy chairman of the Parliament of the Socialist Republic of Croatia. From 2000 to 2004 he was the Minister of Finance in the Croatian Government, and afterwards a representative in the Croatian Parliament. At the Faculty of Economy and Business in Zagreb he was a teaching assistant and research assistant, and was also elected assistant professor. Four years later he was elected associate professor and in 1991 full-time professor.

IVO DRUŽIĆ

Ivo Družić was a member of the Supervisory Board of Podravka d.d. until 21 February 2017.

He graduated from the Faculty of Economy and Business in Zagreb in 1973, and received his MA in 1981 and PhD in 1988. He is employed at the Faculty of Economy and Business in Zagreb as a full-time tenured professor, and is the head of the scientific postgraduate study Economy and development. He stayed in Brighton, England at the University of Sussex as a visiting fellow in 1990/91, and as research fellow at the University of Pittsburgh, USA in 1994. He was also a visiting professor in 1995 at the University of Beijing in China, and in 1997/98 at the University of Pittsburgh, USA. He authored two books and co-authored six (two of which he also edited). He also published 19 scientific papers in journals with international review, 10 papers in proceedings from international scientific conferences and 18 papers in domestic journals and proceedings.

Podravka d.d. Management Board members biographies

MARIN PUCAR

Marin Pucar was appointed president of the Management Board of Podravka d.d. in February 2017.
He began his professional career in Gavrilović d.o.o. food industry from where in 2001 he moved to Danica d.o.o. – meat industry of Podravka d.d. where in 2002 he becomes the director of sales, marketing and development. In 2003 he was appointed executive director for the Croatian market in Podravka d.d. He was a member of the Management Board of Podravka d.d. from 2008 to 2012, after which he joined Zvečevo d.d. as a member of the Management Board. He was the president of the Management Board of Zvečevo d.d. from 2014 to August 2016.
He graduated from the Faculty of Economy and Business in Zagreb and completed PhD studies Theory and politics of marketing at the same Faculty. Currently he is finalising his PhD in management with the thesis "Management strategy through brand expansion in Croatian food industry".
From 2008 to 2012 he was a member of the Supervisory Board of Danica d.o.o. and Belupo d.d. In 2012 he became a member of the Management Committee of the Croatian Chamber of Economy, and since 2016 he has been the vice president of this Committee.

LJILJANA ŠAPINA

Ljiljana Šapina was appointed as a member to the Management Board of Podravka d.d. in February 2017.
She has been employed in Podravka d.d. since 1984. She gained work experience on various manager and director positions within the company in Accounting and finance, Retail, Gastro sales, Frozen programme, Joint market tasks and Exports preparation. Since 2012 she worked as a director in the Import-export logistics, and in 2015 she was appointed to the position of the head of the Import-export logistics department.
She graduated foreign trade at the Faculty of Economy and Business in Zagreb, and in 2012 she obtained the master's degree at the same Faculty.

HRVOJE KOLARIĆ

Hrvoje Kolarić was appointed as a member to the Management Board of Podravka d.d. in December 2012.
In his career, among many positions held, we should mention: the director of pharmaceutics and business development at Bristol-Myers Squibb, the director of pharmaceutics of PharmaSwiss and company director of PharmaSwiss d.o.o., Croatia. He also managed business processes related to cooperation with Belupo in the production of cardiological line of Pravachol. In his early career he also managed the pharmaceuticals department of the Bristol-Myers Squibb representative office for Croatia and Bosnia and Herzegovina, and subsequently the allergology and respiratory line of products of the Schering-Plough representative office in Croatia. In 2005,

he was appointed as Management Board member in Belupo, in charge of marketing, sales and international markets, and has been reappointed in 2010. Two years later, he was appointed president of the Management Board of Belupo.
He graduated from the Faculty of Pharmaceutical and Biochemical Sciences of the University of Zagreb in 1998. He actively participated in numerous education courses to acquire sales and negotiation skills, training for the first management tier, sales efficiency, financial matters etc. In addition to the Master of Pharmacy, he also holds the Master of Business Administration degree.

MARKO ĐEREK

Marko Đerek was appointed as a member to the Management Board of Podravka d.d. in July 2017.
He began his professional career in 1995 as a researcher in Pliva Research Institute where he worked until 2003. From 1997 to 2002 he was a member of the initial project team for the functional design of the new Research Institute building in Zagreb. In 2003 he becomes the head of the Research team in Pliva. Since 2004 he is the leader of development projects in Pliva Research institute, and in 2006 he moved to the Global operations in Pliva to the position of the corporate products director. In 2007 he becomes the director of support to markets in Pliva.
In 2009 he joined the Croatian Post as the executive director for trading. In 2011 he joined GlaxoSmithKline as the manager of business development for South-Eastern Europe. In 2013 he takes on the function of the director of sales and hospital operations for South-Eastern Europe in Pliva/TEVA where he worked until 2017.
He graduated in 1995 from the Faculty of Chemical Engineering and Technology of the University of Zagreb. In 2004, he obtained the master's degree in natural sciences, chemistry, at the Faculty of Chemical Engineering and Technology of the University of Zagreb. He completed Master of Business Administration (MBA), Erasmus- Rotterdam School of Management in Rotterdam.
During his career he attended training in many management and science programs and the Acceleration Pool training program in Pliva.

DAVOR DOKO

Davor Doko was appointed as a member to the Management Board of Podravka d.d. in May 2017.
He began his professional career in 2000 in the Assets Management department of Zagrebačka banka d.d., as a portfolio manager assistant, where he participated in the establishment of the company for management of investment funds in Zagrebačka banka d.d. He joined the team of Allianz ZB d.o.o. mandatory pension fund in 2002, as a portfolio manager for management of stock share of the portfolio. As a procurator and main portfolio manager in Allianz ZB d.o.o. mandatory pension fund among other tasks he actively participates in the portfolio management and investment process management. Since 2006 he is a member of the Management Board of Allianz ZB d.o.o., company for management of mandatory pension fund,

in charge of investments. During his term, he invested in many companies from the pharmaceutical and food sectors and develops good business relationships with all major business banks in the Republic of Croatia and international financial institutions. In AZ voluntary pension funds as the person responsible for investments, he participates and manages all parts of the investment process.
He graduated from the Faculty of Economy and Business of the University of Zagreb. During his career he attended many training and education courses and participated in conferences related to investments and capital market.

ZVONIMIR MRŠIĆ

He was the president of the Management Board of Podravka d.d. until 23 February 2017.
Zvonimir Mršić graduated from the Faculty of Political Sciences in Zagreb and completed the FBA (Fundamentals of Business Administration) program at the Faculty of Economy and Business, University of Zagreb and a certified program for supervisory board members.
He joined Podravka d.d. in 1990, where for eight years he built professional career as the head and manager of Public Relations Department. Apart from building his professional career, he also accomplished a very successful political career as the deputy mayor of the City of Koprivnica, and later Mayor of the City of Koprivnica in three terms.
He is a member of the Croatian Employers' Association and in October 2014 he was elected deputy president of Croatian Exporters Association (CEA). He was appointed member of the University Council of the University North in October 2015, while in March 2016 he became a member of the Economic council at the Faculty of Food Technology and Biotechnology of the University of Zagreb.

OLIVIJA JAKUPEC

She was a member of the Management Board of Podravka d.d. until 23 February 2017.
Olivija Jakupec graduated from the Faculty of Organization and Informatics in Varaždin, and she also attended international business school Center, Brdo kod Kranja.
She started her professional career in 1992 when she was employed at Podravka d.d. as product manager for Fererro, being in charge of promotion and implementation of marketing activities in the Croatian market. A year later she became marketing manager in Podravka's subsidiary in Bulgaria, where she was responsible for founding the company and for marketing activities on the market. In 1997 she was appointed director of Podravka's subsidiary in Russia where she also worked on founding the company and setting up Podravka d.d. business model on the Russian market. In 2001 she returned to Koprivnica and became the director of the Market Communication in Podravka d.d.
In 2004 she joined Nexe Group as the director of Nexe in Bosnia and Herzegovina. Since 2007 she worked as assistant director in Jadransko osiguranje d.d. branch office in Koprivnica.

IVA BRAJEVIĆ

She was a member of the Management Board of Podravka d.d. until 30 April 2017.

Iva Brajević graduated in accounting and finance from the Faculty of Economy and Business in Zagreb. Through additional training and education she also earned licenses for Head of Investor Relations and Head of Development and Implementation of EU-funded projects, and she also attended numerous professional training courses in the fields of finance, audit and human resources management.

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

Since September 2013 she was the director of the Corporate Accounting and Taxes sector in Podravka d.d. Two years later, in September 2015, she took over the post of the director of the Controlling sector in Podravka d.d.

MANAGEMENT'S INTERIM REPORT

Business results

INTRODUCTORY NOTES

Presentation of adjusted sales revenues
At the end of 2016, Podravka d.d. sold the Beverages business that recorded sales of HRK 82.2 million in 2016 (in 2017, remaining beverages inventories were sold in the amount of HRK 0.4 million). Also, in February 2016, extraordinary delivery of buffer stock to the Ministry of Economy was made in the amount of HRK 12.0 million, related to the migration of population from war-torn areas through the territory of Croatia. During 2017, the identified inconsistencies in the treatment of recording revenue in the Food segment on the Russian market were identified, that were largely a result of a different trade marketing activities classification. The identified inconsistencies resulted in 2016 in HRK 25.5 million higher sales, while in 2017 they resulted in HRK 2.2 million lower sales. These developments make full comparability of movements of revenue between the current and the previous year impossible, therefore the "Business results" section presents an adjusted overview of movements of revenue without the effect of the sold Beverages business, (decrease in revenue in 2017 of HRK 0.4 million, decrease in revenue in 2016 of HRK 82.2 million), one-off revenue from the extraordinary delivery of buffer stock to the Ministry of Economy (decrease in revenue in 2016 of HRK 12.0 million) and with the consistent treatment of recording revenues in both periods (increase in revenue in 2017 of HRK 2.2 million and decrease in revenue in 2016 of HRK 25.5 million).

PRESENTATION OF NORMALIZED BUSINESS RESULTS

The focus of the new management during 2017 was on the optimisation of the cost side of the Food segment and at the same time on redefining the business model with the aim to create presumptions for a sustainable and profitable business growth. The optimization of the cost side was successfully implemented through a number of internal activities and measures, but also through external refinancing of borrowings under more favourable terms. In order to create presumptions for a sustainable and profitable business growth, it was necessary to make certain business decisions that in 2017 negatively impact the result, but also enable creating future value for the shareholders of Podravka d.d. The decisions relate to significant value adjustments of assets, in the total amount of HRK 44.9 million, where it should be noted that these are non-cash items. The most significant costs related to value adjustments of assets relate to the value adjustment of brands Warzywko and Perfecta in the amount of HRK 17.9 million, value adjustment of assets in HUB's in Africa and MENA in the amount of HRK 17.6 million and value adjustment of inventories of frozen vegetables in Serbia in the amount of HRK 10.7 million.
Also, Podravka d.d. management, in line with available relevant information on the settlement with the Agrokor Group, estimated the recoverability of the claimed receivables and recognised value adjustment of receivables in the amount of HRK 44.1 million.

In the middle of 2017, the new Belupo pharmaceuticals factory was completed, the biggest greenfield investment in the company's history, while the production permit, after meeting all the regulatory requirements, was obtained at the end of 2017. As the factory was operational during the entire 2017, fixed factory expenses significantly impacted the segment's profitability (HRK 25.4 million of fixed expenses in 2017; HRK 2.4 million in 2016), while at the same time, due to the time frame of obtaining all regulatory permits, there was no contribution on the income side. Thus, in 2017 an unrealistic profitability level was formed so the profitability of the Pharmaceuticals segment is presented without the effect of the new factory in order to enable a comparative analysis with 2016.

An additional one-off item that burdened the profitability of the Podravka Group in 2017 is the cost of severance payments in the amount of HRK 39.9 million (HRK 12.4 million in 2016).

To enable comparison of business results without the effects of income and expenses treated by management of Podravka d.d. as one-off items, the "Business results" section also presents the normalization of the business results. The normalization of the business results is not adjusted for all potential tax aspects that would arise from the normalization process. All one-off items and methods of calculating the normalized business result are presented at the end of the section. Sales revenues for the purpose of profitability normalization were retained at the reported levels (not adjusted for the effect of the sold Beverages business, one-off income from the extraordinary delivery of buffer stock to the Ministry of Economy and identified inconsistencies in the treatment of recording revenues in the Food segment on the Russian market).

CHANGED OVERVIEW OF SALES BY CATEGORY AND REGION

At the beginning of July 2017, the Podravka Group finalised the process of internal reorganisation of the Food segment by introducing the new organisation by business units ("BU"). Food segment operations are now organised in 6 key business units; BU Culinary, BU Podravka food, BU Baby food, sweets and snacks, BU Meat products, meat solutions and savoury spreads, BU Fish and BU Žito. For markets, a new division of regions was made, and sales are now monitored on the level of five regions (Adria region, Western Europe and Overseas region, Central Europe region, Eastern Europe region and New markets region) instead of former four regions.

CHANGE OF FUNCTIONAL AREAS IN THE ŽITO GROUP

During 2017, functional areas of certain parts in reporting within the Žito Group were changed. The changes have no impact on the EBITDA and lower levels, but they affect gross profit and operating expenses structure. To enable a comparative monitoring of expenses and explanation of their movements, in the "Business results" section expenses for 2016 are presented in line with changes in reporting. Due to immateriality of the changes, taking into account the size of the Podravka Group's operating expenses, expenses for 2016 have not been reclassified in the "Consolidated financial statements for 2017" section.

CHANGE OF EBITDA IN 2016

EBITDA is calculated in a way that EBIT is increased by the depreciation and amortization and value adjustments of assets. In 2016, income from value adjustment of a portion of equipment was realised in the amount of HRK 0.2 million in the Food segment, and value adjustment cost of a portion of assets in the amount of HRK 1.9 million in the Pharmaceuticals segment, which were not included in the EBITDA calculation. Management retroactively included these amounts in the EBITDA calculation, whereby the Podravka Group's EBITDA for continuing and discontinued operations in 2016 amounts to HRK 471.3 million (previously HRK 469.6 million), for the Food segment for continuing and discontinued operations it amounts to HRK 317.1 million (previously HRK 317.4 million) and for the Pharmaceuticals segment HRK 154.2 million (previously HRK 152.3 million).

OTHER NOTES

Decimal differences are possible due to rounding.

SALES REVENUES BY SEGMENT IN 2017 (CONTINUING AND DISCONTINUED OPERATIONS)

	REPORTED SALES REVENUES				ADJUSTED SALES REVENUES			
(in HRK millions)	2017	2016	Δ	%	2017	2016	Δ	%
Food	**3,243.7**	**3,370.3**	**(126.6)**	**(3.8%)**	**3,245.5**	**3,250.7**	**(5.2)**	**(0.2%)**
Own brands	*2,987.0*	*3,123.6*	*(136.6)*	*(4.4%)*	*2,988.6*	*3,004.1*	*(15.4)*	*(0.5%)*
Other sales	*256.7*	*246.7*	*10.0*	*4.1%*	*256.8*	*246.6*	*10.2*	*4.1%*
Pharmaceuticals	**867.5**	**815.2**	**52.3**	**6.4%**	**867.5**	**815.2**	**52.3**	**6.4%**
Own brands	*728.9*	*681.8*	*47.0*	*6.9%*	*728.9*	*681.8*	*47.0*	*6.9%*
Other sales	*138.6*	*133.4*	*5.2*	*3.9%*	*138.6*	*133.4*	*5.2*	*3.9%*
Podravka Group	**4,111.2**	**4,185.5**	**(74.4)**	**(1.8%)**	**4,112.9**	**4,065.9**	**47.0**	**1.2%**
Own brands	*3,715.8*	*3,805.4*	*(89.6)*	*(2.4%)*	*3,717.5*	*3,685.9*	*31.6*	*0.9%*
Other sales	*395.3*	*380.1*	*15.2*	*4.0%*	*395.4*	*380.0*	*15.4*	*4.1%*

MOVEMENTS OF ADJUSTED REVENUES OF THE FOOD SEGMENT (2017 COMPARED TO 2016):

Own brands recorded 0.5% lower sales, significantly impacted by the dynamics of sales to the new distributor in Western Europe and the absence of sales of a portion of the Žito Group's bakery range to the key customer in the market of Slovenia. In the middle of 2016, Podravka replaced the distributor in Western Europe to whom in the last two months of 2016 total goods were sold in the amount of the realised sales of the first four and a half months of 2017. On the one hand, this reduced the sales to the distributor in the first quarter of 2017 and also formed a high comparative basis. At the end of 2016, unlisting of a certain portion of the Žito Group's bakery range began with the key customer in the market of Slovenia, which significantly impacted the revenue realised in 2017.

Other sales recorded 4.1% higher sales as a result, among other things, of the trade goods of the Lagris company sales growth.

Consequently, the Food segment in 2017 recorded sales slightly below the comparative period.

MOVEMENTS OF REVENUES OF THE PHARMACEUTICALS SEGMENT (2017 COMPARED TO 2016):

Own brands recorded a 6.9% sales growth, primarily due to the extension of the product range in the market of Russia.
Other sales revenues are 3.9% higher as a result of the increase in sales of trade goods in Deltis Pharm pharmacies.
Consequently, the Pharmaceuticals segment recorded 6.4% higher sales.

MOVEMENTS OF ADJUSTED REVENUES OF THE PODRAVKA GROUP (2017 COMPARED TO 2016):

Own brands of the Podravka Group recorded a 0.9% sales growth.
The revenues from other sales are 4.1% higher than in the comparative period. Consequently, the Podravka Group recorded 1.2% higher sales.

SALES REVENUE BY BUSINESS UNIT AND CATEGORY IN 2017 (CONTINUING AND DISCONTINUED OPERATIONS)

	REPORTED SALES REVENUES				ADJUSTED SALES REVENUES			
(in HRK millions)	**2017**	**2016**	**Δ**	**%**	**2017**	**2016**	**Δ**	**%**
BU Culinary	880.4	912.5	(32.1)	(3.5%)	881.1	895.9	(14.8)	(1.7%)
BU Baby food	378.3	467.2	(88.9)	(19.0%)	377.9	385.1	(7.1)	(1.9%)
BU Podravka food	388.7	388.1	0.6	0.1%	390.2	382.0	8.2	2.2%
BU Žito	894.0	901.3	(7.3)	(0.8%)	894.0	901.3	(7.3)	(0.8%)
BU Meat products	270.9	280.6	(9.6)	(3.4%)	270.9	266.1	4.8	1.8%
BU Fish	174.6	173.8	0.8	0.5%	174.6	173.8	0.8	0.5%
Prescription drugs	630.6	586.2	44.4	7.6%	630.6	586.2	44.4	7.6%
Non-prescription pr.	98.3	95.6	2.6	2.7%	98.3	95.6	2.6	2.7%
Other sales	395.3	380.1	15.2	4.0%	395.4	380.0	15.4	4.1%
Podravka Group	**4,111.2**	**4,185.5**	**(74.4)**	**(1.8%)**	**4,112.9**	**4,065.9**	**47.0**	**1.2%**

MOVEMENTS OF ADJUSTED REVENUES BY BUSINESS UNIT AND CATEGORY (2017 COMPARED TO 2016):

The Culinary business unit recorded 1.7% lower sales, primarily due to lower sales in Western Europe. Lower sales in Western Europe are related to the sales dynamics to the new distributor to whom in the last two months of 2016 the goods from the Culinary range were sold in the amount of the sales realised in the first five months of 2017.

The Baby food, sweets and snacks business unit recorded 1.9% lower sales, mainly as a result of lower sales of the snacks range due to poor acceptance of the redesign launched in mid 2016.

The Podravka food business unit recorded 2.2% higher sales, where the significant revenue growth of the vegetables range in the Croatian market should be noted, due to the expansion of distribution. This annulled lower sales of frozen vegetables in the Russian market due to limited packaging capacities of a Podravka's supplier from Serbia and lower sales of condiments in Western Europe due to the dynamics of sales to the new distributor.

A significant increase in sales of the Žito business unit was recorded in Western Europe, especially in Italy, Germany and Spain due to the extension of the product range and distribution. This was annulled by the significant absence of sales of a certain bakery range with the key customer in the Slovenian market due to unlisting that began at the end of 2016.

The Meat products, meat solutions and savoury spreads business unit recorded 1.8% higher sales.

The Fish business unit recorded 0.5% higher sales primarily due to higher sales of own brands in the Croatian market.

The Prescription drugs category recorded 7.6% higher sales, with the most significant growth recorded in the market of Russia due to extended product range.

The sales of the Non-prescription programme category grew by 2.7%, as a result of the extension of the product range in the Russian market, and implemented selling and marketing activities in the Croatian market.

The Other sales category recorded 4.1% higher sales, primarily due to the increase in sales of trade goods of the company Lagris and the increase in sales of trade goods in Deltis Pharm pharmacies.

SALES REVENUES BY REGION IN 2017 (CONTINUING AND DISCONTINUED OPERATIONS)

	REPORTED SALES REVENUES				ADJUSTED SALES REVENUES			
(in HRK millions)	2017	2016	Δ	%	2017	2016	Δ	%
Adria	**2,888.7**	**2,997.5**	**(108.7)**	**(3.6%)**	**2,888.4**	**2,903.8**	**(15.4)**	**(0.5%)**
Food	*2,267.8*	*2,375.8*	*(108.0)*	*(4.5%)*	*2,267.4*	*2,282.1*	*(14.6)*	*(0.6%)*
Pharmaceuticals	*621.0*	*621.7*	*(0.7)*	*(0.1%)*	*621.0*	*621.7*	*(0.7)*	*(0.1%)*
WE and Overseas	**423.0**	**420.6**	**2.4**	**0.6%**	**423.0**	**420.3**	**2.7**	**0.6%**
Food	*420.6*	*418.5*	*2.1*	*0.5%*	*420.6*	*418.2*	*2.3*	*0.6%*
Pharmaceuticals	*2.4*	*2.1*	*0.3*	*15.0%*	*2.4*	*2.1*	*0.3*	*15.0%*
Central Europe	**482.3**	**480.4**	**2.0**	**0.4%**	**482.3**	**480.4**	**2.0**	**0.4%**
Food	*428.5*	*431.3*	*(2.8)*	*(0.7%)*	*428.5*	*431.3*	*(2.8)*	*(0.7%)*
Pharmaceuticals	*53.8*	*49.0*	*4.8*	*9.8%*	*53.8*	*49.0*	*4.8*	*9.8%*
Eastern Europe	**286.9**	**262.1**	**24.8**	**9.4%**	**289.0**	**236.6**	**52.4**	**22.1%**
Food	*108.7*	*128.2*	*(19.6)*	*(15.3%)*	*110.8*	*102.8*	*8.1*	*7.8%*
Pharmaceuticals	*178.2*	*133.8*	*44.3*	*33.1%*	*178.2*	*133.8*	*44.3*	*33.1%*
New markets	**30.3**	**25.0**	**5.3**	**21.0%**	**30.2**	**24.8**	**5.4**	**21.7%**
Food	*18.2*	*16.5*	*1.7*	*10.3%*	*18.1*	*16.3*	*1.8*	*11.1%*
Pharmaceuticals	*12.1*	*8.5*	*3.6*	*41.7%*	*12.1*	*8.5*	*3.6*	*41.7%*
Podravka Group	**4,111.2**	**4,185.5**	**(74.4)**	**(1.8%)**	**4,112.9**	**4,065.9**	**47.0**	**1.2%**

MOVEMENTS OF ADJUSTED REVENUES BY REGION (2017 COMPARED TO 2016):

The Adria region recorded 0.5% lower sales compared to 2016. In the Food segment, the most significant sales growth was recorded by the business unit Podravka food due to expansion of the vegetables range distribution, which mitigated the absence of the Žito business unit revenues. In Slovenia, the Žito business unit recorded significantly lower revenues due to unlisting of a certain bakery range that began at the end of 2016. Revenues of the Pharmaceuticals segment in the Adria region were slightly lower than in the comparative period.

Revenues of the Western Europe and Overseas region were 0.6% higher than in the comparative period. Here the sales growth of the Žito business unit should be noted, due to the extension of the product range and distribution in the markets of Italy, Germany and Spain and the increase in revenues from trade goods of the Lagris company. This managed to compensate for the sales dynamics to the new distributor in the market of Western Europe to whom in the last two months of 2016 total goods were sold in the amount of sales realised in the first four and a half months of 2017. The Pharmaceuticals segment records a mild revenue growth in the market of Germany.

The Central Europe region recorded 0.4% higher sales. The Food segment recorded higher sales of own brands, which was annulled by lower sales of trade goods of the Lagris company. The Pharmaceuticals segment recorded 9.8% higher sales due to the increase in sales in the markets of Poland and the Czech Republic.

Revenues of the Eastern Europe region grew by 22.1%. The Food segment recorded a 7.8% sales growth due to selling activities on the Culinary range with the most significant customers and the increase in sales of trade goods of the Lagris company. The Pharmaceuticals segment records a 33.1% sales growth following the extension of the product range.

The New markets region recorded a 21.7% sales growth. The growth in the Food segment is encouraged by the sales growth in the Baby food, sweets and snacks business unit and of trade goods of the Lagris company, while in the Pharmaceuticals segment, sales of the Prescription drugs category grew in the market of Turkey.

PROFITABILITY OF THE FOOD SEGMENT IN 2017 (CONTINUING AND DISCONTINUED OPERATIONS)

PROFITABILITY OF THE FOOD SEGMENT					NORMALIZED			
(in HRK millions)	2017	2016	Δ	%	2017	2016	Δ	%
Sales revenue	3,243.7	3,370.3	(126.6)	(3.8%)	3,243.7	3,370.3	(126.6)	(3.8%)
Gross profit	1,039.3	1,107.0	(67.7)	(6.1%)	1,057.9	1,107.0	(49.1)	(4.4%)
EBITDA*	243.3	317.1	(73.9)	(23.3%)	277.5	314.4	(36.9)	(11.7%)
EBIT	8.3	158.2	(149.9)	(94.7%)	134.4	164.6	(30.2)	(18.3%)
Net profit after MI	(29.6)	111.3	(140.9)	126.6%)	83.0	121.3	(38.3)	(31.6%)
Gross margin	32.0%	32.8%		-80 bp	32.6%	32.8%		-23 bp
EBITDA margin	7.5%	9.4%		-191 bp	8.6%	9.3%		-77 bp
EBIT margin	0.3%	4.7%		-444 bp	4.1%	4.9%		-74 bp
Net margin after MI	(0.9%)	3.3%		-421 bp	2.6%	3.6%		-104 bp

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

NORMALIZED PROFITABILITY OF THE FOOD SEGMENT (2017 COMPARED TO 2016):

In 2017, the Food segment recorded 4.4% lower gross profit than in the comparative period due to lower revenues, but also due to changes in their structure. At the same time, cost of goods sold decreased by 3.4%, which eventually resulted in a gross margin of 32.6%.

In 2017, operating profit (EBIT) is 18.3% lower than in the comparative period. Almost half of the decrease in operating profit arises from lower profitability of the Žito Group, primarily due to the situation with the key customer in the Slovenian market. An additional negative impact on operating profit, in addition to the factors mentioned above, came from higher expenses of exercised share options (HRK 12.5 million in 2017; HRK 7.0 million in 2016) and unfavourable movements of foreign exchange differences on trade receivables and trade payables (HRK 5.2 million FX losses in 2017; HRK 3.1 million FX gains in 2016).

In 2017, under the impact of the previously mentioned factors, net profit after minority interests is 31.6% lower compared to 2016. An additional negative effect on net profit came from the increase in net finance costs due to unfavourable movements of FX differences on borrowings (HRK 10.6 million FX losses in 2017; HRK 8.6 million FX gains in 2016), which was partly mitigated by lower interest expense.

PROFITABILITY OF THE PHARMACEUTICALS SEGMENT IN 2017

PROFITABILITY OF THE PHARMACEUTICALS SEGMENT					NORMALIZED			
(in HRK millions)	2017	2016	Δ	%	2017	2016	Δ	%
Sales revenue	867.5	815.2	52.2	6.4%	867.5	815.2	52.2	6.4%
Gross profit	444.8	428.1	16.6	3.9%	470.1	430.5	39.6	9.2%
EBITDA*	130.8	154.2	(23.4)	(15.2%)	157.4	157.3	0.1	0.0%
EBIT	82.8	110.7	(27.9)	(25.2%)	116.7	115.8	1.0	0.9%
Net profit after MI	47.9	71.1	(23.3)	(32.7%)	82.6	76.3	6.2	8.1%
Gross margin	51.3%	52.5%		-125 bp	54.2%	52.8%		+139 bp
EBITDA margin	15.1%	18.9%		-383 bp	18.1%	19.3%		-115 bp
EBIT margin	9.5%	13.6%		-404 bp	13.5%	14.2%		-74 bp
Net margin after MI	5.5%	8.7%		-321 bp	9.5%	9.4%		+15 bp

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

NORMALIZED PROFITABILITY OF THE PHARMACEUTICALS SEGMENT (2017 COMPARED TO 2016):

In 2017, the Pharmaceuticals segment recorded an increase in gross profit of 9.2%, while gross margin is 54.2%. The recorded gross profit, in addition to the increase in revenue, was impacted by the increase in cost of goods sold of 3.3% in line with the sales structure.

In 2017, operating profit (EBIT) is 0.9% higher than in the comparative period. The recorded operating profit was, in addition to the factors mentioned above, affected by higher marketing expenses due to higher investments in the Russian market and extremely unfavourable FX movements on trade receivables and trade payables (HRK 7.3 million FX losses in 2017; HRK 15.4 million FX gains in 2016). Share option expenses were slightly below the comparative period (HRK 0.2 million in 2017; HRK 1.0 million in 2016).

In 2017, under the impact of the previously mentioned factors, net profit after minority interests is 8.1% higher compared to 2016. An additional positive effect on net profit came from higher finance income and favourable movements of foreign exchange differences on borrowings (HRK 0.3 million FX gains in 2017; HRK 2.6 million FX losses in 2016).

PROFITABILITY OF THE PODRAVKA GROUP IN 2017 (CONTINUING AND DISCONTINUED OPERATIONS)

PROFITABILITY OF THE PODRAVKA GROUP					NORMALIZED			
(in HRK millions)	2017	2016	Δ	%	2017	2016	Δ	%
Sales revenue	4,111.2	4,185.5	(74.4)	(1.8%)	4,111.2	4,185.5	(74.4)	(1.8%)
Gross profit	1,484.1	1,535.2	(51.1)	(3.3%)	1,528.1	1,537.6	(9.5)	(0.6%)
EBITDA*	374.1	471.3	(97.2)	(20.6%)	434.9	471.8	(36.9)	(7.8%)
EBIT	91.1	268.9	(177.8)	(66.1%)	251.1	280.3	(29.2)	(10.4%)
Net profit after MI	18.2	182.4	(164.2)	(90.0%)	165.6	197.7	(32.1)	(16.2%)
Gross margin	36.1%	36.7%		-58 bp	37.2%	36.7%		+43 bp
EBITDA margin	9.1%	11.3%		-216 bp	10.6%	11.3%		-69 bp
EBIT margin	2.2%	6.4%		-421 bp	6.1%	6.7%		-59 bp
Net margin after MI	0.4%	4.4%		-391 bp	4.0%	4.7%		-70 bp

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

NORMALISED PROFITABILITY OF THE PODRAVKA GROUP (2017 COMPARED TO 2016):

In 2017, the Podravka Group recorded 0.6% lower gross profit than in the comparative period, with a gross margin of 37.2%, where the Pharmaceuticals segment almost fully compensated for the lower gross profit of the Food segment.

In 2017, operating profit (EBIT) is 10.4% lower compared to 2016. Almost half of the decrease in operating profit arises from lower profitability of the Žito Group, primarily due to the situation with the key customer in the Slovenian market. An additional negative impact on operating profit, in addition to the previously mentioned factors, came from higher expenses of exercised share options (HRK 12.8 million in 2017; HRK 8.0 million in 2016) and unfavourable FX movements on trade receivables and trade payables (HRK 12.5 million FX losses in 2017; HRK 18.5 million FX gains in 2016).

In 2017, under the impact of the previously mentioned factors, net profit after minority interests is 16.2% lower than in the comparative period. An additional negative effect on net profit came from the increase in net finance costs due to unfavourable movements of FX differences on borrowings (HRK 10.3 million FX losses in 2017; HRK 6.0 million FX gains in 2016), partly mitigated by lower interest expense following the refinancing under more favourable commercial terms.

PODRAVKA GROUP'S OPERATING EXPENSES STRUCTURE (CONTINUING AND DISCONTINUED OPERATIONS)

PODRAVKA GROUP	REPORTED			NORMALIZED		
(in HRK millions)	**2017**	**2016**	**Δ**	**2017**	**2016**	**Δ**
Cost of goods sold	2,627.1	2,650.3	(0.9%)	2,583.1	2,647.9	(2.4%)
General and administrative expenses	368.9	333.0	10.8%	322.9	320.5	0.7%
Selling and distribution costs	629.4	590.7	6.6%	581.9	590.7	(1.5%)
Marketing expenses	369.6	371.5	(0.5%)	369.6	371.5	(0.5%)
Other expenses (revenues), net	25.1	(28.8)	n/a	2.5	(25.4)	n/a
Total operating expenses	4,020.1	3,916.6	2.6%	3,860.0	3,905.2	(1.2%)

Cost of goods sold in the observed period is 0.9% lower compared to 2016, while at the normalised level it is 2.4% lower, as a result of lower sales in the Food segment.

In 2017, general and administrative expenses were 10.8% higher than in the comparative period, primarily due to significantly higher costs of termination benefits. At the normalised level, general and administrative expenses are 0.7% higher due to, among other things, higher costs of exercised share options.

Selling and distribution costs in the observed period are 6.6% higher compared to 2016, primarily due to HRK 44.1 million of value adjustment cost on receivables from Agrokor. At the normalised level, selling and distribution costs are 1.5% lower.

In 2017, marketing expenses are 0.5% lower as a result of fewer marketing activities in the Food segment, while the Pharmaceuticals segment recorded an increase in marketing expenses, primarily in the Russian market.

Other expenses (revenues), net in 2017 amounted to negative HRK 25.1 million, while in the comparative period they amounted to positive HRK 28.8 million. In 2017, foreign exchange differences on trade receivables and trade payables amounted to negative HRK 12.5 million, while in the comparative period they amounted to positive HRK 18.5 million. Value adjustment cost in 2017 amounted to HRK 44.9 million, while in 2016 it amounted to HRK 11.0 million. In 2016, HRK 6.6 million of leaseback income was realised, which is absent in 2017.

KEY CHARACTERISTICS OF THE PODRAVKA GROUP'S FINANCIAL POSITION (CONTINUING AND DISCONTINUED OPERATIONS)

Intangible assets are HRK 27.7 million lower compared to 31 December 2016, primarily due to value adjustment of Warzywko and Perfecta brands.

Property, plant and equipment of the Podravka Group are HRK 13.6 million higher compared to 31 December 2016, which is related to the construction of the new Belupo factory.

Compared to 31 December 2016, inventories of the Podravka Group are HRK 32.2 million higher, as a result of increased plans for the production of own products and trade goods.

Trade and other receivables of the Podravka Group are HRK 229.8 million lower than as at 31 December 2016 due to value adjustment of HRK 44.1 million related to receivables from Agrokor, settlement of a portion of receivables for recourse bills of exchange, lower sales in the Food segment, and better collection in the Pharmaceuticals segment in the domestic and foreign markets.

Cash and cash equivalents of the Podravka Group at the end of the observed period are HRK 24.5 million higher compared to 31 December 2016, as explained in the following section.
As at 31 December 2017, long-term and short-term borrowings of the Podravka Group are HRK 105.6 million lower than as at 31 December 2016, due to repayment of a part of borrowings. In 2017, the Podravka Group refinanced two borrowings and redefined terms for the third borrowing under more favourable commercial terms.

Trade and other payables of the Podravka Group are 10.6% lower compared to 31 December 2016 due to the settlement of a portion of trade payables for the construction of the new pharmaceuticals factory and following the repurchase of recourse bills of exchange from a factoring company.

DEBT INDICATORS	REPORTED			NORMALIZED		
(in HRK millions)	**2017**	**2016**	**Δ**	**2017**	**2016**	**Δ**
Financial debt	1,271.1	1,379.4	(7.8%)	1,271.1	1,379.4	(7.8%)
Net debt*	909.1	1,041.7	(12.7%)	909.1	1,041.7	(12.7%)
Interest expense	26.9	31.5	(14.6%)	26.9	31.5	(14.6%)
Net debt / EBITDA	2.4	2.2	9.9%	2.1	2.2	(5.3%)
EBIT / interest expense	3.4	8.5	(60.3%)	9.3	8.9	4.9%
Equity to total assets ratio	57.2%	55.4%	+187 bp	57.2%	55.4%	+187 bp

*Net debt: Financial debt - Cash and cash equivalents.

As at 31 December 2017, the total debt of the Podravka Group related to borrowings and other interest-bearing financial liabilities was HRK 1,271.1 million, of which HRK 915.2 million relates to long-term borrowings, HRK 354.3 million to short-term borrowings, and HRK 1.6 million to swap and forward contract liabilities. The average weighted cost of debt on all the stated liabilities as at 31 December 2017 was 2.0%. The decrease in net debt as at 31 December 2017 compared to 31 December 2016 is primarily a result of repayment of a portion of borrowings in the amount of HRK 105.6 million. The decrease in net debt led to a slightly lower net debt to normalised EBITDA ratio, while lower interest expense positively impacted the interest coverage ratio.

KEY CHARACTERISTICS OF CASH FLOW OF THE PODRAVKA GROUP (CONTINUING AND DISCONTINUED OPERATIONS)

(in HRK millions)	2017	2016	Δ
Net cash flow from operating activities	473.4	476.7	(3.3)
Net cash flow from investing activities	(190.5)	(358.9)	168.4
Net cash flow from financing activities	(258.5)	(72.1)	(186.3)
Net increase / (decrease) in cash and cash equivalents	24.5	45.7	(21.3)

In 2017, net cash flow from operating activities is HRK 3.3 million lower than in the comparative period, primarily as a result of the lower level of operating activities. Movements of working capital had a positive impact on cash flow from operating activities, as well as lower interest paid.
Net cash flow from investing activities in the period under consideration amounted to negative HRK 190.5 million. This is primarily the result of capital expenditure amounting to HRK 206.2 million. The most significant capital expenditure in 2017 was related to:

- New Belupo factory for solid, semi-solid and liquid drugs – continuation of activities from 2016. The realisation of this strategic investment will increase the existing production capacities, which will meet the increasing market needs and ensure competitiveness and market position of Belupo;
- Investment in equipment and machinery for further development of fish business due to increased production capacities and competitiveness of the product range;
- Investment in a boiler house on biomass which will ensure significant energy efficiency;
- New line for pastry packaging. The investment relates to the replacement of the existing line, which will ensure the production continuity and create the precondition for extending the product range of salty pastry and biscuits packaging.

In 2017, net cash flow from financing activities amounted to negative HRK 258.5 million, since repaid borrowings were HRK 215.9 million higher than borrowings received and due to the dividend distribution in the amount of HRK 48.6 million. Borrowings received were used for refinancing of due liabilities under more favourable terms.

DISCONTINUED OPERATIONS OF THE PODRAVKA GROUP

The decision of the Podravka d.d. Management Board of 20 June 2013 announced the intention to start the procedure of disinvesting the Beverages business unit for the purpose of business improvement, decrease in operating expenses and strengthening company's innovation and competitiveness in its core business units. At the reporting date, Podravka d.d. classified the Beverages unit as discontinued operations in line with IFRS. At the end of 2016, Podravka d.d. sold the 100% share in Studenac d.o.o., and thus sold the Beverages unit that was carried as discontinued operations.

DISCONTINUED OPERATIONS				
(in HRK millions)	**2017**	**2016**	**Δ**	**%**
Sales revenues	-	82.2	n/a	n/a
Gross profit	-	30.8	n/a	n/a
EBITDA*	-	0.4	n/a	n/a
EBIT	-	(10.8)	n/a	n/a
Net profit after MI	-	(10.8)	n/a	n/a
Gross margin	-	37.5%		n/a
EBITDA margin	-	0.5%		n/a
EBIT margin	-	(13.1%)		n/a
Net margin after MI	-	(13.1%)		n/a

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

NORMALIZATION OVERVIEW (CONTINUING AND DISCONTINUED OPERATIONS)

(in HRK millions)	2017 Group	2017 Food	2017 Pharma	2016 Group	2016 Food	2016 Pharma
Reported gross profit	1,484,1	1,039.3	444.8	1,535.2	1,107.0	428.1
+ amortization included in COGS	2.6	2.6	-	-	-	-
+ value adjustments	16.0	16.0	-	-	-	-
+ new Belupo factory expenses (+ amortization)	25.4	-	25.4	2.4	-	2.4
Normalized gross profit	1,528.1	1,057.9	470.1	1,537.6	1,107.0	430.5
Reported EBITDA	374.1	243.3	130.8	471.3	317.1	154.2
+ expense related to China closing	1.3	1.3	-	-	-	-
+ severance payments	39.9	31.3	8.6	12.4	11.7	0.8
+ revenues from sale of Studenac	-	-	-	(7.8)	(7.8)	-
+ leaseback income Umag	-	-	-	(6.6)	(6.6)	-
+ new Belupo factory expenses (- amortization)	18.0	-	18.0	2.4	-	2.4
+ other one-off items	1.6	1.6	-	-	-	-
Normalized EBITDA	434.9	277.5	157.4	471.8	314.4	157.3
Reported EBIT	91.1	8.3	82.8	268.9	158.2	110.7
+ expense related to China closing	1.3	1.3	-	-	-	-
+ severance payments	39.9	31.3	8.6	12.4	11.7	0.8
+ revenues from sale of Studenac	-	-	-	(7.8)	(7.8)	-
+ leaseback income Umag	-	-	-	(6.6)	(6.6)	-
+ value adjustments	88.9	88.9	-	11.0	9.1	1.9
+ amortization	2.9	2.9	-	-	-	-
+ new Belupo factory expenses (+ amortization)	25.4	-	25.4	2.4	-	2.4
+ other one-off items	1.6	1.6	-	-	-	-
Normalized EBIT	251.1	134.4	116.7	280.3	164.6	115.8
Reported Net profit	18.2	(29.6)	47.9	182.4	111.3	71.1
+ expense related to China closing	1.3	1.3	-	-	-	-
+ severance payments	39.9	31.3	8.6	12.4	11.7	0.8
+ revenue from sale of Studenac	-	-	-	(7.8)	(7.8)	-
+ leaseback income Umag	-	-	-	(6.6)	(6.6)	-
+ value adjustments	88.9	88.9	-	11.0	9.1	1.9
+ amortization	2.9	2.9	-	-	-	-
+ ESOP programme expenses	3.8	3.1	0.7	2.9	2.4	0.5
+ new Belupo factory expenses (+ amortization)	25.4	-	25.4	2.4	-	2.4
+ other one-off items	1.6	1.6	-	-	-	-
+ one-off items with effect on taxes*	(16.5)	(16.5)	-	1.0	1.3	(0.3)
Normalized Net profit	165.6	83.0	82.6	197.7	121.3	76.3

*Note: normalization of results does not include all potential tax impacts that would arise from the normalization process.

Podravka Group expected development

During its rich history, Podravka conquered the world with its products. Today it is the only Croatian multinational food company with offices in 25 countries in the world, and its products are present in over 60 countries on almost all continents.

During 70 years of operations, solid business foundations have been made, respecting the tradition and its values, work and labour of generations of employees. Today we invest in new knowledge and by following technologies and trends we proudly build our future.

"We know where we're going, because we know where we come from."

ACHIEVING GROWTH

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

Key success characteristics will be further strengthening of operations on international markets and retaining positions on the domestic market, as well as the digitalization and new business models.

In both strategic business areas, Food and Pharmaceuticals, a strong innovation cycle is underway, and an additional potential is reflected in strengthening of Nutraceutics and in achieving synergy effects resulting from the cooperation of these two business areas.

In the markets of the Adria region, the Podravka Group aims to be the leading manufacturer of branded products, and in Central and Eastern Europe it aims to achieve additional growth and strengthen market positions. In Western Europe and Overseas the aim is to expand the presence, come closer to domestic customers and focus on the portfolio development.

GENERAL STRATEGIC GOALS

To satisfy the interests of owners and stakeholders, through growth, business development and internal efficiency.

To be the leading food company on defined strategic markets and a recognizable supplier of pharmaceutical products in the region.

To provide new and innovative culinary solutions for the consumers and by implementing nutritive strategy, launch top-quality products with added value. To keep pace with or be ahead of the average of industries in which Podravka does business on key markets regarding the levels of cost and production efficiency. To reduce costs of procurement, sales and distribution, general and administrative costs and thus enable higher investments in marketing, research and product development, and to improve cash flow, necessary for optimum operations, by better financial management. To be the leader or strong second place competitor in defined business units on strategic markets and to strengthen the existing international markets. To contribute to the development of the Croatian economy and to be the consolidator of the food industry in the region.

Key factors of success

1. COMPANY STRENGTHS AND VALUES

Employees
The key of Podravka's success are professional, creative and ambitious employees, willing to contribute to the company's well-being and to invest additional efforts and time in achieving above-average results.

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

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

Long-established tradition
Over 70 years, together with customers, we have built the tradition that nourishes Croatian quality, the strength of domestic products and pride of domestic values.

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

Partner relations
The existing and future partners and consumers are the most valuable company's external potential and they are therefore approached with special care in an open and responsible communication. The company builds trust based on mutual respect of employees, as well as clients and consumers.

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

2. PROFITABLE GROWTH

Strengthening the existing market positions

The focus is on strengthening the existing markets where Podravka's brands have been recognised and which have developed selling and distribution network.

Focus on key brands

Podravka will be focusing on brands that have strong prospects on international markets, from which an above-average growth is expected – Vegeta, Podravka, Belupo, Lino and Žito.

Internationalization

Podravka focuses on increasing the share of income from international markets that will positively impact the reduction in operational risk and ensure the company's long-term growth.

Business investments

By increasing operating efficiency, additional capital is released, and the Podravka Group intends to invest it in further business. Through good investment cycle management and significant investments in marketing, we aim to use the potential of markets of strategic importance.

Synergy of the food segment and the pharmaceutical segment

To use the food and pharmaceuticals synergy potential, and develop new, innovative products through the Nutraceutics programme.

Strategic partnerships and acquisitions

The Podravka Group plans its business development on both organic and inorganic growth, through acquisitions and strategic alliances.

3. OPERATING EFFICIENCY

More efficient cost management

The key element to more efficient operations is good cost management. Podravka will continue to perfect its processes and activities with the aim of an even better control and management of COGS and operating expenses.

Business units

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

Continuous monitoring of product range profitability

After abandoning low-profitability segments, Podravka focuses on profitability through restructuring of certain areas and thus intends to release capital for investments in profitable categories.

Internal competencies development
Sharing knowledge among employees, through own education courses and experience, Podravka takes care of the competencies of its employees, improving internal processes and encouraging innovation within the company.

Strategy cascading – clear goals and responsibilities
Podravka gives importance to the strategy, goals and cascading to lower organizational units. This clearly defines individual responsibilities and obligations that need to be fulfilled, in order to realize the goals set.

Generating the base for profitable growth
By using all resources we will actively work on increasing efficiency of the whole Group, strengthen internal resources and capabilities and we will focus our investments on strategic brands in key markets.

Risk factors

In its operations, the Podravka Group is exposed to risks typical of economic entities operating on the domestic and foreign markets, especially to those common in food and pharmaceutical industries. Various internal and external factors cause risks manifested in an inability to realize the company's set goals, which impact the company's financial position and operating result.

External factors relate to impacts from the environment such as economic, political, technological, social risks and risks related to changes in legal regulations. These risks may have a significant impact on the industry as a whole or individually on the Podravka Group. Economic and political risks may have an impact on the implementation of strategic business decisions and on the regular operations, whether at the level of a country or beyond. Technological risk refers to innovation and improvement of production processes, or risk of obsolescence of the existing production technologies. The legal regulations of individual countries such as tax legislation, market pricing restrictions, product safety, warranty claims, protection of intellectual property and trademarks, patents, market competition, employee safety and security, corporate policies, employment and labour regulations, etc., also have an impact on the ability to achieve growth and planned profitability in a particular market. The lack of adjustment to these regulations could have a significant impact on expenses related to operations, as well as the company's overall reputation.

Therefore, the Podravka Group uses its own as well as external resources from various fields of expertise in order to ensure compliance with the norms that regulate specific areas. Equally, sales and operations are under influence of social and political events, which becomes evident in situations when companies operate in developing countries, with big growth potentials on the one hand but which expose the companies to increased political, economic and social risks on the other.

In addition to these external factors, the Podravka Group is exposed to various internal risk factors. However, a company has greater ability to impact the internal factors than external ones, through its regular business policies and decisions.

Podravka Group activities in the area of risk management are focused on developing the project of Enterprise Risk Management; ERM. The project refers to the process of integrated analyses and reports on key risks that the company is exposed to, identifying potential events which can have negative effects on the company's business results and managing identified risks. Within the project, key risks are divided into three basic groups: strategic, financial and operating risks. Treasury department of Podravka d.d. is in charge of management and supervision of the ERM project, and it is performed in cooperation with other organization units and related companies of the Podravka Group. All the risks can be additionally divided into insurable and non-insurable. Insurable risks are managed by the Insurance division within the Treasury department, and together with uninsurable risks they undergo the analysis and reporting process within the ERM project. During 2017, the Podravka Group continued to extend the scope of the ERM project, including in it additional business units for which the identification and analysis of risk were conducted, for the purpose of building a more efficient risk culture at the level of the Group as a whole, implying that every business activity holder involved in the project also takes on the role of a "risk manager".

In addition to being a tool for improving business processes, the purpose of the ERM project is to limit company's potential losses, improve stakeholder management through efficient communication about the risks with employees and other stakeholders, within and outside the company, to increase the company's financial safety and integrate risk reports and analyses into the decision-making process, with the aim of matching return rates with assumed risks arising from operating activities, thus creating an additional value for the company and the Group.

BRANDS MANAGEMENT

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

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

Through the continuous innovation so far, within the existing product range and by launching new categories, the Podravka Group confirms it is the food industry trendsetter in Croatia and the region.

BUSINESS SEGMENTS MANAGEMENT

As a company that sees the achievement of its goals through both organic and inorganic business growth, the optimum selection of strategic segments of product categories, markets and sales channels have a significant impact on the opportunities for that growth. For that reason, the Podravka Group pays great attention to evaluation and decision-making regarding strategic investments and considering the opportunities that can potentially contribute to realising added value for investors. In addition, special attention is paid to monitoring and analysing the segments and markets that are estimated not to have long-term potentials for realizing the desired business results.

Through acquisition activities, expansion of operations onto new markets and the development of new products the Podravka Group additionally internationalises its operations and diversifies its product portfolio. This way the risk of dependence on a particular product, market or business partner is reduced.

CLIENT RELATIONS MANAGEMENT

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

With its marketing strategies, activity plans at points of sale and those oriented to strengthening the recognisability of brands, the Podravka Group affects the intensity of product demand and thereby also negotiation positions when defining the terms and conditions with clients.

In addition, the Podravka Group makes efforts to ensure, through harmonization and optimization of the existing pricing policies and price levels on the existing markets, preconditions for further successful long-term growth. The profit margins are thereby protected, and the risk of not achieving the planned sales is reduced.

MANAGING THE RISKS OF MANAGEMENT AND HUMAN RESOURCES

An important company's resource is employees and their abilities and skills that help in achieving company's goals and creating added value. Continuous improvement of business processes requires changes in the qualification structure of employees (something that the company intensely worked on over the past years), and with high-quality redundancy labour programs the age structure of the company is improved. Personnel potential is one of the essential factors for the Podravka Group's growth, and it is continuously investing in their professional training and education. The Podravka Group conducts periodic evaluation of management results, including evaluation of their management skills in order to create presumptions for long-term realization of its goals. Additionally, the Podravka Group uses a number of other proactive measures and controls to keep, as much as possible, these risks at an acceptable level. Management and employee risks, monitored by the Human resources and legal department, are included in 2017 in the analysis and reporting process within the ERM project.

QUALITY ASSURANCE AND FOOD SAFETY MANAGEMENT SYSTEM

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

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

All products and business processes are based on the principles of quality management, including the selection of key suppliers of raw materials, in order to ensure the required quality of the finished product. Constant and systematic care regarding the sanitary validity and product safety is taken, compliant to legal regulations of the Republic of Croatia, the European Union and other countries where the Group operates, as well as on adjustment and safety of IT systems used as a support to the overall business of the Podravka Group.

FINANCIAL RISKS

An integral part of the overall ERM project is the reporting procedure for the purpose of managing financial risks. This procedure is applied when it is assessed that due to extraordinary circumstances an immediate decision on some business activities has to be made in a manner that differs from the Podravka Group's prescribed procedures, which may jeopardise the profitability or cause a significant loss of company's cash (escalation procedure for managing financial risks).

Financial risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

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

CURRENCY RISK

The Podravka Group conducts certain transactions in foreign currencies, and is therefore exposed to the risk of fluctuations in exchange rates. The most significant exposure to changes in exchange rates of the Croatian kuna during 2017 was in relation to EUR, USD and BAM.

Currency risks arise not only from operations of related parties in foreign markets, but also from the procurement of raw food materials in the international market, which is largely performed in EUR and USD. Likewise, a significant portion of Podravka Group's borrowings is denominated in EUR. During 2017, the exchange rate of the Croatian kuna against EUR remained stable, but at lower average levels than the year before, as a consequence of appreciation pressures on the Croatian kuna due to favourable economic trends.

During 2017, the Podravka Group performed the balance sheet currency structure analysis and continued to apply the model of managing transaction currency risk called "Layer hedging". This model is applied to the following currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The integral parts of the model include the identification of risk sources and exposure measurement (using Monte Carlo method of Value at Risk simulation), process of contracting derivative financial instruments for hedging purposes and the control and reporting system. Additionally, within the model, exposure limit parameters were set which are triggers for contracting the prescribed hedge levels. Using Bloomberg terminal, macroeconomic projections are regularly monitored and derivative financial instruments for currency risk management are contracted. Also, the Podravka Group endeavours to maximise the possibilities of "natural hedging" in order to achieve that the inflows from related parties, whenever possible, are forwarded to Podravka d.d. in the domestic currency of the country where the related company operates. This way, the currency risk is largely transferred from related parties to Podravka d.d. that adjusts these cash inflows with outflows, thus reducing the overall exposure to currency risk, and also creating the opportunity to contract derivative financial instruments for the remaining amount of net cash flow at the central level.
During 2017, Podravka d.d. concluded fx forward contracts for managing exchange rate risks for USD, AUD, CAD, RUB, HUF and PLN. For exposure to changes in exchange rates of the Croatian kuna against EUR, no derivative financial instruments for hedging purposes were contracted, due to limited exchange rate volatility and the exchange rate regime implemented by the Croatian National Bank. Belupo d.d., a company within the Podravka Group, earns a significant portion of income on the Russian market and is thus exposed to changes of the RUB exchange rate. With the purpose of active monitoring and minimizing the currency risk, in 2017 fx forward contracts were contracted as available hedging instruments and the prices denominated in RUB were adjusted.

INTEREST RATE RISK

The Podravka Group manages cash flow interest rate risk in a way to have contracted interest rate swaps, replacing the liabilities at variable interest rates by fixed interest rates. Changes and projections of interest rates are continuously monitored. For a part of its debts, the Podravka Group contracted fixed interest rates. Taking into account this and the fact that the key interest rates are currently at low levels, the Podravka Group is not significantly exposed to interest rate risk.

PRICE RISK

The Podravka Group's 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 the Podravka Group manufactures, and is therefore subject to fluctuations of prices on the market of agricultural, food and pharmaceutical raw materials, the impact of which cannot always be compensated through the sale price for the buyer.

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

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

In order to reduce those impacts, the Podravka Group's Procurement department manages the strategic procurement categories and key suppliers in a way that it develops partnership relations with the existing and new suppliers. Also, enlarging procurement volumes, fully applying the Commodity Risk Management, conducting e-tenders and using new import regimes are some of the activities the Podravka Group uses to reduce procurement costs, in the conditions of extreme price volatility of individual strategic raw materials.

CREDIT RISK AND RISK OF COLLECTION

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

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

As of 10 April 2017, the extraordinary administration over companies in the Agrokor Group headquartered in Croatia was initiated. In the extraordinary administration procedure, Podravka Group companies claimed relevant receivables. Podravka continues its business cooperation with companies of the Agrokor Group, taking into account the control of its overall exposure.

The company accepts new customers and continues cooperation with existing customers with payment delays subject to meeting the company's credit rating parameters. Receivables are analysed on a weekly basis and necessary measures are taken with respect to their collection.

Protection measures are defined based on the financial indicators for individual customers, using several services where the required information is available (financial statements, credit ratings etc.). The company's exposure analysis and credit exposure are monitored and controlled through credit limits set by the company and insurer, which are continuously controlled and adjusted if appropriate.

Depending on the needs and collection of receivables on individual markets, during 2017 the Podravka Group contracted insurance of receivables for a selected group of markets.

During 2017, the Podravka Group did not have significant damage claims related to the insurance of collection of receivables.

LIQUIDITY RISK

The Podravka Group manages liquidity risk by setting an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements and by maintaining adequate reserves and credit lines. During 2017, additional efforts were made in planning cash flows at the level of all related companies that are aggregated at the Podravka Group level and forecast and actual cash flows are continuously monitored, with matching the maturity profiles of receivables and payables. The Podravka Group continuously monitors and analyses cash flows with the aim of an optimum liquidity management in order to ensure sufficient level of cash funds for the purpose of operations using contracted credit lines as necessary. Planning cash flows in this way takes into account the Podravka Group's plans with respect to regular settlement of debt and adjustment to the relations set by contracts.

CORPORATE GOVERNANCE

Statement on corporate governance

In compliance with the main 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 work follow the principles of corporate governance.

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

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

Key principles of corporate governance that Podravka d.d. applies are:

- business transparency
- clear procedures for the work of the Management Board, the Supervisory Board and its committees and the General Assembly
- avoiding conflict of interest
- efficient internal control and
- efficient system of responsibility.

Aware of the importance of responsible and ethical behaviour of business entities, Podravka d.d. adopted the Code of Ethics in business of the Podravka Group, committing to respect ethical principles in all of its business relations and adopting the obligation to act in compliance with principles of responsibility, truthfulness, efficiency, transparency, quality, acting in good faith and respecting good business practice towards business partners, business and social environment and own employees.

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

The annual consolidated financial statements of Podravka d.d. and the Annual report on the position of Podravka d.d. are submitted as a single annual report of the Podravka Group, which includes the subsidiaries of Podravka d.d stated below.

Subsidiaries

NAME OF SUBSIDIARY	COUNTRY	2017	PRINCIPAL ACTIVITY
Belupo d.d., Koprivnica	Croatia	100%	Production and distribution of pharmaceuticals
Belupo doel, Skopje*	Macedonia	100%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100%	Sale and distribution of pharmaceuticals
Belupo Ljubljana*	Slovenia	100%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm Koprivnica*	Croatia	100%	Sale and distribution of pharmaceuticals
Farmavita d.o.o. Vogošća*	B&H	65%	Production and distribution of pharmaceuticals
Mirna d.d. Rovinj	Croatia	90%	Fish processing and production
Podravka - Lagris a.s., Dolni Lhota u Luhacovi	Czech Republic	100%	Rice sale and distribution
Podravka-Polska Sp.z o.o., Warszawa	Poland	100%	Seasonings manufacture and sale
Podravka-International Kft, Budapest	Hungary	100%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –"Konar" GmbH München	Germany	100%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen **	Slovakia	100%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	100%	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100%	Production of wafers
Podravka-International s.r.l., Bucharest	Romania	100%	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100%	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	B&H	100%	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100%	Sale and distribution of food and beverages
Podravka d.o.o., Moscow	Russia	100%	Sale and distribution of food and beverages

Vegeta Podravka Limited, Dar es Salaam***	Tanzania	85%	Production and sale of food
Vegeta Ltd.****	Kenya	80%	Sale and distribution
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100%	Sale and distribution
Žito d.o.o., Ljubljana*****	Slovenia	100%	Production and distribution of food
Intes Storitve d.o.o., Maribor	Slovenia	100%	Production and distribution of food
Šumi bonboni d.o.o., Ljubljana	Slovenia	100%	Production and distribution of food
Žito maloprodaja d.o.o., Ljubljana	Slovenia	99.89%	Sale of food and beverages - retail
ZRIŽ g.i.z., Ljubljana	Slovenia	100%	Services
LD Žito d.o.o. v likvidaciji, Zagreb	Croatia	100%	Sale and distribution of food
Podravka d.o.o., Ljubljana	Slovenia	100%	Sale and distribution of food and beverages

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

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

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

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

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

General Assembly

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

The General Assembly can pass valid resolutions if it is represented by at least 30% (thirty percent) of the total number of shares with voting rights. The General Assembly is chaired by the president appointed by the Supervisory Board, at the proposition of the Management Board.
Shareholders, proxies and authorized persons of shareholders get the right to vote at the General Assembly meeting using voting ballots marked with the number of votes belonging to an individual General Assembly participant. All the materials related to the calling and holding the General Assembly meeting are available on the website of Podravka d.d. in the Investors/Corporate governance/General Assembly section.

Supervisory Board

The Supervisory Board of Podravka d.d. has nine members, eight of whom are elected by the shareholders at the General Assembly meeting by three-quarter majority of votes, while one member is appointed by the Workers' Council of Podravka d.d. as stipulated by the provisions of the Labour Act. Members of the Supervisory Board are appointed to a four-year term. The beginning of the term for every member of the Supervisory Board is as of the day of the election, i.e. their appointment, unless otherwise determined by an election resolution. The Supervisory Board supervises business operations of Podravka d.d., and makes decisions on issues in their domain based on law, Articles of Association of Podravka d.d. and the Rules of Procedure of the Supervisory Board.

Podravka d.d. Supervisory Board members in 2017:

1. Dubravko Štimac – President
2. Luka Burilović – Deputy President from 21 February 2017
3. Mato Crkvenac – Deputy President until 21 February 2017
4. Ivo Družić – Member until 21 February 2017
5. Damir Grbavac – Member from 21 February 2017
6. Ksenija Horvat – Member (workers' representative)
7. Marko Kolaković – Member from 21 February 2017
8. Ivana Matovina – Member from 30 June 2017
9. Petar Miladin – Member
10. Dinko Novoselec – Member until 30 June 2017
11. Slavko Tešija – Member from 21 February 2017
12. Petar Vlaić – Member.

The Supervisory Board of Podravka d.d. founded three committees: the Audit Committee, the Remuneration Committee and the Corporate Governance Committee.

The Audit Committee members in 2017 were:

1. Ivana Matovina – President of the Committee
2. Mato Crkvenac – Member until 30 March 2017
3. Dinko Novoselec – Member until 18 July 2017
4. Dubravko Štimac – Member from 18 July 2017
5. Slavko Tešija – Member from 30 March 2017
6. Petar Vlaić – Member.

The Audit Committee is authorised to monitor the financial reporting procedure, the efficiency of the internal control system, internal audit and risk management system, to supervise the audit of the consolidated annual financial statements, to monitor the independence of independent auditors or auditing companies performing the audit, and particularly contracts on additional services, to discuss plans and the annual report by the internal audit, and to discuss significant issues related to this area, to provide recommendations to the Supervisory Board on selecting an independent auditor or an auditing company.
The Audit Committee held eight sessions in 2017.

The Remuneration Committee members were:
1. Petar Vlaić – President of the Committee until 30 March 2017
2. Luka Burilović – President of the Committee from 30 March 2017
3. Mato Crkvenac – Member until 21 February 2017
4. Petar Miladin – Member from 30 March 2017
5. Dubravko Štimac – Member.

The Remuneration Committee is authorised to propose the policy of rewarding Management Board members, fixed and variable parts of salaries, retirement plan and severance payments, to suggest objective criteria for evaluation of business success, which are necessary to calculate the variable parts of the remuneration which need to be in line with long-term interests of the shareholders and objectives of Podravka d.d. set by the Supervisory Board, to suggest remuneration for individual Management Board members compliant to the remuneration policy and estimation of individual Management Board member's activities, to suggest additional contents in contracts of Management Board members, to consult at least the Supervisory Board president and the Management Board president about their attitudes regarding remunerations to Management Board members, to track amounts and structure of the remunerations to senior management and to provide general recommendations to the Management Board in this respect, to suggest a remuneration method and amount for Supervisory Board members.
The Remuneration Committee held one session in 2017.

The Corporate Governance Committee was established on 30 June 2017 and consists of:
1. Marko Kolaković – Member of the Committee
2. Luka Burilović – Member
3. Petar Miladin – Member
4. Petar Vlaić – Member.

The Corporate Governance Committee is authorised to improve corporate governance and transparency of operations of Podravka d.d., to propose, advise and supervise the implementation of the business strategy in line with the mission and vision of Podravka d.d., to propose and supervise the procedures for the management bodies of Podravka d.d. and prevention of the conflict of interest, to provide guidelines to the Management Board, the Supervisory Board and committees and other bodies for the responsible work and mutual reporting for the purpose of a successful performance of tasks and authorities, to harmonise rights and interests of shareholders, investors, stakeholders and other interested parties in Podravka d.d. with management and operations of Podravka d.d. management and to propose guidelines for the development of the dividend policy.
The Corporate Governance Committee performed its role in a workshop and sessions of the Supervisory Board and did not hold a separate session in 2017.

Supervisory Board members of Podravka d.d. are entitled to a fixed monthly compensation as determined by the General Assembly Resolution on determining remuneration for Podravka d.d. Supervisory Board members. In 2017, members of the Supervisory Board of Podravka d.d. were paid HRK 1,323 thousand, and if the remunerations to members of the Supervisory Boards of Belupo d.d. and Žito d.o.o. are added to this amount, Supervisory Board members at the Podravka Group level were paid HRK 1,863 thousand.

Management Board

Pursuant to the provisions of the Articles of Association of Podravka d.d., the Management Board consists of three to six members appointed by the Supervisory Board. The Management Board is appointed for the period as determined by the Supervisory Board (not longer than five years) and they can be reappointed. If the president or members of the Management Board are appointed during the term of the existing Management Board, their term lasts until the expiry of the term of the Management Board as a whole. The beginning of the term is as of the date the Management Board members are appointed if not otherwise stipulated in the Supervisory Board's decision.

Management Board members manage Podravka d.d.'s affairs, and the manner of work and division of tasks among Management Board members are determined by the Rules of Procedure of the Management Board.

At the session held on 23rd February 2017, the Supervisory Board appointed the president and members of Podravka d.d. Management Board. Marin Pucar was appointed president of the Management Board, and members appointed were Iva Brajević, Hrvoje Kolarić and Ljiljana Šapina whose term started as of 24th February 2017 and ends on 31st October 2018, except for Iva Brajević who was appointed until 30th April 2017.

At the same session of the Supervisory Board, Davor Doko was also appointed as a member to the Management Board. His term started as of 1st May 2017 and lasts until the expiry of the term of the Management Board as a whole.

At its session held on 18th July 2017, the Supervisory Board decided to prolong the term of the president and members of the Management Board until 23rd February 2022.

At the same session, the Supervisory Board appointed Marko Đerek as a member to the Management Board of Podravka d.d. His term started as of 19th July 2017 and ends on 23rd February 2022.

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

Management Board members in 2017:

1. Zvonimir Mršić – President until 23 February 2017
2. Marin Pucar – President from 24 February 2017
3. Olivija Jakupec – Member until 23 February 2017
4. Ljiljana Šapina – Member from 24 February 2017
5. Iva Brajević – Member until 30 April 2017
6. Davor Doko – Member from 1 May 2017
7. Marko Đerek – Member from 19 July 2017
8. Hrvoje Kolarić – Member.

Compensation to an individual Podravka d.d. Management Board member has been determined by the management contract concluded with Podravka d.d. and approved by the Supervisory Board on behalf of Podravka d.d. Gross salaries and compensation paid in 2017 to Podravka d.d. Management Board members amounted to HRK 16,698 thousand and if remunerations for Management Board members of Belupo d.d. are added to this amount, Management Board members at the Podravka Group level were paid a total of HRK 20,838 thousand.

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

During 2017, 32,000 stock options of Podravka d.d. were granted to the members of the Management Board of Podravka d.d.

CORPORATE GOVERNANCE CODE

Annual questionnaire

MAIN COMPANY INFORMATION: PODRAVKA D.D., ANTE STARČEVIĆA 32, KOPRIVNICA, PIN: 18928523252

CONTACT PERSON AND CONTACT PHONE: BRANKA PERKOVIĆ, +38548651441

DATE OF QUESTIONAIRE COMPLETE: 23.1.2018.

All the questions contained in this questionnaire relate to the period of one bussines year to which the annual financial statements also relate.
If a question in the questionnaire asks for an explanation, it is necessary to explain the answer provided. All the answers in the questionnaire will be measured in percentages, as explained at the beggining of each chapter.

COMPANY HARMONIZATION WITH THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

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

1. Has the company accepted implementation of the code of corporate governance of the Zagreb Stock Exchange?

Yes ☑ No ☐

2. Does the company have its own code of corporate governance?

Yes ☑ No ☐

3. Have any principles of the code of corporate governance been adopted as part of the company's internal policies?

Yes ☑ No ☐

4. Does the company disclose harmonization with the principles of corporate governance in its annual financial statements?

Yes ☑ No ☐

SHAREHOLDERS AND GENERAL MEETING

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

5. Is the company in a cross-shareholding relationship with another company or other companies? (If so, explain)

Yes ☐ No ☑

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

Yes ☑ No ☐

7. Are there cases of different treatment of any shareholders? (If so, explain)

Yes ☐ No ☑

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

Yes ☑ No ☐

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

Yes ☐ No ☑

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☐ No ☑

MANAGEMENT AND SUPERVISORY BOARD

Please provide the names of Management Board members and their functions:
Zvonimir Mršić (presidenf of the Management Board until 23.2.2017), Marin Pucar (presidenf of the Management Board from 24.2.2017), Olivija Jakupec (member of the Management Board until 23.2.2017), Ljiljana Šapina (member of the Management Board from 24.2.2017), Iva Brajević (member of the Management Board until 30.4.2017), Davor Doko (member of the Management Board from 1.5.2017), Marko Đerek (member of the Management Board from 19.7.2017) 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 until 21.2.2017), Luka Burilović (deputy president of the Supervisory Board from 21.2.2017), Ivo Družić (member of the Supervisory Board until 21.2.2017), Damir Grbavac (member of the Supervisory Board from 21.2.2017), Ksenija Horvat (member of the Supervisory Board), Ivana Matovina (member of the Supervisory Board from 30.6.2017), Petar Miladin (member of the Supervisory Board), Dinko Novoselec (member of the Supervisory Board until 30.6.2017), Slavko Tešija (member of the Supervisory Board from 21.2.2017) and Petar Vlaić (member of the Supervisory Board).

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

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

Yes ✓ No ☐

20. Did the Supervisory or Management Board pass its internal code of conduct?

Yes ✓ No ☐

21. Does the company have any independent members on its Supervisory or Management Board? (if not, please explain)

Yes ✓ No ☐

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

Yes ✓ No ☐

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

Yes ☐ No ✓

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

Yes ✓ No ☐

25. Have detailed records on all remunerations and other earnings of each member of the management or each executive director received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)

Yes ☐ No ✓

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

Yes ☐ No ☑

27. Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company 's shares promptly and no later than three business days, after such a change occurs? (If not, explain)

Yes ☑ No ☐

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☑ No ☐

34. Did the Supervisory or Management Board establish the audit committee?

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☐ No ☑

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Yes ☑ No ☐

46. Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☐ No ☑

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

Yes ☑ No ☐

AUDIT AND MECHANISMS OF INTERNAL AUDIT

Answers to this questionnaire chapter will be valued with a max. 10% of the whole questionnaire valuation of company harmonization with the principles of Corporate Governance Code

51. Does the company have an external auditor?

Yes ☑ No ☐

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

Yes ☐ No ☑

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

Yes ☑ No ☐

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

Yes ☐ No ☑

55. Does the company have internal auditors?

Yes ☑ No ☐

56. Does the company have an internal audit system in place? (If not, explain)

Yes ☑ No ☐

TRANSPARANCY AND THE PUBLIC OF ORGANIZATION OF BUSINESS

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

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

Yes ✓ No ☐

58. Did the company prepare the calendar of important events?

Yes ✓ No ☐

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

Yes ✓ No ☐

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

Yes ✓ No ☐

61. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company? (if yes, explain)

Yes ☐ No ✓

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

Yes ✓ No ☐

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

Yes ✓ No ☐

PODRAVKA D.D. SECURITIES

Share

TURNOVER, VOLUME AND PRICE MOVEMENT OF PODRAVKA'S SHARE

The total turnover of Podravka's share in 2017 was 1.2% higher compared to 2016, while total regular turnover of all shares on the Zagreb Stock Exchange in the same period recorded a 37.3% growth. The total regular turnover of Podravka's share in 2017 was HRK 97.3 million, which is 3.7% of the total regular shares turnover on the Zagreb Stock Exchange. Traded volume of Podravka's share in 2017 was 0.2% higher than in 2016, whereas the most intense trading took place in the first quarter.

PODRAVKA'S SHARE TURNOVER AND VOLUMES PER QUARTERS IN 2017

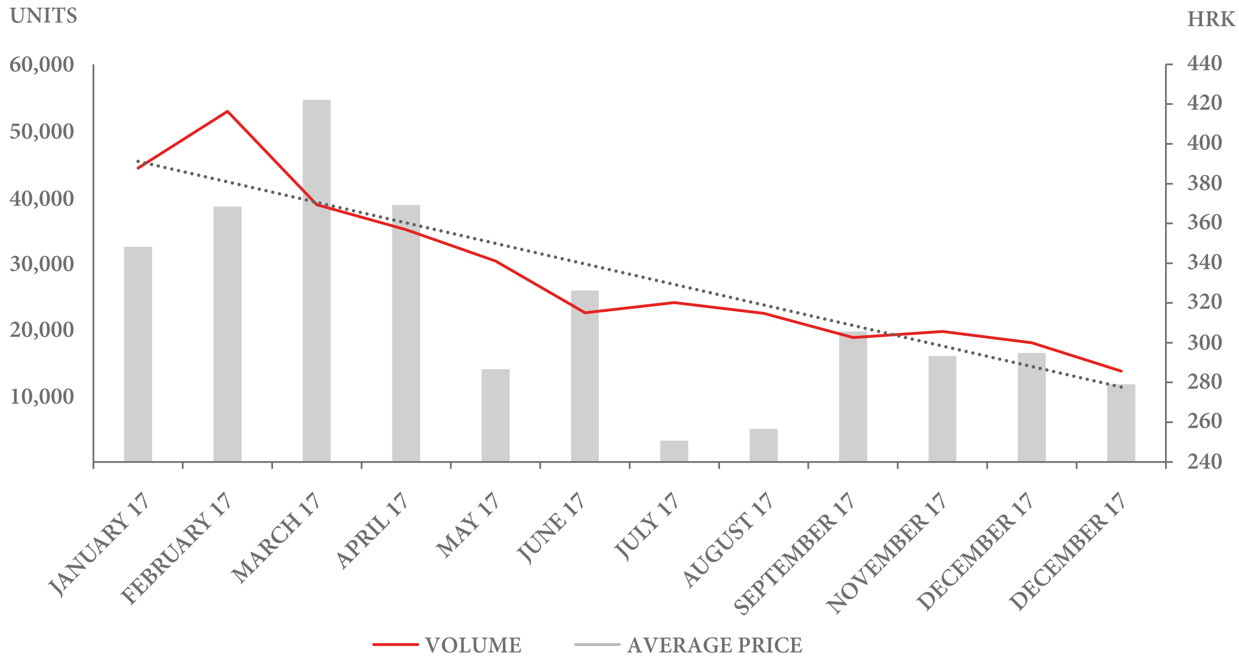
	2017		2016	
Period	Turnover (HRK)	Volume	Turnover (HRK)	Volume
Quarter 1	48,833,340	125,666	18,995,803	59,476
Quarter 2	26,772,149	78,674	23,967,122	71,025
Quarter 3	8,564,684	27,917	31,962,500	88,811
Quarter 4	13,179,295	44,186	21,253,675	56,531
Total	97,349,468	276,443	96,179,100	275,843

Source: ZSE

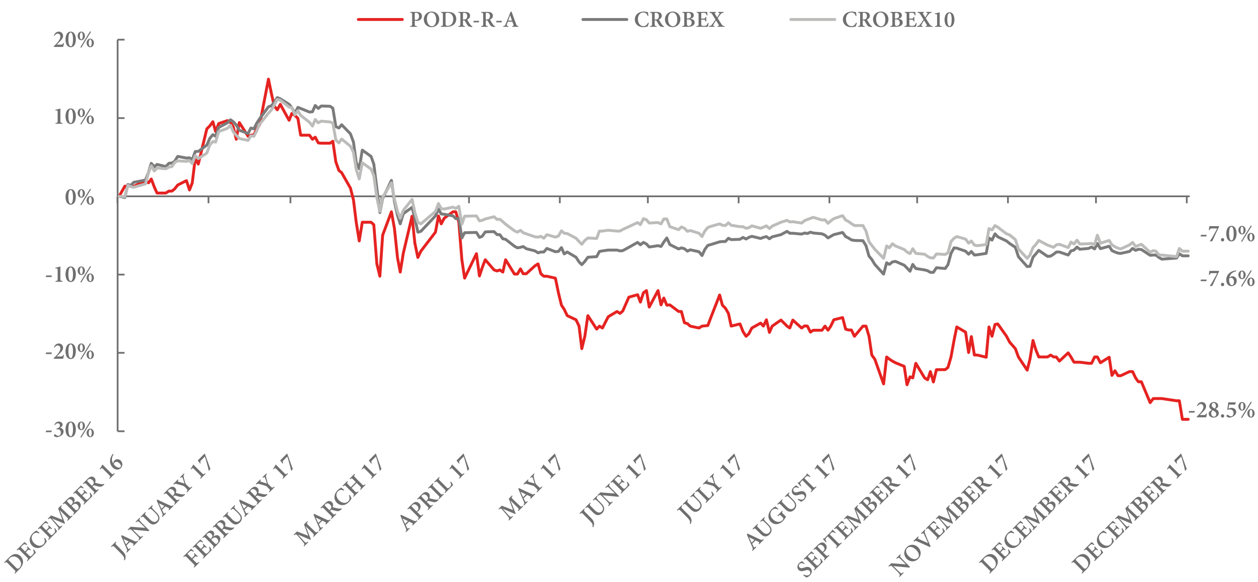
In 2017, the average daily price[1] of Podravka's share was HRK 352.2 and it was 1.0% higher compared to the average daily price in 2016. The closing price of Podravka's share as at 31 December 2017 was HRK 270.0, which is 28.5% lower when compared to the closing price as at 31 December 2016.

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

VOLUME AND AVERAGE PRICE MOVEMENT OF PODRAVKA'S SHARE IN 2017



MOVEMENT OF AVERAGE DAILY PRICE OF PODRAVKA'S SHARE AND STOCK INDICES CROBEX AND CROBEX10 IN 2017



Podravka's share price dropped 28.5% in 2017, while in the same period domestic stock indices CROBEX and CROBEX10 decreased by 7.6% and 7.0%, respectively.

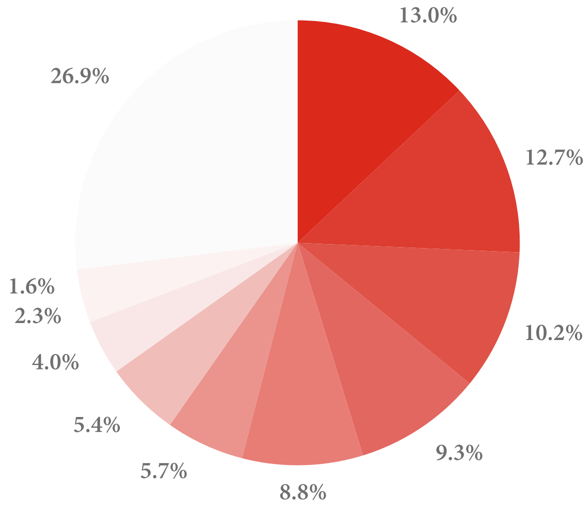
STOCK MARKET INDICES

Podravka's share is listed in four indices of the Zagreb Stock Exchange – CROBEX, CROBEX10, CROBEXnutr and CROBEXtr – and in foreign STOXX® indices.

ANALYST RECOMMENDATIONS AS AT 31 DECEMBER 2017

Recommendation provider	Date of recom-mendation	Recommendation	Target price
Interkapital securities	-	Under review	-
Raiffeisenbank Austria	19 April 2017	Hold	HRK 380.00
Erste Group Bank AG	27 July 2017	Buy	HRK 370.00
UniCredit Group	24 March 2015	Buy	HRK 398.96
WOOD & Company	13 July 2016	Hold	HRK 376.00

OWNERSHIP STRUCTURE



SHAREHOLDER	NUMBER OF SHARES
PBZ CROATIA OSIGURANJE MANDATORY PENSION FUND, CATEGORY B	925,602
AZ MANDATORY PENSION FUND, CATEGORY B	902,874
RSC* - CROATIAN PENSION INSURANCE INSTITUTE	727,703
ERSTE PLAVI MANDATORY PENSION FUND, CATEGORY B	665,166
RAIFFEISEN MANDATORY PENSION FUND, CATEGORY B	625,298
KAPITALNI FOND D.D.	406,842
RSC* - REPUBLIC OF CROATIA	387,257
REPUBLIC OF CROATIA	286,588
PODRAVKA D.D. - TREASURY ACCOUNT	162,559
AZ PROFIT VOLUNTARY PENSION FUND	113,728
OTHER SHAREHOLDERS	1,916,386
TOTAL	7,120,003

*RESTRUCTURING AND SALE CENTER

TREASURY ACCOUNT STATUS

As at 31 December 2017, Podravka d.d. had 162,559 treasury shares. As at 31 December 2017, Supervisory Board members owned 19 shares of Podravka d.d., while Management Board members owned 570 shares of Podravka d.d.

MULTIPLES

	REPORTED			NORMALIZED		
MULTIPLES	2017	2016	Δ	2017	2016	Δ
EV* / SALES REVENUES	0.7	0.9	(22.5%)	0.7	0.9	(22.5%)
EV / EBITDA	7.5	7.9	(4.1%)	6.5	7.9	(17.4%)
EV / EBIT	31.0	13.8	124.8%	11.2	13.2	(15.0%)
LAST PRICE PER SHARE / EPS**	102.9	14.3	617.2%	11.3	13.2	(14.3%)

*Enterprise value: Market Capitalization + Net debt + Minority interests. Market Capitalization has been calculated as the product of the last market price at period end and the weighted average number of shares for the period. **EPS - Earnings per Share; The weighted average number of shares in 2017 was 6,952,372, and in 2016 it was 6,929,648.

CONSOLIDATED FINANCIAL STATEMENTS FOR 2017

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

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

The Management Board is also responsible for the preparation of the Annual report and the Statement on implementation of the corporate governance code in accordance with the Croatian Accounting Act. The Management report and the Statement on implementation of corporate governance code are authorised and signed by the Management Board. The Management Board is responsible for the submission to the Supervisory Board of its Management report together with the annual consolidated and separate 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 the annual separate financial statements.

The consolidated financial statements were authorised by the Management Board on 25 April 2018 for issue to the Supervisory Board and are signed below to signify this.

Marin Pucar
President of the Management Board

Hrvoje Kolarić
Member of the Management Board

Marko Đerek
Member of the Management Board

Davor Doko
Member of the Management Board

Ljiljana Šapina
Member of the Management Board

Podravka d.d.
Ante Starčevića 32
48 000 Koprivnica
Republika Hrvatska

PODRAVKA
PREHRAMBENA INDUSTRIJA d.d.
KOPRIVNICA 173

Koprivnica, 25 April 2018

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Podravka d.d. ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 December 2017, and the consolidated statements of comprehensive income, cash flows and changes in equity of the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

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

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

KPMG

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters

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

CUSTOMERS REBATES

Revenue for the year ended 31 December 2017 amounts to HRK 4,111,170 thousand (2016: HRK 4,103,362 thousand), presented net of customer rebates in the amount of HRK 380,294 thousand (2016: HRK 377,036 thousand). Accrued rebates are included within accrued expenses in other liabilities.

Refer to note 3.3 and note 8.

Key audit matter	How our audit addressed the matter
Revenue is measured taking account of discounts, incentives and rebates earned by customers. Reported revenue for the year ended 31 December 2017 is net of these discounts, incentives and rebates the effects of which are significant on the statement of comprehensive income for the reporting period. Although the measurement period for discounts, incentives and rebates generally coincides with the 31 December year-end, not all accruals for discounts, incentives and rebates are confirmed by customers at 31 December and the Group is therefore required to estimate the amount of discounts, incentives and rebates to be recognized at the reporting date. Due to the variety of contractual terms across the Group's markets, the Group is required to monitor a large number of individual customer arrangements in order to estimate the amounts of accruals for discounts, incentives and rebates at the reporting date which is considered complex and includes risk of incorrect inclusion or non-inclusion of discounts, incentives and rebates in the current period and year-end accruals, or incorrect calculation of these amounts recorded as at the reporting date. As a result, we considered this area to be a key audit matter.	Our audit procedures in this area included, among others: • evaluating and testing of controls over the process of estimating and accounting for discounts, incentives and rebates; • for a sample of customers, obtaining customer confirmations of amounts due as at the reporting date, and challenging any significant differences between confirmations received and the Group's records by inspecting the underlying documentation such as contracts with customers and invoices; • evaluating completeness and existence of discounts, rebates and incentives by analysing the historical accuracy of management estimates in this area by comparing, on an aggregate basis, the accrued amounts of discounts, rebates and incentives as of the end of the previous reporting period to subsequent settlements in the current year; • for a sample of key customers, inspecting respective contractual terms and independently recalculating the amounts of discounts, incentives and rebates due by reference to those terms, and also considering post year-end credit notes and payments; • evaluating the overall reasonableness of customer rebates based on our knowledge and understanding of the business and industry in which the Group operates.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

IMPAIRMENT OF BRANDS AND GOODWILL

As at 31 December 2017, intangible assets of the Group included brands with indefinite useful lives with a carrying amount of HRK 99,033 thousand (2016: HRK 125,765 thousand). Goodwill as at 31 December 2017 amounted to HRK 27,402 thousand (2016: HRK 26,024 thousand). During 2017, the Group recognized HRK 18,331 thousands of impairment losses with respect to brands (2016: HRK nil).

Refer to note 5 (v), note 10, note 17 and note 18.

Key audit matter	How our audit addressed the matter
As required by relevant financial reporting standards, intangibles with indefinite useful life are tested by the Group at least annually for potential impairment, irrespective of any related impairment indicators, as integral part of the related cash generating units (CGU). Any such impairment would be recognised in the amount by which the carrying amount of the asset exceeds its recoverable amount. Due to the lack of an active market for such assets and the lack of relevant comparable transactions, the recoverable amounts of brands and goodwill are generally measured by using an appropriate valuation technique, such as present value techniques based on future cash flows discounted using an appropriate discount rate. For brands, the Group applies the relief from royalty technique which is based on the future cash flows arising from assumed royalty payments while the recoverable amount of goodwill is measured based on estimated future cash flows of the underlying CGUs. These valuation techniques require a significant degree of judgement by management, including, but not limited to; the identification of underlying CGUs; the reasonableness of assumptions with respect to revenue and cash flow forecasts of the underlying CGUs; and the determination of the appropriate discount rate, growth rate and royalty rate. As a result, we considered this area to be a key audit matter.	Our audit procedures in this area included, among others: • evaluating the appropriateness of allocation of brands and goodwill to underlying cash-generating units; • assessing the Group's identification of impairment indicators, based on our knowledge and experience considering factors such as, but not limited to; unfavourable developments in the industry; changing laws and regulations, declining financial performance; and changing business models; • assessing the appropriateness of valuation methods applied by the Group for impairment testing in terms of their compliance with the relevant accounting standards; • assessing competence, capabilities and objectivity of internal valuers and external valuation experts engaged by the Group; • involving our own valuation specialists in challenging the key assumptions used by the Group in its impairment testing, which specifically involved: - evaluating the historical accuracy of management budgeting by comparing historical revenue and cash flow projections with actual outcomes; - testing the integrity of the impairment tests, including validation of inputs, design and outputs as well as mathematical accuracy, and evaluating the key assumptions applied (such as discount rates, growth rates and royalty rates) for reasonableness compared to both externally derived data and historical financial performance; - sensitivity analysis of the impairment test results to changes in key assumptions; • evaluating the adequacy and completeness of disclosures in the financial statements with respect to impairment testing.

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

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

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Statement included in the Annual Report of the Group, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the specific information in the Corporate Governance Statement required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Corporate Governance Statement") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

- the information given in the Management Report and the relevant sections of the Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report and the relevant sections of the Corporate Governance Statement have been prepared, in all material respects, in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

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

Report on the Audit of the Consolidated Financial Statements (continued)

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 30 June 2017 to audit the consolidated financial statements of Podravka d.d. and its subsidiaries for the year ended 31 December 2017. Our total uninterrupted period of engagement is 6 years, covering the periods ending 31 December 2012 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 23 April 2018;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the Group in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is Igor Gošek.

KPMG

KPMG Croatia d.o.o. za reviziju **25 April 2018**

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of HRK)	***Note***	**2017**	**2016**
Continuing operations			
Revenues	*8*	4,111,170	4,103,362
Cost of goods sold	*11*	(2,627,059)	(2,615,248)
Gross profit		**1,484,111**	**1,488,114**
Other income	*9*	10,678	41,246
General and administrative expenses	*11*	(365,995)	(324,499)
Selling and distribution costs	*11*	(629,393)	(550,838)
Marketing expenses	*11*	(369,638)	(368,975)
Other expenses	*10*	(38,683)	(5,399)
Operating profit		**91,080**	**279,649**
Financial income	*13*	5,091	11,065
Financial expenses	*14*	(45,275)	(40,996)
Net finance costs		**(40,184)**	**(29,931)**
Profit before tax		**50,896**	**249,718**
Income tax	*15*	(27,065)	(51,209)
Profit for the year from continuing operations		**23,831**	**198,509**
Discontinued operations			
Loss for the year (net of tax)	*7*	**-**	**(10,756)**
Profit for the year		**23,831**	**187,753**
Other comprehensive income:			
Items that will not be reclassified to profit or loss account			
Actuarial gains (net of deferred tax)		(999)	(1,583)
Items that can be subsequently reclassified to profit or loss account			
Exchange differences on translation of foreign operations		4,152	(8,846)
Total comprehensive income		**26,984**	**177,324**
Profit attributable to:			
Equity holders of the parent		18,250	182,399
Non-controlling interests		5,581	5,354
Total comprehensive income attributable to:			
Equity holders of the parent		21,833	172,177
Non-controlling interests		5,151	5,147
Earnings per share (in HRK):			
- Basic	*16*	2.63	26.32
- Diluted	*16*	2.63	26.32
Earnings per share - continuing operations (in HRK):			
- Basic	*16*	2.63	27.87
- Diluted	*16*	2.63	27.87

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(in thousands of HRK)	***Note***	**31 December 2017**	**31 December 2016**
ASSETS			
Non-current assets			
Goodwill	*17*	27.402	26.024
Intangible assets	*18*	240.235	267.984
Property, plant and equipment	*19*	2.317.992	2.304.442
Non-current financial assets	*21*	9.746	17.028
Deferred tax assets	*15*	170.386	185.769
Total non-current assets		**2.765.761**	**2.801.247**
Current assets			
Inventories	*22*	805.805	773.595
Trade and other receivables	*23*	947.493	1.177.321
Financial assets at fair value through profit or loss	*24*	511	751
Income tax receivable		1.569	10.738
Cash and cash equivalents	*25*	362.082	337.611
Non-current assets held for sale	*26*	178.161	184.465
Total current assets		**2.295.621**	**2.484.481**
Total assets		**5.061.382**	**5.285.728**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*27*	1.689.947	1.681.261
Reserves	*28*	766.862	612.643
Retained earnings	*29*	403.303	583.272
Attributable to equity holders of the parent		**2.860.112**	**2.877.176**
Non-controlling interests	*30*	36.671	49.218
Total shareholders' equity		**2.896.783**	**2.926.394**
Non-current liabilities			
Borrowings	*32*	915.210	998.535
Provisions	*33*	74.122	70.675
Other non-current liabilities	*34*	22.465	21.179
Deferred tax liability	*15*	46.692	50.764
Total non-current liabilities		**1.058.489**	**1.141.153**
Current liabilities			
Trade and other payables	*35*	719.791	805.270
Income tax payable		5.433	5.260
Financial liabilities at fair value through profit or loss	*31*	1.631	4.197
Borrowings	*32*	354.304	376.618
Provisions	*33*	24.951	26.836
Total current liabilities		**1.106.110**	**1.218.181**
Total liabilities		**2.164.599**	**2.359.334**
Total equity and liabilities		**5.061.382**	**5.285.728**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(in HRK thousands)	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total
As at 1 January 2016	**1,685,955**	**147,604**	**30,931**	**189,738**	**47,007**	**134,560**	**514,250**	**2,750,045**	**67,712**	**2,817,757**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	182,399	182,399	5,354	187,753
Effect from sale of subsidiary	-	-	-	-	-	-	(40)	(40)	-	(40)
Foreign exchange differences	-	-	-	-	-	(8,946)	-	(8,946)	(207)	(9,153)
Profit or loss from reevaluation of financial assets available for sale	-	-	-	-	-	347	-	347	-	347
Actuarial losses (net of deferred tax)	-	-	-	-	-	(1,583)	-	(1,583)	-	(1,583)
Other comprehensive income	-	-	-	-	-	(10,182)	(40)	(10,222)	(207)	(10,429)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(10,182)**	**182,359**	**172,177**	**5,147**	**177,324**
Transactions with owners recognised directly in equity										
Allocation from retained earnings	-	-	11,006	-	8,548	45,303	(64,857)	-	-	-
Purchase of treasury shares	(12,977)	-	-	-	-	-	-	(12,977)	-	(12,977)
Exercise of options	504	-	-	-	-	-	-	504	-	504
Fair value of share-based payment transactions	7,779	-	-	-	-	-	-	7,779	-	7,779
Dividend paid	-	-	-	-	-	-	(48,480)	(48,480)	-	(48,480)
Additional acquisition of minority interests	-	-	-	-	-	8,128	-	8,128	(23,641)	(15,513)
Total transactions with owners recognised directly in equity	**(4,694)**	**-**	**11,006**	**-**	**8,548**	**53,431**	**(113,337)**	**(45,046)**	**(23,641)**	**(68,687)**
As at 31 December 2016	**1,681,261**	**147,604**	**41,937**	**189,738**	**55,555**	**177,809**	**583,272**	**2,877,176**	**49,218**	**2,926,394**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	18,250	18,250	5,581	23,831
Foreign exchange differences	-	-	-	-	-	3,755	-	3,755	(430)	3,325
Profit or loss from reevaluation of financial assets available for sale	-	-	-	-	-	827	-	827	-	827
Actuarial losses (net of deferred tax)	-	-	-	-	-	(999)	-	(999)	-	(999)
Other comprehensive income	-	-	-	-	-	3,583	-	3,583	(430)	3,153
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**3,583**	**18,250**	**21,833**	**5,151**	**26,984**
Transactions with owners and transfers recognised directly in equity										
Dividends paid to minority owner	-	-	-	-	-	-	-	-	(15,776)	(15,776)
Allocation from retained earnings (note 28)	-	-	8,966	-	3,015	137,596	(149,577)	-	-	-
Excercise of options	(3,269)	-	-	-	-	-	-	(3,269)	-	(3,269)
Fair value of share-based payment transactions (note 27)	11,955	-	-	-	-	-	-	11,955	-	11,955
Dividend paid	-	-	-	-	-	-	(48,642)	(48,642)	-	(48,642)
Additional acquisition of minority interests (note 30)	-	-	-	-	-	1,059	-	1,059	(1,922)	(863)
Total transactions with owners recognised directly in equity	**8,686**	**-**	**8,966**	**-**	**3,015**	**138,655**	**(198,219)**	**(38,897)**	**(17,698)**	**(56,595)**
As at 31 December 2017	**1,689,947**	**147,604**	**50,903**	**189,738**	**58,570**	**320,047**	**403,303**	**2,860,112**	**36,671**	**2,896,783**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of HRK)	*Note*	**2017**	**2016**
Profit after tax		**23,831**	**187,753**
Income tax		27,065	51,209
Depreciation and amortization		194,046	191,430
Impairment loss on property, plant, equipment and intangibles	*10*	22,619	1,867
Impairment loss on assets held for sale	*10*	1,612	9,299
Reversal of impairment of non current assets		(2,115)	-
Reversal of the impairment of assets held for sale	*9*	-	(222)
Capital reserve ESOP	*37*	(2,750)	(216)
Remeasurement of financial assets and liabilities at FVTPL		(1,653)	1,465
Share-based payment transactions		19,305	7,995
Gain/(loss) on disposal of property, plant, equipment and intangibles		1,223	(6,188)
Gain on disposal of assets held for sale		(23)	(729)
Gain on share disposal		-	(18)
Impairment losses on trade receivables		44,871	2,746
Increase/(Decrease) in provisions		1,562	(5,920)
Interest income		(5,091)	(5,079)
Impairment of loans given		-	(1,704)
Interest expense		31,247	36,918
Effect of changes in foreign exchange rates		5,598	(7,038)
		361,347	**463,568**
Changes in working capital:			
(Increase) / decrease in inventories		(32,210)	15,134
Decrease/(Increase) in trade and other receivables		186,572	(856)
(Decrease)/Increase in trade and other payables		(2,353)	37,115
Cash flows from operating activities		**513,356**	**514,961**
Income taxes paid		(6,407)	(2,126)
Interest paid		(33,541)	(36,097)
Net cash from operating activities		**473,408**	**476,738**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangibles		(206,239)	(437,112)
Purchase of equity securities		-	(884)
Sale of assets held for sale	*26*	595	64,700
Proceeds from sale of property, plant, equipment and intangibles		3,498	8,155
Proceeds from sale of shares		7,187	672
Loans given		(35)	(619)
Proceeds from loans given		97	1,391
Net cash from investments in money market funds		(672)	(274)
Interest received	-	5,091	5,079
Net cash from investing activities		**(190,478)**	**(358,892)**
Cash flows from financing activities			
Dividends paid		(48,642)	(48,480)
Acquisition of additional minority interest	*30*	(863)	(8,827)
Purchase of treasury shares	*27*	-	(12,977)
Sale of treasury shares		6,945	3,308
Proceeds from borrowings		182,590	853,619
Repayment of borrowings		(398,489)	(858,755)
Net cash from financing activities		**(258,459)**	**(72,112)**
Net increase in cash and cash equivalents		**24,471**	**45,734**
Cash and cash equivalents at beginning of year	*25*	337,611	291,877
Cash and cash equivalents at the end of year		**362,082**	**337,611**

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

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

Corporate governance and management

General Assembly

The General Assembly of the Company consists of the shareholders of Podravka d.d.

Supervisory Board

Supervisory Board members during 2017:

President	Dubravko Štimac
Deputy President	Mato Crkvenac (until 21 February 2017)
Deputy President	Luka Burilović (from 21 February 2017)
Member	Ivo Družić (until 21 February 2017)
Member	Dinko Novoselec (until 30 June 2017)
Member	Petar Miladin
Member	Petar Vlaić
Member	Ksenija Horvat
Member	Damir Grbavac (from 21 February 2017)
Member	Marko Kolaković (from 21 February 2017)
Member	Slavko Tešija (from 21 February 2017)
Member	Ivana Matovina (from 30 June 2017)

Management Board during 2017

President	Zvonimir Mršić (until 23 February 2017)
President	Marin Pucar (from 24 February 2017)
Member	Olivija Jakupec (until 23 February 2017)
Member	Iva Brajević (until 30 April 2017)
Member	Hrvoje Kolarić
Member	Ljiljana Šapina (from 24 February 2017)
Member	Davor Doko (from 1 May 2017)
Member	Marko Đerek (from 19 July 2017)

NOTE 2 – BASIS OF PREPARATION

(i) Statement of compliance

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

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

These financial statements were authorised for issue by the Management Board on 25 April 2018.

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of Podravka d.d. ("the Company") and entities controlled by Podravka d.d. (its subsidiaries) as at and for the year ended 31 December 2017. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

(i) Subsidiaries

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

(ii) Business combinations

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

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

(iii) Transactions eliminated on consolidation

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Goodwill

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

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

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

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

3.3 Non-current assets held for sale and discontinued operations

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

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

Discontinued operations

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of products, goods and services in the ordinary course of the Group's activities. Revenue is recognised, net of value-added tax, volume rebates, trade discounts, returns, listing fees and various promotional and marketing activities that are an integral part of contracts with customers.

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

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

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

Delivery does not occur until the products have been shipped to the specified location, the risks of loss 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 Group has objective evidence that all criteria for acceptance have 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 specified in the sales contracts, net of estimated volume rebates and trade discounts and returns. The volume discounts are assessed based on contracts with customers. No element of financing is deemed present in the sales.

Revenue from sale of products and merchandise – retail

Sales of products and goods sold in retail stores are recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The Group does not operate any customer loyalty programmes.

(ii) Revenue from services

Sales of services, such as private label production, are recognised in the accounting period in which the services are rendered, by reference to stage of completion, on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Finance income

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the right to receive payment is established.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of fair value of the leased property and the present value of minimum lease payments. Each lease payment is allocated between the liability and finance costs so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the statement of comprehensive income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not obtained by the Group are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Sale and leaseback transactions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Foreign currency transactions

(i) Transactions and balances in foreign currencies

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

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

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

(ii) Group companies

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

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

(iii) Net investment in Group companies

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

3.7 Borrowings and borrowing costs

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

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

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

All other borrowing costs are charged to profit or loss in the period in which they are incurred.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions associated with them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or loss already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.9 Dividends

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

3.10 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

At the consolidated level, the Group internally monitors and reports the following segments:

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Taxation

(i) Income tax

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

Income tax for the current year is calculated on the basis of the tax laws enacted at the balance sheet date in countries where the Company and its subsidiaries operate and earn taxable profit.

(ii) Deferred tax assets and liabilities

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences that relate to investments in subsidiaries and joint ventures when it is probable that no significant change is expected in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax asset recognised on the basis of tax losses carried forward is recognised in accordance with tax legislation of the country where the company operates for the period envisaged by the law and is derecognised at the expiry of this period if not used.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(iii) Investment tax credits

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

(iv) Tax exposure

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

(v) Value added tax (VAT)

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Property, plant and equipment

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

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

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

Buildings	10 to 50 years
Equipment	3 to 30 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3.14).

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Intangible assets

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

Licences, brands, distribution rights and registration files

Product distribution rights and right over use of registration files generally have a definite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost of licences, distribution rights and registrations, and brands with definite useful lives over their useful lives estimated from 3 to 15 years.

Rights to acquired trademarks and know-how are carried at cost and have an indefinite useful life, since based on an analysis of all of the relevant factors at the reporting date, there is no foreseeable limit to the period of time over which the identified rights are expected to generate net cash inflows. Intangible assets with indefinite useful lives are tested annually for impairment and are stated at cost less accumulated impairment loss (note 3.14).

Computer software

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

Internally-generated intangible assets - research and development expenditure

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Impairment of non-financial assets

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

Intangible assets with indefinite useful lives and other intangible assets are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is expensed immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income immediately.

3.15 Inventories

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

The cost of work-in-progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Trade receivables

i) Trade receivables

Trade receivables are recognised initially at cost which is equal to the fair value at the moment of recognition and subsequently measured at amortised cost using the effective interest method, if significant; if not, at nominal amount less an allowance for impairment.

ii) Bills of exchange

For the purpose of collecting its receivables, the Company receives security instruments.

Bills of exchange received from customers with respect to outstanding trade receivables may be discounted with factoring companies prior to their maturity. If a bill of exchange bears a recourse right, the factoring company takes over the receivable management, but does not bear the credit risk of a default from the original (principal) debtor. Based on factoring company's payments, the Company recognises collection of receivables from the original (principal) debtor and simultaneously recognises receivables for the discounted bill of exchange and liabilities for recourse right in case of a default.

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

3.17 Cash and cash equivalents

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

3.18 Share capital

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

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

3.19 Employee benefits

(i) Pension obligations and post-employment benefits

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

(ii) Termination benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits (continued)

(iii) Regular retirement benefits

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

(iv) Long-term employee benefits

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

(v) Short-term employee benefits

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

(vi) Share-based payments

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

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value of shares) and share premium (the difference between the nominal value of shares and the proceeds received) when the options are exercised.

3.20 Provisions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial assets

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

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

Effective interest method

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

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

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

Financial assets are classified as at FVTPL if changes in fair value are recognised in comprehensive income, where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial assets (continued)

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

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

3.22 Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Other financial liabilities

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

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

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

Contracts on financial guarantee

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

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

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are settled, 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 2017 and/or are not yet adopted by the European Union and as such have not been applied in preparing these financial statements. It is not expected that these standards will have a significant effect on the consolidated financial statements of the Group. Their overview is set out below:

a) IFRS 15 Revenue from Contracts with Customers

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

b) IFRS 9 Financial Instruments

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

c) IFRS 16 Leases

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

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

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

The Group estimated that by applying IFRS 16 Leases it will recognise assets and liabilities under operating leases for vehicles and IT equipment in the amount of HRK 48,317 thousand. The estimate is based on discounted cash outflows using a discount rate of 10.05%.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

The preparation of financial statements in conformity with EU IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of EU IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed more detail below.

(i) Deferred tax assets recognition

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (see note 15). During 2016, the Group recognised deferred tax assets with respect to unused tax credits related to incentive measures the terms of which are described in more detail in note 15.

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

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty (see note 33).

(iii) Consequences of certain legal actions

The Group is involved in a number of legal actions which have arisen from the regular course of operations. Management makes estimates of probable outcomes of the legal actions, and the provisions for the Group's obligations arising from these legal actions are recognised on a consistent basis.

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

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

Where the Group is a plaintiff in a particular court case, any economic benefits expected to flow to the Group as a result are recognised only when virtually certain which is generally as at the date of inflow of these economic benefits.

Provisions for the Group's obligations arising from legal actions are recognised on a consistent basis and estimated on a case by case principle (see note 3.20 and 33).

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

(iv) Recoverability of trade and other receivables

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

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

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

(v) Impairment testing for goodwill, brands and rights

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

	Goodwil	Brands	Rights
Operating segment		*(in thousands of HRK)*	
Culinary	-	9,250	-
BP Baby food, sweets and snack	-	21,144	-
BP Podravka food	-	439	-
BP Žito	27,402	46,454	-
BP Meat products, solutions and spreads	-	2,946	-
BP Fish	-	18,800	-
Pharmaceuticals	-	-	57,932
Other - unallocated	-	-	14,956
	27,402	**99,033**	**72,888**

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

Goodwill

Goodwill relates entirely to goodwill arising on acquisition of the subsidiary Podravka Lagris a.s. The Group annually performs an impairment test in order to assess whether the recoverable amount of goodwill indicates potential impairment of its carrying amount. The calculation of the recoverable amount of goodwill is based on five year plans for sales on the Czech market and business plans of the subsidiary developed by the Group bearing in mind its corporate selling and marketing strategy, relevant markets trends (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) and the analysis of its competitors. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 3%. Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for goodwill as the weighted average cost of capital for the Czech market and the food industry and amounts to 6.31%.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

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

Goodwill (continued)

As a result of the impairment testing of goodwill, the Group had no impairment losses relating to goodwill during 2017 and 2016. The sensitivity analysis indicates that an impairment loss in respect of goodwill would arise in case of a decrease in the terminal growth rate by 16 basis points (assuming an unchanged weighted average cost of capital) and would amount to HRK 106 thousand. If the weighted average cost of capital increased by 8 basis points (assuming an unchanged terminal growth rate) an impairment loss would arise in the amount of HRK 313 thousand.

Brands

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

The Group annually performs impairment tests in order to assess whether the recoverable amount of brands indicates potential impairment of their carrying amount whereby the primary focus is on brands where the difference between the recoverable amount and the carrying amount indicates a significant sensitivity to changes in key variables used in impairment testing. The calculation of the recoverable amount of brands is based on five year plans for sales of product and categories which comprise a certain brand and which the Group developed bearing in mind its corporate and marketing strategy, trends on relevant markets where the brands are sold (such as estimated movements in gross domestic product, market share of relevant products and categories etc.) and the analysis of its competitors. Cash flows created from such plans are discounted using the post-tax discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test for brands as the weighted average cost of capital (WACC) for the primary market the brand is sold in and the food industry.

For the purpose of fair valuation of brands whose dominant market is Poland, as at 31 December 2017 the Group engaged an independent valuer. For fair value estimate of brands, an income approach was used – the relief from royalty method (non-payment of royalty).

The relief from royalty method assumes that the value of intangible assets equals the amount that the owner would pay for the asset’s licence if it had not been owned, i.e. the value equals expenses saved if royalties, i.e. the compensation for the use of trademarks, are not paid.

The fair value of brands is based on the average value of the selected value range, depending on changes in the discount rate (10.5%) and royalty rate (2.7%). The estimated compound annual growth rate for revenue in the following five years was 2.5%, and the growth rate in the residual period is 0.8%. The fair value of brands is estimated at HRK 2,910 thousand. As a result of the independent fair valuation of brands, during 2017 the Group recognised impairment loss in the amount of HRK 17,893 thousand (2016: HRK 0). The Group considers this impairment loss to be one-off.

Brands whose dominant market is Croatia are not sensitive to changes in key variables.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

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

Rights

Rights relate to registration files (pharmaceutical segment), distribution rights relating either to a specific segment or to several segments combined and acquired rights for operating pharmacies (pharmaceutical segment). Registration files and distribution rights have finite useful lives over which they are amortised and impaired in the event circumstances arise which indicate a need for impairment in excess of the regular amortisation charge. Pharmaceutical rights relate to acquired rights to perform pharmaceutical activities that are fully allocated to the segment “Pharmaceuticals”. In accordance with local legislation such rights do not expire (the Group does not expect regulatory changes in this respect). The Group annually performs impairment tests in order to assess whether the recoverable amount of pharmaceutical rights indicates potential impairment of their carrying amount. The calculation of the recoverable amount is based on five year plans for pharmacy sales based on historical data and expected market trends, particularly in relation to changes in drug prices. The calculation of the recoverable amount implies a terminal growth rate for cash flows after the projected five year period amounting to 2%. Cash flows created from such plans are discounted using the discount rate which reflects the risk of the underlying asset, and which has been defined for the purposes of the impairment test as the weighted average cost of capital (WACC) for the Croatian market and the pharmaceutical industry and amounts to 9.29%.

During 2017, the Group had no impairment losses with respect to rights.

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

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

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

In 2017, for the purpose of impairment testing of property, plant and equipment and assets held for sale, the Group used independent valuers’ estimates that were based on sales comparison method and cost methods.

For production facilities i.e. factories, in 2017 the Group engaged an independent valuer who determined the market value of these properties. In preparing its valuation report, sales comparison method and cost methods were used. Based on valuer’s report for the factory in Tanzania, in 2017 the Group recognised impairment loss for production capacities in the amount of HRK 3,961 thousand (note 19). The Group considers this impairment loss to be one-off.

NOTE 5 – KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

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

During 2017, the Group engaged an independent valuer to estimate the recoverable amount, who used the sales comparison method for land valuation and the cost method for the business complex valuation. The valuer's report presented that the carrying amounts of assets held for sale are recoverable, except for assets held for sale in Slovenia, which were impaired by HRK 345 thousand (note 26).

During 2017, the Group engaged an independent valuer to estimate the recoverable amount of equipment on the market of Middle East and North Africa, which is related to a change of a business model on this market. Based on valuer's report, in 2017, the Group recognised impairment loss of equipment in the amount of HRK 1,268 thousand (note 26).

During 2017, the Group reclassified assets held for sale to property, plant and equipment following the decision to withdraw from sale process and to use them for other purposes. All required value adjustments to the carrying amount of the reclassified assets have been made. The Group recognised HRK 790 thousand of net expenses as the effect of the reclassification of these assets (note 26).

During 2016, the Group recognized HRK 9,299 thousand of impairment losses related to production facilities which are part of discontinued operations (the former segment "Beverages") based on approximation of depreciation that would have resulted from the use of those assets had they not been classified as held for sale. The Group considers this impairment loss to be one-off. The Beverages segment was sold at the end of 2016 and the Group realised net gain in the amount of HRK 729 thousand.

NOTE 6 – DETERMINATION OF FAIR VALUES

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

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

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

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

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

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

- note 7: Discontinued operations
- note 21: Non-current financial assets
- note 24: Financial liabilities at fair value through profit or loss
- note 26: Non-current assets available for sale
- note 31: Financial liabilities at fair value through profit or loss
- note 37: Share-based payments

NOTE 7 – DISCONTINUED OPERATIONS

By a Management Board decision from 2013, the Group announced its intention to exit the Beverages segment in order to improve business activities, reduce operating costs and strengthen innovation and competitiveness of the company in its key business areas. As at 31 December 2013, the Group classified the Beverages segment as discontinued operations in accordance with IFRS 5.

As at 20 September 2016, the Group entered into an agreement for the sale of the Beverages business program. According to the contractual preconditions for the sale, Podravka d.d. increased share capital of Studenac d.o.o. with the assets of the disposal group, and as of 1 October 2016 the Beverages business program operated through the subsidiary Studenac d.o.o. After fulfilment of all agreed preconditions, at the end of 2016 the Group sold the 100% share in the subsidiary and thereby sold the Beverages business program that was presented as discontinued operations and realised net gain of HRK 729 thousand.

During 2016, the Group recognised an impairment loss with respect to assets which are part of discontinued operations in the amount of HRK 9,299 thousand (see note 5 (vi)), considered to be one-off. This impairment loss is recognised within other expenses relating to discontinued operations.

Statement of comprehensive income for discontinued operations is as follows:

(in thousands of HRK)		**Discontinued operations**	
	note	**2017**	**2016**
Revenue from sale		-	82.158
Cost of goods sold		-	(51.384)
Gross profit		-	**30.774**
Operating expenses		-	(32.231)
Other expenses		-	(9.299)
Operating loss		-	**(10.756)**
Loss before tax for the year		**-**	**(10.756)**
Income tax		-	-
Loss for the year		-	**(10.756)**
Loss per share (in HRK)			
- Basic	*16*	-	(1,55)
- Diluted	*16*	-	(1,55)

The loss from discontinued operations in 2016 of HRK 10,756 thousand is attributable entirely to the owners of the parent Company.

Cash flow for discontinued operations is as follows:

(in thousands of HRK)	**2017**	**2016**
Net cash from operating activities	-	2.075
Net cash used in investing activities	-	(720)
	-	**1.355**

NOTE 8 – SEGMENT INFORMATION

Sales revenue

	2017	2016
	(in thousands of HRK)	
Revenue from sale of products and merchandise	4,085,966	4,079,459
Revenue from services	25,204	23,903
	4,111,170	**4,103,362**

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

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

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

Segment revenues and results

Set out below is an analysis of the Group's revenue and results by its reportable segments, presented in accordance with IFRS 8 *Operating segments* and a reconciliation of segment profits to profit or loss before tax as presented in the consolidated statement of comprehensive income. The revenue presented below relates to third-party sales. Inter-segment revenues are eliminated on consolidation.

	Segment revenues		**Segment profits**	
(in thousands of HRK)	**2017**	**2016**	**2017**	**2016**
BP Culinary	880,403	912,518	211,129	229,239
BP Baby food, sweets and snack	378,329	385,063	38,924	27,236
BP Podravka food	388,723	388,143	(31,151)	(17,175)
BP Žito				
Žito and related companies	736,943	734,155	19,078	42,656
Other companies	157,025	167,154	(23,580)	(24,616)
BP Meat products, solutions and spreads	270,911	280,557	(26,171)	(19,862)
BP Fish	174,624	173,834	(983)	385
Pharmaceutical	867,475	815,199	100,051	97,296
Other	256,737	246,739	(5,006)	(3,641)
	4,111,170	**4,103,362**	**282,291**	**331,518**
Financial income (note 13)			5,091	11,065
Other income (note 9)			10,678	41,246
Central administration costs			(163,206)	(87,716)
Other expenses (note 10)			(38,683)	(5,399)
Financial expenses (note 14)			(45,275)	(40,996)
Profit before tax			**50,896**	**249,718**

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (continued)

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

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

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

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

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

BP Fish comprises fish products.

The Pharmaceutical segment comprises the following: ethical drugs (medically prescribed drugs), non-prescription program (drugs for which no medical prescription is required), nutraceuticals, merchandise and services. Pharmaceuticals segment is regulated by the Croatian Institute for Health Insurance, which provides drug prices with prescription and by the relevant regulatory authorities in connection with the registration of medicines in the Croatian market. Foreign markets in this segment have similar regulation characteristics.

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

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

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

Geographical information

The Group operates in five principal geographical areas by which it reports third-party sales:

(in thousands of HRK)	**2017**	**2016**
Region Adria	2,888,724	2,915,762
Region Western Europe and overseas countries	422,985	420,317
Region Central Europe	482,336	480,357
Region East Europe	286,851	262,099
Region New markets	30,274	24,827
	4,111,170	**4,103,362**

NOTE 8 – SEGMENT INFORMATION (CONTINUED)

Information about major customers

Sales to external customers in Croatia account for 33% (2016: 32%) of the total revenues, whereas the remaining 67% (2016: 68%) represent foreign sales. Top 20 customers participate in 34% (2016: 32%) of the external sales.

Sales to major customers owned and controlled by the same group represent approximately 10% of the Group's total revenue in 2017 (2016: approximately 21% of the total revenue). Below is a more detailed overview of countries by geographical area:

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

NOTE 9 – OTHER INCOME

	2017	**2016**
	(in thousands of HRK)	
Grant income	9,128	4,635
Profit on disposal of assets held for sale (note 26)	23	729
Revenue from sale and leaseback transaction	-	6,609
Profit on disposal of property, plant, equipment and intangibles	-	6,188
Interest and foreign exchange differences on trade receivables	-	19,753
Reversal of impairment assets held for sale	-	222
Other income	1,527	3,110
	10,678	**41,246**

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

In 2016, revenue from the sale and leaseback transaction relates to the leaseback of production facilities in Umag considered by the Group to be one-off.

NOTE 10 – OTHER EXPENSES

	2017	2016
	(in thousands of HRK)	
Interest on trade payables	513	877
Impairment loss on intangible assets (note 18)	18,331	-
Impairment loss on assets held for sale (note 26)	1,612	-
Impairment loss on property, plant and equipment (note 19)	2,173	1,867
Loss on disposal of property, plant, equipment and intangibles	1,223	393
Interest on trade receivables and foreign exchange differences on trade receivables and payal	11,953	-
Net provision	2,878	-
Other costs	-	2,262
	38,683	**5,399**

NOTE 11 – EXPENSES BY NATURE

	2017	2016
	(in thousands of HRK)	
Raw materials and consumables used, energy and cost of goods sold including change in inventory	2,061,946	2,039,440
Staff costs (note 12)	996,874	935,490
Advertising and promotion	194,169	201,359
Services (i)	219,033	234,407
Depreciation and amortisation	194,046	191,430
Transportation	93,798	90,915
Rental expense	50,511	42,967
Impairment of trade receivables (note 23)	44,871	2,746
Entertainment	28,197	26,058
Daily allowances and travel expenses	21,022	23,365
Taxes and contributions independent of operating results	23,293	20,983
Telecommunications	11,672	11,229
Cost of disposal of packaging, administrative fees, etc	11,402	11,453
Bank charges	5,832	6,458
Other	35,419	21,260
Total cost of goods sold, selling and distribution costs, marketing costs and general and administrative costs	**3,992,085**	**3,859,560**

(i) Services include audit fees. Fees for the audit of the Group’s financial statements amounted to HRK 2,611 thousand (2016: HRK 2,932 thousand), while fees for other services amounted to HRK 193 thousand (2016: HRK 183 thousand). Other services relate to transfer pricing studies.

Depreciation and amortisation include HRK 413 thousand of government grants for co-financing of assets (2016: HRK 240 thousand).

“Other” mainly relates to expenses, income from previous years in the amount of HRK 12,662 thousand (2016: HRK 3,046 thousand), insurance premiums of HRK 11,238 thousand (2016: HRK 13,171 thousand), provisions for other future expenses of HRK 8,799 thousand (2016: HRK 7,187 thousand), and other value adjustments related to operations in Tanzania in the amount of HRK 4,979 thousand (2016: HRK -61 thousand).

In 2017, as part of expenses by nature, the Group recognised HRK 1,284 thousand (2016: HRK 0) for closing the branch office in China, and HRK 808 thousand (2016: HRK 0) for SAP implementation in Slovenia. The Group considers these expenses to be one-off.

NOTE 11 – EXPENSES BY NATURE (continued)

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

	2017	2016
	(in thousands of HRK)	
Raw material and supplies	1,422,058	1,415,106
Cost of goods sold	601,691	608,390
Staff costs	399,267	407,026
Depreciation and amortisation	120,750	118,899
Production services	62,361	78,213
Taxes and contributions independent of operating results	7,358	11,504
Other expenses (transport, rent, education, etc)	13,574	27,494
	2,627,059	**2,666,632**
Cost of goods sold - discontinued operation	-	(51,384)
Cost of goods sold - continued operation	**2,627,059**	**2,615,248**

In 2017, the largest greenfield investment in the company's history, the new Belupo's pharmaceutical factory was completed and the production licence was obtained at the end of 2017, after meeting all regulatory requirements. In 2017 within cost of goods sold the Group recognised HRK 25,376 thousand related to necessary one-off production costs for the purpose and prior to obtaining all relevant permissions required for the commercial sale of products from the new factory.

Also, in 2017 within cost of goods sold the Group recognised HRK 10,731 thousand (2016: HRK 0) of impairment loss relating to frozen vegetables. The Group considers these expenses to be one-off.

Depreciation and amortisation allocated to each function is as follows:

	2017	2016
	(in thousands of HRK)	
Cost of goods sold	120,750	118,899
Marketing expenses	6,405	6,615
Selling, logistics and distribution costs	34,133	36,974
General and administrative expenses	32,758	28,942
	194,046	**191,430**

Staff costs allocated to each function is as follows:

	2017	2016
	(in thousands of HRK)	
Cost of goods sold	399,267	397,354
Marketing expenses	102,281	93,537
Selling, logistics and distribution costs	267,543	250,821
General and administrative expenses	227,783	193,778
	996,874	**935,490**

NOTE 12 – STAFF COSTS

	2017	2016
	(in thousands of HRK)	
Salaries	906,762	865,908
Termination benefits	32,129	11,450
Transportation	18,488	18,622
Share options (note 37)	12,791	7,995
Other	26,704	31,515
	996,874	**935,490**

As at 31 December 2017, the number of staff employed by the Group was 6,306 (2016: 6,404).

In 2017, termination benefits of HRK 34,535 thousand were paid to 271 employees (2016: termination benefits of HRK 25,124 thousand were paid to 264 employees). In 2017, the total taxable termination benefits amount to HRK 39,905 thousand (2016: HRK 12,441 thousand), considered by the Group to be a one-off expense.

NOTE 13 – FINANCE INCOME

	2017	2016
	(in thousands of HRK)	
Interest on term deposits	645	935
Other interest	2,120	4,117
Unrealised gains per interest rate swap contract	1,189	27
Net foreign exchange gains on borrowings	-	5,986
Remeasurement of financial instruments at fair value through profit or loss	1,137	-
	5,091	**11,065**

NOTE 14 – FINANCE EXPENSES

	2017	2016
	(in thousands of HRK)	
Interest expense and similar charges	31,247	36,918
Net foreign exchange loss on borrowings	10,264	-
Remeasurement of financial instruments at fair value through profit or loss	-	1,217
ESOP capital reserve	3,764	2,861
	45,275	**40,996**

During 2017, the Group refinanced a portion of borrowings in the amount of HRK 227,500 thousand by long-term borrowings at more favourable interest rates. In addition, during 2017, reference interest rates remained at low levels, resulting in decreased interest expense on borrowings.

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

In 2017, within other finance costs the Group recognised the cost of granted options in the employee stock ownership program in the amount of HRK 3,764 thousand (2016: HRK 2,861 thousand). The Group considers these costs of allocated options to be one-off.

During 2017, the Group had capital investments bearing interest expense in the amount of HRK 3,667 thousand (2016: HRK 3,797 thousand) capitalised within buildings and equipment.

NOTE 15 – INCOME TAX

Income tax expense consists of:

	2017	2016
	(in thousands of HRK)	
Current income tax	15,658	11,369
Deferred tax expense/(income)	11,407	39,840
	27,065	**51,209**

Effective tax rate reconciliation

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

	2017	2016
	(in thousands of HRK)	
Profit before taxation	**50,896**	**238,962**
Income tax at 18% (2016: 20%)	9,134	47,792
Non-taxable income	-	(2,728)
Non-deductible expenses	10,009	7,341
Tax incentives (research and development, education and other)	5,534	(1,716)
Recognition of temporary differences and tax losses previously unrecognized as deferred tax assets	-	(3,316)
Temporary differences and tax losses not recognised as deferred tax assets	11,741	5,770
Utilisation of temporary differences previously not recognised as deferred tax asset	-	-
Utilisation of tax losses previously not recognised as deferred tax asset	-	(3,105)
Effect of different tax rates	(9,375)	(741)
Effect of a change in the tax rate on deferred tax assets and liabilities	-	1,839
Tax for the previous year	22	73
Income tax	**27,065**	**51,209**
Effective tax rate	53%	21%

Investment tax credit

In March 2015, pursuant to the Investment Promotion and Development of Investment Climate Act, the subsidiary Belupo d.d. became eligible to receive incentive measures. The Ministry of Economy approved the tax incentive measures, as a subsidy for qualifying costs of new employment linked to the investment project and an incentive for capital expenditure related to the investment project, in the form of an investment tax credit in the amount of HRK 163,717 thousand for which the subsidiary will be able to reduce its future income tax liabilities and/or receive cash reimbursements as an incentive for employment related to the investment project.

The subsidiary has the right to use the investment tax credit in the next 10 years from the date of approval by the relevant authorities. The execution of the investment project is subject to supervision by the relevant institutions and the subsidiary is not permitted to reduce the number of new jobs (related to the terms of the incentive measures) in addition to other conditions, throughout the period of the incentive measures, but no less than 5 years. If the conditions of the tax incentive are not met, the subsidiary would have to retroactively pay income tax inclusive of any penalty interest.

Based on the assessment of the recoverability of the tax incentive made by the management of the subsidiary and the Group, in financial statements for 2015, the subsidiary and Group initially recognised the entire amount of approved tax incentives as a deferred tax asset and an income tax benefit. In future years, the deferred tax asset will be utilised in accordance with the utilization of the tax incentive, i.e. in accordance with and subject to the availability of tax obligations against which the credits can be offset and/or amounts of cash reimbursements the subsidiary receives as incentives for new employment as part of the investment project. In 2017, deferred tax asset of HRK 3,239 thousand was used from this basis, i.e. a total of HRK 17,996 thousand of incentives.

NOTE 15 – INCOME TAX (CONTINUED)

Unused tax losses

In accordance with tax regulations, as at 31 December 2017 the Group has unused tax losses in the amount of HRK 126,442 thousand (2016: HRK 85,613 thousand) which consist of tax losses in Slovenia (in the amount of HRK 32,013 thousand), Croatia (in the amount of HRK 24,526 thousand), Hungary (in the amount of HRK 1,491 thousand), Tanzania (in the amount of HRK 57,246 thousand), Kenya (in the amount of HRK 3,547 thousand) and Poland (in the amount of HRK 7,619 thousand).

Unused tax losses carried forward were recognized as deferred tax assets in the amount of HRK 6,447 thousand. In the financial statements, the Group did not recognize deferred tax assets for the remaining tax losses since it is not probable that the tax losses will be utilized by the companies they relate to. Unused tax losses (gross) at the reporting date were as follows:

	2017	**2016**
	(in thousands of HRK)	
Tax losses expiring at 31 December 2017	-	2,832
Tax losses expiring at 31 December 2018	381	3,849
Tax losses expiring at 31 December 2019	17,488	15,242
Tax losses expiring at 31 December 2020	6,004	10,365
Tax losses expiring at 31 December 2021	22,622	18,357
Tax losses expiring at 31 December 2022	46,443	-
Tax losses expiring at 31 December 2023	1,491	2,955
Tax losses with no expiration date	32,013	32,013
	126,442	**85,613**

Deferred tax assets

Deferred tax assets arise from the following:

2017	**Opening balance**	**Acquistions**	**Recognised in profit or loss**	**Recognised directly in equity**	**Foreign exchange differences**	**Closing balance**
			(in thousands of HRK)			
Basis:						
Intangible assets	14,114	-	3,300	-	-	17,414
Property, plant and equipment	3,924	-	(1,740)	-	(84)	2,100
Financial assets	765	-	5,304	-	(3)	6,066
Provisions	8,059	-	952	64	(5)	9,070
Share-based payments	3,323	-	(404)	-	-	2,919
Inventories	8,080	-	(2,629)	-	-	5,451
Investment tax credit	133,906	-	(17,996)	-	-	115,910
Unutilised tax losses carried forward	7,232	-	(785)	-	-	6,447
Other deferred tax assets	6,366	-	(1,357)	-	-	5,009
Deferred tax assets	**185,769**	**-**	**(15,355)**	**64**	**(92)**	**170,386**

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

NOTE 15 – INCOME TAX (CONTINUED)

Deferred tax assets (continued)

In 2017, the Group's sale of tangible assets resulted in the right to a decrease in the tax base that was increased in previous periods, resulting in a decrease in deferred tax asset by the amount of HRK 1,740 thousand.

During 2017, deferred tax assets increased in the amount of HRK 3,300 thousand based on the impairment of intangible asset.

Deferred tax assets also increased in the amount of HRK 5,304 thousand on the basis of impairment of financial assets, i.e. mainly investments in subsidiaries.

During 2017, the Group recognised deferred tax asset in the amount of HRK 8,546 thousand with respect to the impairment of non-current assets and investments as a one -off item.

Deferred tax assets recognised with respect to impairment losses on tangible and intangible assets do not expire as they are utilised in the moment of realisation of the respective assets. Deferred tax assets on long-term provisions for employee benefits (jubilee awards, termination benefits) will be realised in a period longer than one year.

Deferred tax liability

Deferred tax liabilities arise from the following:

2017	**Opening balance**	**Recognised in profit or loss**	**Foreign exchange differences**	**Closing balance**
	(in thousands of HRK)			
Basis:				
Intangible assets	(12,879)	2,107	20	(10,752)
Property, plant and equipment	(37,885)	1,935	10	(35,940)
	(50,764)	**4,042**	**30**	**(46,692)**

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

NOTE 16 – EARNINGS/ (LOSS) PER SHARE

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share were calculated as the basic earnings per share, including the impact of the fair value of share-based payments (see note 27) and the number of share options granted to employees, of which 130,051 were not exercised (2016: 166,053 options). The value of diluted earnings per share is the lower of basic earnings per share and diluted earnings per share calculation.

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

	2017	2016
Ordinary shares as at 1 January	7,120,003	7,120,003
Effect of treasury hares	(167,631)	(190,355)
Weighted average number of shares at 31 December (basic)	**6,952,372**	**6,929,648**
Effect of share based payments	-	31,885
Weighted average number of shares at 31 December (diluted)	**6,952,372**	**6,961,533**

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

	2017			2016		
	Continuing operations	Discontinued operations	**Total**	Continuing operations	Discontinued operations	**Total**
Basic earnings / (loss) per share						
Profit for the year attributable to the owners of parent company (in thousands of HRK)	18,250	-	**18,250**	193,155	(10,756)	**182,399**
Basic earnings / (loss) per share (in HRK)	2.63	-	**2.63**	27.87	(1.55)	**26.32**
Diluted earnings / (loss) per share						
Profit for the year attributable to the owners of parent company (in thousands of HRK)	30,205	-	**30,205**	200,934	(10,756)	**190,178**
Diluted earnings / (loss) per share (in HRK)	2.63	-	**2.63**	27.87	(1.55)	**26.32**

NOTE 17 – GOODWILL

(in thousands of HRK)	**2017**	**2016**
Cost		
At 1 January	67,304	67,304
At 31 December	**67,304**	**67,304**
Accumulated impairment losses		
At 1 January	41,280	41,014
Effect of changes in the foreign exchange rates	(1,378)	266
At 31 December	**39,902**	**41,280**
Carrying amount at 31 December	**27,402**	**26,024**

During 2017 and 2016 there was no impairment of goodwill. A more detailed description of the approach and methods used in impairment testing is provided in note 5(v).

NOTE 18 – INTANGIBLE ASSETS

(in thousands of HRK)	Software and licences	Rights, registration files, know how	Brands	Intangible assets in progress	Total
Cost					
At 1 January 2016	201,950	252,272	249,107	25,212	728,541
Effect of foreign exchange differences	51	(114)	(646)	(9)	(718)
Additions	87	-	-	24,793	24,880
Transfers	20,231	5,274	-	(25,505)	-
Disposals	(1,267)	(12,636)	(45,546)	(42)	(59,491)
Transfer to tangible assets	-	-	-	(148)	(148)
At 31 December 2016	**221,052**	**244,796**	**202,915**	**24,301**	**693,064**
Accum. amortisation and impairments					
At 1 January 2016	(176,305)	(153,066)	(114,659)	-	(444,030)
Effect of foreign exchange differences	-	-	104	-	104
Disposals	1,416	12,188	45,546	-	59,150
Charge for the year	(11,269)	(20,894)	(8,141)	-	(40,304)
At 31 December 2016	**(186,158)**	**(161,772)**	**(77,150)**	**-**	**(425,080)**
Carrying amount as at 31 Dec 2016	**34,894**	**83,024**	**125,765**	**24,301**	**267,984**
Cost					
At 1 January 2017	221,052	244,796	202,915	24,301	693,064
Effect of foreign exchange differences	253	(86)	327	(4)	490
Additions	70	-	(7,336)	34,512	27,246
Transfers	14,680	4,210	7,297	(26,187)	-
Disposals	(3,779)	(13,538)	-	(1,943)	(19,260)
Transfers from assets held for sale	410	-	-	-	410
At 31 December 2017	**232,686**	**235,382**	**203,203**	**30,679**	**701,950**
Accum. amortisation and impairments					
At 1 January 2017	(186,158)	(161,772)	(77,150)	-	(425,080)
Effect of foreign exchange differences	(257)	(4)	(539)	-	(800)
Disposals	3,779	13,316	-	-	17,095
Charge for the year	(12,005)	(14,034)	(8,150)	-	(34,189)
Impairment	-	-	(18,331)	-	(18,331)
Transfers from assets held for sale	(410)	-	-	-	(410)
At 31 December 2017	**(195,051)**	**(162,494)**	**(104,170)**	**-**	**(461,715)**
Carrying amount as at 31 Dec 2017	**37,635**	**72,888**	**99,033**	**30,679**	**240,235**

Of the total amount of accumulated amortisation and impairment losses HRK 103,942 thousand relates to accumulated impairment losses (2016: HRK 85,611 thousand).

The total intangible assets with indefinite useful lives as at 31 December 2017 amount to HRK 129,201 thousand and relate to brands and other rights.

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

In 2017 the Group recognised an impairment of the Warzywko and Perfecta brands in the amount of HRK 17,893 thousand (2016: HRK 0), and impairment of a project in the amount of HRK 438 thousand (2016: HRK 0). The Group considers these impairment losses to be one-off. A more detailed description of the approach and method used in impairment testing is provided in note 5(v). Impairment losses on intangible assets are included in “Other expenses” as presented in note 10.

During 2016, through the realisation of the disposal group, the Group sold the brand Lero.

As of 1 January 2016, the Group changed the useful life of Warzywko brand from indefinite to definite and accordingly recognized amortisation over a period of 6 years. The effect of this change on the current amortisation cost in 2017 amounted to HRK 5,194 thousand (2016: HRK 5,194 thousand).

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2016	2,680,587	1,860,261	206,146	4,746,994
Effect of foreign exchange differences	(6,464)	(1,734)	777	(7,421)
Additions	62,735	116,888	389,737	569,360
Disposals	(211)	(24,977)	(27)	(25,215)
Transfer to assets held for sale (i)	(46,550)	(16,475)	(17,646)	(80,671)
Transfer from intangible assets	-	-	148	148
At 31 December 2016	**2,690,097**	**1,933,963**	**579,135**	**5,203,195**
Accum. depreciation and impairments				
At 1 January 2016	(1,489,380)	(1,319,636)	-	(2,809,016)
Effect of foreign exchange differences	1,859	-	-	1,859
Disposals	(923)	24,512	-	23,589
Impairment of non-current assets	-	(1,867)	-	(1,867)
Charge for the year	(56,091)	(94,275)	-	(150,366)
Transfer to assets held for sale (i)	20,401	16,647	-	37,048
At 31 December 2016	**(1,524,134)**	**(1,374,619)**	**-**	**(2,898,753)**
Carrying amount as at 31 Dec 2016	**1,165,963**	**559,344**	**579,135**	**2,304,442**
Cost				
At 1 January 2017	2,690,097	1,933,963	579,135	5,203,195
Effect of foreign exchange differences	(1,500)	(1,414)	(1,239)	(4,153)
Additions	133	866	178,550	179,549
Transfers	189,764	441,367	(631,131)	-
Disposals	(1,555)	(51,247)	(876)	(53,678)
Transfer to assets held for sale (i)	-	(1,756)	(585)	(2,341)
Transfer from assets held for sale (i)	25,848	4,914	469	31,231
At 31 December 2017	**2,902,787**	**2,326,693**	**124,323**	**5,353,803**
Accum. depreciation and impairments				
At 1 January 2017	(1,524,134)	(1,374,619)	-	(2,898,753)
Effect of foreign exchange differences	(478)	(1,159)	-	(1,637)
Disposals	461	50,639	-	51,100
Charge for the year	(59,232)	(101,038)	-	(160,270)
Transfer to assets held for sale (i)	-	272	-	272
Impairment of non-current assets	(3,961)	-	(327)	(4,288)
Transfer from assets held for sale (i)	(20,201)	(4,149)	-	(24,350)
Reversal of impairment	2,115	-	-	2,115
At 31 December 2017	**(1,605,430)**	**(1,430,054)**	**(327)**	**(3,035,811)**
Carrying amount as at 31 Dec 2017	**1,297,357**	**896,639**	**123,996**	**2,317,992**

In 2017, the Group recognised impairment loss for property and plant in Tanzania in the amount of HRK 3,961 thousand (2016: HRK 0) and the impairment loss for equipment in Poland in the amount of HRK 327 thousand (2016: HRK 0). The Group considers these impairment losses to be one-off.

In 2017, the Group also wrote off the project documentation for the fish and tomato factory in the amount of HRK 827 thousand (2016: HRK 0) and reclassified a portion of assets held for sale to tangible assets. By reclassifying assets held for sale to tangible assets, the Group recognised additional depreciation in the amount of HRK 2,905 thousand (2016: HRK 0) and recognised the reversal of impairment of property in the amount of HRK 2,115 thousand (2016: HRK 0). The Group considers these expenses and income to be one-off and they are presented in note 10 *Other expenses*.

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

During 2017, the Group had investments under which interest expense in the amount of HRK 3,667 thousand (2016: HRK 3,797 thousand) was capitalised in property and equipment using the estimated capitalisation rate of 2.16%.

(i) During 2017, the Group transferred property, plant and equipment with a carrying amount of HRK 4,812 thousand to assets held for sale (2016: HRK 43,623 thousand).

Mortgaged assets

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

Land, buildings and equipment of the Group with a carrying amount of HRK 785,975 thousand (2016: HRK 618,547 thousand) are mortgaged against the Group's borrowings.

Property which is subject to finance lease agreement

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

	2017	**2016**
	(in thousands of HRK)	
Cost of capitalised finance leases	3,910	3,996
Accumulated depreciation	(862)	(704)
Carrying amount	**3,048**	**3,292**

NOTE 20 – SUBSIDIARIES

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

Name of subsidiary	Country	2017	2016	Principal activity
Belupo d.d., Koprivnica	Croatia	100%	100%	Production and distribution of pharmaceuticals
Belupo doel, Skopje*	Macedonia	100%	100%	Sale and distribution of pharmaceuticals
Belupo s.r.o. Bratislava*	Slovakia	100%	100%	Sale and distribution of pharmaceuticals
Belupo Ljubljana*	Slovenia	100%	100%	Sale and distribution of pharmaceuticals
Ljekarne Deltis Pharm Koprivnica*	Croatia	100%	100%	Sale and distribution of pharmaceuticals
Farmavita d.o.o. Vogošća*	Bosnia and Herzegovina	65%	65%	Sale and distribution of pharmaceuticals
Mirna d.d. Rovinj	Croatia	90%	84%	Fish processing and production
Lagris a.s., Lhota u Luhačovic	Czech Rep.	100%	100%	Rice production and sale
Podravka-Polska Sp.z o.o., Warszawa	Poland	100%	100%	Seasonings production and sale
Podravka-International Kft, Budapest	Hungary	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Belgrade	Serbia	100%	100%	Sale and distribution of food and beverages
Podravka-Int. Deutschland –“Konar” GmbH	Germany	100%	100%	Sale and distribution of food and beverages
Podravka-International s.r.o., Zvolen**	Slovakia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Podgorica	Montenegro	100%	100%	Sale and distribution of food and beverages
Podravka-International Pty Ltd, Sydney	Australia	100%	100%	Sale and distribution of food and beverages
Sana d.o.o., Hoče	Slovenia	100%	100%	Production of waffles
Podravka-International s.r.l., Bucharest	Romania	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Skopje	Macedonia	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100%	100%	Sale and distribution of food and beverages
Podravka-International Inc. Wilmington	USA	100%	100%	Sale and distribution of food and beverages
Podravka d.o.o., Moskva	Russia	100%	100%	Sale and distribution of food and beverages
Vegeta Podravka Limited, Dar es Salaam***	Tanzania	85%	85%	Sale and distribution
Vegeta Ltd.****	Kenya	80%	80%	Sale and distribution
Podravka Gulf Fze, Jebel Ali, Dubai	UAE	100%	100%	Sale and distribution
Žito d.d., Ljubljana	Slovenia	100%	100%	Production and distribution of food
Intes Storitve d.o.o., Maribor	Slovenia	100%	100%	Production and distribution of food
Šumi bonboni d.o.o., Ljubljana	Slovenia	100%	100%	Production and distribution of food
Žito maloprodaja d.o.o., Ljubljana	Slovenia	100%	100%	Sale of food and beverages
ZRIŽ g.i.z., Ljubljana	Slovenia	100%	100%	Services
LD Žito d.o.o. v likvidaciji, Zagreb	Croatia	100%	100%	Sale and distribution of food and beverages
Žito Beograd d.o.o. v likvidaciji, Beograd	Serbia	-	100%	Sale and distribution of food and beverages
Žito Pl d.o.o.e.l. v likvidaciji, Skopje	Macedonia	-	100%	Sale and distribution of food and beverages
Podravka d.o.o., Ljubljana	Slovenia	100%	100%	Sale and distribution of food and beverages

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

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

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

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

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

NOTE 20 – SUBSIDIARIES (continued)

During 2017, the Company acquired additional shares of Mirna d.d. in the amount of HRK 863 thousand and as at 31 December 2017 the Company held 90.41% of the share capital of Mirna d.d.

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

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

NOTE 21 – NON-CURRENT FINANCIAL ASSETS

	2017	**2016**
	(in thousands of HRK)	
Loans receivable	2,941	2,489
Other receivables and deposits	2,071	2,546
Investments in other equity instruments	4,734	11,993
	9,746	**17,028**

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

Other receivables and deposits mainly relate to lease deposits.

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

NOTE 22 – INVENTORIES

	2017	**2016**
	(in thousands of HRK)	
Raw materials and supplies	276,762	268,236
Work in progress	55,091	53,119
Finished goods	347,081	326,283
Merchandise	126,871	125,957
	805,805	**773,595**

In 2017, the Group recognised impairment loss with respect to inventories in the amount of HRK 13,940 thousand (2016: HRK 3,500 thousand reversal of impairment) as impaired inventories realised lower prices than expected. The movement in inventory impairment provision is included in the statement of comprehensive income in line item 'Cost of goods sold'.

During 2017, impairment loss for inventories in subsidiary Vegeta Podravka Limited in Tanzania was recognised in the amount of HRK 5,242 thousand. The Group considers these impairment loss to be one-off.

NOTE 23 – TRADE AND OTHER RECEIVABLES

	2017	2016
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,081,399	1,242,570
Trade receivables - discounted bills of exchange	60,840	82,720
Impairment allowance	(240,999)	(219,874)
Net trade receivables	**901,240**	**1,105,416**
Bills of exchange received	210	306
Advances to suppliers	9,593	25,998
Loans given	601	705
Net VAT receivable	18,332	19,507
Prepaid expenses	10,452	15,551
Receivables from employees	1,287	1,348
Other receivables	5,778	8,490
	947,493	**1,177,321**

In 2017, the Group recognised impairment of trade receivables from customers owned and controlled by the same group in the amount of HRK 44,094 thousand and the Group considers this impairment loss to be one-off.
During 2017, impairment of trade receivables in the amount of HRK 2,123 thousand (2016: HRK 0), and other current receivables in the amount of HRK 4,986 thousand (2016: HRK 0) in the subsidiary Vegeta Podravka Limited in Tanzania were recognised. The Group considers these costs to be one-off.

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

	2017	2016
	(in thousands of HRK)	
At 1 January	219,874	174,545
Increase	46,410	6,339
Amounts collected	(1,539)	(3,593)
Written off as uncollectable	(23,746)	42,583
At 31 December	**240,999**	**219,874**

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

Ageing analysis of trade receivables which have not been impaired:

	2017	2016
	(in thousands of HRK)	
Not due	691,418	901,615
0-90 days	163,038	172,593
91-180 days	18,344	23,316
181-360 days	28,440	7,892
	901,240	**1,105,416**

Major customers

Net trade receivables from major customers owned and controlled by the same group as at 31 December 2017 amount to HRK 151,756 thousand (2016: HRK 236,654 thousand).

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

	2017	2016
	(in thousands of HRK)	
Forward contracts	511	751
	511	**751**

During 2017, the Group used forward contracts entered into with commercial banks with the intention of managing the fluctuations of foreign currencies (EUR, RUB, AUD, CAD, PLN and HUF) related to the purchase and sale of those currencies, and which had a positive fair value as at 31 December 2017 amounting to HRK 511 thousand (2016: HRK 751 thousand).

The nominal value of currency forwards as at 31 December 2017 amounted to HRK 38,970 thousand with the contracts maturing in the period from 11 January 2018 to 13 November 2018 (2016: HRK 55,254 thousand, with the contracts maturing in the period from 12 January 2017 to 14 November 2017).

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

Fair value measurement

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

NOTE 25 – CASH AND CASH EQUIVALENTS

	2017	2016
	(in thousands of HRK)	
Cash with banks	343,559	326,565
Short-term deposits – up to 3 months	18,098	10,668
Cash in hand	425	378
	362,082	**337,611**

Cash with banks relates to transaction accounts at commercial banks that carry an average interest rate ranging from 0.01% to 1.77%.

Deposits relate to deposits at commercial banks with maturity up to three months that carry a variable interest rate ranging from 0.0019% to 4.91%.

NOTE 26 – NON-CURRENT ASSETS HELD FOR SALE

	2017	2016
	(in thousands of HRK)	
Land and buildings	177,941	183,125
Equipment	220	1,340
	178,161	**184,465**

In 2017, the Group sold a portion of non-current assets held for sale with the carrying value of HRK 595 thousand and realised gain on sale in the amount of HRK 23 thousand.

(i) Land and buildings

Of the total amount of land and buildings held for sale, HRK 131,283 thousand relates to land and buildings in Rijeka (2016: HRK 131,175 thousand). The Group still actively seeks to realize a plan of selling the assets held for sale. The remainder of land and buildings held for sale relates mainly to properties in Croatia, Poland and Slovenia.

Land and buildings held for sale in the amount of HRK 6,881 thousand were reclassified to tangible assets following the Management Board’s decision to withdraw from sale process and to use them for other purposes. On the other hand, HRK 585 thousand were transferred from tangible assets to assets held for sale.

In 2017, the Group recognised impairment loss for land and buildings in Slovenia in the amount of HRK 344 thousand.

Fair value measurement

Land and property held for sale in the amount of HRK 96,554 thousand are measured at fair value less costs of sell due to the fact that this value is lower than the carrying value prior to classification as held for sale. The Group has made an estimation of fair value on classification date and regularly checks if estimation needs to be revised. During 2017, management estimated that no new circumstances occur that would require new fair value measurement to be performed.

Fair value measurement according to inputs used in evaluation is classified as level 3 (see note 6). The following table summarizes the valuation methods and techniques as well as significant inputs used in measuring the fair value at the classification date:

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

Land and buildings held for sale in the amount of HRK 81,387 thousand are carried at the cost of purchase incurred in 2014 since this is considered an adequate approximation of their fair value.

(ii) Equipment held for sale

During 2017, the Group reclassified equipment from tangible assets to assets held for sale with the carrying amount of HRK 1,484 thousand (2016: HRK 0), and recognised the impairment loss for this equipment held for sale in the amount of HRK 1,268 thousand (2016: HRK 0) within the company Podravka Gulf. The Group considers this impairment loss for equipment held for sale to be one-off.

NOTE 27– SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)	*(in thousands of HRK)*			
At 1 January 2016	6,942,492	1,566,401	186,263	(66,709)	1,685,955
Purchase of treasury shares (i)	(36,589)	-	-	(12,977)	(12,977)
Excercise of options (i)	19,200	-	(6,642)	7,146	504
Fair value of share based payments (i)	-	-	7,779	-	7,779
At 31 December 2016	**6,925,103**	**1,566,401**	**187,400**	**(72,540)**	**1,681,261**
At 1 January 2017	6,925,103	1,566,401	187,400	(72,540)	1,681,261
Excercise of options (i)	32,341	-	(15,306)	12,037	(3,269)
Fair value of share based payments (i)	-	-	11,955	-	11,955
At 31 December 2017	**6,957,444**	**1,566,401**	**184,049**	**(60,503)**	**1,689,947**

As at 31 December 2017, the Company's share capital amounted to HRK 1,566,401 thousand, distributed among 7,120,003 shares out of which 162,559 relates to treasury shares (2016: HRK 1,566,401 thousand and 7,120,003 shares out of which 194,900 related to treasury shares). Nominal value of one share amounts to HRK 220.00. All issued shares are fully paid in.

(i) Share based payments

In 2017, there were no purchases of treasury shares, while during 2016 the Company purchased 36,589 of its own shares for allocation under the stock option plan for employees. During 2017, the Company also issued additional options to employees under the stock option plan for employees, but also as part of the employee stock ownership program (ESOP program) in the context of the share capital increase. The share option plan for employees and the ESOP program are described in more detail in note 37 (ii) to the consolidated financial statements.

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

	2017		**2016**	
Structure of ownership	**Number of shares**	**% of ownership**	**Number of shares**	**% of ownership**
PBZ CO OMF - Category B	925,602	13.00	925,602	13.00
AZ OMF category B	902,874	12.68	902,874	12.68
RSC - Croatian Pension Insurance Institute	727,703	10.22	727,703	10.22
Erste Plavi OMF category B	665,166	9.34	665,166	9.34
Raiffeisen OMF category B	625,298	8.78	625,298	8.78
Kapitalni fond d.d.	406,842	5.71	406,842	5.71
RSC - Republic of Croatia	387,257	5.44	673,845	9.46
HPB - Republic of Croatia	286,588	4.03	-	-
AZ Profit voluntary pension fund	113,728	1.60	111,752	1.57
Raiffeisen DMF	99,965	1.40	99,965	1.40
Treasury account	162,559	2.28	194,900	2.74
Other shareholders	1,816,421	25.51	1,786,056	25.09
Total	**7,120,003**	**100.00**	**7,120,003**	**100.00**

NOTE 28 – RESERVES

(in thousands of HRK)	Reserves for treasury shares	Legal reserves	Reserves for reinvested profit	Statutory reserves	Other reserves	Total
At 1 January 2016	147,604	30,931	189,738	47,007	134,560	549,840
Allocation of profits (note 29)	-	11,006	-	8,548	45,303	64,857
Additional purchase of NCI	-	-	-	-	8,128	8,128
Exchange differences	-	-	-	-	(8,946)	(8,946)
Fair value of financial assets available for sale	-	-	-	-	347	347
Actuarial losses (net of tax)	-	-	-	-	(1,583)	(1,583)
At 31 December 2016	**147,604**	**41,937**	**189,738**	**55,555**	**177,809**	**612,643**
At 1 January 2017	147,604	41,937	189,738	55,555	177,809	612,643
Allocation of profits (i)	-	8,966	-	3,015	137,596	149,577
Additional purchase of NCI	-	-	-	-	1,059	1,059
Exchange differences	-	-	-	-	3,755	3,755
Fair value of financial assets available for sale	-	-	-	-	827	827
Actuarial losses (net of tax)	-	-	-	-	(999)	(999)
At 31 December 2017	**147,604**	**50,903**	**189,738**	**58,570**	**320,047**	**766,862**

The legal reserve is required under Croatian law according under which the Group is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares, as well as reserves for reinvested profits, are non-distributable. Other reserves mainly relate to (non-distributable) reserves required by the Company’s Articles of Association and foreign exchange translation reserves related to subsidiaries abroad.

(i) Transfers within capital and reserves

In 2017, the General Assembly reached a decision to allocate the Company’s profit from 2016 in the amount of HRK 179,322 thousand as follows: the amount of HRK 8,966 thousand to legal reserves, the amount of HRK 120,516 thousand to other reserves, the amount of HRK 48,642 thousand for the declared dividend, while the remainder of HRK 1,198 thousand is retained in unallocated profit.

In addition, in 2017, in accordance with the decision of its General Assembly, the subsidiary Belupo d.d. transferred HRK 3,015 thousand from retained earnings to statutory reserves and HRK 17,080 thousand to other reserves, while the remaining portion of net profit in the amount of HRK 40,202 thousand was allocated to retained earnings.

NOTE 29 – RETAINED EARNINGS

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

	2017	**2016**
	(in thousands of HRK)	
At 1 January	**583,272**	**514,250**
- transfer to legal and other reserves	(149,577)	(64,857)
- effect of sold companies	-	(40)
- dividends paid	(48,642)	(48,480)
- profit for the year	18,250	182,399
At 31 December	**403,303**	**583,272**

At the end of April 2018, the Management of the Company will propose a decision to allocate the profit of the Company for 2017 which amounted to HRK 86,437 thousand, whereby HRK 4,322 thousand is proposed to be transferred to legal reserves.

Management also proposed a dividend to the shareholders in the amount of HRK 7.00 per share while the remainder of the profits is to be transferred to other reserves.

NOTE 30 – NON-CONTROLLING INTERESTS

Podravka Group has non-controlling interests arising from acquisitions of 65% of ownership interest in subsidiary Farmavita d.o.o. Sarajevo in year 2008 and 90.41% in the subsidiary Mirna d.d., acquired during 2017. During 2017, the Group acquired additional non-controlling interests in the amount of HRK 863 thousand in the subsidiary Mirna d.d. of 6.17%. During 2016, through a squeeze-out transaction, the Group acquired the 100% share in the subsidiary Žito d.o.o. Summary financial information for the company Farmavita d.o.o., Sarajevo as at 31 December 2017 (excluding consolidation eliminations) and for the company Mirna d.d. are as follows:

31 December 2017 *(in thousands of HRK)*	**Mirna d.d.**	**Farmavita**
Non-controlling interest	***9.6%***	***35.0%***
Statement of financial position		
Non-current assets	58,393	69,669
Current assets	28,182	119,933
Current liabilities	(127,525)	(52,682)
Non-current liabilities	(19,149)	(59,826)
Net assets	**(60,099)**	**77,094**
Statement of comprehensive income for the period		
Sales revenue	39,523	181,660
Profit after tax	(10,227)	23,063
Other comprehensive income	29	(507)
Total comprehensive income for the period	**(10,198)**	**22,556**
Statement of cash flows		
Net increase in cash and cash equivalents	**81**	**2,057**

The movement in non-controlling interest was as follows:

	2017	**2016**
	(in thousands of HRK)	
Balance at 1 January	49,218	67,712
Dividend paid to minority shareholder	(15,776)	-
Effect of acquiring non-controlling interests	(1,922)	(23,641)
Foreign exchange differences	(430)	(207)
Share in current year profit	5,581	5,354
Balance at 31 December	**36,671**	**49,218**

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

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

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

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

	2017	2016
	(in thousands of HRK)	
Interest rate swap	1,254	2,443
Forwards	377	1,754
	1,631	**4,197**

31.12.2017	**Nominal amount of loan under IRS '000 EUR**	**Loan liability under IRS '000 EUR**	**Fair value of IRS '000 HRK**	**Date of IRS agreement**	**Maturity date of IRS**	**Floating part of interest rate before IRS**	**Fixed part of interest rate per IRS**
SWAP 1 - EBRD	20,540	12,329	741	17.09.2014.	16.08.2019.	3M EURIBOR	0.40%
SWAP 2 - EBRD	20,540	12,329	513	06.02.2015.	16.08.2019.	3M EURIBOR	0.19%
	41,080	**24,658**	**1,254**				

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

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

Interest rate swaps 1 and 2 were entered into in 2014 and 2015 for the syndicated loan entered into by Podravka d.d. with the EBRD in 2014. This loan was refinanced prior to its maturity by a new syndicated loan with the EBRD and commercial banks with maturity on 16 August 2022, used in addition to Podravka d.d. by Belupo d.d. and Žito d.o.o., with a repayment plan adjusted to interest rate swaps that fixed interest rate expense for 32% of the total principal of the new syndicated loan to its maturity on 16 August 2019. For the period until 16 August 2019 and after 16 August 2019, it is planned to contract new interest rate swaps that would fix interest rate expense for the period until the loan maturity. As at 31 December 2016, the Group fixed interest rate expense for 35% of the principal of the syndicated loan with the EBRD concluded in 2014, as shown in the table above.

Fair value measurement

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

NOTE 32 – LOANS AND BORROWINGS

	2017	2016
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	429,022	395,985
Banks abroad	485,327	601,323
Finance lease	861	1,227
	915,210	**998,535**
Current borrowings		
Banks in Croatia	179,704	187,027
Banks abroad	173,806	188,662
Finance lease	794	929
	354,304	**376,618**
Total borrowings	**1,269,514**	**1,375,153**

During 2017, the Group refinanced a portion of borrowings in the amount of HRK 227,500 thousand by long-term borrowings bearing a more favourable interest rates. Through the refinancing process, the Group had HRK 227,500 thousand of non-cash transactions.

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

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

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

b) Debt coverage ratio (DCR). The parameter is calculated as the ratio of consolidated net debt and consolidated EBITDA. At the reporting dates, the Group was in compliance with this covenant.

c) Equity ratio (ER). The parameter is calculated as the ratio of consolidated equity and consolidated total assets. At the reporting dates, the Group was in compliance with this covenant.

d) Cash flow cover ratio (CFC). The parameter is calculated as the ratio of consolidated cash flows and consolidated debt repayments. At the reporting dates, the Group was in compliance with this covenant.

Bank borrowings in the amount of HRK 895,504 thousand (2016: HRK 941,125 thousand) are secured by mortgages over the Group’s land and buildings and movables with a carrying value of HRK 785,975 thousand (Note 19).

The finance lease liabilities of the Group are as follows:

	Minimum lease		Finance cost		Present value	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
			(in thousands of HRK)			
Up to 1 year	850	1,017	(56)	(88)	794	929
Between 1 and 5 years	880	1,292	(19)	(65)	861	1,227
Total	**1,730**	**2,309**	**(75)**	**(153)**	**1,655**	**2,156**

	2017	2016
Included in the consolidated financial statements within:		
Current borrowings	794	929
Non-current borrowings	861	1,227
	1,655	**2,156**

NOTE 32 – LOANS AND BORROWINGS (CONTINUED)

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

	2017	2016
	(in thousands of HRK)	
Between 1 and 2 years	285,946	240,810
Between 2 and 5 years	548,316	587,081
Over 5 years	82,202	173,087
	916,464	**1,000,978**

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

	2017			2016		
	HRK	EUR	Other	HRK	EUR	Other
Non-current borrowings						
Banks in Croatia	2.24%	2.37%	-	4.00%	3.00%	-
Banks abroad	-	1.24%	5.05%	-	1.49%	4.89%
Finance leases	-	6.07%	6.44%	-	6.09%	5.97%
Current borrowings						
Banks	0.88%	-	2.56%	-	-	2.75%

The average weighted cost of debt for the Group’s interest-bearing liabilities as at 31 December 2017 was 1.96% (31 December 2016: 2.50%).

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

	2017	2016
	(in thousands of HRK)	
Croatian kuna	208,572	397,043
EUR	989,626	904,664
Other currencies	72,572	75,889
	1,270,770	**1,377,596**

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

The Group has the following undrawn borrowing facilities:

	2017	2016
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	276,284	225,512
	276,284	**225,512**

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

NOTE 32 – LOANS AND BORROWINGS (CONTINUED)

Reconciliation of liabilities movements with cash flows from financing activities:

(in thousands of HRK)	**Loans**	**Financial leasing**	**Share capital**	**Other reserves**	**Retained earnings**	**Non-controling share**	**Total**
At 1 January 2017	1,372,997	2,156	1,681,261	177,809	583,272	49,218	3,866,713
Cash transactions:				-			
Loans received	182,590	-	-	-	-	-	182,590
Loans repayment	(398,008)	-	-	-	-	-	(398,008)
Finance lease repayment	-	(481)	-	-	-	-	(481)
Sale of treasury shares	-	-	6,945	-	-	-	6,945
Additional acquisition of minority interest	-	-	-	1,059	-	(1,922)	(863)
Dividend paid	-	-	-	-	(48,642)	-	(48,642)
Total cash transactions	**(215,418)**	**(481)**	**6,945**	**1,059**	**(48,642)**	**(1,922)**	**(258,459)**
Non-cash transactions:							
The impact of changes in exchange rates	(1,662)	(20)	-	-	-	(430)	(2,112)
Other non-cash transactions	111,942	-	-	-	-	(15,776)	96,166
Total other changes related to capital	-	-	1,741	-	(131,327)	5,581	(124,005)
At 31 December 2017	**1,267,859**	**1,655**	**1,689,947**	**178,868**	**403,303**	**36,671**	**3,578,303**

Other non-cash transactions in borrowings mainly relate to settling trade payables by direct cash transfers to suppliers made by the commercial bank.

NOTE 33 – PROVISIONS

(in thousands of HRK)	**Jubilee awards**	**Vacation accruals**	**Retirement benefits**	**Termination benefits and bonuses**	**Legal cases**	**Total**
As at 31 December 2016						
Non-current	14,620	-	27,491	-	28,564	70,675
Current	1,686	12,889	-	11,346	915	26,836
At 1 January 2017	**16,306**	**12,889**	**27,491**	**11,346**	**29,479**	**97,511**
Increase in provisions	2,486	9,600	3,328	3,057	8,073	26,544
Utilised during the year	(2,526)	(7,453)	(1,514)	(7,033)	(6,456)	(24,982)
At 31 December 2017	**16,266**	**15,036**	**29,305**	**7,370**	**31,096**	**99,073**
Non-current	14,539	-	29,305	-	30,278	74,122
Current	1,727	15,036	-	7,370	818	24,951
	16,266	**15,036**	**29,305**	**7,370**	**31,096**	**99,073**

(i) Legal cases

Legal provisions relate to a number of legal proceedings initiated against the Group which stem from regular commercial activities and court cases including former employees. The expenses relating to the provisions are included in the consolidated statement of comprehensive income within ‘Administrative expenses’. Based on the expert opinion of legal counsels, the Group’s Management believes that the outcome of these legal proceedings will not give rise to any significant losses beyond the amounts provided as at 31 December 2017.

(ii) Termination benefits and bonuses

As at 31 December 2017, the Group recognised HRK 2,194 thousand of provisions for bonuses to key management (2016: HRK 10,162 thousand).

(iii) Jubilee awards and regular retirement benefits

According to the Collective Labour Agreement signed by the Group companies, the Group has an obligation to pay jubilee awards, retirement and other benefits to its employees. No other post-retirement benefits are provided. The present values of these obligations, the related current service cost and past service cost were measured using the projected credit unit method.

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

	2017	**2016**
Discount rate	2.0% - 5.4%	2.8% - 5.4%
Fluctuation rate	4.81% - 9.76%	4.78% - 9.3%
Average expected remaining working lives (in years)	21	21

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

	2017		**2016**	
(in thousands of HRK)	**Jubilee awards**	**Retirement benefits**	**Jubilee awards**	**Retirement benefits**
At 1 January	16,306	27,491	16,897	25,595
Sale of subsidiary	-	-	(309)	(272)
Current service cost	1,352	2,219	636	964
Interest expense	237	323	315	383
Actuarial gains	894	786	1,288	1,344
Benefits paid	(2,523)	(1,514)	(2,521)	(523)
At 31 December	**16,266**	**29,305**	**16,306**	**27,491**

NOTE 34 – OTHER LONG-TERM LIABILITIES

	2017	2016
	(in thousands of HRK)	
Deferred income on government incentives	20,862	21,179
Other long-term liabilities	1,603	-
	22,465	**21,179**

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

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

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

NOTE 35 – TRADE AND OTHER PAYABLES

	2017	2016
	(in thousands of HRK)	
Trade payables	544,192	562,744
Other payables	175,599	242,526
	719,791	**805,270**

At 31 December 2017 and 31 December 2016, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other liabilities include the following:

	2017	2016
	(in thousands of HRK)	
Salaries and other benefits to employees	76,958	71,477
Liabilities to factoring	-	82,720
Accrued expenses	66,138	60,720
Deferred income	5,536	5,949
Taxes, contributions and other duties payable	9,866	6,153
Packaging waste disposal fee payable	592	1,865
Accrued interest	2,786	5,080
Advances received	2,171	1,468
Dividends payable	2,003	1,198
Other payables	9,549	5,896
	175,599	**242,526**

Factoring payables relate to bills of exchange with the recourse relating to several customers that are discounted at several factoring companies. Payables are non-interest bearing for the Group. During 2017, the Group repurchased bills of exchange with recourse rights from a factoring company in the amount of HRK 60,862 thousand, while the remaining portion was collected.

NOTE 36 – RISK MANAGEMENT

Categories of financial instruments are as follows:

	2017	2016
	(in thousands of HRK)	
Financial assets at amortised cost		
Long-term loans	2,941	2,489
Long-term deposits	2,071	2,546
Investments in equity instruments	4,734	11,993
Short-term loans	601	705
Trade receivables (including bills of exchange)	901,450	1,105,722
Cash and cash equivalents	362,082	337,611
	1,273,879	**1,461,066**
Financial assets at fair value through profit or loss		
Forward contracts	511	751
	511	**751**
Total financial assets	**1,274,390**	**1,461,817**
Financial liabilities at amortised cost		
Finance lease obligations	1,655	2,156
Borrowings	1,267,859	1,372,997
Trade payables, factoring and interest payable	546,978	650,544
	1,816,492	**2,025,697**
Financial liabilities at fair value through profit or loss		
Interest rate swap and forward contract	1,631	4,197
	1,631	**4,197**
Total financial liabilities	**1,818,123**	**2,029,894**

Fair value of financial instruments

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

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

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

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

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

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

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

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

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management

An integral part of the overall Enterprise Risk Management (ERM) project is the reporting procedure for the purpose of managing financial risks. This procedure is applied when it is assessed that due to extraordinary circumstances an immediate decision on some business activities has to be made in a manner that differs from the Podravka Group's prescribed procedures, which may jeopardise the profitability or cause a significant loss of Company's cash (Escalation procedure for managing financial risks).

The Podravka Group continuously monitors and manages the capital structure and financial risks. Financial risks include credit risk, liquidity risk and market risks (interest rate risk, price risk and currency risk).

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

Capital risk management

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

	2017	2016
	(in thousands of HRK)	
Debt (non-current and current borrowings including interest rate swap and forward contract)	1,271,145	1,379,350
Cash and cash equivalents	(362,082)	(337,611)
Net debt	909,063	1,041,739
Equity	2,896,783	2,926,394
Net debt to equity ratio	31%	36%

Debt is defined as long- and short-term borrowings. Equity includes all capital and reserves of the Group. Besides monitoring the ratio of net debt to equity, the Company's treasury together with financial departments in subsidiaries, also monitors the ratio of operating profit before depreciation and amortization (EBITDA) and debt as part of its compliance with the terms of the syndicated loan agreement (see note 32). As at 31 December 2017, the Podravka Group was within the defined ratio.

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

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a possible financial loss to the Podravka Group. The Company adopted an upgraded "Collection of due receivables process" applied in operations with customers and it takes security instruments, wherever possible, for the purpose of hedging possible financial risks and possible loss as a consequence of a default. In addition, the Company secured domestic receivables and receivables in foreign markets (Turkey, Qatar, United Arab Emirates, Saudi Arabia, Oman, Bahrain, Kuwait and Egypt) in order to reduce the risk of possible default.

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Credit risk management (continued)

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

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

The Podravka Group has numerous customers of various retail activities and sizes. The most significant concentration of credit risk relates to retail chains.

The Podravka Group does not have a significant credit exposure that is not covered by security instruments and not covered by the estimates of possible impairment indications as at 31 December 2017.

During 2017, the Podravka Group did not have significant damage claims related to the insurance of collection of receivables.

The Group's exposure to major customers

As of 10 April 2017, the extraordinary administration process was initiated over the companies in the Agrokor Group headquartered in Croatia and Podravka Group pays special attention to monitoring its exposure towards these companies. In the extraordinary administration process, total receivables in the amount of HRK 97,425 thousand were claimed, of which HRK 60,862 thousand relate to discounted bills of exchange. In the process 99.3% of the claimed receivables were accepted, while the remaining portion relates to receivables that were recognised by the Company after 9 April 2017, which was subsequently adjusted. As at 31 December 2017, the overall exposure of the Company (net of liabilities) to the Agrokor Group in the Croatian market amounted to HRK 93,463 thousand, of which HRK 57,862 thousand related to "border debt", HRK 6,145 thousand to "old debt", while the remaining portion relates to receivables from regular operations. In line with available relevant information on the settlement within the extraordinary administration process, Podravka Group estimated the recoverability of the claimed receivables and recognised an impairment loss for receivables in the amount of HRK 44,094 thousand.

In 2017, Podravka Group successfully controlled its exposure to Agrokor Group, especially on the Croatian market where additional security measures were agreed with a simultaneous reduction in payment terms. The recoverability of the claimed receivables is currently uncertain since the Agrokor Group is in the extraordinary administration procedure, regulated by a separate strategic legislation and the final outcome of Agrokor Group's operations and the impact on its suppliers is uncertain.

Podravka Group continues its business cooperation with companies of the Agrokor Group, however pays attention to the control of its overall exposure.

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management

Management is responsible for managing liquidity risk by setting an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements. The Podravka Group manages liquidity risk by maintaining adequate reserves and credit lines, continuously matching forecast and actual cash flows, monitoring the maturity profiles of receivables and payables.
During 2017, additional efforts were made in planning cash flows at the level of all related companies that are aggregated at the Podravka Group level and forecast and actual cash flows and matching the maturity profiles of receivables and payables is continuously monitored. The Company's treasury in coordination with financial departments of subsidiaries continuously monitors and analyses cash flows with the aim of an optimum liquidity management in order to ensure sufficient level of cash funds for the purpose of operations using contracted credit lines as necessary. Planning cash flows in this way takes into account the Podravka Group's plans with respect to regular settlement of debt and adjustment to the relations set by contracts.

Liquidity risk analysis

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

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

The liquidity risk analysis below shows no potential deficit of short-term liquidity for the Group.

as at 31 December 2017	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap and forwards	**1,631**	1,631	377	1,254	-
Trade payables, factoring and interest payable	**546,978**	547,012	544,739	2,273	-
	548,609	548,643	545,116	3,527	-
Interest bearing liabilities					
Financial lease liabilities	**1,655**	1,655	757	898	-
Borrowings	**1,267,859**	1,332,568	377,352	872,646	82,570
	1,269,514	1,334,223	378,109	873,544	82,570
	1,818,123	1,882,866	923,225	877,071	82,570
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**901,450**	901,450	900,080	1,370	-
Forward contracts	**511**	511	511	-	-
Cash and cash equivalents	**362,082**	362,082	362,082	-	-
	1,264,043	1,264,043	1,262,673	1,370	-
Interest bearing assets:					
Long-term loans	**2,941**	3,306	-	3,306	-
Long-term deposits	**2,071**	655	27	615	13
Short-term loans	**601**	617	617	-	-
	5,613	4,578	644	3,921	13
	1,269,656	1,268,621	1,263,317	5,291	13
Net liquidity position	**(548,467)**	**(614,245)**	**340,092**	**(871,780)**	**(82,557)**

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Liquidity risk management (continued)

Liquidity risk analysis (continued)

as at 31 December 2016	**Net book value**	**Contracted cashflow**	Up to one year	1 - 5 years	over 5 years
		(in thousands of HRK)			
Non-interest bearing liabilities:					
Interest rate swap and forwards	**4,197**	4,197	4,197	-	-
Trade payables, factoring and interest payable	**650,544**	650,544	650,544	-	-
	654,741	654,741	654,741	-	-
Interest bearing liabilities					
Financial lease liabilities	**2,156**	1,863	855	1,008	-
Borrowings	**1,372,997**	1,416,037	388,398	877,551	150,088
	1,375,153	1,417,900	389,253	878,559	150,088
	2,029,894	2,072,641	1,043,994	878,559	150,088
Non-interest bearing assets:					
Trade receivables (including bills of exchange)	**1,105,722**	1,105,722	1,105,722	-	-
Forward contracts	**751**	751	751	-	-
Cash and cash equivalents	**337,611**	337,611	337,611	-	-
	1,444,084	1,444,084	1,444,084	-	-
Interest bearing assets:					
Long-term loans	**2,489**	4,026	1,551	2,475	-
Long-term deposits	**2,546**	1,196	14	1,169	13
Short-term loans	**705**	675	675	-	-
	5,740	5,897	2,240	3,644	13
	1,449,824	1,449,981	1,446,324	3,644	13
Net liquidity position	**(580,070)**	**(622,660)**	**402,330**	**(874,915)**	**(150,075)**

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks

(i) Interest rate risk management

The Podravka Group manages cash flow interest rate risk in a manner that it has contracted interest rate swaps that exchanged its variable interest rate liability with the fixed interest rate (note 31). Changes and projections of interest rates are monitored continuously. The Podravka Group contracted a part of its debt at a fixed interest rate. Taking into account the stated above and the fact that key interest rates are currently at low levels, the Podravka Group is not significantly exposed to interest rate risk. Exposure to changes in interest rates on borrowings and loans (including the part of loans covered with the interest rate swap agreement at the reporting date) in accordance with the agreed dates of changes in interest rates is as follows:

(in thousands of HRK)	**2017**	**2016**
EURIBOR based bank loans	590,082	722,271
EURIBOR based finance lease	1,542	1,994
TZMF bill of exchange based loans*	20,000	-
PRIBOR based bank loans**	28,037	34,657
	639,661	**758,922**

** Ministry of Finance bill of exchange*
*** Prague Interbank Offer Rate*

Interest rate sensitivity analysis

The sensitivity analysis below is determined based on the exposure to changes in contractual interest rates at the reporting date. For floating rate liabilities, the analysis is prepared by calculating the effect of a reasonably possible increase in interest rates on floating rate debt on the expected contractual cash flows of such debt compared to those calculated using the interest rates applicable at the current reporting period end date. A 50 basis point increase/decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates. The calculation of the interest rate swap effects includes the fact that if the variable interest rate 3 M Euribor is negative (as currently is the case), Podravka Group pays the difference between the fixed interest rate of the swap and the variable 3 M Euribor interest rate.

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

as at 31 December 2017	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
			(in thousands of HRK)		
At current interest rates	659,164	182,798	129,572	346,794	-
At current interest rates + 50 basis points	665,314	184,843	131,277	349,194	-
Effect of increase of interest rate by 50 bp	**(6,150)**	**(2,045)**	**(1,705)**	**(2,400)**	**-**

as at 31 December 2016	**Contractual cash flows**	up to 1 year	from 1 to 2 years	from 2 to 5 years	over 5 years
			(in thousands of HRK)		
At current interest rates	793,022	175,826	136,164	386,950	94,082
At current interest rates + 50 basis points	801,324	178,123	138,043	390,843	94,315
Effect of increase of interest rate by 50 bp	**(8,302)**	**(2,297)**	**(1,879)**	**(3,893)**	**(233)**

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

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(ii) Price risk

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

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

Podravka Group realises the majority of the overall purchases in the domestic market, while the majority of procurement with foreign suppliers is carried out with suppliers from the EU.

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 on purchases from outside the EU. Unavailability of goods in the market resulting from market shortages due to adverse weather conditions (drought, floods), political and social unrest in certain countries or speculation with key agricultural and food products are also risks with increased impact on the Podravka Group's operations.

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

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

(iii) Currency risk

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

	Liabilities		**Assets**	
	2017	**2016**	**2017**	**2016**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	1,058,859	1,035,434	443,191	518,509
Bosnia and Herzegovina (BAM)	61,859	61,177	151,930	161,054
Poland (PLN)	23,090	16,917	66,545	58,268
Russia (RUB)	3,868	906	75,637	100,795
Czech Koruna (CZK)	41,360	48,770	19,615	25,523
Other currencies	27,133	39,928	134,078	154,251

Foreign currency sensitivity analysis

Podravka Group performs certain transactions in foreign currencies and is therefore exposed to risks of exchange rates fluctuations, with the highest exposure during 2017 to the exchange rate fluctuations of the Croatian kuna against EUR, BAM and RUB.

In addition, by defining the internal policy for hedging the currency risk with the corresponding early warning indicators, and by implementing the project aimed at the centralisation of corporate risks management (Enterprise Risk Management) at the end of 2014, activities aimed at proactive key risks management were initiated (including currency risk).

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk (continued)

Foreign currency sensitivity analysis (continued)

Currency risks arise from operation of subsidiary companies in foreign markets and the purchase of food raw materials in the international market which is largely in Euro and US dollar. Similarly, the Podravka Group has a significant part of borrowings denominated in EUR.

During 2017, the Podravka Group performed the balance sheet currency structure analysis and continued to apply the model of managing transaction currency risk called “Layer hedging”. This model is applied to the following currencies: USD, AUD, CAD, RUB, CZK, HUF and PLN. The integral parts of the model include the identification of risk sources and exposure measurement (using Monte Carlo method of Value at Risk simulation), process of contracting derivative financial instruments for hedging purposes and the control and reporting system. Additionally, within the model exposure limit parameters were set which are triggers for contracting prescribed hedging levels. Using Bloomberg terminal, macroeconomic projections are regularly being monitored and derivative financial instruments for currency risk management are being contracted. Also, the Podravka Group endeavours to maximise the possibilities of “natural hedging” in order to achieve that the inflows from related parties, whenever possible, are forwarded to Podravka d.d. in the domicile currency of the country where the related company does business.

In addition, as part of the model, parameters of the exposure limit are set, which are triggers for contracting the prescribed hedging levels. This way, the currency risk is largely transferred from related parties to the Company that adjusts these cash inflows with outflows (natural hedging), thus reducing the overall exposure to currency risk, and also creating the opportunity to contract derivative financial instruments on the remaining amount of net cash flow at the central level.

During 2017, the Podravka Group concluded fx forward contracts for managing currency risk of the following foreign currencies: USD, AUD, CAD, RUB, HUF and PLN. For the exposure to changes in exchange rate of the Croatian kuna against the Euro no derivative financial instruments for hedging purposes were contracted due to the limited volatility of the exchange rate and the exchange rate regime implemented by the Croatian National Bank.

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Market risks (continued)

(iii) Currency risk (continued)

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

	31.12.2017	31.12.2016
EUR	7.5136	7.5578
BAM	3.8417	3.8642
PLN	1.8004	1.7086
RUB	0.1083	0.1175
CZK	0.2940	0.2799

The following table details the Podravka Group's sensitivity to a 1% increase in Croatian kuna against the relevant foreign currencies where the Podravka Group has significant exposure (EUR, BAM, PLN, RUB and CZK). The sensitivity analysis includes only outstanding cash items in foreign currency and their translation at the end of the period based on the percentage change in currency exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR exposure 2017	EUR exposure 2016	CZK exposure 2017	CZK exposure 2016
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) in net result	(6,157)	(5,169)	(217)	(232)

	BAM exposure 2017	BAM exposure 2016	PLN exposure 2017	PLN exposure 2016
	(in thousands of HRK)		*(in thousands of HRK)*	
Increase/(decrease) in net result	901	999	435	414

	RUB exposure 2017	RUB exposure 2016
	(in thousands of HRK)	
Increase/(decrease) in net result	718	999

NOTE 36 – RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

Sales function based risks

The Podravka Group generates 33% (2016: 32%) of its revenue on the domestic market, whereas 67% (2016: 68%) of the sales are generated on international markets. The Podravka Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

As for domestic operations, the Podravka Group expects increased risks associated with maintaining market position. To lessen this effect, the Podravka Group aims to further strengthen its competitiveness by increasing productivity, modernising its technology and strengthening its product brands.

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

NOTE 37– SHARE-BASED PAYMENT TRANSACTIONS

(i) Employee share options

Options for the purchase of Podravka d.d. shares were granted to key management of the Group. The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares as per the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the date of option contract signed. Options are acquired separately for each business year. All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, leaving the company, relocation within the company, etc., in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above. The following share-based payment arrangements were effective in the current and comparative reporting periods:

Date of issue	Number of options	Vesting terms	Contracted vesting period
Options granted to key management of the Group			
As at 9 October 2014	2,500	Service during the contracted vesting period	30.05.2020.
As at 3 January 2013	2,000	Service during the contracted vesting period	31.12.2017.
As at 16 July 2013	2,000	Service during the contracted vesting period	30.06.2018.
As at 24 July 2015	6,938	Service during the contracted vesting period	31.12.2020.
As at 31 December 2015	18,651	Service during the contracted vesting period	22.02.2020.
As at 31 December 2015	2,500	Service during the contracted vesting period	30.05.2020.
As at 31 December 2015	2,000	Service during the contracted vesting period	31.12.2018.
As at 15 February 2016	7,146	Service during the contracted vesting period	31.12.2021.
As at 2 February 2015	6,307	Service during the contracted vesting period	31.12.2017.
As at 22 March 2016	5,359	Service during the contracted vesting period	30.04.2020.
As at 15 February 2016	17,150	Service during the contracted vesting period	22.02.2020.
As at 1 June 2016	2,000	Service during the contracted vesting period	22.02.2020.
As at 1 June 2016	4,000	Service during the contracted vesting period	31.12.2021.
As at 1 June 2016	2,500	Service during the contracted vesting period	30.05.2020.
As at 1 June 2016	2,000	Service during the contracted vesting period	28.08.2020.
As at 1 June 2016	2,000	Service during the contracted vesting period	06.08.2020.
As at 16 September 2016	4,000	Service during the contracted vesting period	31.12.2021.
As at 30 June 2017	5,000	Service during the contracted vesting period	31.12.2022.
As at 31 December 2017	4,000	Service during the contracted vesting period	31.12.2022.
As at 12 December 2017	8,000	Service during the contracted vesting period	31.12.2022.
As at 17 March 2017	2,000	Service during the contracted vesting period	31.12.2022.
As at 17 May 2017	17,000	Service during the contracted vesting period	31.12.2022.
As at 21 July 2017	5,000	Service during the contracted vesting period	31.12.2022.
Total share options	**130,051**		

NOTE 37 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Employee share options (continued)

Fair value measurement

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the historical volatility of the share price, particularly over the historical period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). In accordance with the input variables used, the fair value estimate of the option is categorised within the fair value hierarchy as level 1. Service and non-market performance conditions are not taken into account in determining fair value.

Input variables for calculation of fair value:

Share option programme for key management	**2017**	**2016**
Fair value at grant date (weighted average)	80	86
Share price at grant date (weighted average)	326	316
Exercise price (weighted average)	334	305
Expected volatility (weighted average)	17%	20%
Expected life (weighted average in years)	3,5	4,4
Risk-free interest rate (based on government bonds)	5,32%	5,59%

Expense recognised in profit or loss	**2017**	**2016**
	(in HRK thousands)	
Equity-settled share-based payment transactions	12.791	7.995

The exercise price of stock options for key management is in the range HRK 245 to HRK 352.

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

	2017		**2016**	
	Number of options	**Weighted average excercise price**	**Number of options**	**Weighted average excercise price**
Outstanding at 1 January	166,053	305	151,698	282
Exercised	(74,702)	278	(45,253)	280
Expired	(2,300)	292	-	-
Granted	41,000	352	59,608	349
Outstanding at 31 December	**130,051**	**334**	**166,053**	**305**
Exercisable at 31 Dec	**73,905**	**320**	**50,172**	**278**

As at 31 December 2017, there are 130,051 of outstanding options (2016: 166,053 options). In 2017, 74,702 options were exercised (2016: 45,253 options).

The weighted average exercise price of outstanding options at the end of 2017 is HRK 334 (2016: HRK 305). The weighted average remaining validity of options is 3.5 years at year end (2016: 4.4 years).

NOTE 37 – SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(ii) Program of organized employee shareholding

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

As at 31 December 2017, the number of shares within the ESOP is 84,076 (2016: 86,077 shares), whereby HRK 2,750 thousand of reversal of capital reserve was recognised in other finance costs (2016: HRK 216 thousand). The fair value of the shares at the date of issue amounted to HRK 300 and exercise price of additional shares was also HRK 300. As at 31 December 2017, the Company had a capital reserve in the amount of HRK 4,160 thousand (2016: HRK 6,476 thousand) based on ESOP.

In 2017, the one-off net ESOP cost at the Group level amounts to HRK 3,764 thousand (2016: HRK 2,861 thousand).

NOTE 38 – RELATED PARTY TRANSACTIONS

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

Transactions with key management and Supervisory Board members

	2017	**2016**
	(in thousands of HRK)	
Key management remuneration		
Salaries, severance payments and bonuses	52,156	46,919
Share-based payments (note 37 (i))	12,791	7,995
	64,947	**54,914**

Key management of the Group comprises the Management Board and executive directors and consisted of 64 persons (2016: 58 persons).

During 2017, a total of HRK 1,863 thousand (2016: HRK 1,923 thousand) was paid as compensation to members of the Supervisory Board at the Group level.

NOTE 39 – CONTINGENT LIABILITIES

	2017	**2016**
	(in thousands of HRK)	
Guarantees and warranties given	17,914	13,269
	17,914	**13,269**

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

With respect to guarantees and warranties granted, contingent liabilities have not been recognised in the consolidated statement of financial position as at 31 December as the Management Board estimated that, as at 31 December 2017 and 2016, it is not probable that they will result in liabilities for the Group.

NOTE 40 – COMMITMENTS

In 2017, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 53,336 thousand (2016: HRK 94,458 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

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

	2017	2016
	(in thousands of HRK)	
Up to 1 year	22,337	23,038
From 1 to 5 years	35,777	43,177
	58,114	**66,215**

NOTE 41 – EVENTS AFTER THE BALANCE SHEET DATE

The Government of the Republic of Croatia initiated the extraordinary administration procedure over the companies of the Agrokor Group headquartered in Croatia and the Company pays special attention to monitoring its exposure in operations with these companies taking special care of the exposure of the receivables collectability by contracting additional security measures and shortening the maturity of payment terms.

As at the date of initiation of the extraordinary administration, the Company had HRK 136,691 thousand receivables from the companies of the Agrokor group over which the extraordinary administration was initiated, while in the extraordinary administration procedure the Company claimed total receivables of HRK 97,425 thousand, of which HRK 60,862 thousand relate to discounted bills of exchange.

Taking into account the recoverability of the receivables claimed which are affected by the separate strategic legislation, in line with available relevant information on the settlement, the Group estimated the recoverability of the claimed receivables and recognised impairment loss in the amount of HRK 44,094 thousand.

As described in note 23, as at 31 December 2017 the Group had significant trade receivables from customers owned and controlled by the Agrokor Group in the amount of HRK 151,756 thousand (net of impairment), whose exposure level has been significantly reduced compared to the previous period (2016: HRK 236,654 thousand).

In 2018, the Group continues with normal deliveries to and collections from the companies of the Agrokor Group and as at 13 April 2018 the total Group's net receivables from Agrokor Group in the Croatian market amount to HRK 132,362 thousand.